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Economy Notes

English

Economy Notes

List of 5 Year Plans of Indian Economy

1. Visvesvaraya Plan

- The era of economic planning in India started with Visvesvaraya's ten-year Plan.
- Sir M. Visvesvaraya published a book titled "Planned Economy in India" in 1934 wherein he presented a draft to double the national income in a decade.
- He proposed to shift the labor from the agrarian set up to the industries thereby advocating for democratic capitalism (similar to the USA) with emphasis on industrialization. However, there was no follow up of this plan in British Government, it successfully stirred an urge for national planning among the educated citizens of the country.

2. National Planning Committee (NPC)

- It was the first attempt to develop a national plan for India emanated in 1938 with the set-up of NPC under the chairmanship of Jawahar Lal Nehru.
- However, because of the commencement of World War II, the reports of the committee could not be prepared. The papers finally came out after independence in 1948-49.

3. Bombay Plan

- Eight leading industrialists and technocrats formulated a draft titled "A Brief Memorandum Outlining a Plan of Economic Development for India" under the editorship of Purushottamdas Thakurdas in 1944.
- This draft is known as the 'Bombay Plan'.
- The basic objectives of the plan were doubling the output of the agricultural sector and a five-fold growth in the industrial sector in 15 years.
- A key principle of the Bombay Plan was that the economy could not grow without government intervention and regulation.

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- Officially the plan was never accepted, however, its ideas were replicated in future economic plans.

4. People's Plan

- People's plan was drafted by M. N. Roy, the communist leader, on behalf of the Post- War Reconstruction Committee of the Indian Federation of Lahore in 1944.
- It was based on 'Marxist Socialism' and gave primacy to agriculture. It advocated for the nationalization of agriculture and all production activities.

5. Gandhian Plan

- The Gandhian Plan was drafted by S. N. Aggarwal, the principal of Wardha Commercial College in 1944.
- The plan articulated a 'decentralized economic structure' for India with 'self-contained villages'.
- Unlike the NPC and Bombay Plan, the plan laid more emphasis on agriculture.
- And wherever industrialization was talked about, it stressed upon promoting cottage and village level industries.

6. Sarvodaya Plan

- This plan was drafted by Jai Prakash Narayan in 1950.
- It was inspired by Gandhi Plan and Vinoba Bhave's principles of self-reliance.
- It laid stressed upon agriculture as well as small and cotton industries.
- It advocated self-sufficiency by curtailing the use of foreign technology and implementing land reforms and decentralized participatory planning.

7. Planning Commission

- After independence, the Economic Programme Committee (EPC) was formed by the All India Congress Committee.
- Pandit J.L. Nehru was its chairman.
- In 1948, this committee recommended the formation of the planning commission.

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- It was an extra-constitutional body, charged with the responsibility of formulating five-year plans.

8. National Development Council (NDC)

- It was founded on August 6, 1952. It was presided over by the Prime Minister.
- It is the apex body for decision creating and deliberations on development matters in India.
- It gives the final approval to the Five-Year Plan of India.

Summary of First three Five-year plans

Plans	Time frame	Objective and Remarks
First Plan	1951-1956	· Focus: agriculture, price stability, and infrastructure. · It was based on Harrod Domer model (growth rate of the economy depends upon investment rate and productivity of capital in a positive manner).

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Second Plan (target growth: 4.5% Actual growth: 4.27%)	1956-1961	· Focus: rapid industrialization · It was also known as Mahalanobis Plan (advocated planning shift from agriculture to industries). · It laid emphasis on heavy and basic industries. · Also advocated import substitution; export pessimism and overvalue exchanges.
Third Plan (Target growth: 5.6% Actual growth: 2.84%)	1961-1966	· Focus: heavy and basic industry which was then shifted to agriculture (PL480). · Due to two wars- war with China, 1962 and war with Pakistan, 1965 and severe drought of 1965-66; it failed on many fronts.

- 1966-67, 1967-68 and 1968-69 were annual plans. Discontinuation of five-year planning for three consecutive years is regarded as plan holiday.
- Due to the prevailing food crisis, annual plans were primarily focused on agriculture.
- During these plans, the foundation of the green revolution was laid down which included widespread use of HYV (high yielding varieties) seeds, chemical fertilizers and extensive exploitation of irrigation potentials. During these years, the shocks of a third-year plan were absorbed and a five-year planning system was resumed from 1969.

Summary of IV to XII FYPS

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Plans	Time Frame	Objective and Remarks
Fourth Plan (Target Growth: 5.7% Actual Growth: 3.30%)	1969-1974	· Focus: Self-sufficiency in food and self-reliance · Objective was to improve domestic food production. · It was aimed at saying no to foreign aid. · First oil shock of 1973, made remittances a major source of foreign exchange reserve.
Fifth Plan (Target Growth: 4.4% Actual Growth: 4.8%)	1974-1979	· Focus: 'removal of poverty' and 'attainment of self-reliance'. · It was drafted and launched by D. D. Dhar. · This plan was terminated in the year 1978. · There were rolling plans for the year 1978-1979 and 1979-1980.

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Sixth Plan (Target Growth: 5.2% Actual Growth: 5.4%)	1980-1985	· Focus: poverty eradication and productivity enhancement · Stressed upon modernization of technology. · For the first time, the frontal attack was made on poverty by adopting ambitious poverty eradication programmes (trickle down strategy was discarded).
Seventh Plan (Target Growth: 5.0% Actual Growth: 6.01%)	1985-1990	· Focus: productivity and work i.e. employment generation. · For the first time, the private sector got priority over the public sector. · Due to volatile political situations at the center, two annual plans were commenced for the year 1990-1991 and 1991-1992.
Eighth Plan (Target Growth: 5.6% Actual Growth: 6.8%)	1992-1997	· Focus: 'Plan with a human face' i.e. human resource development. · During this plan, new economic policy was launched with LPG (Liberalization, Privatization, and Globalization). · It gave primacy to human capital and the private sector.

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Ninth Plan (Target Growth: 7.1% Actual Growth: 6.8%)	1997-2002	· Focus: 'Growth with justice and equity' · It stressed upon four dimensions: quality of life; generation of productive employment; regional balance and self-reliance.
Tenth Plan (Target Growth: 8.1% Actual Growth: 7.7%)	2002-2007	It was aimed to double the per capita income of India in the next 10 years. And to reduce the poverty ratio by 15% by 2012.
Eleventh Plan (Target Growth: 8.1% Actual Growth: 7.9%)	2007-2012	Focus: Faster growth and more inclusive growth.

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Twelfth Plan (Target Growth: 8%)	2012-2017	Focus: Faster, more inclusive growth and sustainable growth.

NITI Aayog

- NITI Aayog, the National Institution for Transforming India, is a policy think tank of the Government of India established in 2015.
- It replaced the Planning Commission.
- It has a dual objective of achieving sustainable development goals and to enhance cooperative federalism with 'bottom to top' approach. Its initiatives include
  (a) Action Plan- 3 Years
  (b) Strategy Plan- 7 Years
  (c) Vision Plan- 15

National Income

About National Income

- National Income is usually defined as the total Value of all final goods and services produced in a country in a particular period (Generally one year).
- Following are the measures of National Income-
  (A) GDP (Gross Domestic Product)
  (B) GNP (Gross National Product)
  (C) NNP (Net National Product)
  (D) PI (Personal Income)
  (E) DPI (Disposable Personal Income)

(A) GDP (Gross Domestic Product)-

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- GDP is the total value of all final goods and services produced within the geographical boundary of the country during a particular period (Generally one year).
- In this, we consider all goods/ services, produced by both resident citizens and foreign nationals who reside within the boundary of that country.

(B) GNP (Gross National Product)-

- GNP is defined as the total value of the final goods and services produced by Indians in India as well as abroad during a particular period.
- GNP includes the value of goods produced by resident and non-resident citizens of a country whereas the income of foreigners who reside in India is excluded.

(C) Net National Product (NNP)-

- It is calculated by deducting depreciation from Gross National Product (GNP)
- NNP = GNP – Depreciation
  Note-
  Factor Cost- Cost incurred to produce goods and service
  Market price- For calculating market price we add Indirect taxes and deduct subsidies given by the government in Factor cost.
  Market Price = Factor cost + Indirect Taxes – Subsidy
- NNP at factor cost = NNP at market price – Indirect taxes + subsidy
- Usually, we called NNP at factor cost as National Income.
- Likewise, NNP at factor cost, we can also calculate GDP at factor cost.

(D) Personal income-

- It is the sum of all the income received by the people of the country in one year.
  Personal Income = National Income + Transfer payments – Undisclosed profits of corporate + Payment for social security provisions
- Transfer Payments are the payments that are not against any productive work. (Example- Old Age Pension, Unemployment compensation etc.)

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- Social Security Provisions- Payment made by employees towards PF, Insurance etc.

(E) Disposable Personal Income-

- Income available to individuals after deducting direct taxes.
- Disposable Personal Income = Personal Income – Direct Taxes

Real Income and Nominal Income-

- If we use base year price for calculating National Income, this is called the real income.
- If we use a particular year (current year) price for calculating National Income, this income is called the Nominal income.

GDP Deflator-

- Used to calculate overall price rise.

Estimation of National Income in India

- In 1868, Dadabhai Naoroji wrote a book 'Poverty and Un British Rule in India'. It was the first attempt at the calculation of National Income.
- The first person to estimate National Income scientifically was Dr V. K. R. V. Rao who estimated national income for the period 1925-29.
- After Independence National Income committee was formed in 1949 under the chairmanship of P.C. Mahalanobis.
- After some years the Central Statistical Organisation (CSO) was formed.

Various Price Indices in India

Price Indices in India

Various weighted price indices are calculated in India.

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These are-

1. Wholesale Price Index (WPI)

2. Old Consumer Price Index

(a) Consumer Price Index for Industrial Workers (CPI- IW)

(b) Consumer Price Index for Urban Non- Manual Employees (CPI- UNME)

(c) Consumer Price Index for Agriculture Labourers (CPI-AL)

(d) Consumer Price Index for Rural Labourers (CPI- RL)

3. New Consumer Price Index (Introduced in February 2011)

(a) CPI (Rural)

(b) CPI (Urban)

(c) CPI (Combined)

4. Consumer Food Price Index

Till April 2014, the Inflation rate was measured with the help of WPI (Wholesale Price Index).

Currently, in India inflation rate is measured with the help of Consumer Price Index-combined.

1. Wholesale Price Index

- It measures the change in the price of commodities traded in the wholesale market.
- It is also known as headline inflation.
- Current base year- 2011-12.

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- The index basket of the current series has a total of 697 items (117 items for Primary Articles, 16 items for Fuel & Power and 564 items for Manufactured Products.)
- Published by- Economic Advisor, Ministry of Commerce & Industry.

2. Old Consumer Price Index

(a) Consumer Price Index for Industrial Workers (CPI- IW)

- It measures the change in the price of commodities consumed by industrial workers.
- Current base year- 2001
- Published by- Labour Bureau

(b) Consumer Price Index for Urban Non- Manual Employees (CPI- UNME)

- It measures the change in the price of commodities consumed by Non- Manual Employees.
- Published by- CSO (Central Statistics Office, Ministry of Statistics)
- It has been discontinued.

(c) Consumer Price Index for Agriculture Labourers (CPI-AL)

- It measures the change in the price of commodities consumed by agriculture labourers.
- It is a subset of CPI-RL.
- Current base year- 1986-87
- Published by- Labour Bureau
- Used for revising minimum wages

(d) Consumer Price Index for Rural Labourers (CPI- RL)

- It measures the change in the price of commodities consumed by rural labourers (include agriculture labourers, labourers of village and cottage industries).
- Current base year- 1986-87
- Published by- Labour Bureau

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- Used for revising minimum wages.

3. New Consumer Price Index (Introduced in February 2011)

(a) CPI (Rural)-

- Current base year- 2012
- Published by- CSO (Central Statistics Office, Ministry of Statistics)

(b) CPI (Urban)-

- Current base year- 2012
- Published by- CSO

(c) CPI (Combined)-

- Current base year- 2012
- Published by- CSO
- Currently, in India inflation rate is measured with the help of Consumer Price Index- combined.

4. Consumer Food Price Index-

- It is a measure of change in retail prices of food items consumed by the people.
- Current base year- 2012
- Published by- CSO

GDP Deflator

- Used to calculate overall price rise.
- Known as implicit price deflator.
- GDP Deflator= (Nominal GDP/Real GDP) × 100
- Here Real GDP- GDP calculated at constant Price
- Nominal GDP- GDP calculated at current Price

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- The GDP deflator is the most accurate because it covers all goods and services produced in the economy. The other indices (WPI and CPI) derive from price quotations for select commodity baskets.
- The government does not use it because GDP deflator data comes quarterly (not weekly/monthly basis).

RBI and Monetary Policy

RBI (Reserve Bank of India)

- RBI was established in April 1935 under Reserve Bank of India, 1934.
- On the recommendation of Hilton-Young Commission.
- Central Bank of India which was nationalized in 1949.
- Central office initial was established in Calcutta and later moved to Mumbai in 1937.
- Official Directors- Governors and not more than four deputy governors.
- RBI performs his function under the guidance of the Board of financial supervision.

Other facts related to Reserve Bank of India

- The first governor of RBI- Sir Osborne Smith
- The first governor of RBI after nationalization- C. D. Deshmukh
- First women Deputy Governor of RBI -K.J.Udeshi.
- RBI Emblem: Tiger and Palm tree

What is Monetary Policy?

- The policy made by the central bank (Reserve Bank of India) to control the money supply in the economy.

MPC (Monetary Policy Committee)

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- The Monetary Policy Committee of India is a committee of the Reserve Bank of India that is responsible for fixing the benchmark interest rate in India.
- Section 45ZB of the amended RBI Act, 1934 provides for an empowered six-member monetary policy committee (MPC) to be constituted by the Central Government to determine the interest rate that is required to achieve the inflation target.
- The MPC is required to meet at least four times in a year.
- Six-membered MPC is headed by RBI governor Urjit Patel.
- The Members of the Monetary Policy Committee appointed by the Central Government shall hold office for a period of four years.

Various tools/instruments of monetary policy

These can be divided into quantitative and qualitative instruments.

Quantitative instruments

1. Open Market Operations (OMO)

- This method refers to the buy and sells of securities, bills and bonds of government by RBI in the open market to expand or contract the amount of money in the banking system.
- When RBI purchases Government securities, liquidity increases (because RBI is paying that party some money to buy that security or RBI is pouring additional money into the system).
- On the reverse, when RBI sells Government securities, liquidity decreases (because those players are giving their cash to RBI to purchase the securities.)

2. Liquidity Adjustment Facility (LAF)

- Liquidity adjustment facilities (LAF) is also a tool used by RBI to control the short-term money supply.
- Liquidity adjustment facilities (LAF) has two instruments namely Repo rate and Reverse Repo Rate.

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- **Repo Rate:** The interest rate at which the Reserve Bank provides loans to commercial banks by mortgaging their dated government securities and treasury bills.
- **Reverse Repo Rate:** The interest rate at which the Reserve Bank borrows from commercial banks by mortgaging its dated government securities and treasury bills.
- While repo rate injects liquidity into the system, the Reverse repo absorbs the liquidity from the system.

3. Marginal Standing Facility (MSF)

- It is a loan facility for banks to borrow from the Reserve Bank of India in an emergency when inter-bank liquidity dries up completely.

How is MSF different from Repo rate?

- MSF loan facility was created for commercial banks to borrow from RBI in emergency conditions when inter-bank liquidity dries up and there is a volatility in the overnight interest rates.
- To curb this volatility, RBI allowed them to deposit government securities and get more liquidity from RBI at a rate higher than the Repo rate.

4. Reserve Ratio (SLR, CRR)

- SLR (Statutory liquidity ratio): All commercial banks in the country are required to keep a given percentage of their demand and time deposits (Net demand and time liabilities or NDTL) as liquid assets in their vault itself.
- It prevents the bank from lending all its deposits which is too risky.
- Note: Net Demand and Time Liabilities (NDTL) mainly consist of Time liabilities and Demand liabilities.

Time liabilities include:

(1) Money deposited in Fixed deposits (FD)

(2) Cash certificates

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(3) gold deposits etc.

Demand liabilities include:

(1) Money deposited in the savings account

(2) Money deposited in the current account

(3) Demand drafts etc.

Cash Reserve Ratio (CRR): The Cash Reserve Ratio is the amount of funds that the banks are bound to keep with the Reserve bank of India as a certain percentage of their Net Demand and Time Liabilities (NDTL). Bank cannot lend it to anyone. Bank earns no interest rate or profit on this.

What happens when CRR is reduced?

- When CRR is reduced, this means banks required to keep fewer funds with RBI and resource available to banks for lending will go up.

5. Bank Rate

- The bank rate is the rate which is fixed by RBI at which it re-discounts bills of exchange and government securities held by commercial banks.
- It is also known as the discount rate.

Bill of exchange- is a financial document that assures payment of money by the purchaser to the seller for goods purchased.

Differences between Repo rate and Bank rate: Repo Rate is a short-term measure on the other hand Bank Rate is a long-term measure.

Qualitative instruments

1. Credit rationing

- In this, RBI controlled the maximum amount of credit flow to a certain sector.

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- RBI may also make compulsory for the banks to provide certain fractions of their loans to certain sectors such as priority sector lending etc.

2. Selective Credit control

- Selective credit control is a tool in the hands of Reserve Bank of India to restrict bank finance against sensitive commodities.

3. Margin Requirements

- RBI can prescribe margin against collateral. For instance, lend only 70 Rs. for 100 Rs. value Property, margin requirement being 30%. If RBI raises margin requirements, customers will be able to borrow less.

4. Moral suasion

- Moral Suasion refers to a method of request, a method of advice by the RBI to the commercial banks to take certain measures as per the trend of the economy.

5. Direct Action

- RBI issues certain guidelines from time to time based on the current situation in the economy.
- These guidelines should be followed by banks. If any bank violates these guidelines RBI penalizes them.

Different type of Unemployment

Unemployment

- It is a situation in which people are ready and willing to work at the existing rate of wages but still, they cannot get work.
- Measurement unemployment and employment are done by NSSO (National Sample Survey Organization) in India.

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- NSSO divide people into the following three categories -
  (a) Working people (engaged in an economic activity)
  (b) Not working (looking for work)
  (c) Neither working nor looking for work
  People in category (a) are called workforce.
  People in category (b) are called unemployed.
  People in categories (a) and (b) are called Labour force.
  People in category (c) are called not in the Labour force.
  Number of unemployed = Labour force – Workforce
- Unemployment data in India are kept under the Ministry of Labour and Employment.

Types of Unemployment

1. **Structural Unemployment**

- Caused by structural change.
- Example- technological change, growing population etc.

2. **Frictional Unemployment**

- When people shift from one job to another and remain unemployed during this interval period.

3. **Cyclical Unemployment (Demand Deficient Unemployment)**

- When people are thrown out from the job due to a decrease in demand.
- Example- recession

4. **Disguised Unemployment**

- In this type of employment, people are employed but their marginal productivity is zero.
- Example- One man is engaged in some agriculture work, his friend joins him but the productivity of both remains same. His friends come under disguised unemployment.

5. **Educated Unemployment**

- If one educated person is not able to get a suitable job suited to his qualification.
- Example- Engineering graduate is getting clerk post instead of engineer post.

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6. **Open Unemployment**
- A condition in which people do not find any work to do.
- It includes both skilled and unskilled people.

7. **Under Unemployment**
- When people obtain work but their efficiency and capability are not utilized at their optimum and they contribute to the production up-to a limited level.

8. **Voluntary Unemployment**
- In this type of unemployment, jobs are available but individuals want to remain idle.
- Example- lazy people, people who have ancestor property do not want to earn.

9. **Natural Unemployment**
- 2 to 3 % unemployment is considered natural and cannot be eliminated.

10. **Chronic Unemployment**
- Caused due to the long-term unemployment present in the economy.

11. **Seasonal Unemployment**
- In this type of unemployment, people are unemployed for a few months of the year.
- Example- Farmers

Inflation (Types and Effects)

Inflation

- The general rise in the price level of goods and services.
- It is estimated as the percentage rate of change in price index over the reference time period.
- Currently in India inflation rate is measured with the help of the Consumer Price Index- combined (Base year- 2012).
- Till April 2014, the Inflation rate was measured with the help of WPI (Wholesale Price Index).
- Rate of Inflation= (Current period price index-Reference period price index)/(Reference Period Price Index)×100

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Type of Inflation

Based on the rate of rising in Inflation

1. Creeping Inflation

- Price rise at the very small rate (< 3 %)
- It is considered safe and essential for the economy.

2. Walking or Trotting Inflation

- Price rise at moderate rate (3 % < Inflation < 10 %)
- Inflation at this rate is a warning signal for the Economy.

3. Running Inflation

- Price rise at high rate (10 % < Inflation < 20 %)
- It affects the economy adversely.

4. Hyperinflation or Galloping Inflation or Runway Inflation

- Price rise at very high rate (20 % < Inflation < 100 %)
- This situation brings the total collapse of the Economy.

Based on the causes

- Demand Pull Inflation: When Inflation arises due to higher demand for goods and services over the limited supply.
- Cost-Push Inflation: When Inflation arises due to higher input cost (Example- raw material, wages etc.) for goods and services over the limited supply.

Other definitions

1. Deflation

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- It is opposite to Inflation.
- Reduction of general level of price in an economy.
- In this price index measured is negative.

2. **Stagflation:** When stagnation and inflation coexist in the economy.

3. **Stagnation:** low national income growth and high unemployment.

4. **Disinflation**

- When the rate of Inflation is at a slower rate.
- Example:
  If the Inflation of last month was 4 % and the rate of inflation in the current month is 3 %.

5. **Reflation:**

- Deliberate action of government to increase the rate of inflation to redeem the economy from a deflationary situation.

6. **Core Inflation:**

- It is a measure of price rise in the economy excluding the price rise of some products (whose price is volatile and temporary in nature.

Measures to control Inflation

1. **Credit control**

- It is used by RBI.

2. **Increase in Direct Taxes**

- Due to the increase in direct taxes, people have less money available to them and low demand from them leads to a lower price.

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3. **Price Control**

- By fixing the maximum price limit by authorities.

4. **Trade measures**

- Maintain proper supply in the economy by export and import of goods and services.

Poverty in India

Poverty

- A condition in which section of society is unable to fulfil its basic necessities of life.
- It is of two types-
  (a) Absolute Poverty
  (b) Relative Poverty

(a) **Absolute Poverty**

- In this, we calculate an aggregate value (a figure expressing per capita consumer expenditure) of the minimum quantity of commodities which are necessities of life.
- The population whose level of income (or expenditure) is below this aggregate value is Below Poverty Line (BPL).
- In this measure of poverty, we expressed the number of poor as a proportion of the total population. This measure also is known as the headcount ratio.
  Example: 13 Percent of People are BPL.
- Why we prefer consumption expenditure method instead of income-
  In per capita income we cannot separate dependent people (children, senior

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citizens etc.) who are consuming but not earning. So, for correct data calculation, we prefer the consumption expenditure method instead of income.

(b) **Relative Poverty**

- In this type of poverty, a person may be above Below Poverty Line but happens to be poor in comparison with the other person whose income is above his income/consumption.
- In this type of poverty calculation, income/consumption distribution of the population in different percentile groups is estimated and compare them.
- It provides inequality present among the total population.
- Quintile ratio is one of the measures of inequality.
  Quintile Income Ration= Average income of richest 20 Percent/ Average income of poorest 20 persons

Poverty estimation in Independent India

(A) Dr. V.M. Dandekar and Nilantha Rath (1968-69)

- Fixed desired minimum nutrition = 2250 calories/day
- In Rural, money required to purchase this amount of nutrition- 170 Rs. / year
- In Urban, money required to purchase this amount of nutrition- 271 Rs. / year
- Using this reference, they found that 40 Percent of rural resident and 50 Percent of urban residents were below the below poverty line in 1960-61.

(B) Planning commission expert group

- Poverty line concept was first introduced by the planning commission working group of the planning commission in 1962.

(i) Alagh Committee

- **Chairman-** Y K Alagh

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- Till 1979 poverty estimation was done on the basis of lack of income, but in 1979 Y K Alagh Committee adopted a new approach based on household per capita consumption expenditure basis.
- This committee defines the first poverty line in India.
- Daily consumption fixed by the committee in Rural= 2400 calories/day
  Daily consumption fixed by the committee in Urban= 2100 calories/day
  Note- In rural India value of consumption was put high because of physical labour they undergo.

(ii) Lakdawala Committee

- Formed in 1989.
- Chairman- D.T. Lakdawala
- Submitted report in 1993.
- Daily consumption fixed by the committee in Rural= 2400 calories/day
  Daily consumption fixed by the committee in Urban= 2100 calories/day
- The committee used CPI-IL and CPI-AL for estimation of Poverty
  Note- CPI-IL (Consumer Price Index for Industrial Labourers)
  CPI-AL (Consumer Price Index for Agriculture Labourers)

(ii) Tendulkar Committee

- Formed in 2005.
- Chairman- Suresh D. Tendulkar
- Submitted its report in 2009.
- Changed calorie based estimation to nutrition, health and other expenditure based
- Introduce a new term Poverty Line Basket (PLB) which is the basket of all goods selected to determine poverty.
- Consumption quantity fixed the same for both rural and urban people but price differs-
  Daily per capita expenditure for Rural- Rs. 27
  Daily per capita expenditure for Urban- Rs. 33

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(iii) Rangarajan Committee

- Formed in June 2012.
- Chairman- Rangarajan
- Submitted its report in June 2014.
- Again, adopted the calorie-based approach which was used in past.
- Daily per capita expenditure for Rural- Rs. 33
  Daily per capita expenditure for Urban- Rs. 47

History of Banking in India (Before & After Independence)

Phases of Indian Banking System

The advancement in the Indian banking system is classified into 3 distinct phases:

1. The Pre-Independence Phase i.e. before 1947

2. Second Phase from 1947 to 1991

3. Third Phase 1991 and beyond

1. The Pre-Independence Phase i.e. before 1947

- This phase is characterized by the presence of a large number of banks (more than 600).
- Banking system commenced in India with the foundation of Bank of Hindustan in Calcutta (now Kolkata) in 1770 which ceased to operate in 1832.
- After that many banks came but were not successful like:

(1) General Bank of India (1786-1791)

(2) Oudh Commercial Bank (1881-1958) – the first commercial bank of India.

Whereas some are successful and continue to lead even now like:

(1) Allahabad Bank (est. 1865)

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(2) Punjab National Bank (est. 1894, with HQ in Lahore (that time))

(3) Bank of India (est. 1906)

(4) Bank of Baroda (est. 1908)

(5) Central Bank of India (est. 1911)

- While some others like Bank of Bengal (est. 1806), Bank of Bombay (est. 1840), Bank of Madras (est. 1843) merged into a single entity in 1921 which came to be known as Imperial Bank of India.
- Imperial Bank of India was later renamed in 1955 as the State Bank of India.
- In April 1935, Reserve Bank of India was formed based on the recommendation of Hilton Young Commission (set up in 1926).
- In this time period, most of the banks were small in size and suffered from the high rate of failures. As a result, public confidence is low in these banks and deposit mobilization was also very slow. People continued to rely on the unorganized sector (moneylenders and indigenous bankers).

2. The second phase from 1947 to 1991

- Broadly the main characteristic feature of this phase is the Nationalization of the bank.
- With the view of economic planning, nationalization emerged as the effective measure.
- Need for nationalization in India:

(a) The banks mostly catered to the needs of large industries, big business houses.

(b) Sectors such as agriculture, small-scale industries and exports were lagging behind.

(c) The poor masses continued to be exploited by the moneylenders.

- Following this, in the year 1949, 1st January the Reserve Bank of India was nationalized.

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- Fourteen commercial banks were nationalized on 19th July 1969. Smt. Indira Gandhi was the Prime Minister of India, during in 1969. The following banks are nationalized:

1. Central Bank of India

2. Bank of India

3. Punjab National Bank

4. Bank of Baroda

5. United Commercial Bank

6. Canara Bank

7. Dena Bank

8. United Bank

9. Syndicate Bank

10. Allahabad Bank

11. Indian Bank

12. Union Bank of India

13. Bank of Maharashtra

14. Indian Overseas Bank

Six more commercial banks were nationalized in April 1980. These are mentioned below:

1. Andhra Bank

2. Corporation Bank

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3. New Bank of India

4. Oriental Bank of Commerce

5. Punjab & Sindh Bank

6.Vijaya Bank.

- Meanwhile, on the recommendation of Narasimham committee, Regional Rural Banks (RRBs) were formed on Oct 2, 1975. The objective behind the formation of RRBs was to serve the large unserved population of rural areas and promoting financial inclusion.
- With a view to meet the specific requirement from the different sector (i.e. agriculture, housing, foreign trade, industry) some apex level banking institutions were also setup like:(a) NABARD (est. 1982)

(b) EXIM (est. 1982)

(c) NHB (est. 1988)

(d) SIDBI (est. 1990)

Impact of Nationalization

- Improved efficiency in the Banking system – since the public's confidence got boosted.
- Sectors such as Agriculture, small and medium industries started getting funds which led to economic growth.
- Increased penetration of Bank branches in rural areas.

3. Third phase 1991 and beyond

- This period saw a remarkable growth in the process of development of banks with the liberalization of economic policies.
- Even after nationalization and the subsequent regulations that followed, a large portion of masses is untouched by the banking services.

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- Considering this, in 1991, the Narasimham committee gave its recommendation i.e. to allow the entry of private sector players into the banking system.
- Following this, RBI gave license to 10 private entities, out of which few survived the market demands, which are- ICICI, HDFC, Axis Bank, IndusInd Bank, DCB.
- In 1998, the Narsimham committee again recommended entry of more private players. As a result, RBI gave license to the following newbies:

(a) Kotak Mahindra Bank (2001)

(b)Yes Bank (2004)

Points to Note

1. Allahabad Bank, established in 1865 – Allahabad Bank is the oldest Public Sector Bank in India having branches all over India and serving the customers for the last 145 years.

2. Imperial Bank of India was later renamed in 1955 as the State Bank of India.

3. Punjab National Bank is the first bank purely managed by Indians, which was established in Lahore in 1895.

4. First Truly Swadeshi bank – Central Bank of India is called India's First Truly Swadeshi bank, which was established in 1911 and wholly owned and managed by Indians.

5. Union Bank of India was inaugurated by Mahatma Gandhi in 1919.

6. Osborne Smith was the first governor of the Reserve Bank.

7. CD Deshmukh was the first Indian to be the governor of the Reserve Bank.

8. The first Indian bank to open an overseas branch is Bank of India. It established a branch in London in 1946.

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9. State Bank of India has the maximum number of overseas branches.

Money Market- Banking System in India

The banking structure is divided into many parts like Capital Market, Money Market etc.

Money Market

- In this, borrowing and lending of funds take place up to 1 year.
- It is used for short-term credit.
- It includes Reserve Bank of India, Commercial Banks, Cooperative Banks, Regional Rural Banks, some NBFC's etc.

Composition of Money Market

Indian Money market consists of organised sector and unorganized sector. But here, we will put a focus on the organised sector.

Organised Sector:

It is divided into two categories:

A. Banking

Classification of Banks based on the schedule of RBI Act 1934

All banks (Commercial Banks, RRB, Cooperative Banks) can be classified into scheduled and non-scheduled banks.

1. Scheduled Banks

- Banks are listed in the second schedule of RBI Act, 1934.
- Eligible for obtaining loans from RB on Bank Rate.

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2. Non- Scheduled Banks

- Banks that are not listed in the second schedule of RBI Act, 1934.
- Generally, not eligible for obtaining loans from RBI.
- Keep CRR with itself, not with RBI.

Commercial Banks

- It is divided into two parts i.e. Public and Private Sector Banks.
- Regulated under Banking Regulation act 1949.
- They can accept deposits, can provide loans and other financial services to earn the profit.

(a) Public Sector Banks

- In these banks, the majority of shares (more than 50%) are held by the Government.
- Currently, in India, there are 21 Public sector banks after the merger of SBI with their associate banks and Bhartiya Mahila Bank (BMB).
- The Nationalisation of banks was done by government in two stages:
  The first stage of nationalization took place in July 1969, in which fourteen banks were nationalized.
  The second stage of nationalization of Banks took place in April 1980, in which six banks were nationalized.
  Objectives of Nationalization of Banks:
  1. Reducing Private Monopolies
  2. Social Welfare
  3. Expansion of Banking Facilities
  4.Focus on Priority Sector Lending

(b) Private Sector Banks

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- In these banks, the majority parts of shares are not held by the government.
- Private sector banks consist of both Indian Banks as well as foreign banks.
- Private banks which were set up before 1990 (liberalisation of the economy) are categorised as Old Banks.
- Private banks which were set up after 1990 (liberalisation of the economy) are categorised as New Banks.
- Local Area Banks- Private Banks which are allowed to operate in the limited area called local area banks and registered under the companies act, 1956. The minimum capital required for these banks is Rs. 5 crores.

Regional Rural Banks

- Established under RRB Act, 1976.
- Regional Rural Banks are set up by public sector banks.
- The objective of RRBs is to increase credit flow to rural areas.
- After the Kelkar committee's recommendations in April 1987, no new RRBs have been opened.

Cooperative Banks

- Established with the aim of funding agriculture, cottage industries etc.
- Can perform both deposits and lending activities.
- NABARD (National Bank for Agriculture and Rural development) is the apex body of the cooperative sector in India.

Composition of Cooperative Banks

1. Rural Cooperative Credit Institutions

(a) Short Term Structure

- Lend up to one year.
- It is further divided into a three-tiered setup.

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(i) State Cooperative Bank: Apex body for cooperative banks in the state.

(ii) Central or District Cooperative Banks: Operate at the district level.

(iii) Primary Agriculture Credit Societies: Operate at the village level.

(b) Long-Term Structure

- Lend for more than one year to twenty-five years.
- It is divided into two-tiered setup:
  (i) State Cooperative Agriculture and Rural Development Banks and
  (ii) Primary Cooperative Agriculture and Rural Developments Banks

2. Urban Cooperative Credit Institutions

- Set up in urban and semi-urban areas.
- Lend to small businesses and borrowers.

B. Sub Markets

- Sub Market, market to generate resources for investment and to meet the shortage of money for regular activities.
- The government, Financial Institutions and Industries take part in the submarket.

The composition of the Sub Market-

(i) Call Money Market

- Known as Short Notice Market.
- Generally used for inter-bank borrowing and lending.
- Loans for a range from one to fourteen Days.
- It is also divided into two categories- A. Call market or Overnight Market (Within one Day)
    - B. Short Notice market (up to fourteen days)

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(ii) Bill Market or Discount Market

(a) Treasury Bills

- Issued by Government treasury.
- Used for short-term credit.
- Non-interest bearing (Zero Coupon bonds), issued at discount price.

(b) Commercial Bill Market

- Bills other than treasury bills.
- Issued by traders and industries.

(iii) Dated Government Securities

- Used for long-term maturity.

(iv) Certificates of Deposits

- Issued by commercial banks and financial Institution

(v) Commercial Paper

- Issued by corporate, Primary dealers and financial institutions.

Capital Market

Financial Market is the market where borrowing and lending of funds of all individual, institutions, companies and of the government take place. In India, Financial Market can be divided into two main categories-(A) Money Market (B) Capital Market. In this article, we will read the "Basics of Capital market, Stock market, their types, and features"

Money Market

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- It is used for short-term credit.
- Generally, we use it for borrowing and lending of money up to 1 year.
- It includes Reserve Bank of India, Commercial Banks, Cooperative Banks, Regional Rural Banks, Some NBFC's etc.

Capital Market

- It is used for long-term credit.
- Generally, we use it for borrowing and lending of money above 1 year.
- It includes Stock exchanges, Housing finance companies, Insurance companies etc.
- All the institutions listed in the capital market are called Non-banking financial companies (NBFC's). But it is not Necessary that all NBFCs are part of the capital market.
  NBFCs
  NBFCs is a company registered under the companies act, 1956. It differs from banks in the following aspects-
  (i) It cannot accept demand deposits.
  (ii) They do not have insurance coverage on their deposits however bank deposits have insurance cover of Deposit Insurance and Credit Guarantee Corporation.

Composition of Capital Market

- It is mainly divided into three categories-
  (A) Securities Market
  (B) Development Financial Institutions
  (c) Financial Intermediaries

(A) Securities Market

- It deals with shares and debt instruments. These instruments are used for fund-raising.

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- In shares instruments, we include equity share, preference share, derivatives etc. In these instruments, investors have a partner in the capital, profit and loss.
- In a debt instrument, we include bonds, debentures etc. In these instruments, we need to pay interest to the debt instrument holder regardless of profit or loss.
- Debentures- In this lender lends money to companies with some surety (maybe Plant, machinery etc). But in case of Bonds, the lender lends money to the companies without any surety.
- Shares are mainly of two types- the First one is equity share and the second one is preference share. In equity shares, the holder has claimed over the capital, profit and loss. In Preference shares holder is entitled to have a fixed amount of dividend. In case of the closing of company preference shareholders have the preferential right to get back the capital paid.
- For trading of securities, we have a primary (New issue) and secondary (Old Issue) market.

Primary (New Issue Market)

- In this, securities issued by the issuer and purchased by Public. Purchase of new or fresh securities is carried in this.
- In the primary market, if any company issues shares for the first time, it is called as the Initial Public offering (IPO).
- If any company that has already issued shares, they again issue shares to raise additional funds it is known as Follow-on Public Offering (FPO).

Secondary (Old Issue Market)

- Buying and selling of securities which are already issued in New issue (Primary) market.
- There are two platforms for the trading in this market which are-
  (1) Stock Exchanges (Only listed securities), (2) Over the Counter Exchanges (Securities which are not listed on any stock exchange)

Terms used in the securities market

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- Declared Price Issue- Fixed price
- Book Building Issue- Price fixes according to demand
- Merchant Banker- Issuer appoints it on behalf of it to carry out fund-raising activities
- Authorised Capital- Maximum amount authorized by higher officials of the company that can be raised by the company
- Issuer Capital- Actual amount issued by the company
- Subscriber Capital- Actual amount subscribed by the public
- Underwriter- It is a financial intermediary who promises to purchase Unsubscribe capital.
- Called up Capital- Company collects the fund in instalments and a portion of money called from Subscriber is called as Called up Capital.
- Paid up Capital- the Actual amount paid by subscribers
- Reserve Capital- Un-demanded of money portion
- Right Issue- In this offer of securities to existing shareholders via FPO.
- Bonus Issue- the issue of shares as against a profit of existing shares
- Sweat Equity Issue- Offer of shares to employees against their hard work for the company
- Cash trading- Sale and purchase of securities on the price of the trading day
- Forward trading- Both buyer and seller signed an agreement to repurchase of securities on pre-agreed price.
- Derivatives- It does not have independent value, it has value only because of underlying securities which need to be traded.
- Demutualisation- Process of transferring of share from brokers to Public

Stock Exchanges

- There are two important stock exchanges in India- NSE and BSE.

National Stock Exchanges (NSE)

- It was established on the recommendation of Pherwani Committee in 1992.

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- Nifty and Nifty Junior are the indices of NSE. Nifty measures share price of top 50 and later top 50 by Nifty junior.

Bombay Stock Exchanges (BSE)

- It is Asia's oldest stock exchange and was established in 1875.
- SENSEX (Sensitive Index) is the Index of BSE. SENSEX measures share price movement of top 30 companies.

Depositaries

- In this Investors keep their securities in Demat (Dematerialised) form. Currently, there are two depositories in India.
  (1) NSDL (National Securities Depository Limited)- It is located in Mumbai.
  (2) CDSL (Central Depository Services Limited)- It is also located in Mumbai.

(B) <u>Development Financial Institutions</u>

- They provide a long-term loan, entrepreneurial assistance (technical advice etc).
- Examples of these are- IDBI, EXIM bank etc.

(C) <u>Financial Intermediaries</u>

- RBI regulated
  (1) Asset Finance company
  (2) Loan Company
  (3) Investment Company
- SEBI regulated
  (1) Venture Capital Fund
  (2) Merchant Banking Companies
  (3) Stock Broking Companies

Balance Of Payments

<u>Introduction</u>

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- International Monetary Fund (IMF) defines the Balance of Payments (BoP) as a statistical statement that summarizes economic transactions between residents and non-residents during a specific time period.
- The BoP, thus, includes all transactions showing:
  (a) Transactions in goods, services and income between an economy and the rest of the world,
  (b) Change of ownership and other changes in that economy's monetary gold, special drawing rights (SDRs), and financial claims on and liabilities to the rest of the world
  (c) Unrequited transfers- transfer of money in which nothing is expected in return. Example- Foreign aid, debt forgiveness etc.
- These transactions are categorized into
  (i) Current Account
  (ii) Capital Account and Financial Account (capital account is redesignated as capital and financial account)
- The balance of payments is, basically, the record of all international financial transactions made by a country's residents.
- The balance of payments tells us whether the country has a surplus or deficit. It also reveals whether the country produces enough economic output to pay for its growth.

When BoP is deficit it implies

- A balance of payments deficit means the country imports more goods, services and capital than it exports.
- The country must borrow from other countries to pay for its imports.
- In the short-term, that fuels the economic growth. But, in the long-term, the country becomes a net consumer, not a producer, of the world's economic output.
- The country goes into debt to pay for consumption instead of investing in future growth. If the deficit continues for long, the country gets into the debt trap and might end up selling its assets to pay off its debt.

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When BoP is surplus it implies

- A balance of payments surplus means the country exports more than it imports.
- The country basically saves more than it earns. This boosts the capital formation with its additional income. They might even lend outside the country.
- A surplus boosts economic growth in the short term.
- In the long run, the country becomes too dependent on export-driven growth. It must encourage its residents to spend more. A larger domestic market will protect the country from exchange rate fluctuations

BOP Components

- The BoP can be broadly divided into two accounts namely-
  (a) Current Account
  (b) Capital and financial account.

Current Account

- The current account measures the transfer of real resources (goods, services, income and transfers) between an economy and the rest of the world.
- The current account is further subdivided into a merchandise account and invisible account.
- The merchandise account consists of transactions relating to exports and imports of goods.
- In the invisible account, there are three broad categories namely-
  (a) non-factor services such as travel, transportation, insurance and miscellaneous services;
  (b) transfers which do not involve any value in exchange, and
  (c) income which includes compensation for employees and investment income.

Current Account Deficit (CAD)

- Current Account Deficit (CAD) = Trade Deficit + Net Income From Abroad + Net transfers

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Note: Here Trade Deficit= Export-Import
So we can see here that Trade Deficit and Current Account Deficit both are different and the Trade Deficit is one component of Current Account Deficit.

Capital Account and Financial Account

- The capital and financial account reflect the net changes in financial claims on the rest of the world.
  Note-
  The former balance of payments capital account has been redesigned as the capital and financial account as per the fifth edition of Balance of Payments Manual (IMF).
- The capital account can be broadly broken up into two categories namely-
  (a) Non-debt flows such as direct and portfolio investments
  (b) Debt flows such as external assistance, commercial borrowings, non-resident deposits, etc.
- The financial account records an economy's transaction in external financial assets and liabilities.
- All components are classified according to type of investment or by functional subdivision
  (a) Direct investment
  (b) Portfolio investment
  (c) Other investment
  (d) Reserve assets
- The sum of the current account and capital account indicates the overall balance, which could either be in surplus or in deficit. The movement in overall balance is reflected in changes in the international reserves of the country.

Economic Theory: Microeconomics Notes

IMPORTANT CURVES

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1. **LORENZ CURVE:**

- Lorenz curve is a graphical representation of income distribution in the society.
- It was given by Max O Lorentz in 1905. It is used to analyze inequality prevailing in the population.
- In this graph, the cumulative percentage of national income is plotted against the cumulative percentage of households.
- The degree to which the curve sags away from the line of perfect equality is the measure of inequality in society.
- It is given by Gini's coefficient.
- Gini's coefficient: It is the proportion of the shaded region with respect to the area corresponding to the line of perfect equality. Higher the value more is the inequality in society.

2. **LAFFER CURVE:**

- Laffer curve represents the relationship between tax collection and levied tax rates by the state authorities.
- It states that as the tax rate increases from the low level, tax collection also increases but as the tax rate increases beyond a critical limit, tax collection starts falling.
- This can be due to lower profitability and higher incentive to cheat associated with higher taxes.

3. **PHILLIPS CURVE:**

- It was given by A. William Phillips, a New Zealand economist.
- According to this, there is an inverse and stable relationship between inflation and unemployment. As one falls, other increase.
- There is also a term which defines the simultaneous existence of high inflation and high unemployment i.e. low growth with high inflation, which is known as stagflation.

4. **KUZNETS CURVE:**

- Kuznets curve is based on a hypothesis forwarded by an economist Simon Kuznets.
- According to the hypothesis, when a country starts developing, economic inequalities first increases for a period of time but after a threshold when a certain average income is attained, economic inequalities begin to decrease.

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- It is thus represented as an inverted U-shaped graph as shown below.
- Similar in the line is the Environment Kuznets curve.

5. **ENVIRONMENT KUZNETS CURVE:**

- It shows the relationship between economic progress on one hand and environmental degradation over a period of time caused in lieu of that economic progress.
- It says, as the economy starts the journey of development, pollution in first phase increases but with further development of the economy, pollution rates begin to decline.
- And eventually, both economic progress and environment maintenance go hand in hand.

GRESHAM'S LAW

- Gresham's Law states that 'bad money drives out good'.
- It means if in a country there are two currencies, the overvalued currency (cheaper one) will drive the undervalued (precious/expensive one) out of use.
- This is because people start hoarding the undervalued currency as a store of value and eventually, that will be eliminated from circulation.
- This law was named after an English financier, Sir Thomas Gresham (1519-1579).

OPPORTUNITY COST

- Value of the loss incurred on account of the next best alternative/choice forgone, in availing the best alternative/choice available rather than the next best, is known as the opportunity cost of the chosen alternative.
- In simple words, it refers to the value one decides to give up in availing any opportunity.
- Or in other words, what have you lost while opting for an option is the opportunity cost of your choice.

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Sr. No.	Articles	Opportunity cost
1.	Free goods like clean air, abundant fresh water, etc.	No
2.	Common goods (in abundant)	No
3.	Common goods (scarce)	Yes
4.	Government expenditure in defence	Yes
5.	Government freebies to citizens	Yes
6.	Public goods like roads, railways, infrastructure, etc.	Yes

- The opportunity cost is considered to be zero for naturally occurring abundant resources like free unpolluted air, water etc. and also for common goods like grazing land, oceans etc.
- For government expenditures, the Opportunity cost is never zero because the authorities always have choices to make.

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- So, whatever is chosen, there would exist something forgone as well. Like if the government decides to build a bridge, the government could have spent that price onto increasing more personnel to ensure safety.
- In the case of freebies, for consumers/ citizens, there is no opportunity cost because it is transferred from them to the government.

PRODUCTION POSSIBILITY CURVE:

- With the available amount of resources and technology, the various alternative combinations of production of a set of two goods are plotted to give a production possibility curve.
- It is also known as the Production Possibility Frontier or Transformation curve.
- The curve helps in deciding "what to produce".
- Thus, the curve provides all the production possibilities available, out of which the most economically or physically viable one could be chosen to maximize profit and minimize the losses attached.

Different points on a curve

Point X represents underutilization of resources;

point Y represents infeasible option i.e. non-feasibility of the chosen combination (beyond the capacity);

while points A, B and C represent the full utilization of resources.

If the resources and technology available increases, the curve shifts towards the right and if resources and technology fall short, the curve shifts towards the left.

SUPPLY-DEMAND CURVE:

Supply curve:

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- It represents the relationship between the price and quantity of a product produced which the seller is ready to supply in the market, keeping other variables to be constant.
- Herein quantity of the product is plotted horizontally on x-axis and price of the same product on the y-axis.
- It is generally a straight line sloping upward from left to right as shown in the graph. This is so because price and quantity of a product are directly related, i.e. if the price of a product is increasing in the market, its quantity in the market will also increase in the same manner (increase in price acts as an incentive for the suppliers to produce more).
- With the change in variables, the supply curve can shift in either direction. If it shifts towards the left, it implies a decrease in the quantity of product supplies in the market and rightward shift implies an increase in quantity supplies with respect to the price of the product.

Demand curve:

- It represents the relationship between the price and quantity of the product demanded by the consumers, keeping all other variables to be constant.
- It generally represents a downward sloping straight line from left to right as shown in the graph below.
- This is so because price and quantity of the product demanded are inversely related to each other, i.e. if the price of a commodity falls, its demand rises.
- Conforming to the supply curve, if it shifts leftwards, it implies a decrease in demand and if rightwards, it implies an increase in demand of a product.

Keynesian Theory

Keynesian Economics

- It was developed by the British economist John Maynard Keynes during the 1930s. It was an attempt to understand the Great Depression.
- It suggested increasing government expenditures and lower taxes to stimulate demand and pull the global economy out of the depression.

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Keynesian Theory of Employment

- This theory rejected the notion of full employment and instead suggested full employment as a special case and not a general case.
- It said if there is an increase in national income, there would be an increase in level of employment and vice versa.
- According to this theory, the level of employment is dependent on national income and output and factors of production remain unchanged while determining the level of employment.

Laissez-faire Theory

- This theory opposed any government intervention in business affairs.

World Trade Organisation: Structure, Objectives, Agreements, Subsidies

Introduction

- WTO is an international organization set up in 1995 by replacing the General Agreement on Trade and Tariffs (GATT) under the Marrakesh Agreement.
- It is the only global international organization dealing with the international Trade between nations.
- Its HQ is located in Geneva, Switzerland.
- Currently, WTO has 164 members and India is a founding member of WTO.
- Currently, the head (Director-General) of WTO is Roberto Azevedo.

Evolution of WTO

- After the end of World War-II, various international organizations were formed to facilitate collaboration between countries in dealing with economic, social, and technical problems.

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- For the development of the world economy and seamless trade among all the countries, a dire need was felt for an international organization for regulating international trade.
- In 1945 a conference known as the Bretton Woods Conference (by two Bretton wood institutions- IMF and World Bank) was held for the creation of international trade organization (ITO) which finally could not be ratified due to lack of approval by the US and many other major countries.
- As the US was an emerging world power after World War-II, hence the creation of ITO without the US was meaningless.
- Meanwhile, through negotiations, a multilateral agreement was concluded in 1947 known as the General Agreement on Tariffs and Trade (GATT).
- Various conferences of GATT were held on periodic intervals for negotiations on trade. Finally, during the Uruguay round of conference held from 1986-1994, agreement on the creation of WTO was finally ratified through the Marrakesh Agreement.
- India has been a member of GATT since 1948 and a founding member of WTO. China joined WTO only in 2001 and Russia in 2012.

Objectives of WTO

- To formulate and implement rules for international trade.
- To provide a platform for negotiating and monitoring further trade liberalization.
- To provide a platform for the settlement of disputes.
- Providing assistance to the developing, least-developed and low-income countries in transition to adjust to WTO rules and disciplines through technical cooperation and training.
- To cooperate with the other major economic institutions (like UN, World Bank, IMF etc) involved in global economic management.

Structure of WTO

The basic structure of WTO is as appended below:-

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- Ministerial Conference – It is the topmost decision-making body of the WTO. Usually, it meets after every two years. It brings together all WTO participants.
- The General Council – It is composed of representatives of all the member states. It is responsible for the day-to-day business and management of the WTO.
- Other councils/bodies - There are many other bodies like Goods Council, Services Council, Trade Policy Review Body, Dispute Settlement Body etc. which deals with other specific issues.

Principles of WTO

The WTO Agreements are based on the following simple and fundamental principles:-

- Non Discrimination
- Most Favored Nation - All nations should be treated equally. No one country can grant any other member country any special favour. For example, if one country lower tariff to one country then it has to be lowered to all other member countries.
- National Treatment- Same treatment to all products, either local or foreigners. Fair and equal treatment is given to local as well as the products imported from other countries.
- Reciprocity - Lowering of import duties and other trade barriers in return for similar concessions from another country.
- Predictability through Binding and enforceable commitments - To make the business environment stable and predictable.
- Transparency - The WTO members need to publish their trade regulations and to notify changes in trade policies to the WTO.
- Encouraging Development and Economic Reforms - All efforts are made by the WTO system to contribute to development.

Important Trades Agreements of WTO

The important trade agreements concluded under WTO are -

- Agreement on Agriculture (AoA),

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- Agreement on TRIPS (Trade-Related Aspects of Intellectual Property Rights),
- Agreement on the Application of Sanitary and Phytosanitary Measures (SPS),
- Agreement on Technical Barriers to Trade (TBT),
- Agreement on Trade-Related Investment Measures (TRIMS),
- General Agreement on Trade in Services (GATS) etc.

Agreement on Agriculture (AoA)

- It was negotiated during the Uruguay Round of the GATT and was concluded with the establishment of the WTO in 1995.
- Through AoA, WTO aims at reforming trade in agriculture with a fair and market-driven system.
- The Agreement allows governments to support their rural economies, but only allows those policies that cause less trade "distortions".
- This agreement has fixed commitments from all member states on the following three agricultural supply chain system:-

1. **Improving Market access–** This can be done by removing various trade barriers by the member states. By fixing the tariffs and progressively promoting free trade among member states which will ultimately lead to an increase in market access.

2. **Domestic Subsidies-** It basically motivates for the reduction in domestic subsidies that distorts free trade and fair prices. This is based on the premise that not all subsidies distort trade to the same extent. Under this agreement, Subsidies can be categorized into the following three boxes –

   (a) Green Box – All those subsidies that do not distort trade or cause minimal distortion, come under the green box.
   Ex-All government services such as research, disease control, and infrastructure and food security. Also, all those subsidies given to the farmers that directly do not affect international trade also comes under the green box.

   (b) Amber Box - All kinds of domestic subsidies or support that can distort production and trade (with some exceptions) fall into the Amber Box. The

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measures to support prices come under this box. The exception is the provision that accepts subsidies upto 5% of agricultural production for developed countries, 10% for developing countries.

(c) Blue Box – All those Amber Box subsidies which tend to limit the production comes under Blue Box. This can be increased without limit as long as subsidies are linked to production-limiting programs.

3. Export subsidies – All those subsidies that make the export of agricultural products cheaper are called export subsidies. These are basically presumed to have trade-distorting effects. This agreement prohibits the use of export subsidies by the member states for agriculture products.

India's trade concerns and WTO

Appended below please find India's concerns related to trade in WTO:-

- Tariff on steel and aluminium – Recently the USA govt imposed 10% tariff on aluminium and 25% tariff on steel against various trade partners. India wants that it should be removed or it will raise the issue in WTO.

- Export Subsidy Issue – Recently USA dragged India to WTO and raised concern on the export subsidy regime provided to the Indian companies in the form of SEZ, MEIS, EPCG, etc. USA argues that as India's Per Capita Income has increased from $ 1000, India can't use the export subsidy regime as per the ACSM.

- Agricultural subsidies - The present quota of subsidies is based on the price levels of 1986-88. Presently the minimum support price (MSP) concept which provides subsidies to the farmers in India falls under the Amber box. It can directly affect India's food security program. India wants that it should be at the current price level and the amber box concept should be done away with. However, a 'peace clause' agreed to during the Bali conference allows India to carry on with its PDS program as of now. But the developed member states are

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not taking any steps for a permanent solution of this problem.

- Special and differential treatment (SDT) - During Doha round, member states agreed to provide favourable treatment to developing nations. However, developed countries are denying the emerging economies such as India and China as unworthy of this provision.

- Issues related to intellectual property rights – The issues of compulsory licensing of medicines have been resolved through TRIPS. However, the developed nations are trying to push for TRIPS commitments.

NITI Aayog

- NITI Aayog is created for the financial planning at pan-India and the important reports it releases for the development assessing various parameters.
- The Planning Commission was established in March 1950 by a resolution of the Government of India.
- It was made responsible for assessing national resources and drafting five-year plans for the effective use of the resources.
- The objective was to the proper and effective utilization of resources. With changing times, and growing needs of the people and effectively address them, a new version of planning body i.e. NITI Aayog was established by a resolution of the Union Cabinet on January 1, 2015, replacing the Planning Commission.
- NITI Aayog is regarded as the premier policy 'Think Tank' of the Government of India. It provides both directional and policy inputs.
- Besides designing the strategic and long-term policies and programmes for the Government of India, the Aayog also provides relevant technical advice to the Centre as well as the States.

Role of International Labour Organization (ILO) in Social Security

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- It was created as part of the "Treaty of Versailles" that ended World War I to ensure social justice for people of work.
- It became a specialized agency of newly formed united nations after the second world war and today has a membership of 186 states that continues to grow. The tripartite structure is unique to the ILO where representatives from the government, employers and employees openly debate and create labour standards.
- The ILO received the Nobel Peace prize in 19 69 and today is recognized as the world's authority on the world of work.
- Its impact has seen key moments in history. Headquartered in Geneva with over 40 new offices around the globe, the ILO is unique amongst international organizations, where not only governments but employers and workers as well have equal voices.
- They work together to create Labour standards and qualities that impact today's global economy.
- In 2008, the ILO adopted a Declaration on Social Justice for fair globalization to respond to our world faced with the economic crisis. It made decent work the core of ILO policy and with the decent work agenda into practice. The Decent Work Agenda has forced to teach objectives:
- Promote decent employment opportunities
- Enhance social protection
- Strengthen tripartism and social dialogue
- Guarantee Fundamental principles and rights at work

Pradhan Mantri Garib Kalyan Yojana

About Pradhan Mantri Garib Kalyan Yojana

- The Pradhan Mantri Garib Kalyan Yojana (PMGKY) was originally launched by PM Narendra Modi in 2015 as a scheme built with the objective of addressing poverty.

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- However, with the recent demonetization drive launched by the government to curb the spread of black money, an amendment has been made to the existing Income Tax Bill and the PMGKY has been made a part of the Taxation Laws (Second Amendment) Act, 2016.

Quick Glance at the announced highlights:

- Insurance cover of Rs 50 Lakh per health worker fighting COVID-19 to be provided under Insurance Scheme
- 80 crore poor people will get 5 kg of wheat or rice and 1 kg of preferred pulses for free every month for the next three months
- 20 crore women Jan Dhan account holders to get Rs 500 per month for next three months
- Increase in MNREGA wage to Rs 202 a day from Rs 182 to benefit 13.62 crore families
- Ex-gratia of Rs 1,000 to 3 crore poor senior citizen, poor widows and poor disabled
- Government to front-load Rs 2,000 paid to farmers in the first week of April under existing PM Kisan Yojana to benefit 8.7 crore farmers
- Central Government has given orders to State Governments to use Building and Construction Workers Welfare Fund to provide relief to Construction Workers

MGNREGA: The Contribution to Strengthening the Rural Economy

What is MGNREGA?

- The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is a law whereby any adult who applies for employment has to be given a guarantee of 100 days of work on local public works within fifteen days of registration. If employment is not given, then the unemployment allowance has to be paid.

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- The Act enacted in 2005 is regarded as the largest work guarantee program in the world, guarantees 100 days of wage employment per year to rural households. Roughly one-third of the stipulated workforce must be women.

Note: Previously, this social security scheme was called 'National Rural Employment Guarantee Act, but after April 2008, it was renamed as Mahatma Gandhi National Rural Employment Guarantee Act. Presently, the minimum number of days of work have been increased up to 150 days.

The objective of the MGNREGA Scheme

- It aims at addressing the causes of chronic poverty through the works that are undertaken and ensuring sustainable development.
- The Act was introduced with the aim of improving the purchasing power of the rural people, primarily semi or unskilled work to people living below the poverty line in rural India.
- It also aims to strengthen the process of decentralization and empowers Panchayati Raj Institutions (PRIs) for the planning and implementation of these works.

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