ECONOMICS
TEST – 5 Part - 1

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6th Economics

Unit 1 – Economics an Introduction

Consumers Goods:

The finished goods which are bought from the market to fulfill the daily needs of the consumers is called consumer goods. Example: rice, clothes, bicycles, etc

- We had a system of exchanging goods for other goods, called barter system. For example, exchange a bag of rice for enough clothes".
- "A person who has rice in surplus and a person who has cloth in surplus, will exchange on the basis of their needs. But, here the problem is that the person who has clothes should have the willingness to buy rice. Only then, the exchange through barter system will take place".
- The exchange commodities, they may lead to certain problems, when comparing the differences in the value of commodity. To solve this problem, people invented a tool called money".

The amount from the income which is left for future needs after consumption is called savings.

- Early man, who hunted and gathered food, later learnt to cultivate crops. When they found rivers which provided them water, settled down permanently near the rivers. These permanent settlements were called villages. Agriculture remains to be the root of our economy even today. Man has no limits for his demand and desire. Based on this, man started to learn new occupations. Those who are involved in farming and grazing are called farmers or cultivators".
- "Agriculture and industries are helpful in the economic development of our country. Our country's economy is based on three economic activities".

PRIMARY ACTIVITIES

They are concerned with the production of raw materials for food stuff and industrial use. Primary activities include

Agriculture, Cattle rearing , Fishing , Mining

Collection of fruits, nuts, honey, rubber, resin and medicinal herbs, lumbering.

- "Agriculture is the primary occupation. There won't be any kind of facilities like our cities. At the same time, they get their basic needs fulfilled easily. There are small shops. Vegetables are grown in abundance, just like rice and pulses. Though the sugar that is added in our milk, coffee and tea is produced in sugar mills, the raw material sugarcane is cultivated in villages. From chilies to mustard, all those provisions used for food are grown in villages."

- "Even Gandhiji has said that the villages are the backbone of our country".

- More than 50 percentage of the world's populations live in cities. In our state Tamil Nadu, 47 percentage of the people are in cities.

SECONDARY ACTIVITIES

The raw materials obtained from the primary activities are converted into finished products through machinery on a large scale. These activities are called secondary activities.

Industries are classified on the basis of the availability of raw materials, capital and ownership.

On the basis of raw materials, industries are classified as Agro based industries – Cotton textiles, Sugar mills and Food processing.

Forest based industries – Paper mills, Furniture making, Building Materials.

Mineral based industries – Cement, Iron, Aluminium Industries.

Marine based industries – Sea food processing.

TERTIARY ACTIVITIES

"I already told you that industries produce goods and distribute them to the people. For this purpose, some services are required. These services are called tertiary activities or service sectors. The service sector serves the people to fulfill their daily needs like:

Transport – roadways, railways, waterways, airways

Communication – Post, Telephone, Information Technology etc

Trade – Procurement of goods, selling

Banking – Money transactions, banking services

7th Term – I
Unit 1: Production

- There are two main activities in an economy, production and consumption. Similarly there are two kinds of people, producers and consumers. Well-being is made possible by efficient production and by the interaction between producers and consumers. In the interaction, consumers can be identified in two roles both of which generate well-being. Consumers can be both customers of the producers and suppliers to the producers. The customers' well-being arises from the commodities they are buying and the suppliers' well-being is related to the income they receive as compensation for the production inputs they have delivered to the producers.

Meaning of Production

- Production is a process of combining various material inputs and immaterial inputs in order to make something for consumption (the output). It is the act of creating an output, a good or service which has value and contributes to the utility of individuals.

- Production in economics refers to the creation of those goods and services which have exchange value. It means the creation of utilities. Utility means want satisfying power of a product. Utilities are in the nature of form utility, time utility and place utility.

Types of Utility

Form utility

If the physical form of a commodity is changed, its utility may increase.

Eg. Cotton increases, if it is converted into clothes.

Place utility

If a commodity is transported from one place to another, its utility may increase.

Eg. If rice transported to Tamilnadu to Kerala, its utility will be more.

Time utility

If the commodity is stored for future usage, its utility may increase.

Eg. Agricultural commodities like Paddy, Wheat, etc. are stored for the regular uses of consumersthroughout the year.

Indian Economy is a Mixed Economy. Private and Public Sector are existing together.

Types of Production

- **There are three types of production**

- ❖ **Primary production**
- ❖ **Secondary Production**
- ❖ **Tertiary or Service Production**

Primary Production

- Primary production is carried out by 'extractive' industries like agriculture, forestry, fishing, mining and oil extraction. These industries are engaged in such activities as extracting the gifts of nature from the earth's surface, from beneath the earth's surface and from the oceans.

Secondary Production

- This includes production in manufacturing industry, turning out semi-finished and finished goods from raw materials and intermediate goods, conversion of flour into bread or iron ore into finished steel. They are generally described as manufacturing and construction industries, such as the manufacture of cars, furnishing, clothing and chemicals, as also engineering and building.

Example: Primary sector and Secondary sector Production

Cotton (Primary sector) – Cotton Industry (Secondary Sector) = Cloth Production

Iron ore (Primary sector) – Iron Industry (Secondary sector) = Material Production

Wheat flour (Primary sector) – Bread Factory (Secondary Sector) = Food Production

Tertiary Production

- Industries in the tertiary sector produce all those services which enable the finished goods to be put in the hands of consumers. In fact, these services are supplied to the firms in all types of industry and directly to consumers. Examples cover distributive traders, banking, insurance, transport and communications. Government services, such as law, administration, education, health and defence, are also included.

The most to the Gross Domestic Product of our country is contributed by the tertiary sector

Factors of Production

- Human activity can be broken down into two components, production and consumption. When there is production, a process of transformation takes place. Inputs are converted into an output. The inputs are classified and referred to as land, labour, and capital. Collectively the inputs are called factors of production.

- When the factors of production are combined in order to produce something, afourth factor is required. Goods and services do not produce themselves but need some conscious thought process in order to plan and implement manufacture. This thought process is often called Entrepreneurship and Organization.

Factors of production

- ❖ Primary Factors and
- ❖ Derived Factors.
- Primary factors are land and labour. These are naturally given and without them no goods can be produced.
- Derived factors are Capital and Organization. These derived factors, when combined with the primary factors of production, raise total production.

Land

- Land as a factor of production refers to all those natural resources or gifts of nature which are provided free to man. It includes within itself several things such as land surface, air, water, minerals, forests, rivers, lakes, seas, mountain, climate, and weather. Thus, land includes all things that are not made by man.

Land : Land can take on various forms,from agricultural land to commercial real estate to the resources available from a particular piece of Land

Characteristics of Land
Land is a Free Gift of Nature

- Man has to make efforts in order to acquire other factors of production. But to acquire land no human efforts are needed. Land is not the outcome of human labour. Rather, it existed even long before the evolution of man.

Land is fixed in supply

- The total quantity of land does not undergo any change. It is limited and cannot be increased or decreased with human efforts. No alteration can be made in the surface area of land.

Land is imperishable

- All man-made things are perishable and these may even go out of existence. But land is indestructible. Thus it cannot go out of existence. It is not destructible.

Land is a Primary Factor of Production:

- In any kind of production process, we have to start with land. For example, in industries, it helps to provide raw materials, and in agriculture, crops are produced on land.

Land is Immovable:

- It cannot be transported from one place to another. For instance, no portion of India's surface can be transported to some other country.

Land has some Original Indestructible Powers

- There are some original and indestructible powers of land, which a man cannot destroy. Its fertility may be varied but it cannot be destroyed completely.

Land Differs in Fertility

- Fertility of land differs on different pieces of land. One piece of land may produce more and the other less.
- As a gift of nature, the initial supply price of land is zero. However, when used in production, it becomes scarce. Therefore, it fetches a price accordingly.

Labour

- Labour is the human input into the production process. Alfred Marshall defines labour as, 'the use of body or mind, partly or wholly, with a view to secure an income apart from the pleasure derived from the work'.

Adamsmith is known as Father of Economics and his Economics is wealth Economics.He wrote two classic works,"The Theory of Moral sentiments(1759)",and "An inquiry into the nature and causes of the wealth of Nations (1776)".

Characteristics of Labour

- Labour is more perishable than other factors of production. It means labour cannot be stored. The labour of an unemployed worker is lost forever for that day when he does not work. Labour can neither be postponed nor accumulated for the next day. It will perish. Once time is lost, it is lost forever.

- Labour is an active factor of production. Neither land nor capital can yield much without labour.

- Labour is not homogeneous. Skill and dexterity vary from person to personLabour cannot be separated from the labourer.

- Labour is mobile. Man moves from one place to another from a low paid occupation to a high paid occupation.

- Individual labour has only limited bargaining power. He cannot fight with his employer for a rise in wages or improvement in work-place conditions. However, when workers combine to form trade unions, the bargaining power of labour increases.

Division of Labour

- The concept 'Division of Labour' was introduced by the Adam Smith in his book 'An enquiry into the nature and causes of wealth of nations'.

- Division of labour means dividing the process of production into distinct and several component processes and assigning each component in the hands of a labour or a set of labourers, who are specialists in that particular process.

Example: A Tailor stitches a shirt in full. In the case of Garments exporters, cutting of cloth, stitching of hands, body, collars, holes for buttons, stitching of buttons etc., are done independently by different workers. Therefore, they are combining the parts into a whole shirt.

Merits of division of labour

- It improves efficiency of labour when labour repeats doing the same tasks.Facilities the use of machinery in production, resulting in inventions. Ex. More's Telegraphic Codes.Time and Materials are put to the best and most efficient use.

Demerits of division of labour

- Repetition of the same task makes labour to feel that the work is monotonous and stale. It kills the humanity in him.Narrow specialization reduces the possibility of labour to find alternative avenues of employment. This results in increased unemployment.Reduce the growth of handicrafts and the worker loses the satisfaction of having made a commodity in full.

Capital

- Capital is the man made physical goods used to produce other goods and services. In the ordinary language, capital means money. In economics, capital refers to that part of man-made wealth which is used for the further production of wealth. All wealth is not capital but all capital is wealth.

- According to Marshall, 'Capital consists of those kinds of wealth other than free gifts of nature, which yield income'.

Forms of capital

- Physical Capital or Material ResourcesEx. Machinery, tools, buildings, etc.Money capital or Monetary resourcesEx. Bank deposits, shares and securities, etc.Human capital or Human ResourcesEx. Investments in education, training and health

    - Characteristics of Capital

    - **Capital is a passive factor of production**
    - **Capital is man-made**
    - **Capital is not an indispensable factor of production**
    - **Capital has the highest mobility**
    - **Capital is productive**
    - **Capital lasts over time**
    - **Capital involves present sacrifice to get future benefits.**

Entrepreneur

- An entrepreneur is a person who combines the different factors of production (land, labour and capital), in the right proportion and initiates the process of production and also bears the risk involved in it.

- The entrepreneur is also called 'Organizer'. In, modern times, an entrepreneur is called 'the changing agent of the society'. He is not only responsible for producing the socially desirable output but also to increase the social welfare.

    - **Characteristics of Entrepreneur**
    - **Identifying profitable investible opportunities**
    - **Deciding the location of the production unit**
    - **Making innovations**
    - **Deciding the reward payment**
    - **Taking risks and facing uncertainties.**

Unit -1
Tax and itsImportance

Introduction

For the welfare of the society, thegovernment has to perform various functionsso it requires revenue. Modern governmentshave a wider variety of sources of revenue. Theprincipal sources of the revenue are taxes, fees,prices, special assessment and Raffle Scheme.Like any other country, taxes form the mostimportant part of revenue of India.

Taxation

Taxation is a term for when a taxingauthority, usually a government, levies orimposes a tax. The term 'taxation' applies toall types of involuntary levies, from income tocapital gains to estate taxes. Though taxation canbe a noun or verb, it is usually referred to as anact; the resulting revenue is usually called 'taxes'.

Taxes

Taxes are compulsory payments to thegovernment without expectations of direct orreturn or benefit to the taxpayers. Accordingto Prof. Seligman, taxes are defined as acompulsory contribution from a person to thegovernment to defray the expenses incurred inthe common interest of all without reference tospecial benefits conferred

Everybody is obliged by law to pay taxes.Total Tax money goes to government exchequer.The government decides how are taxes to bespent and how the budget is to be organized. Taxpayment is not optional. An individual has topay tax if any income comes under the incometax slab. It is a duty of every citizen to pay taxes.More collection of tax allows the governmentto implement more and more welfare schemes.

Principle of taxation

Adam Smith's principles or cannons of taxationstill form the basis of the tax structure of amodern state:

1. Canon of Equality: the government shouldimpose taxes in such a way that people haveto pay according to their ability. It does notmean equal amount of tax but it means that theburden of a tax must be fair and just.

2. Canon of Certainty: Certainty createsconfidence in the taxpayers cost of collection oftaxes and increases economic welfare because ittends to avoid all economic waste.

3. Canon of Convenience: Taxes should belevied and collected in such a manner that itprovides a maximum of convenience to thetaxpayers. It should always be kept in view thatthe taxpayers suffer the least inconvenience inpayment of the tax.

4. Canon of Economy : Minimum possiblemoney should be spent in the collection oftaxes. Collected amount should be deposited inthe Government treasury.

Taxation Types

There are three types of Taxation:

1. Proportional Tax
2. Progressive Tax
3. Regressive Tax and

Proportional Taxation is a method, wherethe rate of tax is same regardless the size of theincome. The tax amount realized will vary inthe same proportion as that of income.

If tax rate is 5% on income and Mr. X getsan income of Rs.1,000, he will pay Rs.50, Mr. Bgets an income Rs.5,000, he will pay tax of Rs.50.In short, proportional tax leaves the relativefinancial status of taxed persons unchanged.

Progressive Taxation is a method bywhich the rate of tax will also increase with theincrease of income of the person. If a personwith Rs.1000 income per annum pays a tax of10% (i.e) Rs.100, a person with an income ofRs.10,000 per annum pays a tax of 25% (i.e)Rs.2,500 and a person with income of 1 lakh persannum pays the tax of 50% that is Rs.50,000.

Regressive Taxation

A regressive tax is a tax applied uniformly,taking a larger percentage of income from lowincome earners than from high income earners.It is in opposition to a progressive tax.

Importance of Tax

Without taxes, governments would beunable to meet the demands of their societies.Taxes are crucial because governments collectthis money and use it to finance under thefollowing social projects.

1. Health

Without taxes, government contributions tothe health sector would be impossible. Taxes go tofunding health services such as social healthcare,medical research, social security, etc.

2. Education

Education could be one of the mostdeserving recipients of tax money. Governmentsput a lot of importance in the development ofhuman capital and education is central in thisdevelopment.

3. Governance

Governance is a crucial componentin the smooth running of country affairs.Poor governance would have far reachingramifications on the entire country with aheavy toll on its economic growth. Goodgovernance ensures that the money collectedis utilized in a manner that benefits citizens ofthe country.

4. Other important sectors are infrastructuredevelopment, transport, housing, etc.

Apart from social projects, governmentsalso use money collected from taxes to fundsectors that are crucial for the wellbeing of theircitizens such as security, scientific research,environmental protection, etc.Some of the money is also channeled tofund projects such as pensions, unemploymentbenefits, childcare, etc. Taxes can affect the stateof economic growth of a country. Taxes generallycontribute to t he gross domestic product (GDP)of a country.

Types of tax

In modern times taxes are classified intotwo types. There are:
1. Direct Tax;
2. Indirect Tax

Direct Tax

A Direct tax is paid directly by an individualor organisation to imposing entity.tax payer, for example, pays direct taxesto the Government for different purposes,including real property tax, personal propertytax, income tax or taxes or on asserts.

It is levied on profit of corporationsand companies. It is charged on royalties,interest, gains from sale of capital assetslocated in India, fees for technical servicesand dividends.

It is imposed on property of individualsdepending upon the value of property. Thesame property will be taxed every year on itscurrent market value.

It is paid to the Government by the recipientof gift depending on value of gift.

Estate Duty

It is charged from successor of inheritedproperty. It is not desirable to avoid payment of taxes.They are levied directly on income and property of persons, who pay directly to the government.

Indirect Tax

On the other hand when liability to pay a taxis on one person and the burden of that tax shiftson some other person, this type of tax is called an indirect tax. Indirect Tax is a tax whose burden canbe shifted to others. For example.

Service Tax

It is raised on provision of Service. This taxis collectedfrom the service recipients and paidto the Central Government.

It is an indirect tax on sale of goods becauseliability to collect tax is that of shopkeeper but the burden of that tax falls on the customer.The shopkeeper realizes the tax amount fromthe customer by including it in the price of thecommodity that he sells.

Excise Duty

It is paid by the producer of goods, whorecovers it from wholesalers and retailers. Thistax in India is levied by the Central Government.

Entertainment Tax

The state governments charge suchtax on every transaction related to entertainment.Some examples are movie tickets, videogame arcades, stage shows, exhibitions,amusement parks, and sports-relatedactivities.

Goods and Services Tax (GST)

Goods and Services Tax is a kinds of taximposed on sale, manufacturing and usageof goods and services. This tax is appliedon services and goods at a nationallevel with a purpose of achieving overalleconomic growth. GST is particularlydesigned to replace the indirect taxesimposed on goods and services by the Centraland State.

Introduction to GST

Previous Indirect Tax Structure and its difficulties

The history of Indian taxation goes back to ancient period. According to Arthshastra, the book written by Kautilya, in ancient time taxes were levied andcollected in both cash and kind. The modern history of Indirect taxes starts fromthe early 20th century when Central Excise Duty was imposed on Salt, Sugar,Motor Spirit, etc. Gradually the base of Excise duties was widened. At the timeof independence, the system of Central Excise Duty at the national level andthe Sales Tax at the State level was prevailing. After prolonged efforts and amendments, VAT wasintroduced first in Indian State of Haryana in 2003 and thereafter in 24 States/UTs including Punjab,Chandigarh, HP, J&K and Delhi in 2005. If the VAT was a major improvement over the pre-existingSales Tax regime , then the Goods and Services Tax (GST) is indeed an remarkable improvementand the next logical step towards realising perfection in taxation system in the country.

Initially, it was proposed that there would be a single and national level GST. However, theGST tax regime has been finally implemented from 1st July, 2017 across India. With thus there isa economic union of the country with ONE TAX, ONE MARKET AND ONE NATION.

Goods and Services Tax (GST) is a tax on all the goods and services that we buy. It has two parts,the Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST). It is atransparent tax. If you get a bill for the products you buy, you will find the following information:

Value of the Product = Rs.100
CGST 9 % = Rs.9
SGST 9% = Rs.9
Total = Rs.118

In the bill, the GST is 18%, and it is divided equally as 9% for the Central and StateGovernments. Therefore, Rs 9 will go to Tamil Nadu Government and another Rs 9 will go toCentral government.

If a seller in Tamil Nadu sells a commodity to a buyer in other state (for example Karnataka),it is called inter-state trade. In the case of inter-state trade, the bill will be as given below:

Value of the Product = Rs.100
IGST 18 % = Rs.18
Total = Rs.118

Rs 18 will go to Central government. Central government will take Rs 9 and send anotherRs 9 to Karnataka government.

The tax is divided into five slabs - 0 per cent, 5 per cent, 12 per cent, 18 per cent, and 28per cent. Although GST is collected by the central government, taxes on petroleum products,alcoholic drinks, electricity are separately collected by the state government and almost all thenecessities of life like vegetables and food grains are exempted from this tax.

Toll tax & Road Tax

Toll tax is a tax you often pay to use any form of infrastructure developed by the government, example roads and bridges. The tax amount levied is rather negligible which is used for maintenance and basic upkeep of a particular project.

Swachh bharat cess

This is a cess imposed by the government of India and was started from 15 November 2015. This tax is applicable on all taxable services and the cess currently stands 0.5%. Swachh Bharat cess is levied over and above the 14% service tax that is prevalent in the present times.

Distinction between Direct and Indirect tax

Direct Tax	Indirect Tax
Burden cannot be shifted by taxpayers	Easily be shifted to another person
Tax is imposed on personal income and corporate income	Taxes imposed on various goods and services
Direct tax has no inflation pressure	This tax has inflation pressure
The impact and incidence are the same in case of direct tax	The impact and incidence are different in case of indirect tax
Direct tax is less elastic	Indirect tax is more elastic

The levying of taxes aims to raise revenueto fund governing. It helps alter prices inorder to balance the affect of demand. Statesand their functional equivalents throughouthistory have used money provided by taxationto carry out many functions.

Some of these include expenditures oneconomic infrastructure like, transportation,sanitation, public safety, education, health-caresystems, military, scientific research, culture andthe arts, public works, public insurance, etc. Agovernment's ability to raise taxes is called its fiscalcapacity.

When expenditures exceed tax revenue, agovernment accumulates debt. A portion of taxesmay be used to serve past debts. Governmentsalso use taxes to fund welfare and public services.These services can include education systems,pensions for the elderly, unemployment benefits,and public transportation. Energy, water andwaste management systems are also commonpublic utilities.

According to the proponents of the listtheory of money creation, taxes are not needed forgovernment revenue, as long as the government inquestion is able to issue flat money. The purpose oftaxation is to maintain the stability of the currency,express public policy regarding the distribution ofwealth, subsidizing certain industries or populationgroups or isolating the costs of certain benefits,such as highways or social security.

8th term – 1
Unit 1- Money, Savings and Investment

Introduction

Money is a fascinating subject and full of curiosities. It is important to capture this element for the students. The history of money and how various forms were used at different times is an interesting story. Modern forms of money are linked to the banking system.

Money is a fundamental discovery, which has eased the day to day transactions, valuing goods and services and has allowed us to store the wealth and trade in future. “Money is anything which is widely accepted in payment for goods or in discharge of other business obligations” Robertson. Money in some form, has been part of human history for atleast the last 3000 years. Before that time, it is assumed that a system of bartering was likely used.

Evolution of Money

The word Money is derived from Roman word “Moneta Juno”. It is the roman goddesses and the republic money of roman empire. The Indian rupee is derived from Sanskrit word ‘Rupya’ which means silver coin.Today we use paper notes, coins as money. But the evolution of this stage has not happened overnight. It took thousands of years to reach such a stage. There are many stages of evolution of money. The earliest and primitive stage is Barter system.

Barter system

Barter system is exchanging goods for goods without the use of money in the primitive stage. A barter system is an old method of exchange. This system has been used for centuries and long before money was invented. People exchanged services and goods for other services and goods in return. The value of bartering items can be negotiated with the other party. Bartering doesn’t involve money which is one of the advantages.Hence Barter system had many deficiencies like,

1. Lack of double coincidence of wants,
2. Common measure of value
3. Indivisibility of commodities
4. Difficulties of storing wealth

Some of the major stages through which money has evolved are as followsCommodity Money, Metallic Money, Paper Money, Credit Money, Near Money and recent forms of Money. Money has evolved through different stages according to the time, place and circumstances.

Commodity Money

In the earliest period of human civilization, any commodity that was generally demanded and chosen by common consent was used as money. Goods like furs, skins, salt, rice, wheat, utensils, weapons etc. were commonly used as money. Such exchange of goods for goods was known as 'Barter Exchange'.

Metallic Money

With progress of human civilization, commodity money changed into metallic money. Metals like gold, silver, copper, etc. were used as they could be easily handled and their quantity can be easily ascertained. It was the main form of money throughout the major portion of recorded history.

History of Metallic Money

The precious metals especially gold, silver, bronze were used for metallic money. The standard weight and fineness of metal particularly gold and silver with a seal on it became medium of exchange. They were of different denomination easily divisible, portable and were convenient in making payment.King Midas of Lydia innovated metal coin in the 8th century BC (BCE) by the ancient historian Herodotus. But gold coins were in use in india many centuries than in Lydia.The earliest issuers of coins in the world are the ancient Indians along with Chinese and Lydian's from the middle east. The first time Indian coins were minted in the 6th century BC (BCE) by the Mahajanpadas known as Puranas, Karshapanas or Panas.

The Mauryas came up with the Punch Marked Coins minting of silver, gold copper or lead and Indo-Greek Kushan kings introduced the Greek custom of engraving portraits on the coins. Turkish sultans of Delhi has replaced the royal designs of Indian kings with Islamic Calligraphy by the 12th century AD (CE). The currency was made up of gold, silver and copper known as Tanka and lower valued coin known as Jittals.The Mugual Empire from 1526 AD consolidate the monetary system for the entire empire.

In this era evolution of rupee occurred with Sher Shah Suri defeated Humayun and issued a silver coin of 178 gms known as rupiya and was divided into 40 copper pieces or paisa and during the whole Mugual period silver coin remained in use. During the British East India company i.e. 1600, the mughal currency remained popular but in 1717 AD, Farrukhsiyar the Mughal Emperor gave permission to the Britishes to coin Mughal Money at the Bombay mint. The British gold coins were termed as Carolina, the silver coins as Angelina, the copper coins as cupperoon and the tin coins as tinny.

Paper Money

It was found inconvenient as well as dangerous to carry gold and silver coins from place to place. So, invention of paper money marked a very important stage in the development of money. The development of paper money started on the basis of storage of gold and the receipts were issued by the goldsmiths for these storages. This receipt of goldsmiths were a substitute for money and became paper money. Paper money is regulated and controlled by Central bank of the country (Reserve Bank of India). At present, a very large part of money consists mainly of currency notes or paper money issued by the central bank.

Credit Money or Bank Money

Emergence of credit money took place almost side by side with that of paper money. People keep a part of their cash as deposits with banks, which they can withdraw at their convenience through cheques. The cheque (known as credit money or bank money), itself, is not money, but it performs the same as functions of money.

Near Money: The final stage in the evolution of money has been the use of bills of exchange, treasury bills, bonds, debentures, savings certificate etc.
Recent forms of Money

Plastic Money: The latest type of money is plastic money in the form of Credit cards and Debit cards. They aim for cashless transactions.

E-Money: Electronic Money is money which exists in banking computer systems and is available for transactions through electronic system.

Online Banking (Net Banking)

Online Banking, also known as internet banking is an electronic payment system that enables customers of a bank or other financial institutions to conduct a range of financial transactions through website.

E-Banking

Electronic banking, also known as National Electronic Funds Transfer (NEFT), is simply the use of electronic means to transfer funds directly from one account to another rather than by cheque or cash.

Value of Money

Value of money is meant the purchasing power of money over goods and services in a country. Thus it is related to the price level of goods and services. But the relation between the value of money and price level is an inverse one.

The value of money is of two types

1. Internal value of money
2. External value of money

The Internal value of money refers to the purchasing power of money overdomestic goods and services. The External value of money refers to the purchasing power of money over foreign goods and services.

Nature of Money

There has been lot of controversy and confusion over the meaning and nature of money(Scitovsky). “Money is a difficult concept to define, partly because it fulfils not one but three functions, each of them providing a criterion of moneyness those of a unit of account, a medium of exchange, and a store of value”. Sir John Hicks, say that “Money is defined by its functions, anything is money which is used as money, “Money is what money does”.

These are the functional definitions of money because they define money in terms of the functions it performs.Some economists define money in legal terms saying that “anything which state declares as money is money”. Such money possesses general acceptability and has the legal power to discharge debts. But people may not accept legal money by refusing to sell goods and services against the payments of legal tender money.On the otherhand, they may accept some other things as money winch are not legally defined as money in discharge of debts. This may circulate freely.

Functions of Money: Functions of money are classified into Primary or Main function, Secondary function and Contingent function.

Primary or main functions: The important functions of money performed in very economy are classified under main functions:-

i. **Medium of exchange or means of payment:** Money is used to buy the goods and services.
ii. **Measure of value:** All the values are expressed in terms of money it is easier to determine the rate of exchange between various type of goods and services.

Secondary functions

The three important of secondary functions are

i. **Standard of deferred payment:** Money helps the future payments too. A borrower borrowing today places himself under an obligation to pay a specified sum of money on some specified future date.
ii. **Store of value or store of purchasing power:** Savings were discouraged under barter system as some commodities are perishable. The introduction of money has helped to save it for future as it is not perishable.
iii. **Transfer of value or transfer of purchasing power:** Money makes the exchange of goods to distant places as well as abroad possible. It was therefore felt necessary to transfer purchasing power from one place to another.

Contingent functions

1. Basis of credit
2. Increase productivity of capital
3. Measurement and Distribution of National Income

Savings in Banks and Investments Savings

Savings are defined as the part of consumer's disposable income which is not used for current consumption, rather kept aside for future use. There are several ways through which a person can save money.

The banking facilitates saving money through various forms of accounts.

1. **Student Savings Account:** There are savings accounts some banks offer specifically for young people enrolled in high school or college, and they main feature more flexible terms such as lower minimum balance requirements.

2. **Savings Deposits:** Savings deposits are opened by customers to save the part of their current income. The customers can withdraw their money from their accounts when they require it. The bank also gives a small amount of interest to the money in the saving deposits.

3. **Current Account Deposit:** Current accounts are generally opened by business firms, traders and public authorities. The current accounts help in frequent banking transactions as they are repayable on demand.

4. **Fixed Deposits:** Fixed deposits accounts are meant for investors who want their principle to be safe and yield them fixed yields. The fixed deposits are also called as Term deposit as, normally, they are fixed for specified period.

Benefits of Savings

- ✓ You will be financially independent sooner.
- ✓ You would not have to worry any unforeseen expenses.
- ✓ In future, you will have financial backup in place if you lose your job.
- ✓ You will be prepared if your circumstances change.
- ✓ You will be more comfortable in retirement.
- ✓ Save today for better tomorrow

Intensity to save among the students

- ✓ Teach them about taxes and accounting.
- ✓ Involve them in grown-up money decisions.
- ✓ Encourage them to apply for scholarship.
- ✓ Help them budget and apply for student loans.

- ✓ Teach them personal savings.

Encourage them to open a student Sanchayeka Scheme.

Investments

The process of investing something is known as an investment. It could be anything, i.e. money, time efforts or other resources that you exchange to earn returns in future. Investment can be made in different investment vehicles like,

1. Stock
2. Bonds
3. Mutual funds
4. Commodity futures
5. Insurance
6. Annuities
7. Deposit account or any other securities or assets

An investment always comes with risks of losing money, but it is also true that you can reap more money with the same investment vehicle. It has a productive nature that helps in the economic growth of the country.

Comparison of Savings and Investments		
Basis for comparison	**Savings**	**Investments**
Meaning	Savings represents that part of the person's income which is not used for consumption	Investment refers to the process of investing funds in capital asset, with a view to generate returns
Purpose	Savings are made a fulfil short term or urgent requirements	Investment is made to provide returns and help in capital formation
Risk	Low or negligible	Very high
Returns	No or Less	Comparatively high
Liquity	Highly liquid	Less liquid

Black Money

Black Money is any money on which it is not paid to the government. Black Money is money earned through any illegal activity controlled by country regulations. Black money proceeds are usually received in cash from underground economic activity and, as such, are not taxed.

The black money is accumulated by the criminals, smugglers, hoarders, tax-evaders and other anti-social elements of the society.In India, black money is funds earned in the black market, on which income and other taxes have not been paid.The total amount of black money deposited in foreign banks by Indians is unknown. The root cause for the increasing rate of black money in the country is the lack of strict punishments for the offenders.

Effects of Black Money on economy

1. Dual economy
2. Tax evasion, thereby loss of revenue to government.
3. Undermining equity
4. Widening gap between the rich and poor
5. Lavish consumption spending
6. Distortion of production pattern
7. Distribution of scarce resource
8. Effects on production.

Recent steps against Black Money

1. Under pressure from India and other countries, Switzerland has made key changes in its local laws governing assist foreign allegedly stashed in Swiss Banks.
2. Special Investigation Team appointed by government on the directions of Supreme Court on black money.
3. Demonetization

Some Legislative Framework in India against to Black Money

1. Prevention of money laundering act 2002
2. Lokpal and Lokayukta act
3. Prevention of corruption act- 1988
4. The undisclosed foreign Income and Asset Bill(Imposition of Tax) 2015
5. Benami transactions prohibition act 1988 amended in 2016
6. The Real Estate (Regulation and Development) Act, 2016

NOTE

- Symbol of Rupee the Indian Rupee symbol designed by Mr.Udayakumar, Villupuram Dist. Tamil Nadu. It was approved by the Government of India on 15-July-2010
- **Inflation and Deflation:** Inflation refers to the prices are rising, the value of money will fall.Deflation refers to the prices are falling, the value of money will rise.
- Demonetization: In India, On 8-November-2016, the Government of India announced demonetization of all `500 and `1000 bank notes against Black Money.

8^{TH} ECONOMICS
Unit 2.Public and Private Sectors

Learning Objectives

- To know the history of public sector
- To know the various indicators of Socio-Economic Development
- To understand the importance of public sector
- Appreciate the difference between public and private sectors
  Understand the functions of private sectors

Introduction

India was basically an agrarian economy with a weak industrial base at the time of Independence. There were high level of poverty, illiteracy and unemployment in the country. India experienced very poor economic and social over heads. It is the principally for their reasons that the state had to play an extensive role in developing the country. Hence India conceived to have the Indian economy on socialist lines. The economic growth may be sustained at a maximum rate, if private sector and public sector join hands. India followed mixed economic system that it is operated both by private enterprises and public enterprises.

Public and Private Sector

There are all kinds of business organizations – small or large, industrial or trading, private owned or government owned in our country. These organizations affect in our daily economic life and therefore become part of the Indian economy. Since the Indianeconomy consists of both private owned and government owned business enterprises, it is known as a mixed economy. The Government of India has opted for a mixed economy where both private and government enterprises are allowed to operate. The economy, therefore, may be classified into two sectors viz., private sector and public sector.

The public sector and the private sector are allotted their respective roles in promoting the economic welfare of all sections of the community. Public sector industries are under its ownership of Government whereas the private sector industries are under the ownership of private people. Th e public sector enables the full growth in an economy. Public sector is on service motive and the private sector is on profit motive.

Definition of Public Sector

The sector, which is engaged in the activities of providing government goods and services to the general public is known as Public Sector. The enterprises, agencies, and bodies are fully owned, controlled and run by the government whether it is central government, state government or a local government.

History of public Sector

When India achieved independence in 1947, it was primarily an agricultural country with a weak industrial base. There were only eighteen Indian Ordnance Factories in the country which the British had established for their own economic interest and rule the subcontinent with brute force. The national consensus was in favour of rapid industrialisation of the economy which was seen as the key to economic development, improving living standards and economic sovereignty.

Building upon the Bombay Plan (1940), which noted the requirement of government intervention and regulation, the first Industrial Policy Resolution announced in 1948 laid down broad contours of the strategy of industrial development. Subsequently, the Planning Commission was formed by a cabinet resolution in March 1950 and the Industrial Act was enacted in 1951 with the objective of empowering the government to take necessary steps to regulate industrial development.

Prime Minister Jawaharlal Nehru promoted an economic policy based on import substitution industrialisation and advocated a mixed economic system. He believed that the establishment of basic and heavy industry was fundamental to the development and modernisation of the Indian economy. India's second five year plan (1956–60) and the Industrial Policy Resolution of 1956 emphasised the development of public sector enterprises to meet Nehru's national industrialisation policy. His vision was carried forward by Dr. V. Krishnamurthy known as the "Father of Public sector undertakings in India". Indian statistician Prof. P.C. Mahalanobis was instrumental to its formulation, which was subsequently termed the Friedman– Mahalanobis model.

The 1991 industrial policy was radically different from all the earlier policies where the government was deliberating disinvestment of public sector and allowing greater freedom to the private sector. At the same time, foreign direct investment was invited from business houses outside india. Thus, multinational corporations, which operate in more than one country, gained entry into the Indian economy. Thus, we have public sector units, private sector enterprises and multinational corporations coexisting in the Indian economy.

The objectives of Public Sector

- To promote rapid economic development through creation and expansion of
- infrastructure
- To generate financial resources for development
- To promote redistribution of income and wealth
- To create employment opportunities
- To promote balanced regional growth
- To encourage the development of small-scale and ancillary industries, and
- To accelerate export promotion and import substitution

Classification of Industries

- The public sector in India owes its origin in the 1956 Industrial policy resolution of the Government of India. This 1956 resolution classified industries into three categories. The Industries which would be exclusively owned by the state are referred to as Schedule-A
- The industries in which the private sector could supplement the efforts of the state sector, with the state taking the sole responsibility for starting new units which are specific in Schedule-B.
- The remaining industries which were in the private sector are mentioned in Schedule-C.

Public Sector is divided into the following nine categories

1. Public sector enterprises must supply essential infrastructure for economic development which are known as primary public utilities which include the following: Airlines, Shipping, Railways, Power Generation, Tele communication etc.
2. Public sector enterprises also to have control of the "commanding heights of the economy" e.g. Defence, Banks, Coalmines, Oil, Steel etc.
3. They are to play an entrepreneurial role which is, in other words, called capital intensive industries: e.g., Iron ore, Petro- Chemicals, Fertilizer, Mining, Ship - Building. Heavy Engineering etc.
4. Public sector enterprises under Government monopoly which includes: Telecommunication equipment. Defence production. Railways, Rolling Stock etc.
5. Public sector enterprises which are exclusively meant for High Technology industries, e.g.: Atomic energy.
6. Consumer oriented public sector undertakings. eg. Drug, Paper, Hotels etc.
7. Public Sector enterprise which is set up in order to take over the sick private units, e.g.: Textile, Engineering etc.
8. Public sector enterprises which are set up as Trade Corporation, e.g.: FCI, CCI etc.
9. Public sector enterprises which serves as a consultancy and engineering service etc. e.g. MECON.

Socio-Economic Development

Socio-economic development is the process of social and economic development in a society. Socio-economic development is measured with indicators, such as GDP, life expectancy, literacy and levels of employment.

The new "Think Tank" is NITI Aayog can form a suitable platform in integrating the social sector initiatives of the Centre, state and the local bodies.

INDICATORS OF SOCIO-ECONOMIC DEVELOPMENT

Gross Domestic Product (GDP)

GDP supports in developing socio - Economic Development. The proportion of GDP by the industrial sector both private and public sector has been increased. It results increasing government funds and increase public spending.

Life Expectancy

According to 2011 Census of India, Life expectancy in India is 65.80 years for men and 68.33 years for women. Government provides high degree of health measures through various programmes. The Government announced in the Union Budget 2018-19 the "National Health Production Scheme" (NHPS) to serve poor and vulnerable families.

Literacy

Educational skill plays a vital role in the Socio Economic Development. SarvaSikshaAbhiyan(SSA) is government of India's flagship programme. It is implemented for making free and Compulsory Education to the children of 6-14 years with life skills. The Government also introduced RMSA, Smart class, e-learning, free computer skill classes and eco-friendly studying environment, Digital India for increasing the level of quality in education.

Employment

There is a clear shift in employment to secondary and tertiary sector from the primary sector. A growing number of people moved urban areas in search of employment. It increased urban population, hence government started the 'Smart city' Scheme which provides the city with many facilities like hospitals, schools, housing facilities and shopping centers. To promote rural and backward areas in terms of employment the government encourages private sectors to start an industry in backward areas by providing tax benefit electricity at a lower tariff, etc., It removes regional inequality.

Provision of House, Clean Drinking Water and Sanitation

Government sector provides housing facilities, clean drinking water facilities and sanitary facilities under clean India Planning. Providing clean water and sanitary facilities overcome diseases and malnutrition. By providing these facilities the Life Cycle of the people increases.

Importance of Public sector

Public sector plays a major role in the development of any economy. It has following importance:-

1. **Public Sector and Capital Formation:** The role of public sector in collecting saving and investing them during the planning period has been very important.
2. **Economic Development:** Economic development mainly depends upon industrial development. Heavy & basic industries like iron & steel, shipping, mining, etc. are required for supplying raw materials to small industries.
3. **Balanced Regional Development:** Public sector undertakings have located their plants in backward parts of the county. These areas lacked basic industrial and civic facilities like electricity, water supply, township and manpower. Public enterprises have developed these facilities thereby bringing about complete transformation in the socio-economic life of the people in these regions.
4. **Employment Generation:** Public sector has created millions of jobs to tackle the unemployment problem in the country. The number of persons employed during the year 2011 was 150 lakh. Public sector has also contributed a lot towards the improvement of working and living conditions of workers by serving as a model employer.
5. **Export Promotion and Foreign Exchange Earnings**: Some public enterprises have done much to promote India's export. The State Trading Corporation (STC), the Minerals and Metals Trading Corporation (MMTC), Hindustan Steel Ltd., the Bharat Electronics Ltd., the Hindustan Machine Tools, etc., have done very well in export promotion.
6. **Protection to Sick Industries:** Public sector, to prevent sick unit closing down, takes over their responsibility & prevent many people from getting unemployed not only this but it prevents unnecessary locking of capital, land, building, machinery,etc.
7. **Import Substitution:** Some public sector enterprises were started specifically to produce goods which were formerly imported and thus to save foreign exchange. The Oil and

Natural Gas Commission (ONGC), the Indian Oil Corporation Ltd., the Bharat Electronics Ltd., etc., have saved foreign exchange by way of import substitution.

List of Public Sector undertaking industries:

In india, as for the year 2017 there are 8 Maharatna industries, 16 Navratna industries and 74 Miniratna industries. There are nearly 300 CPSEs (Central Public Sector enterprises) in total.

Maharatna Industries:

Three years with an average annual net profi t of over ₹ 2500 crore, or Average annual Net worth of ₹ 10,000 crore for 3 years, or Average annual Turnover of ₹ 20,000 crore for 3 years (against ₹ 25,000 crore prescribed earlier) are called as Maharatna industries.

- National Thermal Power Corporation (NTPC)
- Oil and Natural Gas Commission (ONGC)
- Steel Authority of India Limited (SAIL)
- Bharat Heavy Electricals Limited (BHEL)
- Indian Oil Corporation Limited (IOCL)
- Coal India Limited (CIL)
- Gas Authority of India Limited (GAIL)
- Bharat Petroleum Corporation Limited (BPCL)

Navratna Industries:

A score of 60 (out of 100), based on six parameters which include net profi t, net worth, total manpower cost, total cost of production, cost of services, PBDIT (Profi t Before Depreciation, Interest and Taxes), capital employed, etc., and a company must fi rst be a Miniratna and have 4 independent directors on its board before it can be made a Navratna.

- Bharat Heavy Electronics Limited (BHEL)
- Container Corporation of India (CONCOR)
- Engineers India Limited (EIL)
- Hindustan India Limited (HAL)
- Hindustan Petroleum Corporation Ltd. (HPCL)
- Mahan agar Telephone Nigam Ltd (MTNL)
- National Aluminum company (NALCO)
- Neyveli Lignite Corporation India Ltd. (NLCIL)
- Oil India Ltd. (OIL)
- Shipping corporation of India (SCI)

Miniratna Industries - 1

Have made profits continuously for the last three years or earned a net profi t of Rs. 30 crore or more in one of the three years. Some Miniratna Industries – 1 are

- Airports Authority of India (AAI)
- Bharat Dynamics Ltd.(BDL)
- Bharat Sanchar Nigam Ltd. (BSNL)

- Chennai petroleum Corporation Ltd. (CPCL)
- India Trade Promotion Organization (ITPO)
- State Trading Corporation of India (STCI)

Miniratna Industries - 2

Have made profits continuously for the last three years and should have a positive net worth.

- Some Miniratna Industries – 2 are
- HMT (International) Limited
- Indian Medicines & Pharmaceuticals Corporation Limited
- MECON Limited
- Mineral Exploration Corporation Limited
- National Film Development Corporation Limited
- Bharat Pumps & Compressors Limited

Definition of Private sector

The segment of a national economy that is owned, controlled and managed by private individuals or enterprises is known as Private sector. The private sector companies are divided on the basis of sizes which are privately or publicly traded organizations. They can be created in two ways, i.e. either by the formation of a new enterprise or by the privatization of any public sector enterprise.

The Private sector is a part of country's economic system that is run by individualsand companies, rather than the government. Even the vast expansion of public sector, the contribution of the private sector continued to be very large. This was due to the development of medium, small and very small or micro industries.

Also, the contribution of the products of cottage, and village industries and the small, scale industries is the major portion of the wholesale and retail trade. The contribution of private sector towards national production is higher than the public sector, Private sector is dominent in road, ship, and airways transport and also in consumer industries.

Major private companies

- Infosys
- Aditya Birla Company
- Reliance Industrial companies
- Tata Group of companies
- WIPRO Limited
- Hindustan Unilever Limited
- ICICI Bank Limited.

Functions of Private Sector

- The main function of private sector is to create innovation and modernization. The profit motive drives them to invent, innovate new techniques of production and manage the productive activities in a scientific manner.
- Develop and maintain infrastructure and services.

- Promote and expand existing businesses.
- Promote human capital development, to help vulnerable groups especially to participate in the labour market and encourage community development by promoting community business and co-operatives, local exchange systems and informal credit etc..
- Promote small, micro and medium enterprises (SMME) through supply side measures and demand side measures and attract investment in the city.

In India, being a mixed economy, has assigned a great importance on the private sector of the country for attaining rapid economic development. The Government has fixed a specific role to the private sector in the field of industries, trade and services sector. The most dominant sector of India, i.e., agriculture and other allied activities like dairying, animal husbandry, poultry etc. is totally under the control of the private sector. Thus private sectoris playing an important role in managing the entire agricultural sector and thereby providing the entire food supply to the millions.

Moreover, the major portion of the industrial sector engaged in the non-strategic and light areas, producing various consumer goods both durables and non-durables, electronics and electrical goods, automobiles, textiles, chemicals, food products, light engineering goods etc., is also under the control of the private sector. The social and economic challenges before the country are great. To meet the targets in structural transformation and economic growth public sector and private sector must join together.

Unit 1. Understanding Development Perspectives, Measurement and Sustainability

Introduction

The word 'development' is used widely. It refers to the progress of a particular field or a particular person. Similarly, the economic progress of a country is known as 'economic development'. However, the interpretation of the concept development keeps on changing from time to time, from person to person and its meaning gets extended further.

Different PerspectivesAbout Development

Every human being has an ambition or desire of his or her own to achieve progress in life. Similarly, we have ideas about how a country should progress. If our thinking turns towards progress and about the ways to achieve the many goals for progress, it leads to development.

From the above diagram, you will notice that other than income, people seek freedom to grow on their own. Thus, development refers to the improvement in quality of life such as higher income, better education, better health and nutrition, less poverty and more equal opportunity. The term 'economic development' refers to the overall growth of all sectors of the economy by adoption of new technologies. Economic development improves the living standards of the people as well as the status of the country.

Indicators of Economic Development

The major indicators to measure the level of economic development are Net National Product (NNP), Per Capita Income (PCI), Purchasing Power Parity (PPP) and Human Development Index (HDI).

Net National Product

The Net National Product (NNP) is considered as a true measure of national output. It is also known as national income. A rise in per capita income means an increase in aggregate real output. Hence, this is a better indicator than national income for measuring development.

G8 Countries	**GDP per capita** *(Value in US dallars)*	**SAARC Countries**	**GDP per capita** *(Value in US dollars)*	**BRICS Countries**	**GDP per capita** *(Value in US dollars)*
UK	40,03,000	**Afghanistan**	6610.24	**Brazil**	10,51,000
Russia	10,63,000	**Bangladesh**	1,666,000	**Russia**	10,63,00
Canada	47,66,000	**Bhutan**	3,22,000	India	1,99,000
France	42,42,000	India	1,99,000	**China**	9,38,000

USA	61,69,000	**Maldives**	132,000	**South Africa**	6,29,000
Italy	33,73,000	**Nepal**	882.93		
Japan	40,06,000	**Pakistan**	NA		
Germany	47,54,000	**Sri Lanka**	4,05,000		

For measuring a country's development, its income is considered to be one of the most important factors. Countries with higher income are considered to be more developed than those with lesser income. So, income itself is considered to be one of the indicators of economic development.

Per Capita Income

However, for comparing the development of various countries, total income is not a useful measure. Since countries have different populations, comparing total income will not be suggestive of what an average person is likely to earn. Are people in one country better off than others in a different country? The average income is calculated by dividing the country's total income by its total population. The average income is also called per capital income. Calculations on the per capita income of all countries are calculated only in the US dollar in order to compare International level.

Per Capita Income according to the World Bank report, new income measurements of countries are classified as below (2017-18)	
Type of Countries	**Per capita Income (US Dollar)**
Low Income	< 1005
Lower Middle Income	1006 – 3955
Upper Middle Income	3956 – 12,235
High Income	> 12,235

Purchasing Power Parity

Purchasing power parity is defined as the number of units of a country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the US. The technique of purchasing power parity allows us to estimate what exchange between two currencies is needed to express the accurate purchasing power of the two currencies in the respective countries. Recently, India became the third largest economy in terms of PPP. China became the largest defeating the US to the second position.

Human Development

Human resource is necessary for the progress of any country. The term 'human resources' refers to the collective abilities of people, which can be utilised in the production sector. Human resource development means the development of a person's physical and mental abilities through education, health care and training. Therefore, investment in education and health of people can result in a high rate of returns in the future for a country.

For example, if a child is invested with good education and health, he or she may turn to be very productive in future in the form of higher earnings and greater contribution to the society. Human Development Index (HDI) which indicates all round development of the people in the society. In the past, economists believed that the rate of economic growth of nations could be increased only by increasing investment in physical capital. But they have realised over time that investment in human capital is as important as investment in physical capital.

S. No	Country	HDI in 2010	HDI in 2015
1.	India	0.580	0.624
2.	Russia	0.785	0.804
3.	China	0.700	0.738
4.	Pakistan	0.525	0.550
5.	Nepal	0.529	0.558
6.	Bangladesh	0.545	0.579
7.	South Africa	0.638	0.666
8.	Sri Lanka	0.746	0.766

S. No	Parameter	States						
		Andhra Pradesh	Karnataka	Kerala	Gujarat	Uttar Pradesh	Tamil Nadu	India
1.	Literacy Rate % (2011)	67.02	75.36	94	78.03	69.72	80.09	74.04
2.	Sex Ratio (Females per 1000 Males)2011	993	973	1084	919	912	996	943
3.	Enrolment in Higher Education % (2015-16)	30.8	26.1	30.8	20.7	24.5	44.3	24.5

Sustainability of Development

Sustainable economic development is taken to mean development without damaging the environment and not compromising with the needs of the future generation. The consequences of environmental degradation do not respect national or state boundaries. Sustainability of development is comparatively a new area of knowledge in which scientists, economists, philosophers and other social scientists are working together. Natural resources can be divided into renewable resources and non-renewable resources. Groundwater is an example of a renewable resource. The question arises as to how sustainable development is possible if the resources are over-used rather than getting replenished. Non-renewable resources get exhausted after certain number of years of extracting and using them and they cannot be replenished.

Renewable resources	Non-renewable resources
Renewable resources are pollution free and environment friendly. These resources take a short time for renewal. Example: Solar energy, wind energy, water, wood, paper.	Non-renewable resources pollute and damage the environment. Million of years are needed for the formation of these resources. Example: Metals, glass, fossil fuels (coal, petroleum, natural gas, diesel)

To achieve real sustainability, we need to balance economic, social and environmental sustainability in equal harmony. In general, the question of development or progress is continuous. At all times, as a member of society and as individuals, we need to ask where we want to go, what we wish to become and what our goals are.

Policies for Sustainable Development

Use of Non-conventional Sources of Energy

India depends on thermal and hydro power plants to meet its power needs. Both these sources have an adverse environmental impact. Thermal power plants emit large quantities of carbon dioxide, which pollute the environment.

Solar Power in India

Solar power is the conversion of energy from sunlight into electricity either directly using photovoltaic cells or indirectly using concentrated solar power. Solar panels absorb the sunlight as a source of energy to generate electricity. A solar electric system can reliably produce electricity for our home and offices. These distributed solar systems are often installed by home and business owners to reduce their electricity costs. Solar power in India is a fast-developing industry.

Tamil Nadu is the state with highest installed solar capacity in India. Tamil Nadu is one of the leading solar power producing states in India. As on 31 July 2017, the total installed capacity in Tamil Nadu is 1,697 MW.

Environmental Policies in India

Environmental policies in India have been evolved considerably over the past three decades. These policies have covered a wide range of issues such as air, water pollution, waste management and biodiversity conservation. India faces challenges in economic development, which has to be achieved with limited resources, minimum externalities and in the presence of an uncertain climate. One of the approaches to overcome this challenge is through the path of sustainable development. The Supreme Court of India has interpreted and introduced new changes in environmental protection through a series of directions and judgements.

List of Environmental Acts in India

S. No	Act	Action
1	National Green Tribunal Act, 2010	Environmental protection and conservation of forests and other natural resources
2	Biological Diversity Act, 2002	To provide for conservation of biological diversity
3	The Environment (Protection) Act, 1986	Providing for the protection and improvement of the environment.
4	Forest (Conservation) Act, 1980	Check deforestation and encourage afforestation of non-forest areas.
5	Water (Prevention and control of pollution) Act, 1974	Provides maintenance and restoration and quality of all types of surface and groundwater.
6	Wildlife Protection Act, 1972	Providing protection to wild animals and birds.

Article 51A(g) of the Constitution states that "it shall be the duty of every citizen of India to protect and improve the natural environment including forests, lakes, rivers and wildlife and to have compassion for living creatures." Development increases the quality of life. This means that people will have higher incomes, better education, better health and nutrition, less poverty and more equality of opportunity.

The Growth Story of Tamil Nadu

Tamil Nadu is one of the states that achieving rapid progress over a relatively short period, though it started from appalling levels of poverty, deprivation and inequality. It is during that period, Tamil Nadu is much to the consternation of many economists, initiated bold social programmes such as universal midday meals in primary schools and started putting in place an extensive social infrastructure – schools, health centres, roads, public transport, water supply, electricity connections, and much more. Today, Tamil Nadu has some of the best public services among all Indian states, and many of them are accessible to all on a non-discriminatory basis.

- First, active social policies constitute an important aspect of this shared experience. This is particularly striking in the vigour of public education, but it also extends to other domains, such as health care, social security and public amenities.

- Second, these states have typically followed universalistic principles in the provision of essential public services. This is especially noticeable in the case of Tamil Nadu.

- Third, these efforts have been greatly facilitated by a functioning and comparatively efficient administration. The governments involved have delivered their services in traditional lines and these 'old fashioned' public institutions-functioning schools, health centres, government offices, Gram Panchayat and co-operatives have left much room for private initiatives at a later stage of development.

- Fourth, dealing with social inequality has also been an important part of these shared experiences. In each case, the historical burden of social inequality has been significantly reduced in one way or another. In Kerala, Tamil Nadu and Himachal Pradesh, principles of equal citizenship and universal entitlements were forged through sustained social reform movements as well as fierce struggles for equality on the part of under-privileged groups-especially Dalits,.

- Fifth, these experiences of rapid social progress are not just a reflection of constructive state policies but also of people's active involvement in democratic politics. The social movements that fought traditional inequalities are part of this larger pattern.

- Last but not least, there is no evidence that the cultivation of human capability has been at the cost of conventional economic success, such as fast economic growth. Tamil Nadu have some of the highest per capita incomes and lowest poverty rates among all Indian states. Economic growth, in turn, has enabled these states to sustain and consolidate active social policies. This is an important example of the complementarity between economic growth and public support.

- *Source: An Uncertain Glory by Nobel laureate Prof. Amartya Sen*.

9TH BOOK

Unit-2- Employment in India and Tamil Nadu

Introduction

- You know the basic needs of every human being are food, clothes and shelter. In the present world, one more essential need has to be added in this list. That is employment. To survive in the world, we all need employment to earn money. Those who are engaged in economic activities, in whatever capacity– high or low – are called employees. People who employ these workers and pay rewards for their work are called the employers.

- Labour force of the economy is the number of people in the country who work and also capable of working. We take the age group of 15–60 years for the computation of workforce. Persons who are less than 15 years are considered as children, and person who have crossed 60 years of age are excluded as they are not physically fit to undertake productive occupation. If larger percentage of population is accounted by children and old-age persons, then the progress of the country would be very slow as the working force is very small. Besides, the small working force will have to maintain larger non-working force for feeding out of the small national product.

Employment Structure in India

- The nature of employment in India is multi-dimensional. Some get employment throughout the year; some others get employed for only a few months in a year. The economy is classified into three sectors: primary or agriculture sector, secondary or industrial sector and tertiary or service sector. The structure of employment denotes the number of workers engaged in different sectors of the economy. Tough the occupational pattern varies from one country to another, one can find in Developing countries like India that a large work force will be engaged in primary sector, while a small proportion in secondary and tertiary sectors. Whereas, in well-developed countries, the proportion of workforce engaged in agriculture will be very small and a majority of labour force will be in the industrial and tertiary sectors. Employment has always featured as an important element of development policy in India. Employment growth has increased at an average rate of 2% during the past four decades since 1972–73.

  - ✓ **Primary sector:** Agriculture, forestry animal husbandry, poultry, dairy farming, fishing etc.

  - ✓ **Secondary sector:** Manufacturing, small and large-scale industries and constructional activities.

  - ✓ **Tertiary sector:** Transport, insurance, banking, trade, communication, real estate, government and non-government services.

Types of Employment: Organised and Unorganised Sectors
Organised Sector

- The organised sector is one that is incorporated with the appropriate authority or government and follows its rules and regulations. In India employees of central and state governments, banks, railways, insurance, industry and so on can be called as organised sector. This sector works according to certain rules and regulations given in the law. Organised sector has some formal processes and procedures. The employees in this sector are provided with job security and receive higher wages than those of the unorganised sectors. Organised sector gives good salary, fixed working hours, paid holidays and provides medical allowance and insurance also.

Unorganised Sector

- The unorganised sector of the economy characterised by the household manufacturing activity and small-scale industry. Jobs here are low paid and often not regular, mostly, they do not have paid leave, holiday, leave due to sickness and so on. Employment is not secure. When there is no work, people are asked to leave the job. This sector includes a large number of people who are employed on their own doing small jobs such as selling on the street, doing repair work and so on. In the unorganised sector, the employment terms are not fixed and regular. They do not enjoy any special benefits or job security. These enterprises are not registered with the government.

Public Sector	Private Sector
• NLC	• TVS Motors
• SAIL	• Ashok Leyland
• BSNL	• TATA Steel

Public Sector vs Private Sector

- Economic activities are classified into public and private sector based on who owns assets and is responsible for the delivery of services.

Differences between the Public Sector and Private Sector	
Public Sector	**Private Sector**
• Service motive	• Profit motive
• Government owns the assets	• Private individuals own the assets
• Wages are paid by the government	• Wages are paid by the owner of private enterprises.

Employment Pattern

- In recent years, there has been a change in the employment pattern and this has helped the employers to develop more flexible working patterns among their employees. The trends are (a) increasing self-employment (b) firms using fewer full-time employees and tending to offer more short-term contracts (c) there has been a growth in part-time employment. This may be due to lifestyle of the people.

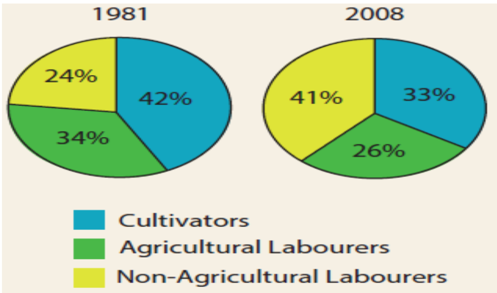
Employment in Iruvelpattu: A case study

What is happening in the employment scenario can be understood not only from national or state level, but also from the study of the village economy. Iruvelpattu is one such village in Villupuram district in Tamil Nadu. This village has been studied for more than 100 years by many scholars. This village is also called Slater village as Gilbert Slater was the first scholar working in the University of Madras to go with his students to study this village in 1916.Over the years, many scholars surveyed the occupation of villagers and collected many more details of each person in the village.

It was clearly observed that the government brought social security awareness among the people of the village through primary health care, provision of schools and maintenance of public distribution system. Though this village underwent many changes, it in still dependent on agriculture as the main occupation. Look at the following table or chart. You will notice that during 1981, out of 100 families, 24 were engaged in non-agriculture employment. In 2008, the member of families engaged in such employment increased to 41.During 1981–2008, the proportion of families engaged in agriculture has declined– both as agriculture labourers and as cultivators.

Employment details of households in Iruvelpattu (in%)

Occupation	% of Households	
	1981	2008
Cultivators	42	33
Agricultural labourers	34	26
Non-agricultural labourers	24	41
All households	100	100



Employment Trends in Tamil Nadu

- Agriculture, despite a sharp decline in gross domestic product, continues to be the largest employer in Tamil Nadu. This is because the non-agriculture sectors are yet to generate enough employment to affect a shift of labour force. Most of the employment growth in Tamil Nadu has been contributed by the unorganised and informal sectors.

9th book

3. Money and Credit

Almost all things used by man have a monetary value. In addition to that, the pay given for labour, wages and services are all fixed on the basis of money. The taxes and duties are also paid in the form of money. We would have seen our parents planning the expenses at our home every month. The monthly income, pending expenditure, savings, payment of interest etc., are all measured in terms of money. Not only at homes, but also the budgets of a country or states are also framed on the basis of money. The Government, as well as, private institutions and industries calculate their financial status through money. Thus, money plays a predominant and inseparable role in all our lives.

Barter System

If there arises a question, "Has man always used money?", the answer would be 'no'. How? When did money enter into the lives of men? In this lesson, let us learn about the evolution of money over the years. Ancient man hunted and gathered food. He lived in caves and forests. In later stages, he invented weapons for hunting and gathering food. Later, he invented fire and learnt to practise agriculture. He used mud to build houses and settle down in a place and also to make earthenware.

When the agricultural yield was high, they made handicrafts. When there was surplus in agricultural produce and other articles like earthenware, they exchanged it with people who needed them. For example, if a community had excess food stuff, they would exchange that with those who had excess pots. Likewise, when a particular grain grew in abundance in a region, it was exchanged for a different crop in another region. These articles which were exchanged through barter system can be termed as the first form of trade.

Coins

The barter system flourished wherever civilizations thrived. This system was active not only within a civilization, but also among civilizations. This was the initial form of international trade. During archaeological excavations in Egypt and Iraq (Mesopotamia), articles used during the Indus valley civilization were excavated. As years went by, there were issues found in barter system. For example there were problems in the exchanging needed goods. A person who had paddy was in need of earthenware for instance. But, the person who had pots and other utensils was not in need of paddy.

Thus, the needs of many people were not fulfilled. Measuring the quantity and value of the goods exchanged were found very difficult. To solve these issues, they fixed a common item with a standard value, for the effective exchange of goods. It was usually in the form of some metal. Metals were rare to find and could be maintained for a long time and never lost their value. Hence, the metals can be termed as the first form of money.

These may be the reasons why metals were chosen. Gold, silver and copper were the metals used first. They were called ancient currency. Leather, beads, shells, tobacco, salt, corn and even slaves were exchanged as barter, say economists. The later Cholas allowed the traders to have their own army. Historical evidences state that during this period, small traders and producers gave credit to the Tamil traders to support their export needs.

Natural Money

The metals such as silver and gold gained importance gradually all over the world. So, these metals were used as standard value in the exchange of goods. There is called as natural money.

Paper Money

Asdays went by, issues arose because while trade prospered, there were insufficient reserves of gold and silver. Mines also had a limited reserve of these metals. An alternative was found and coins were made using metals with lesser value. These were used to buy and sell goods of lesser value. It was used as the money of the poor people. Hence these coins were printed in large numbers. Paper money came into being as the next stage. This money was without form and people started saving in banks. The Great Economic Depression was also prompted the saving habit of the people. Money has become an inseparable part of everyone's life today. It has changed its form in the economic front. Money transactions are done through many ways in the electronic world.

History of Money

1. **Barter System 9000 B.C (B.C.E):** During this period, exchange of goods was done through barter system. Man exchanged the surplus goods for other goods that he needed.

2. **Coins 1100 B.C (B.C.E):** The Chinese have used small coins during this period. These coins were made in bronze. Countries bordering the Indian Ocean used shells as a medium of exchange.

3. **Currency 600 B.C (B.C.E):** King Alyattes of Lydia announced publically that official currency will be used for trade. Lydia is a part of Turkey today. This Transaction of money spread throughout the Mediterranean region.

4. **Gold Coin 1250 A.D (C.E):** The florin, a gold plated coin was introduced in Europe

5. **Marco Polo 1290 A.D (C.E):** Paper money spread to Europe through the travels of Marco Polo

6. **Printing of Currency 1661 A.D (C.E):** When new paper money was printed in Sweden, it was not much welcome.

7. **Electronic Transfer 1860 A.D (C.E):** Through telegramme an effort was under taken to transfer money electronically.

8. **Credit Card 1946 A.D (C.E):** John Biggins invented the credit card

9. **Mobile Banking 1999 A.D (C.E):** European banks introduced mobile banking

10. **NFC 2008 A.D (C. E)**Near field communication (NFC) was introduced in Britain. In 2016, it came to India> It takes only about 7 to 8 seconds to transact money through NFC.

Electronic Transactions

One has to visit the bank and fill in a challan or produce a cheque to withdraw money from his account. Now this practice is gradually vanishing. Instead, one can easily withdraw the necessary amount from an Automated Teller Machine (ATM), with the help of an ATM debit card. One can easily withdraw the money needed at any time at ATMs located everywhere. A person can deposit money in their account without visiting the branch.

- ✓ Similarly, credit cards are also available, through which things are bought on credit and the amount can be paid later.
- ✓ Nowadays, instead of using cheques or Demand Drafts (DDs), online transactions through net banking are carried out. Through this, money is transacted to anyone who lives anywhere across the globe.
- ✓ Technology has advanced so much that even mobile banking is widely used nowadays.

Role of the Reserve Bank of India

A government has the responsibility to regulate money supply and oversee the monetary policy. Hoarding of money must be avoided at all costs in a country's economy. Only then money can be saved in banks. A major portion of the savings in banks are used for the development of industries, economic growth and various development schemes for the welfare of the poor. All the major and important banks were nationalised (1969) in India. The Reserve Bank of India (RBI) regulates the circulation of currency in India.

The Reserve Bank of India started its operations on 1st April 1935. It was permanently moved to Mumbai from the year 1937. RBI was natinolised in 1949. 85% of the printed currency is let for circulation. According to the statistics available as on August 2018, currency worth of 19 lakh crore are in circulation. **(source - Reserve Bank of India)**

Educational Loans

- ✓ Educational loan attempts to meet the educational aspirations of the society.
- ✓ A student is the main borrower.
- ✓ A parent, spouse or sibling can be the co-applicant.
- ✓ It is offered to students who want to pursue higher education in India or overseas.
- ✓ It can be taken for a full time, part – time or vocational course and Graduation or Post Graduation.
- ✓ There is no security required for the loan amount up to ` 4 lakhs
- ✓ The loan is repaid by the student generally after the employment.
- ✓ Students can apply through "Vidya Lakshmi Portal Education Loan Scheme".

Relationship between Money and Prices

There is a close relationship between volume of circulation money and the price of things. 90% of the products are manufactured with the main aim of sales or meant for services. Growing crops and production are done on a commercial basis, rather than on a subsistence level. This phenomenon also increased the importance of the market and money.

The relationship between money and price is connected with the Monetary policy. There is a close relationship between the growth of money supply and inflation. Price controls play a very important role in a country's economic stability. This role is played by the Central Bank of our country, RBI in India. Currency is the medium of exchange in a country. The Indian currency is called the Indian Rupee (INR). In a country the foreign currency is called foreign exchange. Purchasing capacity of all currencies in the world are compared using the US dollar as the standard currency. This value differs from country to country. Most of the international trade transactions are carried out in US dollar.

How is currency printed in India?

One rupee and two rupee notes were first printed in India in the year 1917. The Reserve Bank of India is empowered to issue the Government of India notes since1935. 500 rupee note currency was introduced later. In 1940, one Rupee notes were issued again. Till 1947, the currency notes with the image of King George VI were in circulation. After Independence, the Government of India issued currency notes.

In 1925, the British government established a government press at Nasik in Maharashtra. Currencies were printed three years later. In 1974, a press was started in Dewas, Madhya Pradesh. (Security Printing and Minting Corporation of India Ltd.)In the 1990s.two more presses were started in Mysuru, Karnataka and Salboni in West Bengal to print bank notes.

The Reserve Bank of India has the authority to decide the value of currency to be printed and how the amount should reach its destination safely. Around ten thousand workers are employed here. Countries like Sri Lanka, Bhutan, Iraq and Africa have drawn contracts for printing their currencies and sent to the respective countries. Though the RBI has the power to print up to ten thousand rupee notes, at present a maximum of up to rupees two thousand is printed.

Foreign exchange rate equivalent to US Dollars

Country	Currency	Equivalent Value for 1 US Dollar (July 2018)
India	Rupee	68.72 rupees
England	Pound	0.76 pound
European Union	Euro	1.14 euro
Canada	Dollar	1.31 dollar
Japan	Yen	111.15 yen
China	Yuan	6.76 yuan
Saudi Arabia	Riyal	3.75 riyal
Australia	Dollar	1.35 dollar
Malaysia	Ringgit	4.05 ringgit
Pakistan	Rupee	124.2 rupees
SriLanka	Rupee	159.8 rupees

Functions of Money: When money replaced the barter system, a lot of practical issues were solved. Money acts a medium of exchange, a unit of measurement, a store of value and a standard of deferred payments. It plays an important role in transactions.

Medium of Exchange: Money should be accepted liberally in exchange of goods and services in a country.

Unit of Account: Money should be the common, standard unit of calculating a country's total consumer goods, products, services etc. For example, if a book costs` 50, it means that the price of the book is equale to 50 units of money. Money is used to measure and record financial transactions in a country.

A Store of Value: Money is used as a store of purchasing power. It can be used to finance future payments.

Credit

Farmers avail credit during monsoons for buying seeds, agricultural input and other expenses. Traders and small entrepreneurs need credit for their needs. Even large industries receive credit to take up their new projects.

Credit is available from:

- ✓ Formal financial institutions like nationalised and private banks and co-operative banks

- ✓ Informal financial institutions
- ✓ Micro credit is received through Self Help Groups (SHG)

As far as nationalised banks and co-operative banks are concerned the interest to credit is comparatively lesser and there is gurantee for the pledged, goods.

Money supply is divided into four:

M1	=	Currency held with the public + cash Reserves in commercial and Co-operative banks + cash reserves in the RBI.
M2	=	M1 + Money saved in Post office and bank savings Accounts
M3	=	M1 + Time Deposits in Commercial and co-operative banks
M4	=	M3 + Post office savings Money

Informal Financial Institutions

Informal financial institutions are easily approachable to the customers with flexible procedures. But there are issues like the safety of items pledged high rates of interest and modes of recovery. People who live in a particular place or those who are involved in a certain work join together as a group and start saving. These are called as Self Help Groups. The nationalised banks provide help to these groups through micro-credit. . Credit given though Self Help Groups for street vendors, fishermen, especially women and the poor really make a difference in their life.

In Tamil Nadu, all the banks have 10,612 branches; across the state. They carry on a total transaction of around 15 lakh crore rupees during the financial year (2017-2018). A few salient features of the Tamil Nadu Bank transactions are given in the table below

Tamil Nadu – Banking Statistics	
Banking Activates (April 2017 – March 2018)	Rupees (approximately)
Deposits Received	7.17 Lakh crore
Loans sanctioned	7.84 lakh crore
Loans to micro & small enterprises	1.40 lakh crore
Priority sector Loans including Agriculture	3.56 lakh crore
Loans to weaker section	1.04 lakh crore
Education Loan	1.67 lakh crore
Credit Deposit Ratio	**109.34%**

4. Tami Nadu Agriculture

Most of the people of Tamil Nadu depended on agriculture at the time of independence and even after 40 years of independence. That situation is being changed in the recent years. It has been noticed that the number of farmers in Tamilnadu has got reduced during the last 10 years according to the 2011 census data. Similarly the number of agriculturalworkers also reduced during the same period. According to the 2001 census, 49.3% out of the total population of workers were involved in agriculture. The percentage has reduced to 42.1 in the next 10 years. In 2011 there were three crore 29 lakh workers in Tamil Nadu of which 96 lakh were agricultural workers.

In 2011, nearly 55% of the women were involved in agriculture whereas nearly one third (35.3%) of the male population was involved in agriculture during the same year. A major portion of the workers involved in agricultural activities are landless labourers. All the land holders do not have the same amount of land. Many have very little land and very few people hold large areas of land. During 2015-16, there were 79,38,000 cultivators in Tamil Nadu. But five years earlier there were 81,18,000 cultivators. There was a reduction of 1,80,000 cultivators in these five years. Similarly, the area under cultivation also reduced from 64.88 lakh hectares to 59.71 lakh hectares during the same period. That is, the state of Tamil Nadu had lost nearly 1,03,400 hectares on an average during these five years.

Most of the cultivators in Tamil Nadu are micro farmers who cultivate in an area less than 1 hectare. Micro farmers account to around 78% of the total cultivators, while the area cultivated by these micro farmers is just 36%. Small farmers cultivating 1-2 hectares of land cover 14%, while the land cultivated by them is 26%. Cultivators of schedule caste farmers are only one percent in Tamilnadu. 96% of this one percent are small, micro farmers.The total land area under agriculture is shrinking fast not only in Tamil Nadu, but also throughout India. The number of marginal Sectors of people involved in agricultural activities.Types of land usagefarmers has increased in India. In contrast, the number of marginal farmers is decreasing in Tamil Nadu. This shows that the farmers are doing other occupations.

Types of land usage

The total geographical area of Tamil Nadu is one crore 30 lakhs and 33 thousand hectares. Out of this only one third of land is used for agriculture (45,44,000 hectare). 17% of the land is used for non agricultural use. Nearly the same size (2125 thousand hectares) of land are forests. About 4% of the total land is unusable. One tenth of the land is barren. Other fallow lands are 13 percent. So nearly one-fourth of the land is barren and we have to be concerned of the increasing size of the barren land. Grazing land and cash crops occupy slightly more than 5% of the total land area.

The size of the total cropping land in Tamil Nadu is 4,544 thousand hectare and this keeps on changing every year. Sufficient rains at the proper period will increase this extent of land. Failure or shortage in rainfall leads to the reduction of land usage for cultivation. A small part of this area gives a chance to crop more than once in a year. The extent of this area also changes every year. This land extent was 9 lakh hectares in next year but was reduced to 6 lakh hectare, due to lack of rainfall. This area will be more or less stable only when there is a stable and reliable water source.

If there is good water for a land, more than one crop can be cultivated in a year. In some land, two or even three crops can be cultivated. If one hectare land is cultivated once in a year, then the net land and the cultivated land is also one hectare only. If the land is cultivated twice, then the net land area is only one hectare, but the cultivated land area accounts to two hectare. If calculated in the same way for Tamil Nadu for the year 2012 - 13, it is 45 lakh 44 thousand hectare net land area whereas the cultivated land comes to around 51 lakh 40 thousand hectare. So, it is clear that 5,96,000 hectares is cultivated more than once. While reliable water supply increases, the possibility of cultivating the land more than once increases. Thus when the total area of cultivable land area increases, it results in the increase of agricultural production. In 2012-13, out of the total cultivated land, nearly 72 percent is used for food crops and the remaining for non-food crops.

Water resources for agriculture

There are no perennial rivers in Tamil Nadu. Tamil Nadu receives the required water from the Northeast and Southwest monsoons. When the South West monsoon rains are high in the catchment areas of the Cauvery River in Karnataka dams get filled and in turn the Cauvery River in Tamil Nadu gets water.

Northeast monsoon (Oct-Dec) is a major source of water for Tamil Nadu. The Northeast monsoon rains are stored in reservoirs, lakes, pond and wells for cultivation. Conventional water bodies like lakes, ponds and canals provide water for agriculture in Tamil Nadu. 2,239 canals run through Tamil Nadu covering a length of 9,750 km. There are 7,985 small lakes, 33,142 large lakes, 15 lakh open wells and there are 3,54,000 bore wells in the state where agriculture is carried out with the help of these water resources.

The area of land that is irrigated using water from lakes is very low. Nearly 3.68 lakh hectares of land obtain water from lakes. The canals provide water to 6.68 lakh hectares. Bore wells irrigate 4.93 lakh hectares and open wells provide water to 11.91 lakh hectares of land. Agriculture in Tamil Nadu is dependent mostly on groundwater. Use of ground water for agriculture creates many hardships too. There would be no sufferings if the amount of water taken from the underground and the amount of water that goes into the underground during the rainy season are equal. On the contrary, as the amount of water taken increases, the ground water goes down resulting in complete dryness or change into unusable water.

The Union Ground Water Board is constantly monitoring the level and nature of ground water. This continuous monitoring has categorized the Panchayat Union (blocks) in terms of the amount of groundwater used. 139 blocks in Tamil Nadu are identified as excessive users of groundwater and 100 blocks as nearing the stage of excessive usage of groundwater. 11 blocks have been identified with reduced water quality. Only 136 blocks have enough quantity and quality water for usage. From this, we come to know that:

1. Tamil Nadu agriculture is dependent on groundwater.
2. It is very urgent and necessary to regulate the usage of underground water.
3. This is very important for sustainable farming.

Irrigation and crop types

Crops in Tamil Nadu

All cultivated crops can be classified as food crops and non-food crops. 57 percentage of the total land under food grain cultivation is irrigated. In 2014-15, 59 percentage of food crops and 50 percentage of non food crops were irrigated in Tamil Nadu. The total area of land cultivated in Tamil Nadu was 59 lakh and 94 thousand hectares in 2014-2015. Out of this non-food crops were 76%.

Paddy cultivation is carried out at a large scale of 30 percent cultivated land area and other food crops in 12 percent area. Millets are cultivated in a very low percentage of area. Sorghum(Cholam) cultivation in 7 per cent land area, cumbu in one percent and ragi in 1.7 per cent. Other millets occupy 6 per cent in the year 2014 - 2015. The area cultivatable land changes every year as a result of many factors such as rainfall, availability of water, weather and market prices.
Micro irrigation

Micro irrigation technology is a very good remedial measure to tackle shortage in irrigational water. This irrigation technology helps to have a higher yield when compared to the traditional irrigation methods. As only required amount of water is supplied at regular intervals, it increases the ability of water usage and productivity of the crop resulting in reduction of labour expenses and weed growth in the field. As the fertilizer is distributed through water, it increases the usage of fertilizer and the yield. As Tamil Nadu gets insufficient rainfall, the government has taken many measures to implement micro irrigation for proper distribution of water to crops that require more water.

Virtual water

The term 'virtual water' was introduced by Tony Allen in 1990. The water consumed in the production process of an agricultural or industrial product is called 'virtual water'. It is the hidden flow of water when food or other commodities are traded from one place to another. For instance, it takes 1340 cubic metres of water (based on the world average) to produce one metric ton of wheat. That is, if one metric ton of wheat is exported to another country, it means that 1340 cubic metres of water used to cultivate this amount of wheat is also being exported. India is the largest global freshwater user. India has been the fifth largest exporter of virtual water in the world.

Decadal growth in agricultural production

The total quantity of food grains produced in Tamil Nadu in the year 2014 - 2015 was one crore 27 lakh 35 thousand tonnes. Paddy alone accounted to 80 lakhs tonnes. The contribution of paddy to the total amount of food production is 62%. Maize production was 20%, corn 7%, ragi 3% and another 3% occupied by black gram, while other food crops contributed a very meager amount to the total food production in Tamil Nadu. The amount of production varies depending on the amount of land being cultivated.

The yield of productive crops

The amount of production depends not only on the area but also on the productivity of crops.Production capacity of paddy in Tamil Nadu was 4,429 kg per hectare in 2014-2015. This capacity was 3,039 kilograms in 2010-2011 revealing the increase in productivity. Next to paddy, maize stands second in the production (8,824 kg/hectare).2,093 kg/hectare corn, 3,077 kgs of rye (cumbu) and 3348 kgs of ragi were produced during the same period.

Black gram, one of the largest cultivated pulses, produced 645 kg per hectare. Production of sugarcane and ground nut (Manila) were 107 tons and 2,753 kg per hectare respectively. The productivity of crops continues to increase. For example the productivity of paddy in 1965 - 66 was 1,409 kg. It increased to 2,029 kg in 1975-76 and 2,372 kg in 1985-86. It increased to 2,712 kg after a decade. The production was 4,429 kg in the year 2014-15. In the past fifty years, the productivity of paddy has increased more than three times.

The food grain production capacity, has increased about 3.5 times between 1965-66 and 2014-15. Similarly, the total food grain production has risen by 2.5 times during this period. In 1965-66, the total food grain production was slightly more than 50 lakh tonnes and in 2014-15, the production increased and was slightly below one crore 28 lakh tonnes.We find that both the productivity and food production in Tamil Nadu continue to increase. However, the area under food grain cultivation has reduced in the same period. Though there was a reduction in the area of production, the total amount of production has been maintained and there is an increase of productivity.

5. Migration

Concept of Migration

In any settlement-village or town-change in population occurs due to birth, death and migration. Of these three components of population change, birth and death is clearly identifiable events while migration poses the maximum amount of problem with regards to its definition and measurement. As almost everyone keeps moving most of the time, it is not easy to define which of these moves have to be classified as migratory moves.

In the Census of India, migration is enumerated on two bases

i. **Place of birth:** If the place of birth is different from the place of enumeration (known as life-time migrant).
ii. **Place of residence:** If the place of last residence is different from the place of enumeration (known as migrant, by place of last residence).

Extent of Migration in India and Tamil Nadu

In India, the Census of 2011 enumerated a total population of 121 crores, of which 45 crore people were reported as migrants, according to the definition of the place of last residence. Similarly, in Tamil Nadu out of 7.2 crore people, 3.13 crore people were counted as migrants, in 2011. That is, the percentage of migrants was 37 percent in the country, while it was at a much higher rate in Tamil Nadu at 43 percent.

Generally, one tends to associate migration with urban areas. However, we find that in India as well as Tamil Nadu, the extent of migration is much higher in rural areas compared to urban areas. In 2011, 37 percent of the population are counted as migrants in rural areas while the corresponding percentage in urban India is 27 percent. In Tamil Nadu, migrants account for 41 percent in rural areas and 35 percent in urban areas, in 2011. That is, the mobility of population in rural areas is greater than that in urban areas.

Further, one usually associates mobility with males rather than females. However, an examination of data clearly indicates that a larger proportion of females are reported to be migrants compared to males. In the country as a whole, 53 percent are female migrants while 23 percent are male migrants, in 2011. In Tamil Nadu, the picture is very similar, with more than half the females (52%) reporting their status as migrants, by place of last residence, and 35 percent are male migrants.

Now, why is there such a large percentage of migration among women? 70 percent in India and 51 percent in Tamil Nadu report marriage as the reason for migration of females in 2011. That is, marriage and the movement associated with marriage appear to be a major factor responsible for women's mobility in India and Tamil Nadu. Movement related to work and employment appears to be the driving force for migration, among men. Of all the male migrants in India, 28 percentreport 'work' as the major reason for their migration, in 2011. The corresponding percentage in Tamil Nadu is 26 percent.

To sum up, in Tamil Nadu, two out of every five persons is reported to be a migrant in the year 2011. Incidence of migrants is higher in rural areas and larger among women. Tamil Nadu has a history of migration and people have moved for various reasons such as trade, business, employment etc, to various countries. During the colonial period, labourers had moved to other colonies seeking work and wages. In the more recent period workers from Tamil Nadu have been moving to countries in the Gulf, United States of America and Australia. In 2015, an independent research study was conducted to understand the level, nature and pattern of migration in Tamil Nadu. This study has made some interesting findings, as discussed below:

- ✓ Of the total migrants in Tamil Nadu, 65 percent have migrated or moved abroad while 35 percent have moved within the country.
- ✓ Chennai district has recorded the maximum number of emigrants followed by Coimbatore, Ramanathapuram and Tiruchirapalli districts.
- ✓ Cuddalore, Karur, Thiruvannamalai, Vellore, Namakkal, Salem, Dindigul, Krishnagiri, Nilgiris and Dharmapuri districts record low number of emigrants.

This study also provides information about the sex and destination of migrants Tamil Nadu.

- ✓ Of the total migrants who go to foreign countries, nearly 20% have chosen to go to Singapore, while 18% to the United Arab Emirates, 16% to Saudi Arabia, 13 % to the United States of America; and Malaysia, Kuwait, Oman, Qatar, Australia and England are also refered as important destinations for migrants from Tamil Nadu in the year 2015.
- ✓ Of the international migrants, 15 percent are women, while 85 percent are men.

On the question of educational qualifications of migrants from Tamil Nadu, the study reveals that in 2015 about 7 % were illiterates; 30 % have completed. Class X; 10 % have completed Class XII; 15 % had undergone vocational training; 11 % were graduates; 12% were professionally qualified and 11 % had Post Graduate degrees.

The study clearly reveals various occupations undertaken by the migrants: highly skilled professions on one hand and low skilled occupations on the other, along with a large number of semi-skilled occupations.

Factors underlying Migration

The extent and nature of migration in any society is basically determined by the nature of the development process experienced by that society. That is, the type and scale of development achieved by the agricultural and industrial sectors in an economy would determine the migratory patterns.In India and Tamil Nadu, though the agricultural and industrial sectors have grown over the years, inequalities still exist in asset and income distribution. Endemic poverty continues to be a major problem.

Reasons for Migration in India	
Reasons	**Percentages %**
Work /Employment	14.7%
Business	1.2%
Education	3 %
Marriage	43.8%
Moved after birth	6.7%
Moved with household	21%
Others	9.6%

The growth processes have also created spatial inequalities, by leading to enclaves of growth. The migration patterns observed in a developing society such as ours correspond to these inequalities (economic, social, spatial etc) created by the development processes. Therefore, any migrant stream would consist of heterogeneous sub-streams. For example, if we consider the rural-urban migrant stream, it would comprise of rural rich and the rural poor, each with its own reasons and motivation for migration, the mode of migration, theoutcome or consequence of migration etc.

Poorer sections of the population migrate as a survival strategy, in response to distressing conditions in rural areas. Migrants from better-off sections migrate to improve their living standards. Further, spatially, there would be a tendency for migrants to converge on enclaves of growth-either in urban areas or in rural areas.The pattern of migration is very complex, comprising of a number of streams:

- ✓ rural to rural; rural to urban; urban to rural; urban to urban
- ✓ short, medium and long distance migration streams
- ✓ long-term stable migration and short-term circulatory type of movements

Each of these streams would consist of different types of migrants, (from different social classes) each with its own reason for migration. The extent and nature of these migrant streams would essentially depend on.

- ✓ pressures and aspirations experienced by people at the origin of migration
- ✓ constraints imposed on mobility at the origin of migration
- ✓ opportunities at the destination and availability of information regarding these opportunities and
- ✓ the cost of migration

Migration Policies

Policies to address the problem of migration in developing countries like India essentially aim at the following:

- ✓ To reduce the volume of migration: As a large part of migration is a reflection of poverty and insecurity faced by large sections of the rural people, the focus of intervention has to be in rural areas. Rural development policies to reduce poverty and insecurity would be essential to reduce the rate of migration.
- ✓ To redirect the migrant streams: Redirection of migrant streams, away from big metropolitan cities is a desirable policy option. This policy can help in reducing spatial inequalities by suitable strategies, such as developing a more dispersed pattern of urbanisation.

10th Full Book

Unit 1 – GDP and its Growth: an Introduction

Economists call such tangible items “goods”. These goods are not free but have to paid for.

Though you don’t realise it in addition to these tangible things called goods, something else is being produced : the work done by the cooks and the people who serve the food. The activity of cooking and serving is not something you can feel and touch. Such activities are not tangible but are nevertheless crucial for you to enjoy the food. Economists call such activity “services”. As in the case of goods, these and other services are not free but have to be paid for.

What happens everyday in a hotel happens nation wide: goods and services are produced and paid for and this what the GDP measures.

The GDP is defined follows:

The GDP is the market value of all the final goods and services produced in the country during a time period.

Every part of the definition is important.

Goods and services: as you know by now, goods are tangible items while services are activities which are intangible .

Market value: This is the price at which goods and services are sold in the market.

The GDP measures all the goods and services produced in the country. For this, we have to add all the goods and services produced. However a nation produces a wide range of goods like rice, shoes , trains, milk, clocks, books and bicycles. If only the quantities are taken into account, there is no meaningful way to add these up. For example, how do you add 1000 litres of milk with 500 clocks?! Likewise there is no meaningful way to add the quantities of services since a wide range of services are produced , such as the work done by doctors, police, fire brigade, teachers, bus drivers and district collectors.

The GDP solves this problem by measuring the goods and services in the currency of the country, which is the rupee in the case of India. The rupee values are derived from the prices at which the goods and services are sold in the market. Only those goods and services with a market value are included in the GDP.

This implies that unless a good or service is sold in the market, it is not included in the GDP. For example if you pay ` 50 to get a manuscript typed in a computer centre, the service is included in the GDP since it is sold in the market. If you type the manuscript yourself , the service typing a manuscript is not included in the GDP since you did not purchase it for a price in the market.

Final goods and services: Economists Tyler Cowen and Alex Tabarrok say that "final goods and services" are the goods and services which will be used or consumed and will not form a part of other goods and services. The goods and services which will be used for producing other goods and services and will form a part of the goods and services produced are called "intermediate goods".

Only the final goods are included in the GDP. Intermediate goods are not counted in calculating the GDP because their value is included in the final goods. So if the intermediate goods are included in the GDP it will result in what is called "double counting".

For example, a cup of tea bought in a hotel is a final good because it is consumed and does not form a part of producing something else. So the market value of the cup of tea, being a final good, is included in the GDP. Sugar which is mixed in the tea is an intermediate good because it is used in making tea and forms a part of the tea served. Suppose the tea is priced ` 10 a cup, of which the value of sugar used is ` 2. So the price of the cup of tea includes the ` 2 price of the spoon of sugar. If this value of sugar is included in the GDP , it will be counted twice: as a spoon of sugar and again as a part of the cup of tea. This is "double counting" and to avoid it the intermediate goods like sugar are excluded from GDP.

National Income

'National Income is a measure of the total value of goods and services produced by an economy over a period of time, normally a year'. Commonly National Income is called as Gross National Product(GNP) or National Dividend.

Various terms associated with measuring of National Income

Gross National Product (GNP)

Gross National Product is the total value of (goods and services) produced and income received in a year by domestic residents of a country. It includes profits earned from capital invested abroad.

GNP = C + I + G + (X–M) + NFIA)
C = Consumption
I = Investment
G = Government Expenditure
X-M = Export – Import
NFIA = Net Factor Income from Abroad)

Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is the total value of output of goods and services produced by the factors of production within the geographical boundaries of the country.

Net National Product (NNP)

Net National Product(NNP) is arrived by making some adjustment with regard to depreciation that is we arrive the Net National Product (NNP) by deducting the value of depreciation from Gross National Product. (NNP = GNP − Depreciation)

Net Domestic Product (NDP)

Net Domestic Product (NDP) is a part of Gross Domestic Product, Net Domestic Product is obtained from the Gross Domestic Product by deducting the Quantum of tear and wear expenses (depreciation)
NDP = GDP – Depreciation

Per Capita Income (PCI)

Per capita Income or output per person is an indicator to show the living standard of people in a country. It is obtained by dividing the National Income by the population of a country.
Per capita Income = National Income / Population

In 1867-68 for the first time DadabhaiNavroji had ascertained the Per Capital Income in his book "Poverty and Un- British Rule of India".

Personal Income (PI)

Personal income is the total money income received by individuals and households of a country from all possible sources before direct taxes, therefore, personal income can be expressed as follows (PI = NI corporate Income Taxes − Undistributed corporate profits − social security contribution + Transfer payment).

Disposable Income (DI)

Disposable income means actual income which can be spent on consumption by individuals and families, thus, it can be expressed as
DPI = PI − Direct Taxes
(From consumption approach DI = Consumption Expenditures + Savings)

Gross Domestic Product (GDP)

Produced in the country: GDP of India includes only the market value of goods and services produced in India. For example the market value of apples produced in Kashmir are included in our GDP since Kashmir is in India. The market value of apples produced in California, even ifthey are sold in Indian markets, are not included in our GDP because California is in the U.S.

Produced during a time period: The GDP of a country measures the market value of goods and services produced only during the specified time period. The goods and services produced in earlier periods are not included. If an year is the specified time period, the GDP of 2018 will include the market value of goods and services produced only during 2018. So a bicycle produced in 2017 will not be included in the GDP measure for 2018.

In India the GDP is measured both annually and quarterly. The annual GDP is for a financial year which is from April1 of say 2017 to March 31, 2018. This is written as 2017-18. The quarterly GDP estimates are for each of the four quarters into which India's financial year is divided:

- ✓ First quarter, denoted Q1: April, May and June
- ✓ Second quarter, or Q2: July, August, September
- ✓ Third Quarter or Q3: October, November, December
- ✓ Fourth Quarter, or Q4: January, February, March.

The annual GDP for financial year 2017 - 18 will include only the goods and services produced during this financial year and will exclude the goods and services produced in the previous years. Likewise GDP for Q2 will include only the goods and services produced in Q2 and will not include the goods and services produced in Q1.

Gross Domestic Product (GDP) definition

Gross Domestic Product (GDP) represents the economic health of a country. It represents a sum of a country's production which consists of all purchases of goods and services used by individuals, firms, foreigners and the governing bodies. The monetary value of all the finished goods and services produced within a country's border in a specific time period.

GDP = C + I + G + (X − M)
C = Consumption I = Investment
G = Government Expenditure
(X − M) = X = Exports − M = Imports

The modern concept of GDP was first developed by Simon Kuznets for a US Congress report in 1934.

Methods of GDP Calculating

- ✓ **Expenditure Approach:** In this method, the GDP is measured by adding the expenditure on all the final goods and services produced in the country during a specified period. The different types of expenditure are shown in this equation: Y = C + I + G + (X − M)

- ✓ **The Income Approach:** This method looks at GDP from the perspective of the earnings of the men and women who are involved in producing the goods and services. The income approach to measuring GDP (Y) is Y = wages + rent + interest + profit

- ✓ **Value-Added Approach:** A cup of tea served to you in a hotel is a "final good". The goods used to produce it, tea powder, milk, and sugar, are "intermediate goods" since they form a part of the final good, the cup of tea. One way to measure the market value of the cup of tea is to add the value produced by each intermediate good used to produce it. Each intermediate good, the tea powder , milk and sugar, adds value to the final output, the cup of tea. In the value-added approach the value added by each intermediate good is summed to estimate the value of the final good. The sum of the value added by all the intermediate goods used in production gives us the total value of the final goods produced in the economy.

Importance of GDP

- Study of Economic Growth.
- Unequal distribution of wealth
- Problems of inflation and deflation.
- Comparison with developed countries of the world.
- Estimate the purchasing power.
- Public Sector.
- Guide to economic planning.

Limitations of GDP

The GDP is the most widely used measure of the state of the economy. While appreciating its usefulness, we should be aware of some of its limitations.

- **Several important goods and services are left out of the GDP:** The GDP includes only the goods and services sold in the market. The services provided by parents to their children is very important but it is not included in the GDP because it is not sold in the market. Likewise clean air, which is vital for a healthy life, has no market value and is left out of the GDP.

- **GDP measures only quantity but not quality:** In the 1970s schools and banks did not permit the use of ballpoint pens. This is because the ones available in India were of very poor quality. Since then, not only has there been a substantial increase in the quantity of ballpoint pens produced in India but their quality has also improved a lot. The improvement in quality of goods is very important but it is not captured by the GDP.

- **GDP does not tell us about the way income is distributed in the country:** The GDP of a country may be growing rapidly but income may be distributed so unequally that only a small percentage of people may be benefitting from it.

- **The GDP does not tell us about the kind of life people are living:** A high level of per capita real GDP can go hand-in-hand with very low health condition of people, an undemocratic political system, high pollution and high suicide rate.

Estimation of GDP

The Central Statistical Organisation (CSO), under the Ministry of Statistical department keeps the records. It's processes involves conducting an annual survey of industries and compilation of various indexes like the Index of Industrial Production (IIP) Consumer Price Index (CPI) etc.

Composition of Gross Domestic Product (GDP)

Indian economy is broadly divided into three sectors which contribute to the GDP namely Agriculture and allied activity, Industry and Services.

Primary Sector: (Agricultural Sector)

Agricultural sector is known as primary sector, in which agricultural operations are undertake. Agriculture based allied activities, production of raw materials such as cattle farm, fishing, mining, forestry, corn, coal etc. are also undertaken.

Secondary Sector: (Industrial Sector)

Industrial sector is secondary sectors in which the goods and commodities are produced by transforming the raw materials. Important industries are Iron and Steel industry, cotton textile, Jute, Sugar, Cement, Paper, Petrochemical, automobile and other small scale industries.

Tertiary: (Service Sector)

Tertiary sector is known as service sector it includes Government, scientific research, transport communication, trade, postal and telegraph, Banking, Education, Entertainment, Healthcare and Information Technology etc.. In the 20th century,economists began to suggest that, traditional tertiary services could be further distinguished from "quaternary" and "quinary" service sectors.

Contribution of different sectors in GDP of India

Services sector is the largest sector of India. Gross Value Added (GVA) at current prices for Services sector is estimated at 92.26 lakh crore in 2018-19. Services sector accounts for 54.40% of total India's GVA of 169.61 lakh crore Indian rupees. With GVA of ` 50.43 lakh crore, Industry sector contributes 29.73%. While, Agriculture and allied sector shares 15.87%.

India is 2nd larger producer of agriculture product. India accounts for 7.39 percent of total global agricultural output. In Industrial sector, India world rank is 6 and in Service sector, India world rank is 8. Contribution of Agriculture sector in Indian economy is much higher than world's average (6.4%). Contribution of Industry and Services sector is lower than world's average 30% for Industry sector and 63% for Services sector.

Gross value added (GVA) is the measure of the value of goods and services produced in an area, industry or sector of an economy. In national accounts GVA is output minus intermediate consumption; it is a balancing item of the national accounts' production account.

GVA is linked as a measurement to Gross Domestic Product (GDP), as both are measures of output. The relationship is defined as GVA + taxes on products - subsidies on products = GDP
GVA = GDP + subsidies - (direct, sales) taxes.

Year	**Agriculture(%)**	**Industry(%)**	**Service(%)**
1950-51	51.81	14.16	33.25
1960-61	42.56	19.30	38.25
1970-71	41.95	20.48	37.22
1980-81	35.39	24.29	39.92
1990-91	29.02	26.49	44.18
2000-01	23.02	26.00	50.98
2010-11	18.21	27.16	54.64
2011-12	17.86	27.22	54.91
2012-13	17.52	26.21	56.27
2013-2014	18.20	24.77	57.03
2015-2016	17.07	29.08	52.05
2016-17	17.09	29.03	52.08
2017-18	17.01	29.01	53.09

Economic Growth and Development

As per the economist AmartyaSen, economic growth is one aspect of economic development. Also, united nation see it like this “Economic development focuses not only on man’s materialistic need but it focuses on overall development or rise in its living standards.

Economic Growth

It is the quantitative measure which considers the rise in the output produced in an economy or nation in a particular period in its monetary value. The key parameters of economic growth in any economy are its Gross Domestic Product (GDP) and gross national product which helps in measuring the actual size of an economy.

For example, we say GDP of India is 2.8 trillion USD and ranked 6th in globe whereasGDP of the United States of America is 19.3 trillion USD and ranked one.It shows how much the production of goods and services has increased compared from last year in a quantitative manner. It has many parameters to measure and few of them are human Resources. They are Natural Resource, Advancement in technology, Capital formation, Political and social economic factors.

Economic Development

Economic development projects a broader picture of an economy which takes into account an increase in production level or output of an economy along with an improvement in the living standard of its citizens. It focuses more on socioeconomic factors rather than the just quantitative increase in production. Economic development is a qualitative measure which measures improvement in technology, labour reforms, rising living standards, broader institutional changes in an economy.

Human development Index (HDI) is apt tool to measure the real development in an economy.

Differences between Economic Growth and Economic Development

Comparison between Economic Growth and Economic Development	**Economic Growth**	**Economic Development**
Definition / Meaning	It is the positive quantitative change in the output of an economy in a particular time period	It considers the rise in the output in an economy along with the advancement of HDI index which considers a rise in living standards, advancement in technology and overall happiness index of a nation.
Concept	Economic growth is the "Narrower" concept	Economic development is the "Broader" concept
Nature of Approach	Quantitative in nature	Qualitative in nature
Scope	Rise in parameters like GDP, GNP, FDI,FII etc.	Rise in life expectancy rate, infant, improvement in literacy rate, infant mortality rate and poverty rate etc.

Term / Tenure	Short term in nature	Long-term in nature
Applicability	Developed nation	Developing economies
Measurement Techniques	Increase in national income	Increase in real national income i.e. per capita income
Frequency of Occurrence	In a certain period of time	Continuous process
Government Aid	It is an automatic process so may not require government support/aid or intervention	Highly dependent on government intervention as it includes widespread policies changes so without government intervention it is not possible
Wealth Distribution	Economic growth does not emphasize on the fair and equal distribution of wealth/income among all its people.	It focuses on a balanced and equitable distribution of wealth among all individual and tries to uplift the downgrade societies

Human Development Index

In 1990 MahbubulHaq, a Pakistani Economist at the United Nations, introduced the Human Development Index (HDI). The HDI is a composite index of life expectancy at birth, adult literacy rate and standard of living measured as a logarithmic function of GDP, adjusted to purchasing power parity.

India climbed one spot to 130 out of 189 countries in the latest human development rankings released today by the United Nations Development Programme (UNDP). India's HDI value for 2017 is 0.640, which put the country in the medium human development category. Between 1990 and 2017, India's HDI value incased from 0.427 to 0.640, an increase of nearly 50 percent – and an indicator of the country's remarkable achievement in lifting millions of people out of poverty.

Between 1990 and 2017, India's life expectancy at birth too increased by nearly 11 years, with even more significant gains in expected years of schooling. Today's Indian school-age children can expect to stay in school for 4.7 years longer than in 1990. Whereas, India's GNI per capita increased by a staggering 266.6 % between 1990 and 2017.

Developmental Path based on GDP and Employment

In the development path of India, it first undertook the policy of closed trade. This was to give a thrust to domestic industries and reduce dependence on foreign products and companies.Trade and interaction with the outside world remained limited. This outlook continued till 1991 when India finally decided to open its borders to free trade and liberalized its economy by allowing foreign companies to enter the Indian economy.

A thrust was given to employment generation under the Five Year plans. This was to make up for a rising population and lacking jobs to absorb the increased workforce size. Rural development was also given importance in India, for the important constituent it was of the Indian landscape.

Poverty alleviation came as a corollary of rural development and a part of the development path of India. India inherited a poverty-stricken economy from the British rule, which had destroyed its resource base completely.

The public sector was given significant importance, Private companies and industries were subject to strict regulations and standards. It was believed that the government was the soleprotector of the people and would work towards social welfare.

India has sustained rapid growth of GDP for most of the last two decades leading to rising per capita incomes and a reduction in absolute poverty. Per capita incomes have doubled in 12 years. In Per capita income, placing India just inside the Middle Income Country category.

Life expectancy at birth is 65 years and 44% of children under 5 are malnourished. The literacy rate for the population aged 15 years and above is only 63% compared to a 71% figure for lower middle income countries. India has followed a different path of development from many other countries. India went more quickly from agriculture to services that tend to be less tightly regulated than heavy industry. There are some emerging manufacturing giants in the Indian economy.

Gross National Happiness (GNH)

Gross National Happiness (GNH) is a philosophy that guides the government of Bhutan. It includes an index which is used to measure the collective happiness and well-being of a population. Gross National Happiness is instituted as the goal of the government of Bhutan in the Constitution of Bhutan, enacted on 18 July 2008.

The term Gross National Happiness was coined in 1972 during an interview by a British journalist for the Financial Times at Bombay airport when the then king of Bhutan, JigmeSingyeWangchuck, said "Gross National Happiness is more important than Gross National Product.

In 2011, The UN General Assembly passed Resolution "Happiness: towards a holistic approach to development" urging member nations to follow the example of Bhutan and measure happiness and well-being and calling happiness a "fundamental human goal."

GNH is distinguishable from Gross Domestic Product by valuing collective happiness as the goal of governance, by emphasizing harmony with nature and traditional values as expressed in the 9 domains of happiness and 4 pillars of GNH. The four pillars of GNH's are 1) sustainable and equitable socio-economic development; 2) environmental conservation; 3) preservation and promotion of culture; and 4) good governance.

The nine domains of GNH are psychological well-being, health, time use, education, cultural diversity and resilience, good governance, community vitality, ecological diversity and resilience, and living standards. Each domain is composed of subjective (survey-based) and objective indicators. The domains weigh equally but the indicators within each domain differ by weight.

Factors supporting Indian development

A fast-growing population of working age. There are 700 million Indians under the age of 35 and the demographics look good for Indian growth in the next twenty years at least. India is experiencing demographic transition that has increased the share of the working-age population from 58 percent to 64 percent over the last two decades.

India has a strong legal system and many English-language speakers. This has been a key to attracting inward investment from companies such as those specialising in Information Technology.

Wage costs are low in India and India has made strides in recent years in closing some of the productivity gap between her and other countries at later stages of development.

India's economy has successfully developed highly advanced and attractive clusters of businesses in the technology space. For example witness the rapid emergence of Bangalore as a hub for global software businesses. External economies of scale have deepened their competitive advantages in many related industries.

Growth of GDP and Economic Policies

Many Economic Policies have been framed by the Government of India since independence for increasing rate of economic growth and economic development. The important economic policies are

- **Agriculture policy**

  Agricultural policy is the set of government decisions and actions relating to domestic agriculture and imports of foreign agricultural products. Governments usually implement agricultural policies with the goal of achieving a specific outcome in the domestic agricultural product markets. Some overarching themes include risk management and adjustment, economic stability, natural resources and environmental sustainability research and development, and market access for domestic commodities. Some Agricultural policies are Price policy, land reform policy, Green Revolution, Irrigation policy, Food policy, Agricultural Labour Policy and Co-operative policy.

- **Industrial Policy**

Industrial development is a very important aspect of any economy. It creates employment,promotes research and development, leads to modernization and ultimately makes the economy self-sufficient. In fact, industrial development even boosts other sectors of the economy like the agricultural sector (new farming technology) and the service sector. It is also closely related to the development of trade. Several industrial policies since 1948, Industrial policy on large scale industries Eg.Textile Industry policy, Sugar Industry policy, Price policy of industrial growth, Small scale industrial policy and Industrial Labour policy.

- **New Economic Policy**

  The economy of India had undergone significant policy shifts in the beginning of the 1990s. This new model of economic reforms is commonly known as the LPG or Liberalisation, Privatisation and Globalisation model. The primary objective of this model was to make the economy of India the fastest developing economy in the globe with capabilities that help it match up with the biggest economies of the world. These economic reforms had influenced the overall economic growth of the country in a significant manner.

Some other policies in India

- ✓ Trade Policy - Import and Export policy (International Trade Policy), Domestic Trade Policy.
- ✓ Employment policy
- ✓ Currency and Banking Policy
- ✓ Fiscal and Monetary Policy
- ✓ Wage Policy
- ✓ Population Policy

- **GDP Growth of India**

India's economic growth story since the 1990s has been steady, stable, diversified, resilent and reflect strong macro economics fundamentals. Despite fluctuations in recent quarters due to disruptions caused by two major structural reforms - demonetisation and the Goods andServices Tax (GST). The world Bank projected a growth rate of 7.3% in the year 2018-19 and 7.5% 2019-2020. India's average economic growth between 1970 and 1980 has been 4.4% which rise by 1% point to 5.4% between the 1990 and 2000.

According to IMF World Economic Outlook (October-2018), GDP growth rate of India in 2018 is projected at 7.3% and India is 5th fastest growing nation of the world just behind Bangladesh.

10th Volume I

Unit 2 – Globalization and Trade

Introduction

- Liberalization, Privatization and Globalization (LPG) have become a much talked of subjects among politicians, economists and businessmen in modern days. These three expressions are the supporting pillars of which the edifice of new economic policy of our Government has been erected and implemented since 1991.

Globalization

- Globalization is the process of integrating various economies of the world without creating any barriers in the free flow of goods and services, technology, capital and even labour or human capital. Under globalization, the international markets for goods and services are integrated.

- Globalization is the integration of a country with the world economy. Basically, globalization signifies a process of internationalization plus liberalization.

History of Globalization

- The term of 'Globalization' was introduced by Pro. Theodore Levitt. The historical backround of globalization can be discussed on three stages.

Archaic Globalization

- Andre Gunder Frank argued that a form of globalization has been in existence since the rise of trade links between Sumer and Indus valley civilization in the third millennium BC (BCE). An early form of globalized economics and culture, known as Archaic globalization existed during the Hellenistic Age. When commercialized urban centers were focused around the axis of Greek culture over a wide range that stretched from India to Spain with such cities as Alexandria, Athens, and Anthioch, as its center. An early form of globalization in the trade link between the Roman Empire, Parthian Empire and the Han Dynasty made the commercial links between these powers inspired the development of the Silk Road.

- The Islamic Golden Age was also an important early stage of globalization. The advent of the Mongol Empire, though destabilizing to the commercial centers of the Middle East and China, greatly facilitated travel along the Silk Road. These Pre-modern phase of global exchange are sometimes known as archaic globalization.

Proto Globalization

- The next phase is known as proto - globalization. It was charterized by the rise of maritime European empires, in the 16th and 17th centuries, first the Portugues and

Spanish Empires, and Dutch and British empires. In the 17th century, globalization became private business phenomenon like British East India Company[founded in 1600] described as the first multinational company, and the first Dutch East India Company [found in 1602] were established. In 16th century, Portuguese started establishing trading posts [factories] from Africa to Asia and Brazil.

Modern Globalization

- The 19th century witnessed the advent of globalization approaching its modern form. Between the globalization in the 19th and in he 20th century there are significant differences. There are two main points one is the global trade in his centuries as well as the capital, investment and the economy and another one is the global trade in the 20th century shows a higher share of trade in merchant production, a growth of the trade in services and the rise of production and trade by multinational firms.

- Multinational trade contracts and agreements have been signed, like the General Agreement on Tariffs and Trade [GATT] and World Trade Organization [WTO]. From 1890 and up to World War 1 instability trade was a problem, but in the post war period there has mostly been economic expansion which leads to stability. Technological changes have caused lower transporting costs, it take just a few hours to transport goods between continents today.

Trade and Traders in South India historical perspective

- Southern Indian trade guilds were formed by merchants in order to organize and expand their trading activities. Trade guilds become channels through which Indian culture was exported to other lands. South India trade was dominated by the Cholas, and it replaced the Pallavas.

Early Traders

- In the year 1053 AD (CE) the Kalinga traders (Modern Orissa) brought red colored stone decorative objects for trade and also cotton textile to Southeast Asia at an early date. Several trade guilds operated in medieval Southern India such as the Gatrigas, Nakaras, Mummuridandas, Ayyavole -500 Settis, Birudas, Gavaras, etc.. Some trade guilds, such as the Nakaras and Gavares, met only in the temple premises.

European Traders in South India

- This was due to the trading activities of the various European companies which came to India during this period. The discovery of a new all-sea route from Europe to India Via cape of Good Hope by Vasco do Gama had for reaching repercussions on the civilized world. India's coastal and maritime trade was monopolized by the Europeans.

The Portuguese

- The Portuguese under the leadership of Vasco da Gama landed at Calicut on the 17th May, 1498. Profits of goods brought by Vasco do Gama to Portugal were to 60 times cost of the entire expedition to India. The arrival of Pedro Alvarez cabral in India in 1500AD (CE) and the second trip of Vasco da Gama in 1502 led to the establishment of trading station at Calicut Cochin and Cannanore. Cochin was the early capital of the Portuguese in India.

The Dutch in South India

- Dutch undertook several voyages from 1596 and formed the Dutch East India company (VOC) I 1602. In 1605, Admiral van der Hagen established Dutch Factory at Masulipatnam and Pettapoli (Nizamapatanam), Devanampatinam. In 1610, upon negotiating with the king of Chandragiri, found another facatory at Pulicut. Other commodities exported by the Dutch were indigo, saltpeter and Bengal raw silk. Pulicut was the headquarters of the Dutch in India. Nagapatnam on the Tanjore coast acquired from the Portuguese in 1659.

The British Company (UK)

- On 31st December, 1600, Queen Elizabeth granted charter to The East India Company. On the south-eastern coast, the English established at Masulipatnam in 1611 and near Pulical in 1626. The Sultan of Golconda granted the English the "Golden Fireman" in 1632 by which they were allowed to trade freely in their "Kingdom Ports". In 1639, built a fortified factory in Madras which known as Fort St.George, which soon displaced Masulipatnam as headquarters of the English settlement on the coromandel coast.

The Danes

- The Danes formed an East India company and arrive in India in 1616. The Danish settlements were established at Tranguebar (in Tamil nadu) in 1620 which was the headquarters of Danes in India. They failed to strengthen themselves, in India and in 1845 were forced to sell all their India settlements to the British.

The French

- The first French factory in India was established in 1668 by obtaining permission from the Sultan of Golconda. In 1693, the Dutch captured Pondicherry but was handed back to the French. In 1701, Pondicherry was the headquarters of the French. Settlements in the East after 1742 Political motives began to overshadow the desire for commercial gain.

- Recently, the Government of India has set up Special Economic Zones in Southern Statesespecially in Tamilnadu, Andhra, Karnataka and Kerala with a view to boost exports Nanguneri Sez, Ennore Sez, Coimbatore Sez are some in Tamilnadu.

Globalization in India

- In India the period after 1980-81 was marked by severe balance of payment difficulties mainly due to hike in oil price and Gulf war in 1990-91 and hostilities in West Asia.

- When the new government took over in June 1991. India had unprecedented balance of payment crisis. The finances of the central, and state Government had reached a situation of near bankruptcy.

- With the downgrading of India's credit rating by some international agencies, there was heavy flight of capital out of India.
- Since India lost its credit worthiness in the international market, the government mortgaged 40 tons of gold to the Bank of England. Under these circumstances, the government for 1991-92 presented its budget in July 1991 with a series of policy changes which underlined globalization, liberalization and privatization. This has come to be called as India's new economic policy. This policies were strengthened when India signed the Dunkel Draft in 1994.

Reforms made to adopt Globalization:- (New Economic policy in India)

- Abolition of Industrial licensing, except for a few industries.
- Reduction in the number of industries reserved for public sector.
- Fixation of a realistic exchange rate of rupee to exchange exports of Indian goods.
- Foreign private sector by making rupee convertible on trade, on current account and by reducing import duties.
- Foreign exchanges regulations were suitably amended
- The Statutory Liquidity Ratio (SLR) was reduced to increase lending by RBI.

Multi National Corporation (MNC)

- Multi National Corporation is a Corporate organization which owns or controls production of goods or services in at least one country other than its home country. Otherwise called Multinational Corporations (MNCs) or Transnational Corporation (TNC) or Multinational Enterprise (MNE).

Evolution of MNC

- Like, the East India Company, which came to India as a trading company and then its net throughout the country to become politically dominant, these multinationals first start their activities in extractive industries or control raw materials in the host countries during 1920s and then slowly entered. The manufacturing and service sectors after 1950s. Most of the MNC's at present belong to the four major exporting countries viz., USA, UK, France, Germany. However, the largest is American.

- 11 of the 15 largest multinationals are American, In 1971, the American Corporations held 52 percent of the total world stock of foreign direct Investment. Great Britain held 14.5 percent followed by France 5 percent and Federal Republic of Germany 4.4 percent and Japan 2.7 percent. In 1969 the American Multinationals alone produced approximately 140 billion dollars worth of goods.

The American multinationals realize quite substantial returns to the extent of 34 percent in Asiatic countries and 22 percent in African countries. They then acquire enormous powers in hose countries, which smoothens the free flow of fund across international boundaries. They purchase the best brains in these countries and resort to unfair practices. With their huge resources, the MNCs are able to invest in research and development and exploit technological developments to manufacture new products, and discover new process.

Growth of MNCs in India

- A common form of MNC Participation in Indian industry is through entering into cooperation with Indian industrialist. Trends of liberalization in the 1980s gave a substantial spurt to foreign collaborations. This would be clear from the fact that of the total 12,760 foreign collaboration agreements in 40 years between 1948-1988. As a result of liberalized foreign investment policy (FIP) announced in July-Aug 1991 there has a further spurt of foreign collaborations and increase flow of foreign direct investment.

Reasons for the growth MNC

- **Expansion of Market territory.**

As the operations of large sized firm expand, it seeks more and more extension of its activates beyond the physical boundaries of the country in which it is in corporate.

- **Marketing superiorities:**

A multinational firm enjoys a number of marketing superiorities over the national firms. It enjoys market reputation and faces less difficulty in selling its products it adopt more effective advertising and sales promotion techniques.

- **Financial Superiorities**

It has financial resources and a h high level of funds utilization. It has easier access of external capital markets. Because of its international reputation it is able to raise more international resources.

Technological superiorities:

- The main reason why MNCs have been encouraged by the underdeveloped countries to participate in their industrial development is on account of the technological superiorities which these firms posses as compared to national companies.

Product innovations:

- MNCs have research and development engaged in the task of developing new products and superior designs of existing products.

Advantages of MNC

- Producing the same quality of goods at lower cost and without transaction cost
- MNC reduce prices and increase the Purchasing power of consumers world wide
- A MNCs is able to take advantage of tax variation.
- Spurring job growth in the local economies

Disadvantages of MNC

- They are a way for the corporations to develop a monopoly (for certain products)
- They are also a detrimental effect on the environment.
- The introduction of MNC in to a host country's economy may also lead to the downfall of smaller, local business.
- MNC breach ethical standards, accusing them of evading ethical laws and leveraging their business agenda with capital

Top 10 Largest Multinational Companies in India 2018
1. Sony Corporation
2. Hew left Packard (HP)
3. Tata Group
4. Microsoft Corporation
5. IBM
6. Nettle
7. Procter & Gamble
8. City Group
9. Pepsi Company
10. The Coca-Cola Company

Company	Head Quarter	Type of Industry	Countries of operating
Hero Motocorp	New Delhi	Automobile	Columbia, Bangladesh, Africa
Bajaj	Pune	Automobile	Unoted Arab Emirates (UAE), Bangladesh

TVS	Chennai	Automobile	Brazil, Chile, Colombia, Mexico, Peru
State Bank of India	Mumbai	Banking	Australia, Bangaladesh, Belgium
Bharti Airtel	New Delhi	Communication	South Asia, Africa
Micromax Informatics	Gurgaon	Electronics	Nepal, Srilanka, Bangladesh
Amul	Anand (Gujarat)	Food Product	US, Thailand, Malaysia, Hong Kong, Japan
ONGC	Delhi	Fuel	Brazil, Colombia, Iran
Dr. Reddy's Laboratories	Hyderabad	Medical Laboratory	Brazil, Mexico, Jamalica
Infosys	Bengaluru	Software	America, Europa, Africa

FERA (Foreign Exchange Regulation Act 1974)
This Act referred directly to the operations of MNCs in India

FEMA (Foreign Exchange Management Act 1999)
Under FEMA the emphasis is on 'Management' rather than 'regulation'

Foreign Contribution (regulation) Act, 2010
FCRA, 2010 has been enacted by the Parliament to consolidate the law to regulate the acceptance and utilization of foreign contribution or foreign hospitality by certain individuals or associations or companies and to prohibit acceptance and utilization of foreign contribution or foreign hospitality for any activities detrimental to national interest and for matters connected therewith or incidental thereto.
The flow of foreign contribution to India is regulated under

- Foreign Contribution (Regulation) Act, 2010
- Foreign Contribution (Regulation) Rules, 2011

Fair Trade Practices and World Trade Organization

- Fair Trade is a way of doing business that ultimately aims to keep small farmers an active part of the world Market place, and aims to empower consumer to make purchases that support their values. Fair Trade is a set of business practices voluntarily adopted by the producers and buyers of agricultural commodities and hand-made crafts that are designed to advance many economic, social and environmental goals, including,

- Raising and stabilizing the incomes of small- Scale farmers, farm workers and artisans.
- More equitably distributing the economic gains, opportunities and risks associated with the production and sale of these goods.
- Increasing the organizational and commercial capacities of producer groups.
- Promoting labor rights and the right workers to organize.
- Promoting safe and sustainable farming Methods and working conditions.

- Fair trade is about better prices, decent working conditions and fair terms of trade for farmers and workers. It's about supporting the development of thriving farming and worker communities that have more central over their futures and protecting the environment in which they live and work.

Beneficiaries of Fair trade practices:

Consumer:

- Consumer support enables Fair Trade Organisation to be advocates and comparing for wider reform of International trading rules. They can choose from an even growing range of great products. By buying Fair trade labeled products consumers support producers who are struggling to improve their lives.

Trader/companies:

- Since, it launch in 2002 the Fair trade mark has become the most widely, recognized social and development label in the world. Fair trade offers companies a credible way to ensure that their trade has a positive impact.

Producers:

- Stable prices that cover the costs of sustainable production. Market access that enable buyers to trade with producers who would otherwise be excluded from market. Partnership (Producers are involved in decisions their future). The Empowerment of farmers and workers.

Principles of Fair trade Organization

- Creating Opportunities for Economically Disadvantaged producers.
- Transparency and Accountability .
- Fair Trading Practices and Payment of a Fair Price.
- Ensuring no child Labour and Forced Labour.
- Commitment to Non Discrimination, Gender Equity and freedom of association.
- Providing Capacity Building and Promoting Fair Building.
- Respect for the Environment.

Fair trade food product such as coffee, tea, cocoa, honey and bananas. Non-food commodities include crafts, textile and flowers

GATT: (General Agreement of Trade and Tariffs)

- GATT was signed by 23 countries in 1947. India was one of the founder members of GATT. In the seventh Round 99 countries participated. In the Eighth Round of 1986, (Uruguay Round), 117 countries participated. The Director General of GATT Arthur Dunkel came up with a Drafft Final Act, known as Dunked Draft and on April 15, 1994 the Final Act was ultimately approved and signed. GATT's primary purpose was to increase International Trade by reducing various tariffs, quotas and subsidies while maintaining meaningful regulations.

Rounds of GATT

- First in Geneva (Switzerland) (1947)
- Second in Annecy (France) in 1949
- Third in Torquay (UK) in 1950 – 51
- Fourth, fifth, and Sixth in Geneva (Switzerland) in 1956, 1960-61, 1964 -67.
- Seventh in Tokyo (Japan) in 1973 – 79
- Eighth and final round at Punta del Este (Uruguay) in 1986 – 1994, known as 'Uruguay Round'.

World Trade Organization (WTO)

The signing of the Final Act of the Uruguay Round by member nations of GATT in April 1994 paved the way for setting up of the WTO. An agreement to this effect was signed by 104 members. The WTO Agreement came into force from January 1, 1995 (the present membership of WTO is 164 countries)

World Trade Organization(WTO):
Head Quarter: **Geneva, Switzerland**
Purpose: **Regulation, International trade**
Members of WTO: **Director General, Four Deputy Director General, and other 600 Official Staff from around 80 member countries.**

The WTO mentions five types of Subsidies:

- Cash subsidies, such as the grants mentioned above.
- Tax Concessions, such as exemptions, credits, or deferrals
- Assumption of risk, such as loan guarantees.
- Government procurement policies that pay more than the free – market price.
- Stock purchases that keep a company's stock price higher than market levels.
- These are all considered subsidies because they reduce the cost of doing business.

Objectives of W.T.O

- To set and enforce rules for international trade.
- To provide a forum for negotiating and monitoring further trade liberalization.
- To resolve trade disputes.
- Introduction the sustainable development and environment can go together.
- To ensure that developing countries, secure a better share of growth in world Trade.
- To resolve trade disputes.
- To increase the transparency of decision making processes.
- Introduction sustainable development the development and environment can go together.
- To ensure full employment and broad increase in effective demand.

Trade Related aspects of Intellectual Property Rights (TRIPs)

- Intellectual Property Right may be defined as "Information with a commercial Value" Under TRIPs Patent shall be available for any invention whether product or process in all fields of industrial technologies. Trips agreement covers seven areas of intellectual's property rights i.e. Copy rights, Trade Market, Trade Secrets, Industrial Design, Geographical appellations Integrated circuits and Patents.

Trade Related Investment Measures (TRIMs)

- The Uruguay Round Agreement on TRIMs refers to certain conditions (or) restrictions imposed by a government in respect of foreign investment in the country in order to give adequate provisions for the home industries to develop.

Impact and Challenges of Globalization

Positive Impact

- A better economy introduces rapid development of the capital market.
- Standard of living has increased.
- Globalization rapidly increase better trade so that more people are employed.
- Introduced new technologies and new scientific research patterns.
- Globalization increasing the GDP of a country.
- It helps to increase in free flow of goods and also to increase Foreign Direct Investment.

Negative Impact

- Too much flow of capital amongst countries, Introduces unfair and immoral distributors of Income.
- Another fear is losing national integrity. Because of too much exchange of trade, independent domestic policies are lost.
- Rapid growth of the economy has required a major infrastructure and resourceextraction. This increase negative ecological and Social costs.
- Rapid increases in exploitation of natural resources to earn foreign exchange.
- Environmental standards and regulations have been relaxed.

Challenges of Globalization

- The benefits of globalization extend to all countries that will not happen automatically.
- The fear that globalization leads to instability in the developing world.
- The industrial world that increased global competition will lead in race to the bottom in wages, labour right, and employment practice.
- It leads to global inbalance.
- Globalization has resulted with the embarrassment.
- Globalization has led to an increase in activities such as child labor and slavery.
- People started consuming more junk food. This caused, the degradation of health and spread of diseases.
- Globalization has led to environmental degradation.

10th vol II
Unit 3 – Food Security

Introduction

- Food is defined as any substance that people eat and drink to maintain life and growth. Food security would denote a person's ability to eat enough, stay active and lead a healthy life.

Food Security

- The United Nation's Food and Agriculture Organisation defines food security as follows:

- "Food security exists when all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food which
meets their dietary needs and food preferences for an active and healthy life." (FAO, 2009)

- While this comprehensive definition highlights the need for food to be nutritious, in addition to that there are certain other aspects that are required to achieve nutrition security.

- According to eminent agricultural scientist M.S.Swaminathan, nutrition security is: "physical, economic and social access to a balanced diet, safe drinking water,environmental hygiene, primary health careand primary education".

- The concept of food security has continuously evolved over the last five decades or so. Initially it referred to the overall food supply for a global, regional or national context. From this idea of food security, which means food supply/food production that addressed the overall adequacy, it became clear that the term had to be relevant at the community, household and individual level.

Basic components of food and nutrition security

- The term was broadened to include the three basic components of food and nutrition security. They are availability, access and absorption:

- ➢ Availability of food is physical availability of food stocks in desired quantities, which is a function of domestic production, changes in stocks and imports;
- ➢ Access to food is primarily a matter of purchasing power and is therefore closely linked with the capabilities and employment opportunities to earn. Capabilities and opportunities in turnare related to one's access to assets and education.

- Absorption of food is the ability to biologically utilise the food consumed. Several factors such as nutrition, knowledge and practices, safe and hygienic environmental conditions allow for effective biological absorption of food and health status.

Availability and Access to Food Grains

- Thus food security for people in a country is not only dependent on the quantum of food available but also on the ability of people to purchase/access food and to stay in appropriate healthy environment. Just as other developmental issues, food security of people is also related to a country's overall development process. After Independence, India chose to adopt a planned developmental model.

- After an initial focus on agriculture, industrialisation was given priority. The recurrent droughts experienced by India pushed her to be dependent on imports of food grains. However, the available foreign exchange reserve could not permit open market purchases and import of grains. India had to plead for food grains from richer countries at concessional rates. United Statesof America extended assistance through its Public Law 480 (PL 480) scheme to India during early 1960s. This situation was popularly known as 'Ship to Mouth' existence.

- A country with a massive population growing hungry was perceived to be a potential candidate for revolution. The American administration and philanthropic organisations like Ford Foundation formulated a plan to increase food production in the country by introducing High Yielding Varieties (HYV) of wheat and rice. This programme was implemented in select districts where irrigation was assured. The results were promising and the programme was extended to cover a larger number of districts.

- Thus, Green Revolution was born in the country paving way for self-sufficiency in food grain production. Increased food grainproduction was made possible by an increase area cultivated with HYV of rice and wheat as also an increase in the yield of these major cereal crops. Area under food grains was a little more than 98 million hectares during early 1950s. The country was producing just 54 million tonnes of food grains then with an average yield of food grains of 547 kg per hectare. The food situation has steadily improved over a period of 65 years. Area under foodgrain cultivation has grown to 122 million hectares, with an increase of five-fold increase in food grain production. Yield of food grains has increased four-fold between the time of independence and at present.

This growth in food grain production was made possible by the HYV programme, whichwas implemented as a package. Apart from introducing fertiliser-responsive high-yielding varieties of rice and wheat, it ensured the availability of subsidised chemical fertilisers forthe farmers. Cheaper farm credit was disbursed to farmers through co-operative banks and societies. Minimum support price (MSP) for the crops were announced at thebeginning of the season and the state procured the harvested grains through the Food Corporation of India (FCI). The FCI had built huge storage godowns and built buffer stocks of food grain during the harvest season to be distributed all through the year.

Area, Production and Yield of Foodgrain in India from 1951-52 to 2017-18

Triennium average centered around	Area (Million ha)	Production (Million tonnes)	Yield (Kg/ha)
1951-52	98.79	54.00	546.65
1971-72	122.07	103.54	848.18
1991-92	124.29	174.75	1406.02
2013-14	122.63	258.27	2106.00
2017-18	126.98	279.51	2201.00

Minimum Support Price

Minimum Support Price is a price fixed by an expert group for a particular crop by considering various costs involved in the cultivation of that crop. After announcing the MSP, the State will open procurement centres in places where these crops are widely grown. However, the farmers are free to sell in the open market if they get a better price for their crop produce. On the other hand, if the open market price is lower than the MSP, the farmers would get an assured price (the MSP) by selling their produce to the FCI. Thus, with the implementation of MSP farmers are certain about the price they would get at the end of the crop season. Further, farmers also get insulated against any price crash during the harvest season

- The rapid increase in food grain production was accompanied by appropriate technological interventions in the dairy, poultry and fisheries sectors. As a result, the milk production in the country witnessed an eight-fold increase, egg production grew 40-fold and fish production by 13-fold between the time of Independence and mid-2000s.However, India could not succeed in attaining self-sufficiency in the production of pulses andoil seeds. Therefore, India depends on imports to meet the requirements of people.

Public Distribution System

- The increase in food grain production need not result in increase in access to food for all. Given the unequal distribution of income and the level of poverty that persistsin Indian economy, the government took steps to distribute food grains at subsidised rates through the Public Distribution System (PDS). The nature, scope and functioning of PDS varies from state to state.

- While Tamil Nadu has adopted an 'Universal' PDS, the rest of the states in Indiahad a 'Targeted' PDS. Under universal PDS all the family ration card holders are entitled to the supplies from PDS. In the targeted PDS, the beneficiaries are identified based on certain criteria and given their entitlements, leaving out the rest. Both the Union and the State governments subsidised the supplies distributed through PDS. The level and quantum of subsidy also varied across states.

- Subsequently, the National Food Security Act (NFSA) was passed by the Indian parliament in 2013. The NFSA covers 50% of urban households and 75% of the rural households. These households are known as priority households identified based on a set of criteria. Priority households of this country now have the right to food supplied through PDS. The Union government supplies rice at the rate of ` 3 per kg, wheat at the rate of ` 2 per kg, and millets at the rate of ` 1 per kg under NFSA. Tamil Nadu continues to have the universal system of PDS and supplies rice at free of cost to all card holders.

Bio Metric Smart Family Cards

The Government of Tamil Nadu has declared that SMART family cards will be issued in lieu of existing family cards. It has also been mentioned that the Director of Census Operations under the National Population Registry is conducting bio-metric capturing of 10 fingerprints, two iris and face scan of citizens to issue Unique Identification Number. After completion of this process of bio-metric capturing, it has been proposed to adopt this data to issue bio-metric SMART family cards. The advantage is that since it is based on unique identity, the data duplication of members and bogus cards can be eliminated.

National Food Security Act in Tamil Nadu

On 1 November 2016, Tamil Nadu became the last state in the country to implement the National Food Security Act after holding out for three years. In a government order issued on 27 October, the state specified that while it was enforcing the law, it would be modifying its provisions

Role of Consumer Cooperatives in Food Security

- Consumer cooperatives play an important role in the supply of quality goods at responsible rates to common people. There is a three-tier structure of consumer cooperative societies in India. They are primary consumer cooperative societies. Central consumer cooperative stores and state level consumer federations. More than 50,000 village level societies are engaged in the distribution of consumer goods in rural areas. There are many benefits to consumer cooperatives such as health care, insurance, housing etc.. This scheme is playing an important role in food security in India. For example out of all fairprice shops running in Tamil Nadu, around 94% are being run by cooperatives.

Buffer Stock

Buffer stock is the stock of food grains, namely wheat and rice, procured by the government through the Food Corporation of India (FCI). The FCI purchases wheat and rice from the farmers in states where there is surplus production. The farmers are paid a pre-announced price for their crops. This price is called Minimum Support Price (MSP). The MSP is declared by the government every year before the sowing season to provide incentives to farmers for raising the production of these crops. The purchased foodgrains are stored in granaries.

Buffer stock is done to distribute foodgrains in the deficit areas and among the poorer strata of the society at a price lower than the market price also known as the Issue Price. This also helps resolve the problem of shortage of food during adverse weather conditions or during the periods of calamity.

Fair Price Shops

At present, 33,222 Fair Price Shops are serving 1.98 crore families. Out of 33,222Fair Price shops, 31,232 are run by the cooperative societies, 1,394 are run by the Tamil Nadu Civil Supplies Corporation and 596 are run by women self-help groups. To improve accessibility to PDS, it is necessary that they are located in close proximity to habitations. Accordingly, it has been proposed to open new fair price shops so that, no card holder walks more than 1.5 km.

Purchasing Power

- Purchasing power is the value of acurrency expressed in terms of the amount of goods or services that one unit of money can buy. Price increases purchasing power declines and vice versa.

Factors affecting Purchasing Power
Over population

- The population growth rate in India is high as 1.7 per 1000. Large population leads toincreasing demand, but supply was not equal to the demand. So, the normal price level will be going an higher. So it affect purchasing power, especially in rural population.

Increasing prices of essential goods

- Even though there has been a constant growth in the GDP and growth opportunitiesin the Indian economy, there have been steady increase in the prices of essential goods. The continuous rise in the prices erodes the purchasing power and adversely affect the poor people. During 2015–16 an average rate of 2% flood inflation, the prices of pulses rose by about 40%.

Demand for goods

- When demand for goods increases, the price of goods increases then the purchasingpower is affected.

Price of goods affect the value of currency

- When the price increases the purchasing power decreases and finally the value of currency decreases and vice versa.

Production and supply of goods

- The production and supply of goods decline, the price of goods increases, then the purchasing power is affected.

Poverty and inequality

There exists a huge economic disparity in the Indian economy.

- The proportion of income and assets owned by top 10% of Indian goes on increasing. This has led to an increase in the poverty level in the society. Generally purchasing power is affected by poverty and unequal distribution of wealth also.

- Purchasing power affects every aspect of economics, from consumers buying goods toinvestors and stock prices to a country's economic prosperity. As such, a country's government institutes policies and regulations to protect a currency's purchasing power and keep an economy healthy. One method to monitor purchasing power is through the Consumer Price Index.

Purchasing Power Parity (PPP)

A concept related to purchasing power is purchasing price parity (PPP). PPP is an economic theory that estimates the amount that needs to be adjusted to the price of an item, given exchange rates of the two countries, in order for the exchange to match each currency's purchasing power.

PPP can be used to compare countries income levels and other relevant economic data concerning the cost of living, or possible rates of inflation and deflation. Recently, India became the third largest economy in terms of PPP. China became the largest economy, pushing the US to the second position.

Agricultural Policy in India

- The new agricultural policy based on export of agricultural goods was announced by the Central government in 2018. This policy states that the government has decided to remove export restrictions on most organic and processed agricultural products.

- The main reason is to give an assurance that organic or processed agricultural products will not be under any export restrictions such as
- export duty, export bans and quota restriction.

* Agricultural policy of a country is mostly designed by the Government for raising agricultural production and productivity and also for raising the level of income and standard of living of farmers within a definite time frame .This policy is formulated for all round and comprehensive development of the agricultural sector.

* The following are some of the important objectives of india's agricultural policy:

Raising the productivity of inputs

* One of the important objectives of India's agricultural policy is to improve the productivityof inputs so purchased like, HYV seeds, fertilisers, pesticides, irrigation projects etc.

Raising value-added per hectare

* Agricultural policy is to increase per hectare value-added rather than raising physical output by raising the productivity of agriculture in general and productivity of small and marginalholding in particular.

Protecting the interests of poor farmers

* Agricultural policy is proposed to protect the interests of poor and marginal farmers by abolishing intermediaries through land reforms, expanding institutional credit support to poor farmers etc.

Modernising agricultural sector

* Here the policy support includes the introduction of modern technology in agricultural operations and application of improved agricultural inputs like HYV seeds, fertilizers etc.

Environmental degradation

* Agricultural policy of India has set another objective to check environmental degradation of natural base of Indian agriculture.

Removing bureaucratic obstacles

* The policy has set another objective to remove bureaucratic obstacles on the farmers' co-operative societies and self-help institutions so that they can work independently.

Multi-dimensional
Nature of Poverty

* Multi-dimensional poverty measures can be used to create a more comprehensive picture. They reveal who is poor, how they are poor andthe range of disadvantages they experience. As well as providing a headline measure of poverty, multi-

dimensional measures can be broken down to reveal the poverty level in different areas of a country, and among different subgroups of people.

- The Multi-dimensional Poverty Index (MPI) was launched by the United Nations Development Programme (UNDP) and the Oxford Poverty Human Development Initiative (OPHI) in 2010. The basic philosophy and significance of MPI is that it is based on the idea that poverty is not unidimensional, and that it is rather multi-dimensional.

- Multi-dimensional poverty is made up of several factors that constitute poor people's experience of deprivation such as health, education,living standards, income, disempowerment, quality of work and threat from violence.

Multi-dimensional Poverty Index 2018 in India

- Multi-dimensional Poverty Index 2018 report prepared by the United Nations Development Programme (UNDP) and the Oxford Poverty and Human Development Initiative makes the following observations about India.
- ➢ India has reduced its poverty rate drastically from 55% to 28% in 10 years, with 271 million people moving out of poverty between 2005-06 and 2015-16.
- ➢ India still had 364 million poor people in 2015-16, the largest for any country, although it is down from 635 million in 2005-06.
- ➢ Of the 364 million people who were MPI poor in 2015-16, 156 million were children whereas in 2005-06 there were 292 millionpoor children in India. This represents a 47% decrease or 136 million fewer children growing up in multi-dimensional poverty.
- ➢ 80% of people belonging to ST were poor in 2005-06 and 50% of them were still poor in2015-16.
- ➢ Bihar with more than half its population in poverty was the poorest state in 2015-16.
- ➢ The four poorest states Bihar, Jharkhand, Uttar Pradesh and Madhya Pradesh were still home to 196 million MPI poor people, which was over half of all the MPI poor people in india.
- ➢ Kerala, one of the least poor regions in 2006, reduced its MPI by around 92%.

Multi-dimensional Poverty Index 2018 Report in Tamil Nadu

- Over the last decades, Tamil Nadu has made a significant progress in poverty reduction. The districts in Tamil Nadu are classified into three categories, namely high-poverty districts (more than 40% of the population living below poverty line), moderately poor districts (30% to 40%) and low level poverty districts (below 30%).

- After 1994, poverty has declined steadily in both rural and urban areas of Tamil Naduand the state has a smaller share of India's poor relative to its population. After 2005, the poverty reduction in this state has been faster than in many other states in India. Tamil Nadu leads in the poverty alleviation programmes during 2014–2017. Government of India is implementing many policies and programmes to eradicate poverty.

- These policies and programmes, if continued, will completely eradicate the poverty in the state. In future, Tamil Nadu can become a model of development in India.

Top and Bottom MPI districts in Tamil Nadu

S.No	Top 5 Districts	Rank	Bottom 5 Districts	Rank
1	Kancheepuram	1	Dharmapuri	32
2	Chennai	2	Perambalur	31
3	Cuddalore	3	Ramanathapuram	30
4	Coimbatore	4	Virudhunagar	29
5	Nagapattinam	5	Ariyalur	28

Nutrition and Health Status
Status of Nutrition

- We noted earlier that food security includes nutrition security too. Thoughour country has reached self-sufficiency in food production, the nutrition status of the population has not seen corresponding levels of improvement. In 2015–16, 27% of the rural women and 16% of the urban women (in the age group of 15– 49 years) were counted as undernourished or chronically energy deficient by the National Family Health Survey.

- More than half of the women in the reproductive age group (15–49 years) in both rural and urban India were anaemic in 2015– 16. As regards children, about 60% of the ruraland 56% of the urban children (in the age group of 6–59 months) are counted to be anaemic, in 2015– 16. About 41% of the rural and 31% of urban children are stunted, that is, they are not of the required height in correspondence to their age. Another indicator of nutrition deficiency among children is "underweight", which is weight in relation to age. In India, in 2015–16, about 20% of children(in the age group of 6–59 months) in rural and urban India are estimated to be underweight.

- Thus, though our country has reached self-sufficiency in food production, we are yet to attain food security for all.

TN commitment on Nutrition

Amartya Sen, Noble Prize winning Economist, has observed that in India, hunger is not enough of a political priority. The public expenditure on health is very low and funds allocated to programmes like child nutrition remain unspent. It is only in States like Tamil Nadu that he sees a political will and commitment to tackle these issues by setting goals like achieving the status of a "Malnutrition Free State".

Nutrition and Health Status in Tamil Nadu

- Nutrition plays a crucial role in human health and well-being. At the national level, despite higher economic growth, improvements in human development indicators like nutrition levels of the population have been unacceptably slow. A large number of Indian children are stunted. A substantial number of Indian children and women are underweight, anaemic and suffer from micronutrient deficiencies. To address these concerns, the Central and state governments have been channellising substantial resources into various health and nutrition schemes and programmes like Integrated Child Development Services (ICDS), mid-day meals, Reproductive and Child Health Programmes (RCH) and National Rural Health Mission (NRHM). However, an effective scaling up of these efforts is required to mitigate the incidence of under-nutrition in the country.

- Tamil Nadu has played a pioneering role in bringing about significant changes inthe health and nutrition status of children under six years of age, pregnant women, lactating mothers and adolescent girls. The Government of Tamil Nadu's successive budget outlays for nutrition and health are the highest in the country. The performance of the ICDS scheme and the Puratchi Thalaivar MGR Nutritious Meal Programme(PTMGRNMP) in Tamil Nadu are considered one of the best in the country.

- The Government of Tamil Nadu's policy for "A Malnutrition Free Tamil Nadu" guidesthe state's long-term multi-sectoral strategy for eliminating malnutrition. The goal is "reducing human malnutrition of all types to the levels of best performing countries".In Tamil Nadu, ICDS is being implemented through 54,439 Child Centres (comprising 49,499 Anganwadi Centres and 4,940 Mini Anganwadi Centres) in 434 Child Development Blocks (385 rural, 47 urban and 2 tribal).

- With steady expansion into unreached areas, increasing coverage of marginalisedgroups, enhanced allocations and enlarged scope of services, ICDS is now considered to be one of the world's largest programmes of its kind and a model for the holistic development of the child. To ensure that services reach the intended beneficiaries, the programme has been universalised and convergence promoted with allied departments dealing with health, education, drinking water, sanitation etc.

- The PTMGRNMP is considered to be the largest noon meal programme in the country for combating malnutrition among children, increasing primary school enrolment and reducing dropout rates. Other states in the country have modelled their noon meal programmes along the lines of Tamil Nadu's pioneering efforts.

Important ongoing Schemes in Tamil Nadu

- Under Dr. Muthulakshmi Reddy Maternity Benefit Scheme, financial assistance to the tune of 12,000 is being disbursed to poor pregnant women with the aim of meeting expenses on nutritious diet, to compensate for loss of income during the delivery period and to avoid low birth weight of new born babies in three installments to those availing antenatal care, delivering and immunising the babies born in government institutions.

- The Chief Minister's Comprehensive Health Insurance Scheme was launched in the state in 2011-12 with the aim to provide Universal Healthcare to All by providing free medical and surgical treatment in Government and private hospitals to any family whose annual income isless than ` 72,000 by meeting all expenses relating to thehospitalisation of the beneficiary.
- Tamil Nadu Health Systems Projects (TNHSP) has launched ambulance services free ofcost (The 108 Emergency Ambulance Service).
- The School Health Programme mainly emphasises on providing comprehensive healthcareservices to all students studying in Government and Government-aided schools.
- The National Leprosy Eradication programme is being implemented in the state with theaim to detect and to provide sustained regular treatment to all leprosy patients

Boosting peer group engagement

- Efforts will be made to strengthen the 'Padhumaiyar Kuzhu' for empowering girls and making them persuasive catalysts of change.
- Innovative approaches will be considered for drawing adolescent girls into the programme, connecting them with various services and encouraging their participation in activities. A mobile centre was rolled for widening the reach of services in nine districts.
- Distribution and monitoring of the 'Padhumaiyar card' will be further strengthened.

Some Nutrition Programmes in Tamil Nadu

- **Purachi Thalaivar M.G.R. Nutrition Meal Programme:**

It is being implemented in the rural areas from 1 July 1982 and in urban areas for the school students from 1984, old age pensioners from 1983 and for pregnant women from 1995.

- **National Programme of Nutritional Support to Primary Education**
- **General ICDS Projects and World Bank Assisted Integrated Child Development Services:** The services started in 1991 in 318 blocks covering 24districts. In 1999 this extended to 318 rural blocks and 19,500 centres.
- **Pradhan Manthri Gramodaya Yojana Scheme (PMGYS):** In this scheme, nutritionsupplementation in the form of weaning food is given to children in the age group of 6 months to 36 months in the unreached hamlets.
- **Tamil Nadu Integrated Nutrition Programme:** This project was started in 1980targeting at 6 to 36 months old children and pregnant and lactating women.
- **Mid-Day Meal Programme:** This programme has been introduced for children betweenages 2 and 14 attending balwadis or schools at the expense of ` 0.90 per beneficiary.This programme covered 5.57 crore children in 4,426 blocks.

Unit – 4 Government and Taxes

Introduction

Tax is levied by government for thedevelopment of the state's economy. Therevenue of the government depends upondirect and indirect taxes. Direct taxes arelevied on income of the persons and theindirect taxes are levied on goods andservices by which the government mobilisesits "financial resources".

Role of Government in Development Policies

The role of government and development policies

In India, the three levels of governments,namely, union, state and local, have beencarrying out various functions for thebenefit of people and society at large. Theseroles are into divided into seven categoriesfor easy understanding.

1. Defence: This is an essential securityfunction to protect our nation from ourenemies. We know that we have threeservices, namely, army, navy and air force.The Union government is responsible forcreating and maintaining defence forces.

2. Foreign policy: In today's world, we needto maintain friendly relationships with allthe other countries in the world. India iscommitted to world peace. We should alsomaintain cordial economic relationshipsthrough exports and imports, sending andreceiving investments and labour. This serviceis also provided by the Union government.

3. Conduct of periodic elections: Indiais a democratic country. We elect ourrepresentatives to Parliament and stateassemblies. The Union governmentcreates laws and administrative systemand conducts elections to these twolegislature institutions. Similarly the stategovernments conduct elections to localbodies within the state.

4. Law and order: Both the Union andstate governments enact numerous lawsto protect our rights, properties and toregulate our economy and society. Tosettle disputes, the Union governmenthas a vibrant judicial system consistingof courts at the national, state and lowerlevels and state governments take theresponsibility for administering the policeforce in respective states.

5. Public administration and provision of public goods: The governmentgenerally administers the economy andsociety through various departments, forexample, revenue department, schools,hospitals, rural development and urbandevelopment. The list of departmentswith the Union and state governments areavailable in the public domain. The localgovernments provide public goods likelocal roads, drainage, drinking water andwaste collection and disposal.

6. Redistribution of income and poverty alleviation: Governments collectvarious taxes to finance the variousactivities mentioned earlier. The taxes arecollected in a way that the high-incomepeople can bring in more tax revenueto the government than the poor.

Thegovernments also spend money such thatthe poor are given some basic necessities oflife like food, shelter, clothing education,health care and monthly income to thevery poor persons. Thus collecting taxesand spending for the poor is how thegovernment redistributes income andintroduces measures to reduce poverty.

7. Regulate the economy: The Uniongovernment, through the Reserve Bankof India, controls money supply andcontrols the interest rate, inflation andforeign exchange rate. The main objectiveis to remove too much of fluctuation inthese rates. The Union also controls theeconomy through various other agenciessuch as Securities Exchange Board of Indiaand Competition Commission of India.All the governments in India run publicsector enterprises to provide importantgoods and services at affordable rates tothe people.

Tax

The origin of theword "tax" is from"taxation," whichmeans an estimate.

Taxation is ameans by whichgovernments financetheir expenditure by imposing charges oncitizens and corporate entities. The mainpurpose of taxation is to accumulate funds for thefunctioning of the government machinery. Taxhas come into forefront on account of the newconcept of “welfare state”. Modern governmentsdo not confine themselves to law and order only.The importance of public finance (tax) has vastlyincreased in recent years.

Taxes are compulsory payments togovernment without expectation of directreturn (or) benefit to the tax payer. Prof.Seligman also defined a tax as “a compulsorycontribution from a person to the governmentto defray the expenses incurred in thecommon interest of all, without reference tospecial benefits conferred.”

Why Taxes?

The levying of taxes aims to raise revenueto fund governance or to alter prices in orderto affect demand. States and their functionalequivalents throughout history have usedmoney provided by taxation to carry out manyfunctions. Some of these include expendituresn economic infrastructure (transportation,sanitation, public safety, education, healthcaresystems, to name a few), military, scientificresearch, culture and the arts, public worksand public insurance and the operation ofgovernment itself. A government's ability toraise taxes is called its fiscal capacity.

Taxation in India has its roots from the period of ManuSmriti and Arthasastra. Thepresent Indian tax system isbased on this ancient tax system.

Tax system

Every type of tax has some advantages and some disadvantages. So we have a tax system, thatis, a collection of variety of taxes. All countries use a variety of taxes. There are some characteristicsof tax system that economists think should be followed while designing a tax system. Thesecharacteristics are called as canons of taxation. From Adam

Smith, many economists have givenlists of canons of taxation. It is important to recall those common among them for discussion here.

Canon of equity – Since tax is a compulsory payment, all economists agree that equity is thecardinal principle in designing the tax system. The equity principal says that the rich should paymore tax revenue to government than the poor, because rich has more ability than the poor to paythe tax. Moreover, after payment of tax, you will find the economic difference is reduced betweenthe rich and the poor. You can do an exercise to find out which of the taxes adhere to the canon ofequity.

Canon of Certainty – Government should announce in advance the tax system so that everytax payer will be able to calculate how much tax amount one may have to pay during a year to thegovernment. In other words, government should not change the tax system frequently and shouldnot announce sudden changes in the tax system.

Canons of Economy and Convenience – These two canons are related. As tax payers we incura cost to process our accounts and pay the tax, for example, salary paid to accountants and auditors.Similarly government also pays salary to its taxmen and run huge institutions. If the tax is simple,then the cost of collecting taxes (tax payer cost + tax collector cost) will be very low. Further, taxshould be collected from a person at the time he gets enough money to pay the tax. This is calledcanon of convenience. A convenient tax reduces the cost of collecting tax.

Canons of Productivity and Elasticity – Government should choose the taxes that can getenough tax revenue to it. In other words, it should choose a few taxes that can fetch more taxrevenue, instead of lots of taxes and each one of them getting a little tax revenue. This is canonof productivity. Tax is paid by the people out their incomes. Therefore the tax system should bedesigned in such a way that the people automatically pay more tax revenue if their incomes grow.This is called canon of elasticity. In a broader sense, as the economy is growing the people will getmore income and consequently they will also pay more tax revenue to government if the tax systemis elastic.

In India, Income Tax wasintroduced for the first timein 1860 by Sir James Wilsonin order to meet the lossessustained by the Governmenton account of the Mutiny of 1857.

When expenditures exceed tax revenue, agovernment accumulates debt. A portion of taxesmay be used to service past debts. Governmentsalso use taxes to fund welfare and public services.

These services can include education systems,pensions for the elderly, unemployment benefitsand public transportation. Energy, water andwaste management systems are also commonpublic utilities.

According to the proponents of the theoryof money creation, taxes are not needed forgovernment revenue, as long as the government inquestion is able to issue fiat money.

The purpose oftaxation is to maintain the stability of the currency, express public policy regarding the distributionof wealth, subsidising certain industries orpopulation groups or isolating the costs of certainbenefits such as highways or social security.

Types of Taxes
Direct Taxes

A tax imposed on an individual ororganisation, which is paid directly, is a directtax. The burden of a direct tax cannot be shiftedto others. J.S. Mill defines a direct tax as "onewhich is demanded from the very persons whoit is intended or desired should pay it." Somedirect taxes are income tax, wealth tax andcorporation tax.

Income tax

Income tax is the most common and mostimportant tax levied on an individual in India.It is charged directly based on the income of aperson. The rate at which it is charged varies,depending on the level of income.

Corporate tax

This tax is levied on companies that existas separate entities from their shareholders.It is charged on royalties, interest gains fromsale of capital assets located in India and feesfor a technical services and dividends.

Foreign companies are taxed on incomethat arises or is deemed to arise in India.

Income	**For Indian Companies**	**For Foreign Companies**
Less than ` 50crore	25%	40%
More than ` 50crore	30%	40%

Wealth tax

Wealth tax is charged on the benefitsderived from property ownership. The sameproperty will be taxed every year on itscurrent market value. The tax is levied on theindividuals and companies alike.

In India taxes are collected by all thethree tiers of government. There are taxesthat can be easily collected by the Uniongovernment. In India almost all the directtaxes are collected by the Union governments.Taxes on goods and services are collectedby both Union and state governments. Thetaxes on properties are collected by localgovernments.

In India we collect more tax revenuethrough indirect taxes than through directtaxes. The major indirect taxes in India arecustoms duty and GST. Both these taxes havedifferent tax rates for different goods andservices. The governments try to design insuch a way that the rich consumers pay moretax than the poor.

However, poor still paymore through these taxes. Therefore, manyargue we should reduce the indirect taxes andincrease the collection through direct taxes.

Indian tax system adheres to all thecanons of taxation. But there are argumentsthat often the equity principle is compromisedand productivity is lost when we tinker withtax system to the advantage of a few. Weannounce the tax system once in a year in theannual budget. It is very rarely breached byannouncing mid-year tax changes. Therefore,Indian tax system adheres to canon ofcertainty more than anything else.

Indirect Taxes

If the burden of the tax can be shifted toothers, it is an indirect tax. The impact is on oneperson while the incidence is on the anotherperson. Therefore, in the case of indirect taxes,the tax payer is not the tax bearer.

Some indirect taxes are stamp duty,entertainment tax, excise duty and goods andservice tax (GST).

Stamp duty

Stamp duty is a tax that is paid on officialdocuments like marriage registration ordocuments related to a property and in somecontractual agreements.

Entertainment tax

Entertainment tax is a duty that ischarged by the government on any sourceof entertainment provided. This tax can becharged on movie tickets, tickets to amusementparks, exhibitions and even sports events.

Excise duty

An excise tax is any duty on manufacturedgoods levied at the movement of manufacture,rather than at sale. Excise is typically imposedin addition to an indirect tax such as a salestax.

Goods and service tax (GST)

The goods and service tax (GST) is oneof the indirect taxes. The GST was passed inParliament on 29 March 2017. The act cameinto effect on 1 July 2017. The motto is onenation, one market, one tax.

Goods and service tax is defined as thetax levied when a consumer buys a good orservice. That aims to replace all indirecttaxes levied on goods and services by theCentral and state governments. GST wouldeliminative the cascading effect of taxes on the production and distribution of goodsand services. It is also a "one-point tax"unlike value-added tax (VAT), which was amultipoint tax.

France was the firstcountry to implement GST in1954 and many other Europeancountries introduced GST in1970-80.

How Taxes Are Levied?

Tax is levied by the government progressively,proportionately as well as regressively.

Structure of Goods and Service Tax (GST)

State Goods and Service Tax (SGST): Intra state (within the state)
VAT/sales tax, purchase tax, entertainment tax, luxury tax, lottery tax and state surcharge andcesses

Central Goods and Service Tax (CGST): Intra state (within the state)
Central Excise Duty , service tax, countervailing duty, additional duty of customs, surcharge,education and secondary/higher secondary cess

Integrated Goods and Service Tax (IGST): Inter state (integrated GST)
There are four major GST rates: 5%, 12%, 18% and 28%. Almost all the necessities of lifelike vegetables and food grains are excempted from this tax.

Progressive tax

Progressive tax rate is one in which the rateof taxation increases (multiplier) as the tax baseincreases (multiplicand). The amount of taxpayable is calculated by multiplying the tax basewith the tax rate. In the case of a progressivetax, the multiplicand (income) increases. Whenincome increases, the tax rate also increases.This is known as a progressive tax.

Example:

Tax Base	Tax Rate	Amount of Tax
10,000	10%	1000
20,000	15%	3000
30,000	25%	7500
40,000	40%	16000

Proportionate taxes

Tax levied on goods and service in a fixedportion is known as proportionate taxes. Alltax payers contribute the same proportionof their incomes. In this method, the rate oftaxation is the same regardless of the size ofincome. The tax amount realised varies in thesame proportions that of income.

Example:

Tax Base	Tax Rate	Amount of Tax
10,000	10%	1000
20,000	10%	2000
30,000	10%	3000
40,000	10%	4000

Regressive Taxes

It implies that higher the rate of taxlower the income groups than in the case ofhigher income groups. It is a very opposite ofprogressive taxation.

Progressive Tax	**Income increase**	**Tax also Increase**	**E.g. Income Tax**
Proportional Tax	Income Increase	Tax Decrease	E.g. Corporate Tax
Regressive Tax	Income change	Same tax always	E.g. Sales Tax

Black Money
Black Money

Black money is funds earned on the blackmarket on which income and other taxes havenot been paid. The unaccounted money thatis concealed from the tax administrator iscalled black money.

Recent Legislative Initiatives to curb Black Money in India

1. Constitution of the Special Investigation Team (SIT) on Black Money under Chairmanshipand Vice-Chairmanship of two former Judges of Hon'ble Supreme Court.
2. Enactment of a comprehensive law – The Black Money (Undisclosed Foreign Income andAssets) and Imposition of Tax Act, 2015 .
3. Constitution of Multi-Agency Group (MAG) consisting of officers of Central Board ofDirect Taxes (CBDT), Reserve Bank of India (RBI), Enforcement Directorate (ED) andFinancial Intelligence Unit (FIU) for the investigation of recent revelations in Panama paperleaks.
4. Double Taxation Avoidance Agreements (DTAAs)/Tax Information Exchange Agreements(TIEAs)/Multilateral Conventions.
5. Foreign Account Tax Compliance Act (FATCA).
6. Money-laundering Act, 2002 through the Finance Act, 2015.
7. Enactment of the Benami Transactions (Prohibition) Amendment Act, 2016 .
8. Launching of 'Operation Clean Money' on 31 January 2017.
9. Lokpal and Lokayukta act.

10. The Real Estate (Regulation and Development) Act, 2016.

Causes of Black Money

Several sources of blackmoney are identified ascauses.

1. Shortage of goods: Shortage of goods,whether natural orartificial, is the root cause of black money.Controls are often introduced to checkblack money.

2. Licensing proceeding: It is firmly believedthat the system of controls permits, quotes andlicences are associated with maldistributionof commodities in short supply, which resultsin the generation of black money.
3. Contribution of the industrial sector:Industrial sector has been the majorcontributor to black money. For example,the Controller of Public LimitedCompanies tries to buy commodities at lowprices and get them billed at high amountsand pockets the difference personally.

4. Smuggling: Smuggling is one of themajor sources of black money. WhenIndia had rigid system of exchangecontrols, precious metals like gold andsilver, textiles and electronics goodswere levied a heavy excise duty. Bringingthese goods by evading the authorities issmuggling.

5. Tax structure: When the tax rate is high,more black money is generated.

Tax Evasion

Tax evasion is the illegal evasion of taxesby individuals, corporations and trusts. Taxevasion often entails taxpayers deliberatelymisrepresenting the true state of their affairs tothe tax authorities to reduce their tax liabilityand includes dishonest tax reporting, such asdeclaring less income, profits or gains thanthe amounts actually earned, or overstatingdeductions.

Tax evasion is an activity commonlyassociated with the informal economy. Onemeasure of the extent of tax evasion is theamount of unreported income, which is thedifference between the amount of income thatshould be reported to the tax authorities and theactual amount reported.

Tax evasion activities included

- Underreporting income
- Inflating deductions or expenses
- Hiding money
- Hiding interest in offshore accounts

Causes of tax evasion

1 Tax evasion resulting in black moneyprevents the resource mobilisation effortsof the Union government. Shortageof funds distorts implementation ofdevelopmental plans and forces thegovernment to resort to deficit financingin case public expenditure is inelastic.

2 Tax evasion interferes with the declaredeconomic policies of the government bydistorting saving and investment patternsand availability of resources for varioussectors of the economy.

3 Tax evasion undermines the equity attribute ofthe tax system. Honest taxpayers willingly beardisproportionate tax burden, feel demoralisedand lured to join the tax evaders' camp.

4 Tax evasion and black money encouragethe concentration of economic power inthe hands of undeserving groups in thecountry, which, in turn, is a threateningto the economy in its way.

5. Evasion of tax consumes time and energyof tax administration to disentangle theintricate manipulations of tax dodgers.

Tax evasion penalties

1. If a person wilfully commits the act of taxevasion, he may face felony charges. Taxevasion penalties include imprisonment ofup to five years and high amount as fines.

2 The defendant may also be ordered to payfor the costs of prosecution.

3 Other tax evasion penalties includecommunity service, probation andrestitution depending on the circumstancesof the case.

4 Tax evasion penalties can be harsh,depending on the severity of the crime.

Tax and other Payments

Taxes are compulsory payments togovernment without expectation of directreturn (or) benefit to the tax payer.

Payment includes income received fromproduction and supply of goods and servicesof public enterprises and revenue fromadministrative activities. Payments from nontaxsources other than tax income is known aspayments.

Some payments are fees, fines andpenalties, and forfeitures.

S. No	Tax	Payments
1	Tax is compulsory to thegovernment withoutgetting any direct benefits	Fee is the payment for getting any service
2	If the element of revenue for general purposeof the state predominates, the levy becomesa tax	While a fee is a payment for a specific benefitprivilege although the special to the primarypurpose of regulation in public interest.
3	Tax is a compulsory payment	Fee is a voluntary payment.
4	If tax is imposed on a person, he has to pay it;otherwise he has to be penalised	On the other hand fee is not paid if the persondo not want to get the service
5	In this case, tax payer does not expect anydirect benefit. Example: Income tax, gift box, wealth tax, VAT etc.	Fee payer can get direct benefit for paying fee. Examples: stamp fee, driving license fee, government registration fee

Taxes and Development

The role of taxation in developingeconomics is as follows.

1. Resource mobilisation: Taxation enablesthe government to mobilise a substantialamount of revenue. The tax revenue isgenerated by imposing direct taxes such aspersonal income tax and corporate tax andindirect taxes such as customs duty, exciseduty, etc.

2. Reduction in equalities of income: Taxationfollows the principle of equity. The directtaxes are progressive in nature. Also certain indirect taxes, such as taxes on luxury goods,is also progressive in nature.

3. Social welfare: Taxation generates social welfare.Social welfare is generated due to higher taxeson certain undesirable products like alcoholicproducts.

4. Foreign exchange: Taxation encouragesexports and restricts imports, Generallydeveloping countries and even the developedcountries do not impose taxes on export items.

5. Regional development: Taxation plays animportant role in regional development,Tax incentives such as tax holidays forsetting up industries in backward regions,which induces business firms to set upindustries in such regions.

6. Control of inflation: Taxation can be used as aninstrument for controlling inflation. Throughtaxation the government can control inflationby reducing the tax on the commodities.

Unit 5
Industrial Clusters in Tamil Nadu

Introduction

Industrialisation

Generally, "any human activity which is engaged in the conversion of raw materials into readily usable materials is called an industry". Industrialisation refers to the process of using modern techniques of production to produce goods that are required by both consumers and other producers on a large scale. While some consumer goods such as phones and television sets meet the requirements of consumers, industries also produce goods like components, machine parts and machines that are required by other producers. The historical process of a steady increase in the number and scale of manufacturing in a country exists for a long time. It is important for several reasons. In this chapter we will learn the nature of industrialisation of Tamil Nadu, importanceof industrial clusters, how industrial clusters have developed in Tamil Nadu and the role of government initiatives in promoting industries.

Importance of Industrialisation

To understand importance of industries, we need to understand why the share of agriculture in an economy's income and employment decreases with development. First, demand for food remains constant with regard to income. Therefore, as an economy grows and incomes increase, consumers tend to spend a lesser share of their income on products from the agricultural sector. Second, even the food that is consumed is subject to more transformation as an economy expands and there is greater division of labour between people and between regions. Food products are taken over longer distances, processed and branded. This also requires that food products have to be preserved. As a result, the prices that farmers get tend to be much less compared to the prices at which consumers buy.

Third, there are limits to the ability of agriculture to absorb labour due to the declining marginal productivity of land. As a result, labour productivity in the agricultural. sector cannot increase much. Wages too cannot therefore increase and as a result poverty levelsmay remain high, especially when more and more people continue to rely on agriculture for their livelihood.

Due to all these factors, there is a need for an economy's production and employment base to diversify away from agriculture. Development economics therefore recognizes the need for structural transformation of the economy where the share of non-agricultural sectors tend to get increase steadily. Such transformation and diversification through industrialisation is therefore seen as important for an economy's development.

What benefits does industrialisation bring to an economy?

As stated earlier, it is essential to produce inputs to other producers in an economy. Evenagriculture requires inputs from industry such as fertilisers and tractors to increase productivity.

Second, a market exists for both producers and consumer goods. Even services like banking, transport and trade are dependent on production of industrial goods.

Third, by using modern methods of production, industries contribute to better productivity and hence lower cost of production of all goods produced. It therefore helps people to buy goods at a cheaper rate and help create demand for more products.

Fourth, through such expansion of production, industrialisation helps to absorb the labour force coming out of agriculture.Employment generation is therefore an important objective of industrialisation.

Fifth, a related advantage of industrialisation is therefore technological change. Through use of modern techniques, industrialization contributes to learning of such methods and their improvement. As a result labour productivity, ie, output per unit of labour input increases, which can help workers earn higher wages.

Sixth, expanding incomes lead to more demand for goods and services. If an economy is not able to produce enough to meet such demand, it has to rely on imports and therefore spend a lot of foreign exchange. If the economy does not earn enough from exporting, it will be difficult to meet the growing demand. Industrialisation therefore helps an economy to save and also generate foreign exchange through exports.

Types of Industries
Industries can be classified on the basis of

Users: If the output is consumed by the final consumer, it is called a consumer goods sector. If the output is consumed by another producer, it is called a capital goods sector. There are industries that produce raw materials for other industries such as cement and steel. Such industries are called basic goods industries
Type of Inputs Used: Industries are also classified based on the kind of raw material used such as agro-processing, textiles sector, rubber products, leather goods, etc.

0wnership: Firms may be privately owned, publicly owned (by the government, central or state), jointly owned by the private and public sector, or cooperatively owned (cooperatives)

Size: Firms may be large, small or medium based on their volume of output, sales or employment or on the basis of the amount of investments made. The Indian government normally uses the investment criterion to decide whether a firm is small, medium or large. There are also micro or tiny enterprises that are smaller than even small firms. This classification is important becausethe government often provides financial, infrastructural or subsidy support to the smaller firms to promote them.

The small sector is seen as important for two reasons. One, it is believed to generate more employment than the large-scale sector, which is likely to use more advanced andautomated technologies and therefore may not generate enough employment. Second, thesmall scale sector allows for a larger number of entrepreneurs to emerge from less privileged backgrounds.

Till the 1980s, it was widely believed that large firms are more efficient and can outcompete the smaller firms. But at present, based on experiences of industrialisation in different parts of the world, it is believed that when small firms specialising in one sector are geographically concentrated in specific locations, and linked to one another through production and learning, they tend to be equally if not more efficient than large scale enterprises. Such agglomerations of small firms are called industrial clusters.

Industrial Clusters

Industrial clusters are groups of firms in a defined geographic area that share common markets, technologies and skill requirements. An important aspect of clusters is the nature of inter-firm networks and interactions. Clusters where firms specialise in one stage of the production process and supply inputs or absorb the output of another firm in the cluster is critical to the efficiency and competitiveness of the cluster. The advantages of industrial clusters or districts was first observed by the famous economist Alfred Marshall in the 1920s when he tried to understand the working ofclusters of small firms in the metal-working and textile regions in England. While the notion of an 'industrial district' was developed by Marshall, it was only after the success of small firms in Italy in the 1980s that it became popular. Policy-makers in developing countries like India began to promote them actively as they realized that there several such small firm clusters in the country.
The following are the chief characteristics of a successful cluster.
geographical proximity of small and medium enterprises (SMEs)
sectoral specialisation
close inter-firm collaboration
inter-firm competition based on innovation
a socio-cultural identity, which facilitates trust
multi-skilled workforce
active self-help organisations, and
supportive regional and municipal governments.

Firms are therefore expected to collaborate and compete with one another at the same time. By collaborating, they can expand their capacity and also learn from one another. Through competition, they are forced to become more efficient. Apart from the Chennai region, industrial growth hasbeen concentrated in several small town clusters, throughout the state, with the western region being more dominant. These clusters specialise in a range of activities like clothing, home furnishings, textiles, leather, poultry, coir products, transport equipment servicing, engineering services and auto component making.

How Do Clusters Originate?

Clusters may arise due to many factors. Certain clusters evolve over a long time in historywhen artisans settle in one locality and evolve over centuries. Handloom weaving clusters are one examples of this development. Or else, in some sectors, when a large firm is established, a cluster of firms may emerge to take care of its input and service requirements. At times, governments may decide to encourage manufacturing using raw materials from a region, which may also lead to emergence of clusters.

Historical Development of Industrialisation in Tamil Nadu

There is lot of evidence for presence ofindustrial activities such as textiles, shipbuilding, iron and steel making and pottery in precolonial Tamil Nadu. Given the vast coastline, the region has been involved in trade with both South-East and West Asia for several centuries. Colonial policies also contributed to the decline of the handloom weaving industry due to competition from machinemade imports from England. But some industries also developed during the colonial period and provided the basis for subsequent industrialisation in the state.

Industrialisation in the Colonial Period

There are two sets of factors that have contributed to the process. The introduction of cotton cultivation in western and southern Tamil Nadu by the colonial government led to the emergence of a large-scale textile sector in these parts, which involved ginning, pressing, spinning and weaving operations. The introduction of railways also expanded the market for cotton yarn and helped develop the sector.

Second, increase in trade during this period led to industrial development around two of the most active ports in the region, Chennai and Tuticorin. The Chennai region also saw the beginning of the automobile sector during this period along with leather. The growth of jaggery industry in south Tamil Nadu is another example of this. Match factories too emerged during the colonial period in theSivakasi region, which later on became a major centre for fireworks production and printing. Port-related activity too contributed to the growth of the region. Leather production was also taking place in Dindigul, Vellore and Ambur areas.

In Western Tamil Nadu, the emergence of textiles industries also led to demand and starting of textile machinery industry in the region. This textile machinery industry in turn led to the rise of a number of small workshops for repair and producers of machinery components. Another major developmentin the western region is the introduction of electricity from hydro-electric power in the 1930s. Availability of electricity allowed for use of oil engines for drawing ground water. This led to both expansion of agriculture aswell as increase in demand for oil engines. In turn, it led to emergence of workshops for servicing engines and also for addressing the demand for spare parts. Foundries began to be set up and agricultural machinery began to be produced.

Post-Independence to early 1990s

Soon after independence, several large enterprises were set up by both the central and state governments in different segments such as the Integral Coach Factory in Chennai to make railway coaches and the Bharat Heavy Electricals Limited (BHEL) in Tiruchirapalli manufacture to boilers and turbines. BHEL in turn led to the emergence of an industrial cluster of several small firms catering to its input requirements. Heavy Vehicles Factory was set up to manufacture tanks in Avadi on the outskirts of Chennai. Standard Motors too started manufacturing cars in Chennai. Ashok Motors (later Ashok Leyland) and Standard Motors together helped form an automobile cluster in the Chennai region. The Avadi industrial estate was established in the 1950s to support the small and medium companies. supplying to the large firms in the region. More hydro-electric power projects in the state were also initiated to increase the spread of electrification. The government played a major role in all these processes. The Salem Steel Plant was set up in 1973 to produce stainless steel.

The Coimbatore region also witnessed diversification from textiles to textile machinery as well as agricultural machinery like electric motors and pumpsets for drawing ground water.

The 1970s and 1980s saw the setting up of emergence of powerloom weaving clusters in the Coimbatore region as well as expansion of cotton knitwear cluster in Tiruppur and home furnishings cluster in Karur. This period also saw more encouragement of the small and medium sector with setting up of industrial estates by the state government in different parts. The Hosur industrial clusteris a successful case of how such policy efforts to promote industrial estates helped develop industries in a backward region.

Industrialisation in Tamil Nadu – Liberalization Phase

The final phase of industrialisation is the post-reforms period since the early 1990s. The reforms made the state governments more responsible for resource mobilisation and they were forced to compete with each other to attract private investments for industrialisation. Incentives such as cheap land, tax concessions and subsidised but quality power were all offered to woo investors. Trade liberalisation and currency devaluation also helped open up export markets. This led to two major developments.

First, because of trade liberalisation measures, exports of textiles, home furnishingsand leather products began to grow rapidly.Second, efforts to attract investments led to entry of leading multinational firms (MNCs) into the state, especially in the automobile sector. Since automobile sector relies heavily on component makers, entry of MNCs not only brought along other MNC component suppliers but also opened up new market opportunities for domestic component producers. Chennai region also emerged as a hub for electronics industry with MNCs such as Nokia, Foxconn, Samsung and Flextronics opening plants on the city's outskirts. A significant share of these investments has come up in special economic zones in the districts bordering Chennai. Tamil Nadu has often been hailed as a model for successfully using the SEZ route to attract productive investments.

Other important industries in the state that evolved over a much longer period include sugar, fertilizers, cement, agricultural implements, iron and steel, chemicals, transformers and paper.

Because of all these factors, Tamil Nadu at present has the largest number of factories among all states in India and also has the largest share of workforce employed in manufacturing. Importantly, it is more labourintensive compared to other industrially advanced states like Maharashtra and Gujarat.The major industries are automobiles, autocomponents, light and heavy engineering, machinery, cotton, textiles, rubber, food products, transport equipment, chemicals, and leather and leather goods. Unlike other states, the industries are spread across all regions of the state (there are 27 clusters in 13 districts) with many of them being export oriented as well. The state has a well-developed network of roads, rail, air and major ports.

The diffusion of industrialisation also implies a widening of the social base of entrepreneurship. Unlike in North India where entrepreneurs and business groups are drawn mostly from merchantcommunities, in Tamil Nadu, the entrepreneurs come from a dispersed social background, with a relatively small size of capital. Further, the spatial spread of industries is higher. The state also has a better mix of large, small and household industries. This diffused process of industrialisation and corresponding urbanisation has paved the way for better rural-urban linkages in Tamil Nadu than in most other states.

Major Industrial Clusters and Their Specialisation in Tamil Nadu

Automotive Clusters

Chennai is nicknamed as "The Detroit of Asia" because of its large auto industry base. Chennai is home to large number of auto assembly and component making firms. While there were afew domestic firms like TVS, TI Cycles, Ashok Leyland and Standard Motors earlier, in the postreform period, several MNC firms like Hyundai, Ford, Daimler-Benz and Renault-Nissan have opened factories in the region. This in turn has attracted a number of component suppliers from foreign countries. Many local firms too cater to component production for all these firms.

Hosur is another auto cluster with firms like TVS and Ashok Leyland having their factories there. Coimbatore region is also developing into an auto component cluster.

Truck and Bus Body Building Industry Clusters

The Namakkal- Tiruchengode belt in western Tamil Nadu is known for its truck body building industry. About 150 of the 250 units in this sector are located in this cluster including 12 large-sized body building houses. Karur is another major hub with more than 50 units. Many entrepreuners were previous employees in a big firm involved in body building who came out to set up their own units.

Textile Clusters

Tamil Nadu is home to the largest textiles sector in the country. Because of the development of cotton textile industry since the colonial period, Coimbatore often referred as the "Manchester of South India". At present, most of the spinning mills have moved to the smaller towns and villages at a radius over 100 to 150 km around the Coimbatore city. Tamil Nadu is the biggest producer of cotton yarn in the country.

Palladam and Somanur, small towns near Coimbatore and the villages near these towns, are home to a dynamic powerloom weaving cluster as well. Powerloom is however more widespread with Erodeand Salem region too having a large number of power loom units.

Tiruppur is famous for clustering of a large number of firms producing cotton knitwear. It accounts for nearly 80% of the country's cotton knitwear exports and generates employment in the range of over three lakh people since the late 1980s. It is also a major producer for the domestic market. Because of its success in the global market, it is seen as one of the most dynamic clusters in the Global South. While initially most firms were run by local entrepreneurs, at present, some of the leading garment exporters in India have set up factories here.

Global South Countries in the southern hemisphere are called Global South countries

Apart from body building, Karur is a major centre of exports of home furnishings like table cloth, curtains, bed covers and towels. Bhavani and Kumrapalayam are again major centres of production of carpets, both for the domestic and the global markets.

Apart from such modern clusters, there are also traditional artisanal clusters such as Madurai and Kanchipuram that are famous for silk and cotton handloom sarees. Even these clusters have witnessed a degree of modernisation with use of powerlooms in several units.

Leather and Leather Goods Clusters

Tamil Nadu accounts for 60 per cent of leather tanning capacity in India and 38 percent of all leatherfootwear, garments and components. Hundreds of leather and tannery facilities are located around Vellore and its nearby towns, such as Ranipet, Ambur and Vaniyambadi. The Vellore district is the top exporter of finished leather goods in the country. Chennai also has a large number of leather product making units involved in exports. There is another clustering of leather processing in Dindigul and Erode. The leather products sector too is a major employment generator.

Fireworks, Matches and Printing Cluster

Sivakasi region, once famous for its match industry has now become a major centrefor printing and fireworks in the country. It is believed to contribute to 90% of India's fireworks production, 80% of safety matches and 60% of offset printing solutions. The offset printing industry has a high degree of specialisation among firms with several of them undertaking just one operation required for printing. All these industries have their origin in the colonial period and at present offer employment to a large number of workers.

Electronics and Information Technology (IT) Clusters

After the economic reforms started in the early 1990s, the state has seen the entry of hardware and electronics manufacturers like Nokia, Foxconn, Motorola, Sony- Ericsson, Samsung and Dell making cellular handset devices, circuit boards and consumer electronics. They have all been set up in theChennai region. While Nokia has been closed down, Chennai still continues to be a minor electronics hub in the country.

Similarly, with the expansion of the software sector, Chennai and, to a limited extent Coimbatore, have emerged as centres for software services.

Information Technology Specific Special Economic Zones :
In order to make development more inclusive, Tier II cities such as Coimbatore, Madurai, Trichy, Tirunelveli, Hosur and Salem have been promoted as IT investment destinations apart from the Chennai region.To facilitate this, ELCOT has established ELCOSEZs (IT Specific Special Economic Zones) in the following eight locations:
Chennai – Sholinganallur
Coimbatore – Vilankurichi
Madurai – Ilandhaikulam
Madurai – Vadapalanji-Kinnimangalam
Trichy – Navalpattu
Companies desiring to set up units in the state can avail themselves of the facilities provided in ELCOSEZs. The possibility of setting up ELCOSEZs in new locations will be explored based on demand and viability. (Map Information Communication Technology Policy - 2018–19)
Tirunelveli – Gangaikondan
Salem – Jagirammapalayam
Hosur – Viswanathapuram

The Policy Factors that Helped the Industrialisation Process in Tamil Nadu
Policy factors can be divided into three aspects:

Education

Industries require skilled human resources. Apart from a lot of attention to primary education to promote literacy and basic arithmetic skills, the state is known for its vast supply of technical human resources. It is home to one of the largest number of engineering colleges, polytechnics and Industrial Training Centres in the country.

Infrastructure

The widespread diffusion of electrification has contributed to the spread of industrialisation to smaller towns and villages in the state. Along with electrification, Tamil Nadu is known for its excellent transport infrastructure, especially minor roads that connect rural parts of the state to nearby towns and cities. A combination of public and private transport has also facilitated rural to urban connectivity and therefore connect small producers to markets better.

Industrial Promotion

Apart from investments in education and transport and energy infrastructure, active policyefforts were made to promote specific sectors and also industrialisation in specific regions. Policies to promote specific sectors like automobile, auto components, bio technology and Information and communication Technology sectors have been formulated in the post reform period. In addition, the state has put in place several industrial promotion agencies for both large enterprises and the small and medium segments, as well as to provide supporting infrastructure.

The following are some agencies that have played a key role in industrialization in the state

SIPCOT (State Industries Promotion Corporation of Tamil Nadu), 1971
SIPCOT was formed in the year 1971 to promote industrial growth in the state by setting up industrial estates.
TANSIDCO (Tamil Nadu Small Industries Development Corporation), 1970
TANSIDCO is a state-agency of the state of Tamil Nadu established in the year 1970 to promote small-scale industries in the state. It gives subsidies and provide technical assistance for new firms in the small scale sector.

TIDCO (Tamil Nadu Industrial Development Corporation), 1965
TIDCO is another government agency to promote industries in the state and to establishindustrial estates.
TIIC (Tamil Nadu Industrial Investment Corporation Ltd.), 1949
TIIC is intended to provide low-cost financial support for both setting up newunits and also for expansion of existing units. Though it is meant to meet the requirements of all types of firms, 90% of support goes to micro, small and medium enterprises.

TANSI (Tamil Nadu Small Industries Corporation Ltd.), 1965

TANSI was formed in 1965 to take over the small scale-units that were set up and run by theDepartment of Industries and Commerce. It is supposed to be the first industrial corporation operating in the domain for small enterprises.

Special Economic Zones (SEZs)

A policy was introduced on in April 2000 for the settling up of special Economic Zones in the country with a view to a hassle-free environment for exports. Units may be set up in SEZ units are on a self-certification basis. The policy provides for setting up of SEZs in the public, private, joint sector or by state governments. It is also envisaged the some of the existing Export Processing Zones, would be converted in to Special Economic Zones.

Accordingly, the government has converted Export Processing Zones located at following places.

Nanguneri SEZ-A multi product SEZ, Thirunelveli
Ennore SEZ- Thermal power project, Vayalur
Coimbatore SEZ – IT Parks
Hosur SEZ – Auto Engineering, Electronics, Defence and Aerospace
Perambalur SEZ – Multi product SEZ
Autocity SEZ – Automobile/Auto Components, Tiruvallur
India-Singapore SEZ – IT & ITES, Electronic Hardware, Logistics and Warehousing – Thiruvallur District
Bio-Pharmaceuticals SEZ – Clinical Research Organisation, Poison Control Centre, Centre for Regenerative Medicine, Medicine Research

Madras Export Processing Zone (MEPZ)
MEPZ is a Special Economic Zone in Chennai. It is one of the seven export processing zonesin the country set up the central government. It was established in 1984 to promote foreign direct investment, enhance foreign exchange earnings and create greater employment opportunities in the region. The MPEZ headquarters is located on GST Road in Tambaram, Chennai.

Emerging Services Sector in Tamil Nadu

With technological changes, industries too are not able to absorb labour. Automation has been reducing the need for labour in manufacturing. The services sector has emerged as a much bigger employer over the last three decades. Tamil Nadu has become a hub for some important and dynamic service sectors such as software services, healthcare and education services. Healthcare andeducational services are diffused across major cities, Chennai and Coimbatore in particular. Software services is, however, largely confined to Chennai. Only in the last ten years, a few software firms have moved to Coimbatore.

Issues with Industrialisation

Though Tamil Nadu has emerged as a relatively highly industrialised state in the country, the state faces a few issues in sustaining the process. To begin with, some clusters, especially chemicals, textiles and leather clusters, tend to generate a lot of polluting effluents that affect health. The effluents also pollute water bodies into which effluents are let into and also adjoining agricultural lands. This issue requires urgent attention. Second, employment generation potential has declinedbecause of use of frontier technologies because of the need to compete globally. Quality of employment also has suffered in recent years as most workers are employed only temporarily. This issue too requires urgent attention among policy makers.

Startup India Scheme (Launched 16-Jan-2016):
Startup India Scheme is an initiative of the Indian government, the primary objective of which is the promotion of startups, generation of employment and wealth creation.
Standup India Scheme (Launched 5-April-2016):
Standup India Scheme is to facilitate bank loans between `10 lakh and `1 crore to at least one Scheduled Caste (SC) or Scheduled Tribe (ST) borrower and one woman borrower per bank branch for setting up a greenfield enterprise.

Entrepreneur

Entrepreneur is an innovator of new ideas and business processes. He possesses management skills, strong team building abilities and essential leadership qualities to manage a business.

Entrepreneurship

Entrepreneurship is a process of a action of an entrepreneur who undertakes to establishhis enterprise. It is the ability to create and build something.

Role of an Entrepreneur
Entrepreneurs play a most important role in the economic growth and development of a country's economy.

They promote development of industries and help to remove regional disparities by industrialising rural and backward areas. They help the country to increase the GDP and Per Capita Income. They contribute towards the development of society by reducing concentration of income and wealth. They promote capital formation by mobilising the idle savings of the citizens and country's export trade. Entrepreneurs provide large-scale employment to artisans, technically qualified persons and professionals and work in an environment of changing technology and try to maximise profits by innovations. They enable the people to avail better quality goods at lower prices, which results in the improvement of their standard of living.