TEST - 4
UNIT – VI INDIAN ECONOMY

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 States especially 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 resource extraction. 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 volume 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 care

and 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 turn are 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 States of 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 grain production 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, which was implemented as a package. Apart from introducing fertiliser-responsive high-yielding varieties of rice and wheat, it ensured the availability of subsidised chemical fertilisers for the farmers. Cheaper farm credit was disbursed to farmers through co-operative banks and societies. Minimum support price (MSP) for the crops were announced at the beginning 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 and oil 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 persists in 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 India had 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 threetier 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 fair price 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 a currency 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 to increasing 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 opportunities in 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 purchasing power 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 to investors 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 productivity of 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 marginal holding 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 million poor 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 in 2015-16.
- 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 Nadu and 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. Though our 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 rural and 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 in the 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" guides the 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 marginalised groups, 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 is less than ` 72,000 by meeting all expenses relating to the hospitalisation of the beneficiary.
- Tamil Nadu Health Systems Projects (TNHSP) has launched ambulance services free of cost (The 108 Emergency Ambulance Service).
- The School Health Programme mainly emphasises on providing comprehensive healthcare services to all students studying in Government and Government-aided schools.
- The National Leprosy Eradication programme is being implemented in the state with the aim 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, nutrition supplementation 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 1980 targeting at 6 to 36 months old children and pregnant and lactating women.
- **Mid-Day Meal Programme:** This programme has been introduced for children between ages 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.

10th volume I
1. Gross Domestic Product and Its Growth: An Introduction

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.
- When we cannot add the quantity of one type of good with another type of good or one type of service with another type of service, certainly there is no sensible way to add the quantities of goods produced with those of services produced! How would we add the quantity of milk produced in the country with the service produced by teachers?!
- 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.
- Should the market value of utensils used to brew the tea be included in the GDP? You may argue that since the utensils are bought not as final goods but to produce tea, they are intermediate goods and so they should not be included in the GDP. However the utensils, unlike sugar, do not form a part of the final good, the cup of tea. For this reason they should be included in the 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

1. 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)

2. 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.

3. 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)

4. 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

5. 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

6. 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).

7. 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 values of apples produced in Kashmir are included in our GDP since Kashmir is in India. The market values of apples produced in California, even if they 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

Methods of GDP Calculating

1. **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)

2. **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

3. **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

1. Study of Economic Growth.
2. Unequal distribution of wealth.
3. Problems of inflation and deflation.
4. Comparison with developed countries of the world.
5. Estimate the purchasing power.
6. Public Sector.
7. 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.

1. Several important goods and services are left out of the GDP: The GDP includes only the goods and services sold in the market. The service 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.

2. 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.

3. 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. 4 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.

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.

1. Primary Sector: (Agricultural Sector)

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

2. 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.

3. 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	37.27
1980- 81	35.39	24.29	39.92
1990- 91	29.02	26.29	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- 14	18.20	24.77	57.03
2015- 16	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 Amartya Sen, 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 whereas GDP 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.

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"	Economic development is the "Broader" concept

	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 its entire 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 Mahbub ul Haq, 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 sole protector 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.

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.

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, Jigme Singye Wangchuck, 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.

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

1. 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.

2. 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.

3. 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, resilient and reflect strong macro- economic fundamentals. Despite fluctuations in recent quarters due to disruptions caused by two major structural reforms - demonetisation and the Goods and Services 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.

NOTE

- In 1867-68 for the first time Dadabhai Navroji had ascertained the Per Capital Income in his book "Poverty and Un- British Rule of India".
- The modern concept of GDP was first developed by Simon Kuznets for a US Congress report in 1934.

- 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.

Unit – 4

Government and Taxes

Learning Objectives

- To understand the role of the government and development policies
- To gain knowledge about tax and its types
- To study how is tax levied
- To gain insight into black money and tax evasion
- To know the difference between the tax and other payments
- To understand the taxes and its development

Introduction

- Tax is levied by government for the development of the state's economy. The revenue of the government depends upon direct and indirect taxes. Direct taxes are levied on income of the persons and the indirect taxes are levied on goods and services by which the government mobilises its "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 been carrying out various functions for the benefit of people and society at large. These roles are into divided into seven categories for easy understanding.

1. **Defence:** This is an essential security function to protect our nation from our enemies. We know that we have three services, namely, army, navy and air force. The Union government is responsible for creating and maintaining defence forces.

2. **Foreign policy:** In today's world, we need to maintain friendly relationships with all the other countries in the world. India is committed to world peace. We should also maintain cordial economic relationships through exports and imports, sending and receiving investments and labour. This service is also provided by the Union government.

3. **Conduct of periodic elections:** India is a democratic country. We elect our representatives to Parliament and state assemblies. The Union government creates laws and administrative system and conducts elections to these two legislature institutions. Similarly the state governments conduct elections to local bodies within the state.

4. **Law and order:** Both the Union and state governments enact numerous laws to protect our rights, properties and to regulate our economy and society. To settle disputes, the Union government has a vibrant judicial system consisting of courts at the national, state and lower levels and state governments take the responsibility for administering the police force in respective states.

5. **Public administration and provision of public goods:** The government generally administers the economy and society through various departments, for example, revenue department, schools, hospitals, rural development and urban development. The list of departments with the Union and state governments are available in the public domain. The local governments provide public goods like local roads, drainage, drinking water and waste collection and disposal.

6. **Redistribution of income and poverty alleviation:** Governments collect various taxes to finance the various activities mentioned earlier. The taxes are collected in a way that the high-income people can bring in more tax revenue to the government than the poor. The governments also spend money such that the poor are given some basic necessities of life like food, shelter, clothing education, health care and monthly income to the very poor persons. Thus collecting taxes and spending for the poor is how the government redistributes income and introduces measures to reduce poverty.

7. **Regulate the economy:** The Union government, through the Reserve Bank of India, controls money supply and controls the interest rate, inflation and foreign exchange rate. The main objective is to remove too much of fluctuation in these rates. The Union also controls the economy through various other agencies such as Securities Exchange Board of India and Competition Commission of India. All the governments in India run public sector enterprises to provide important goods and services at affordable rates to the people.

Tax

- The origin of the word "tax" is from "taxation," which means an estimate.

- Taxation is a means by which governments finance their expenditure by imposing charges on citizens and corporate entities. The main purpose of taxation is to accumulate funds for the functioning of the government machinery. Tax has come into forefront on account of the new concept of "welfare state". Modern governments do not confine themselves to law and order only. The importance of public finance (tax) has vastly increased in recent years.

- Taxes are compulsory payments to government without expectation of direct return (or) benefit to the tax payer. Prof. Seligman also defined a tax as "a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all, without reference to special benefits conferred."

Why Taxes?

- The levying of taxes aims to raise revenue to fund governance or to alter prices in order to affect demand. States and their functional equivalents throughout history have used money provided by taxation to carry out many functions. Some of these include expenditures on economic infrastructure (transportation, sanitation, public safety, education, healthcare systems, to name a few), military, scientific research, culture and the arts, public works and public insurance and the operation of government itself. A government's ability to raise taxes is called its fiscal capacity.

Taxation in India has its roots from the period of Manu Smriti and Arthasastra. The present Indian tax system is based on this ancient tax system.

Tax system

Every type of tax has some advantages and some disadvantages. So we have a tax system, that is, a collection of variety of taxes. All countries use a variety of taxes. There are some characteristics of tax system that economists think should be followed while designing a tax system. These characteristics are called as canons of taxation. From Adam Smith, many economists have given lists 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 the cardinal principle in designing the tax system. The equity principal says that the rich should pay more tax revenue to government than the poor, because rich has more ability than the poor to pay the tax. Moreover, after payment of tax, you will find the economic difference is reduced between the rich and the poor. You can do an exercise to find out which of the taxes adhere to the canon of equity.

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

Canons of Economy and Convenience – These two canons are related. As tax payers we incur a 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, tax should be collected from a person at the time he gets enough money to pay the tax. This is called canon of convenience. A convenient tax reduces the cost of collecting tax.

Canons of Productivity and Elasticity – Government should choose the taxes that can get enough tax revenue to it. In other words, it should choose a few taxes that can fetch more tax revenue, instead of lots of taxes and each one of them getting a little tax revenue. This is canon of productivity. Tax is paid by the people out their incomes. Therefore the tax system should be designed 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 get more income and consequently they will also pay more tax revenue to government if the tax system is elastic.

In India, Income Tax was introduced for the first time in 1860 by Sir James Wilson in order to meet the losses sustained by the Government on account of the Mutiny of 1857.

- When expenditures exceed tax revenue, a government accumulates debt. A portion of taxes may be used to service past debts. Governments also 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 and waste management systems are also common public utilities.

- According to the proponents of the theory of money creation, taxes are not needed for government revenue, as long as the government in question is able to issue fiat money. The purpose of taxation is to maintain the stability of the currency, express public policy regarding the distribution of wealth, subsidising certain industries or population groups or isolating the costs of certain benefits such as highways or social security.

Types of Taxes

Direct Taxes

- A tax imposed on an individual or organisation, which is paid directly, is a direct tax. The burden of a direct tax cannot be shifted to others. J.S. Mill defines a direct tax as "one which is demanded from the very persons who it is intended or desired should pay it." Some direct taxes are income tax, wealth tax and corporation tax.

Income tax

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

Corporate tax

- This tax is levied on companies that exist as separate entities from their shareholders. It is charged on royalties, interest gains from sale of capital assets located in India and fees for a technical services and dividends.

- Foreign companies are taxed on income that arises or is deemed to arise in India.

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

Wealth tax

- Wealth tax is charged on the benefits derived from property ownership. The same property will be taxed every year on its current market value. The tax is levied on the individuals and companies alike.

In India taxes are collected by all the three tiers of government. There are taxes that can be easily collected by the Union government. In India almost all the direct taxes are collected by the Union governments. Taxes on goods and services are collected by both Union and state governments. The taxes on properties are collected by local governments.

In India we collect more tax revenue through indirect taxes than through direct taxes. The major indirect taxes in India are customs duty and GST. Both these taxes have different tax rates for different goods and services. The governments try to design in such a way that the rich consumers pay more tax than the poor. However, poor still paymore through these taxes. Therefore, many argue we should reduce the indirect taxes and increase the collection through direct taxes.

Indian tax system adheres to all the canons of taxation. But there are arguments that often the equity principle is compromised and productivity is lost when we tinker with tax system to the advantage of a few. We announce the tax system once in a year in the annual budget. It is very rarely breached by announcing mid-year tax changes. Therefore, Indian tax system adheres to canon of certainty more than anything else.

Indirect Taxes

- If the burden of the tax can be shifted to others, it is an indirect tax. The impact is on one person while the incidence is on the another person. 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 and service tax (GST).

Stamp duty

- Stamp duty is a tax that is paid on official documents like marriage registration or documents related to a property and in some contractual agreements.

Entertainment tax

- Entertainment tax is a duty that is charged by the government on any source of entertainment provided. This tax can be charged on movie tickets, tickets to amusement parks, exhibitions and even sports events.

Excise duty

- An excise tax is any duty on manufactured goods levied at the movement of manufacture, rather than at sale. Excise is typically imposed in addition to an indirect tax such as a sales tax.

Goods and service tax (GST)

- The goods and service tax (GST) is one of the indirect taxes. The GST was passed in Parliament on 29 March 2017. The act came into effect on 1 July 2017. The motto is one nation, one market, one tax.

- Goods and service tax is defined as the tax levied when a consumer buys a good or service. That aims to replace all indirect taxes levied on goods and services by the Central and state governments. GST would eliminative the cascading effect of taxes on the production and distribution of goods and services. It is also a "one-point tax" unlike value-added tax (VAT), which was a multipoint tax.

France was the first country to implement GST in 1954 and many other European countries introduced GST in 1970-80.

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 and cesses

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 life like vegetables and food grains are excempted from this tax.

Progressive tax

- Progressive tax rate is one in which the rate of taxation increases (multiplier) as the tax base increases (multiplicand). The amount of tax payable is calculated by multiplying the tax base with the tax rate. In the case of a progressive tax, the multiplicand (income) increases. When income 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 fixed portion is known as proportionate taxes. All tax payers contribute the same proportion of their incomes. In this method, the rate of taxation is the same regardless of the size of income. The tax amount realised varies in the same proportions that of income.

Example:

Tax Baes	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 tax lower the income groups than in the case of higher income groups. It is a very opposite of progressive 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 black market on which income and other taxes have not been paid. The unaccounted money that is concealed from the tax administrator is called black money.

Recent Legislative Initiatives to curb Black Money in India

1. Constitution of the Special Investigation Team (SIT) on Black Money under Chairmanship and Vice-Chairmanship of two former Judges of Hon'ble Supreme Court.

2. Enactment of a comprehensive law – The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 .

3. Constitution of Multi-Agency Group (MAG) consisting of officers of Central Board of Direct Taxes (CBDT), Reserve Bank of India (RBI), Enforcement Directorate (ED) and Financial Intelligence Unit (FIU) for the investigation of recent revelations in Panama paper leaks.

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 black money are identified as causes.

1. **Shortage of goods:** Shortage of goods, whether natural or artificial, is the root cause of black money. Controls are often introduced to check black money.

2. **Licensing proceeding:** It is firmly believed that the system of controls permits, quotes and licences are associated with maldistribution of commodities in short supply, which results in the generation of black money.

3. **Contribution of the industrial sector**: Industrial sector has been the major contributor to black money. For example, the Controller of Public Limited Companies tries to buy commodities at low prices and get them billed at high amounts and pockets the difference personally.

4. **Smuggling:** Smuggling is one of the major sources of black money. When India had rigid system of exchange controls, precious metals like gold and silver, textiles and electronics goods were levied a

heavy excise duty. Bringing these goods by evading the authorities is smuggling.

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

Tax Evasion

- Tax evasion is the illegal evasion of taxes by individuals, corporations and trusts. Tax evasion often entails taxpayers deliberately misrepresenting the true state of their affairs to the tax authorities to reduce their tax liability and includes dishonest tax reporting, such as declaring less income, profits or gains than the amounts actually earned, or overstating deductions.

- Tax evasion is an activity commonly associated with the informal economy. One measure of the extent of tax evasion is the amount of unreported income, which is the difference between the amount of income that should be reported to the tax authorities and the actual 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 money prevents the resource mobilisation efforts of the Union government. Shortage of funds distorts implementation of developmental plans and forces the government to resort to deficit financing in case public expenditure is inelastic.

2. Tax evasion interferes with the declared economic policies of the government by distorting saving and investment patterns and availability of resources for various sectors of the economy.

3. Tax evasion undermines the equity attribute of the tax system. Honest taxpayers willingly bear disproportionate tax burden, feel demoralised and lured to join the tax evaders' camp.

4. Tax evasion and black money encourage the concentration of economic power in the hands of undeserving groups in the country, which, in turn, is a threatening to the economy in its way.

5. Evasion of tax consumes time and energy of tax administration to disentangle the intricate manipulations of tax dodgers.

Tax evasion penalties

1 If a person wilfully commits the act of tax evasion, he may face felony charges. Tax evasion penalties include imprisonment of up to five years and high amount as fines.

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

3 Other tax evasion penalties include community service, probation and restitution depending on the circumstances of the case.

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

Tax and other Payments

- Taxes are compulsory payments to government without expectation of direct return (or) benefit to the tax payer.

- Payment includes income received from production and supply of goods and services of public enterprises and revenue from administrative activities. Payments from nontax sources other than tax income is known as payments.

Some payments are fees, fines and penalties, and forfeitures.

S. No	Tax	Payments
1	Tax is compulsory to the	Fee is the payment for getting

	government without getting any direct benefits	any service
2	If the element of revenue for general purpose of the state predominates, the levy becomes a tax	While a fee is a payment for a specific benefit privilege although the special to the primary purpose 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 person do not want to get the service
5	In this case, tax payer does not expect any direct 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 developing economics is as follows.

1. Resource mobilisation: Taxation enables the government to mobilise a substantial amount of revenue. The tax revenue is generated by imposing direct taxes such as personal income tax and corporate tax and indirect taxes such as customs duty, excise duty, etc.

2. Reduction in equalities of income: Taxation follows the principle of equity. The direct taxes 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 taxes on certain undesirable products like alcoholic products.

4. Foreign exchange: Taxation encourages exports and restricts imports, Generally developing countries and even the developed countries do not impose taxes on export items.

5. Regional development: Taxation plays an important role in regional development, Tax incentives such as tax holidays for setting up industries in backward regions, which induces business firms to set up industries in such regions.

6. Control of inflation: Taxation can be used as an instrument for controlling inflation. Through taxation the government can control inflation by reducing the tax on the commodities.