

Economic Optional Paper 2

By- Prateek Tripathi, Sir

SECTION A

Q1 . Answer the following questions in about 150 words each: (10×5=50)

(a) Distinguish between the Zamindari system and the Ryotwari system of land revenue under the British rule in India.

Answer:

During the British colonial period, different systems of land revenue were introduced in India to maximize revenue collection. Among them, the Zamindari System and the Ryotwari System were the most prominent. While the Zamindari System focused on landlords as intermediaries, the Ryotwari System directly dealt with the cultivators. These systems had significant social, economic, and political impacts on Indian society.

Aspect	Zamindari System	Ryotwari System
Introduced By	Lord Cornwallis in 1793 under the Permanent Settlement Act.	Sir Thomas Munro and Captain Reed in 1820 in Madras Presidency.
Areas Implemented	Bengal, Bihar, Orissa, parts of U.P. and Varanasi.	Madras, Bombay, Assam, and parts of Karnataka.
Revenue Collector	Zamindars acted as intermediaries between the British government and farmers.	Direct settlement with individual cultivators (ryots).
Ownership of Land	Zamindars became hereditary owners of land; peasants were tenants.	Ryots (cultivators) were recognized as owners of land as long as they paid revenue.
Revenue Demand	Fixed permanently; did not change even if production increased.	Revenue was revised periodically based on soil quality and crop yield.

Peasants' Condition	Exploited by zamindars through high rents, forced labor, and evictions.	Although directly dealing with the government, ryots still faced heavy tax burdens and often fell into debt.
Impact on Agriculture	Led to neglect of land improvement since zamindars were more interested in revenue collection than productivity.	Encouraged better cultivation practices in theory, but high taxes still discouraged investment.

Conclusion

The Zamindari and Ryotwari systems reflected different approaches of the British in exploiting India's agrarian economy. While the Zamindari System created a class of powerful intermediaries who oppressed peasants, the Ryotwari System bypassed landlords but still burdened cultivators with heavy taxes. Ultimately, both systems prioritized British revenue interests over the welfare of Indian farmers, resulting in widespread poverty, indebtedness, and rural distress.

(b). What were the major impacts of "commercialisation of agriculture" on Indian farmers during the pre-Independence India? Discuss.

Answer:

During British rule, especially after the mid-19th century, Indian agriculture underwent a significant transformation from subsistence farming to commercial agriculture. Farmers were increasingly encouraged, and often forced, to grow cash crops like indigo, cotton, jute, tea, and opium instead of food grains. This change was driven by colonial economic interests and had far-reaching consequences on Indian farmers and rural society.

1. Shift from Food Crops to Cash Crops

- Farmers were compelled to cultivate indigo, cotton, and opium to meet the demands of British industries.
- This reduced the area under food grain production, leading to food shortages.

2. Exploitation by Moneylenders and Middlemen

- Farmers needed loans to buy seeds and pay land revenue.
- Trapped in debt cycles, many peasants lost their land to moneylenders.

3. Increased Dependence on Global Markets

- Agricultural production became linked to international demand.
- Fluctuations in global prices often pushed farmers into poverty when prices fell.

4. Famines and Food Insecurity

- With more land under cash crops and less under food grains, famines became frequent.
- The Great Bengal Famine of 1943 is a stark example of this crisis.

5. Decline of Traditional Rural Economy

- Traditional village-based self-sufficient economies collapsed.
- Rural artisans suffered as British manufactured goods replaced Indian products.

6. Peasant Distress and Revolts

- Harsh revenue demands, combined with exploitation, triggered several revolts:
 - Indigo Revolt (1859-60)
 - Deccan Riots (1875)
 - Participation in the Non-Cooperation and Civil Disobedience Movements.

Conclusion

The commercialisation of agriculture under British rule was aimed at serving imperial economic interests rather than the welfare of Indian farmers. While it integrated India into the global economy, it also caused food insecurity, poverty, indebtedness, and rural distress. Ultimately, this policy deepened the agrarian crisis and sowed seeds of widespread discontent, which later fueled India's freedom struggle.

(c). What were the economic consequences of the Drain of Wealth' theory as practised during the British rule in India? Analyse.

Answer:

The term "Drain of Wealth" was popularized by Dadabhai Naoroji in his book "*Poverty and Un-British Rule in India*". It referred to the continuous transfer of India's wealth and resources to Britain without any adequate economic return. This systematic economic exploitation was a cornerstone of British colonial policy and had long-lasting consequences on India's economy and society.

1. Depletion of India's Financial Resources

- Huge sums of money were transferred to Britain through:
 - Home charges (salaries, pensions, administrative expenses)
 - Profits from trade and industries
 - Payments to British officials and investors.
- This left little capital for domestic development.

2. Collapse of Traditional Industries

- Heavy imports of British manufactured goods flooded Indian markets, ruining local industries like textiles, handicrafts, and metallurgy.

- Millions of artisans and weavers lost their livelihoods, leading to deindustrialization.

3. Stagnation of Indian Agriculture

- High land revenue demands and forced cultivation of cash crops (indigo, cotton, opium) diverted resources from food production.
- Farmers became increasingly dependent on moneylenders, leading to widespread indebtedness.

4. Rise of Chronic Poverty and Famines

- With wealth flowing out of India, investment in infrastructure, irrigation, and welfare was neglected.
- Frequent famines, such as those in 1876-78 and 1899-1900, resulted from lack of food security and poor relief measures.

5. Absence of Industrialization

- Britain deliberately kept India as a supplier of raw materials and a market for finished goods.
- Unlike other colonies, India's industrial base remained stagnant, preventing economic modernization

6. Widening Economic Inequality

- A small group of British officials and zamindars grew wealthy, while the majority of Indians faced unemployment, poverty, and hunger.
- The rural-urban divide deepened.

Conclusion

The Drain of Wealth under British rule systematically impoverished India by depleting its resources, destroying traditional industries, stalling industrialization, and worsening poverty and famines. While Britain prospered, India's economy was left underdeveloped and dependent, a legacy that shaped its post-independence economic challenges.

(d). Why did the British lead to the destruction of India's traditional cotton industry? Discuss.

Answer:

India was once known as the "Manchester of the East" due to its thriving cotton and textile industry. Indian muslin, calico, and chintz were world-famous for their fine quality and craftsmanship. However, under British colonial rule, this flourishing industry suffered a systematic decline. British economic policies, technological advancements in Britain, and exploitative trade practices combined to destroy India's traditional cotton industry.

1. Imposition of Discriminatory Trade Policies

- The British imposed heavy export duties on Indian cotton textiles, making them expensive in European markets. Simultaneously, British manufactured textiles were imported into India duty-free, flooding local markets and undercutting Indian artisans.

2. Industrial Revolution in Britain

- The advent of the Industrial Revolution in the late 18th century gave Britain access to mechanized textile mills. Machine-made British cloth was cheaper and faster to produce than India's handwoven textiles, making it difficult for Indian weavers to compete.

3. Exploitation of Raw Cotton

- India was turned into a raw material supplier for Britain's textile industry. British policies encouraged the export of raw cotton at low prices to English mills, leaving little for Indian weavers.

4. Decline of Traditional Weavers

- With markets flooded by cheap British cloth and lack of access to raw materials, millions of Indian weavers became unemployed.
- Many skilled artisans were forced into agricultural labor or low-paying jobs, leading to economic distress.

5. Absence of Modern Industrial Development in India

- The British discouraged the growth of modern textile mills in India to prevent competition with Manchester and Lancashire.
- Infrastructure development, like railways, was designed to extract raw materials rather than support local industries

6. Famines and Poverty

- The collapse of the cotton industry, combined with high land revenue policies and forced cultivation of cash crops, worsened rural poverty.
- Famines became frequent due to the shift from food crops to cotton and indigo.

Conclusion

The destruction of India's traditional cotton industry was not accidental but a deliberate outcome of British colonial policies. By imposing unfair tariffs, exploiting raw materials, and prioritizing British textile interests, the British converted India from a leading textile exporter into a market for British goods. This led to mass unemployment, poverty, and economic decline, sowing resentment and fueling the Indian nationalist movement.

(e). Describe the phases of colonisation in British India.

Answer:

The colonisation of India by the British was not a single event but a gradual process spread over nearly two centuries. The British initially arrived as traders under the East India Company, but over time, they transformed into territorial rulers and later established direct imperial control. This process can broadly be divided into three major phases, each marked by different objectives, policies, and impacts on India's economy, society, and politics.

Phase 1: Trading Phase (1600 – 1757)

- The British East India Company was established in 1600 under a royal charter by Queen Elizabeth I.
- The company set up factories and trading posts in Surat, Madras, Bombay, and Calcutta.
- Focused primarily on trade in spices, cotton, silk, indigo, and other goods.
- Competed with other European powers like the Portuguese, Dutch, and French.
- The Battle of Plassey (1757), where the Company defeated Siraj-ud-Daulah, marked the end of this phase and the start of territorial ambitions.

Phase 2: Company's Political Expansion and Control (1757 – 1857)

- Battle of Buxar (1764): Secured the Diwani rights (tax collection) of Bengal, Bihar, and Orissa.
- **Territorial expansion through:**
 - Subsidiary Alliance (introduced by Lord Wellesley).
 - Doctrine of Lapse (by Lord Dalhousie).
- **Introduction of new land revenue systems:**
 - Zamindari System (Bengal).
 - Ryotwari System (Madras and Bombay).
 - Mahalwari System (North India).
- Transformation of India into a supplier of raw materials and a market for British finished goods.
- Growing discontent due to economic exploitation, social reforms, and religious interference eventually led to the Revolt of 1857, which marked the end of Company rule.

Phase 3: Direct British Crown Rule (1858 – 1947)

- After the Revolt of 1857, the Government of India Act (1858) transferred power from the Company to the British Crown.
- Appointment of a Viceroy and centralization of administration.
- Expansion of infrastructure, especially railways, telegraphs, and postal systems, but mainly to serve British economic interests.
- **India's economy was reshaped to suit Britain's needs:**

- Export of raw materials (cotton, jute, indigo).
- Import of British manufactured goods, leading to deindustrialisation.
- **Rise of Indian nationalism:**
- Formation of the Indian National Congress (1885).
- National movements like Swadeshi Movement, Non-Cooperation Movement, Civil Disobedience Movement, and Quit India Movement.
- Finally, after prolonged struggle, India achieved independence on 15th August 1947.

Conclusion

The colonisation of India occurred in three distinct phases — from trade to territorial expansion and finally to direct imperial rule. While the British introduced modern infrastructure, education, and legal frameworks, their policies were primarily aimed at economic exploitation and political dominance. This process led to deindustrialisation, poverty, and social disruption, but it also gave rise to nationalist consciousness, which ultimately resulted in India's independence.

2. (a). Is land reform necessary to improve agricultural productivity in India? Discuss.

20 Marks

Answer:

Agriculture is the backbone of India's economy, employing nearly 45% of the population. However, agricultural productivity in India has historically remained low due to unequal land distribution, small fragmented holdings, outdated farming techniques, and socio-economic inequalities. Land reforms — policies aimed at redistributing land and improving land ownership patterns — have been considered a key tool to address these challenges and boost agricultural productivity.

1. Importance of Land Reforms in Improving Productivity

(a) Redistribution of Land

- Historically, large tracts of fertile land were concentrated in the hands of zamindars and wealthy landlords.
- Redistributing surplus land to landless farmers ensures better equity and provides cultivators a direct incentive to improve productivity.

(b) Abolition of Intermediaries

- Systems like zamindari and jagirdari exploited peasants and discouraged investments in land improvement.
- Abolishing intermediaries empowered actual tillers, making them responsible for cultivation and enhancing productivity.

(c) Consolidation of Fragmented Holdings

- In many states, land is divided into tiny, scattered plots, making mechanization and modern techniques difficult.
- Land consolidation promotes efficient irrigation, better crop planning, and higher yields.

(d) Security of Tenure

- Tenants under old systems had insecure rights and thus little incentive to invest in soil improvement or irrigation.
- Granting ownership rights motivates cultivators to adopt better farming practices.

(e) Facilitating Modernization and Credit Access

- Farmers with clear land titles can access institutional credit, invest in seeds, fertilizers, and machinery, thereby improving productivity.

2. Challenges and Limitations of Land Reforms

- Implementation Issues: Land ceiling laws were often poorly enforced; influential landlords evaded reforms.
- Population Pressure: Subdivision of holdings continues due to inheritance, leading to marginal farms.
- Regional Disparities: Some states like Kerala and West Bengal succeeded, but others saw minimal impact.
- Technological Needs: Land reforms alone cannot ensure productivity without modern inputs, irrigation, and infrastructure.

3. The Way Forward

- Integration with Technology: Combine land reforms with precision farming, mechanization, and irrigation facilities.
- Digital Land Records: Implement transparent digitization of land ownership to avoid disputes.
- Support Services: Ensure availability of credit, extension services, markets, and storage to make land reforms effective.

Conclusion

Land reforms are necessary but not sufficient for improving agricultural productivity in India. By ensuring equitable access to land, secure tenure, and consolidation of holdings, land reforms lay the foundation for efficiency and modernization. However, to achieve sustainable growth, they must be complemented with technological upgrades, institutional credit, and market support. Only a holistic approach combining land reforms and modern agricultural practices can unlock India's full agricultural potential.

(b). Critically analyse the constraints of public and private capital formation in Indian agriculture.

15 Marks

Answer:

Capital formation in agriculture refers to the investment of funds in developing agricultural infrastructure, improving technology, and enhancing productivity. In India, both public and private sector investments play vital roles. However, agricultural growth has been hampered by inadequate capital formation due to structural, financial, and policy-related constraints. A critical analysis of these limitations is essential to understand the challenges and frame effective solutions.

I. Constraints on Public Capital Formation in Agriculture

Public capital formation includes government investment in infrastructure, irrigation, research, extension services, and rural development. However, several constraints exist:

1. Declining Public Expenditure

- Since the 1990s economic liberalisation, the share of agriculture in total public investment has steadily declined.
- Funds are often diverted to non-productive subsidies like fertilizers, electricity, and food procurement, reducing resources for infrastructure.

2. Fiscal Constraints

- High fiscal deficits at both central and state levels limit funds available for long-term agricultural investment.
- Priority is often given to sectors like industry, defense, and urban infrastructure over rural development.

3. Inefficient Resource Utilization

- Corruption, delays, and mismanagement reduce the effectiveness of public investments.
- Projects like irrigation schemes often suffer from cost overruns and time delays.

4. Policy Inconsistencies

- Frequent changes in agricultural policies create uncertainty and discourage consistent investment.
- Lack of coordination between central and state governments affects project implementation.

II. Constraints on Private Capital Formation in Agriculture

Private capital formation includes farmers' investments in irrigation, seeds, fertilizers, machinery, and technology. However, it faces multiple challenges:

1. Low Farm Incomes and Rising Costs

- With stagnant crop prices and rising costs of inputs like fertilizers, seeds, and labor, farmers have limited surplus income for reinvestment.

2. Limited Access to Institutional Credit

- Small and marginal farmers often lack collateral and thus depend on moneylenders charging high interest rates.
- Formal banking penetration in rural areas remains uneven, restricting credit availability.

3. Small and Fragmented Landholdings

- Over 86% of Indian farmers own less than 2 hectares of land, making large-scale investments in modern machinery and irrigation unviable.

4. Market Uncertainties

- Farmers face price volatility due to fluctuating demand, climate risks, and global market trends.
- Lack of assured procurement systems discourages risk-taking and investment.

5. Low Technological Adoption

- Limited awareness and training prevent farmers from adopting modern farming techniques.
- Absence of effective extension services further slows private investment in productivity-enhancing tools.

III. Way Forward

● Enhance Public Investment:

- Prioritize irrigation, storage, rural roads, and market infrastructure.
- Shift focus from subsidies to long-term capital creation.

● Strengthen Institutional Credit:

- Expand access to low-interest loans for small and marginal farmers.
- Promote digital lending and improve financial literacy.

● Promote Technology Adoption:

- Invest in research, mechanization, and precision farming.
- Strengthen agricultural extension services.

● Encourage Public-Private Partnerships (PPP):

- Collaborate in warehousing, cold storage, value addition, and marketing to improve efficiency.

Conclusion

Capital formation is the foundation of agricultural growth, yet both public and private investments in India face multiple constraints, including low incomes, policy inconsistencies, inadequate credit, and infrastructure gaps. To overcome these challenges, India needs a balanced approach combining enhanced public spending, institutional credit access, technological support, and private sector participation. Without addressing these bottlenecks, achieving sustainable agricultural productivity will remain difficult.

(c). What were the thrust areas of economic planning during the pre-liberalisation era? Discuss.

15 Marks

Answer:

The period from 1951 to 1991 in India is known as the pre-liberalisation era, marked by a planned economic development model. India adopted a mixed economy with the aim of achieving self-reliance, poverty alleviation, balanced regional growth, and modernization. The thrust areas of economic planning during this period were shaped by Soviet-style central planning, and they focused heavily on state-led industrialization, public sector dominance, and import substitution.

1. Emphasis on Public Sector and State-Led Growth

- Inspired by the socialist model, the government believed that the public sector should lead economic development.
- Major industries like steel, coal, power, defense, heavy machinery, and railways were placed under state control.
- Private sector participation was limited and regulated through licensing, known as the License Raj.

2. Heavy Industrialisation Strategy

- Second Five-Year Plan (1956-61), designed by P.C. Mahalanobis, focused on heavy industries to build a strong industrial base.
- The aim was to reduce dependence on imports and promote self-reliance in production.
- Sectors like steel, cement, power, and machine tools were given priority

3. Import Substitution and Protectionism

- India adopted an import substitution strategy to protect domestic industries.
- High tariffs and quotas were imposed on imports, and foreign investment was strictly controlled.
- While this promoted domestic manufacturing, it also led to low competitiveness and technological backwardness.

4. Agricultural Development and Green Revolution

- Initially, agriculture was neglected, but after food shortages in the 1960s, emphasis shifted.
- The Green Revolution (late 1960s) introduced high-yield variety (HYV) seeds, irrigation, fertilizers, and mechanization.
- While it boosted food grain production, its benefits were regionally concentrated, mainly in Punjab, Haryana, and Western UP.

5. Poverty Alleviation and Employment Generation

- Programmes like Integrated Rural Development Programme (IRDP) and Food for Work were launched.
- However, due to population growth and ineffective implementation, poverty eradication remained slow.

6. Balanced Regional Development

- Special focus was given to backward regions to reduce regional disparities.
- Establishment of Public Sector Units (PSUs) in less-developed states was aimed at promoting equitable industrial growth.

7. Control over Private Sector and License Raj

- Private industries needed government licenses to start, expand, or diversify businesses.
- This excessive regulation led to bureaucratic delays, inefficiency, and corruption.

Conclusion

The pre-liberalisation era (1951–1991) focused on state-led planning, public sector dominance, import substitution, heavy industrialisation, and poverty alleviation. While these policies helped build a basic industrial base, achieve self-sufficiency in food grains, and develop infrastructure, they also created challenges like low productivity, technological backwardness, inefficiency, and slow growth. These limitations eventually paved the way for the economic liberalisation of 1991.

3.

(a) Examine the objectives and components of the Green Revolution in India.

(20)

Answer:

The Green Revolution in India, initiated during the mid-1960s, was a landmark agricultural reform aimed at overcoming chronic food shortages. With the adoption of modern agricultural practices and technologies, it transformed India from a food-

deficit nation into a self-sufficient one, particularly in food grains like wheat and rice.

Objectives of the Green Revolution:

1. **Achieve self-sufficiency in food production** – to reduce dependence on food imports under PL-480 from the USA.
2. **Ensure food security** – by increasing the availability of cereals to meet the needs of a growing population.
3. **Increase farmers' income** – through higher yields and productivity.
4. **Modernize agriculture** – by introducing scientific farming practices and reducing traditional subsistence farming.
5. **Stimulate rural development** – by generating employment in allied sectors like irrigation, fertilizers, and agro-machinery.

Components of the Green Revolution:

1. **High-Yielding Variety (HYV) seeds:** introduction of dwarf wheat (from Mexico) and IR-8 rice (from Philippines).
2. **Expansion of irrigation facilities:** construction of dams, canals, and tube wells for assured water supply.
3. **Chemical fertilizers and pesticides:** intensive use to improve soil fertility and protect crops.
4. **Mechanization:** use of tractors, harvesters, and pump sets to boost efficiency.
5. **Institutional support:** role of institutions like ICAR, Agricultural Universities, and National Seeds Corporation.
6. **Credit and subsidies:** provision of cheap loans and input subsidies to farmers.
7. **Government procurement and MSP:** assurance of minimum price support for surplus production.

Conclusion

The Green Revolution succeeded in transforming India into a food grain surplus nation, ensuring food security and laying the foundation for agricultural modernization. However, it also led to regional disparities, environmental degradation, and overdependence on a few crops. Thus, while it fulfilled its immediate objectives, the need for a “Second Green Revolution” focusing on sustainability, inclusiveness, and diversification remains essential.

(b) Why does inter-state disparity in income persist in India despite plethora of development initiatives undertaken by the Government of India? Analyse.

(15)

Answer:

India's federal structure accommodates wide regional diversity in resources, infrastructure, and development. Despite multiple initiatives such as Five-Year Plans, Backward Region Grant Fund, Finance Commission transfers, and centrally sponsored schemes, income disparities among states remain significant. States like Maharashtra, Tamil Nadu, Gujarat, and Karnataka contribute disproportionately to GDP, while states such as Bihar, Uttar Pradesh, Odisha, and Madhya Pradesh lag behind.

Reasons for Persistence of Inter-State Disparity in Income:

1. **Unequal resource endowment** – States rich in minerals, fertile land, or coastline (e.g., Gujarat, Maharashtra) attract investment, while resource-poor states remain behind.
2. **Industrial concentration** – Industrial and service sector hubs are concentrated in a few states, leading to unequal job creation and higher per capita incomes.
3. **Infrastructure gap** – Poor transport, energy, and digital infrastructure in backward states limits private investment.
4. **Governance and institutional capacity** – Corruption, poor policy implementation, and weak institutions in lagging states hamper growth.
5. **Human capital disparity** – Low literacy, poor health indicators, and skill gaps reduce productivity in poorer states.
6. **Agriculture dependence** – States dependent on low-yield subsistence agriculture face low incomes, while diversified economies progress faster.
7. **Historical and structural factors** – Colonial neglect, caste-based inequalities, and uneven reform adoption have deepened gaps.
8. **Migration and Brain Drain** – Skilled workforce moves to developed states, widening the disparity further.

Government Initiatives and their Limitations:

- Finance Commission transfers and GST devolution attempt to reduce fiscal inequality, but wealthier states continue to generate higher revenues.
- Centrally Sponsored Schemes (MGNREGA, PMGSY, PMAY) provide support but face leakages and uneven implementation.
- Special category status and regional development programs (NER Vision, Aspirational District Programme) address backwardness, but results are mixed due to poor capacity building.

Conclusion

Despite continuous government efforts, inter-State disparities persist due to structural inequalities, governance deficits, and uneven economic reforms. To bridge this gap, India must focus on human capital development, equitable infrastructure investment, decentralized planning, and tailored policies for lagging states. Balanced regional development is vital for India's long-term inclusive growth and social harmony.

(c) Point out the main challenges faced by the small-scale and cottage industries in Indian economy.

(15)

Answer:

Small-scale and cottage industries (SSI/CSIs) form the backbone of India's economy, providing employment to millions and contributing significantly to GDP, exports, and rural development. Despite their importance, they face multiple structural and operational challenges that hinder their growth and sustainability in a competitive economy.

Main Challenges Faced by Small-Scale and Cottage Industries:

1. Financial Constraints

- Difficulty in accessing affordable credit due to lack of collateral and high dependence on informal sources.
- Limited coverage and awareness of government credit schemes like **MUDRA, CGTMSE**.

2. Technological Backwardness

- Outdated machinery and low adoption of modern technologies reduce productivity and competitiveness.
- Inadequate R&D support and lack of digital integration.

3. Marketing and Distribution Issues

- Weak branding, limited access to markets, and high competition from large industries and imports (especially from China).
- Inadequate e-commerce penetration and dependence on middlemen.

4. Infrastructure Deficiencies

- Poor access to power, transport, storage, and industrial clusters in rural and semi-urban areas.
 - High production costs due to inefficiency.
- 5. Regulatory and Compliance Burden**
- Complexity in meeting multiple labour, taxation, and quality standards.
 - Lack of awareness about schemes like **Udyam registration, GEM portal**.
- 6. Skilled Labour Shortage**
- Lack of formal training, low productivity, and migration of skilled workers to urban areas or large industries.
- 7. Competition from Large-scale and Global Players**
- Difficulty in competing with mass production and cheap imports.
 - Erosion of traditional handicrafts and handloom demand.
- 8. Impact of Globalisation and Policy Shifts**
- Exposure to international competition post-liberalisation.
 - Limited capacity to integrate into global value chains.

Conclusion

Small-scale and cottage industries continue to face structural, financial, and technological bottlenecks despite being crucial for employment and inclusive growth. Strengthening access to finance, skill development, infrastructure, technology adoption, and market linkages is essential. With initiatives like Make in India, Digital India, ODOP (One District One Product), and cluster-based development, these industries can be revitalised to play a transformative role in India's economic future.

Q.4. (a) *What are the methods used in measuring poverty and inequality in India? Analyse.*

(20)

Answer:

Poverty and inequality are critical issues in India's development discourse. Measuring them accurately is essential for policy formulation, welfare targeting, and monitoring socio-economic progress. Over the years, India has adopted

various methods, ranging from consumption expenditure surveys to multidimensional indices, in order to capture the complex nature of deprivation.

1. Methods of Measuring Poverty in India

1. Consumption Expenditure Approach

- Based on **Household Consumer Expenditure Surveys (NSSO/NSS)**.
- Poverty line defined in terms of minimum calorie intake (2,400 calories in rural and 2,100 in urban areas – as per earlier Planning Commission norms).
- **Examples:**
 - **Lakdawala Committee (1993):** Used calorie norm-based poverty line.
 - **Tendulkar Committee (2009):** Shifted focus to consumption expenditure including food, education, health, clothing, shelter.
 - **Rangarajan Committee (2014):** Revised poverty line higher, accounting for broader living costs.

2. Monetary Poverty Estimates

- Defined by **per capita consumption expenditure/income thresholds**.
- Used by Planning Commission and later **NITI Aayog**.

3. Multidimensional Poverty Index (MPI)

- Adopted by India in line with UNDP methodology.
- Developed by **NITI Aayog (2021 onwards)** covering deprivations in health, education, and standard of living.
- MPI 2023 showed India lifted **415 million people out of poverty (2005–21)**.

2. Methods of Measuring Inequality in India

1. Gini Coefficient

- Measures inequality in consumption/income distribution (0 = perfect equality, 1 = perfect inequality).
- India's Gini index (consumption) is around **0.35–0.37**, but higher for wealth distribution.

2. Lorenz Curve

- Graphical representation of inequality in income or consumption distribution.

3. Palma Ratio

- Ratio of income share of top 10% to bottom 40%. Highlights concentration at the top.

4. Other Measures

- **Kuznets Ratio** (income of top 20% to bottom 20%).
- **Wealth inequality data** from surveys like Oxfam reports, Credit Suisse Wealth Report, showing the richest 1% in India own more than 40% of wealth.

3. Analytical Perspective

- **Strengths of Traditional Poverty Line:** Provides simple, consistent estimates; useful for trend analysis.
- **Limitations:** Narrow focus on consumption, ignores access to healthcare, education, and living standards.
- **Shift to MPI:** Broader understanding of deprivation; captures **non-income dimensions** of poverty.
- **Inequality Measures:** Highlight the growing gap between rich and poor; essential for assessing redistributive policies (taxation, subsidies, welfare).
- **Policy Implication:** Poverty reduction must combine **income growth with social sector investment** to address multidimensional deprivation and inequality.

Conclusion

The evolution of poverty and inequality measurement in India reflects the country's changing developmental priorities—from calorie-based poverty lines to multidimensional poverty indices. While traditional measures help track income/consumption gaps, MPI and inequality indices provide a holistic picture. Going forward, integrating big data, periodic surveys, and global best practices can ensure more accurate, inclusive, and policy-relevant assessments.

(b) How have rural and urban economic development contributed to poverty reduction in India? Discuss.

(15)

Answer:

India has witnessed a remarkable decline in poverty levels over the past few decades. As per NITI Aayog's Multidimensional Poverty Index (2023), around 415 million people exited poverty between 2005–06 and 2019–21. Both rural and urban economic development have been important drivers, though their contributions differ in nature and scope.

1. Role of Rural Economic Development

1. **Agricultural growth** – The Green Revolution, improved irrigation, and crop diversification raised farm incomes and reduced hunger.
2. **Rural infrastructure** – Schemes like **PMGSY** (roads), **Saubhagya** (electricity), and **Jal Jeevan Mission** (drinking water) improved quality of life.
3. **Employment security** – **MGNREGA** provided minimum days of wage employment and reduced distress migration.
4. **Financial inclusion** – **Jan Dhan Yojana** and microfinance gave access to banking, credit, and insurance.
5. **Skill development** – Programs like **DDU-GKY** created non-farm job opportunities.

2. Role of Urban Economic Development

1. **Industrialisation & service sector growth** – Urban centres drove IT, manufacturing, and services, generating employment and higher wages.
2. **Housing & infrastructure** – Initiatives like **PM Awas Yojana–Urban** and **Smart Cities Mission** improved living conditions for urban poor.
3. **Education & skills** – Better access to higher education, vocational training, and skilling initiatives enabled upward mobility.
4. **Health & social security** – Schemes such as **Ayushman Bharat** provided healthcare protection to vulnerable urban families.
5. **Migration opportunities** – Cities absorbed surplus rural labour, while remittances supported poverty reduction in villages.

3. Analytical View

- Rural development mainly targeted **subsistence poverty** and basic amenities.
- Urban development created **income mobility** and new opportunities.
- Both are interlinked—urban growth fuels remittances to villages, while rural development reduces excessive distress migration.
- Yet, disparities remain: rural poverty is concentrated in BIMARU states, and urban poverty persists in slums and informal settlements.

Conclusion

Rural and urban economic development together have been crucial in reducing poverty in India. While rural initiatives ensured livelihood security and access to essentials, urban growth enabled sustained income expansion and employment opportunities. For long-term poverty eradication, India needs a **balanced rural–urban strategy**, with focus on inclusive growth, skill development, and social protection.

(c) What are the guidelines of the Decentralized Planning process in India? Describe.

(15)

Answer:

Decentralized planning in India refers to the process of formulating and implementing development plans at the local level, with active participation of people and local institutions. It was emphasized after the 73rd and 74th Constitutional Amendments (1992–93), which gave constitutional status to Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs). The Planning Commission (later NITI Aayog) also laid out specific guidelines to strengthen this process.

Guidelines of Decentralized Planning in India

1. People's Participation

- Involvement of local communities, Gram Sabhas, and civil society organizations in identifying needs and priorities.

2. Bottom-up Approach

- Planning starts at the village/ward level, consolidated at block, district, state, and finally national level.

3. Role of Local Institutions

- PRIs and ULBs prepare plans for economic development and social justice as per the **11th and 12th Schedules** of the Constitution.

4. Integration of Sectoral Plans

- Local plans integrate agriculture, health, education, infrastructure, poverty alleviation, and social welfare schemes.

5. Decentralized Resource Mobilization

- Mobilization of local resources (taxes, fees, contributions) along with state and central transfers for implementing local development plans.

6. Use of Local Data & Surveys

- Local-level statistics, socio-economic surveys, and participatory rural appraisal are used to make realistic plans.

7. Convergence of Schemes

- Aligning central and state schemes (e.g., MGNREGA, NRLM, Smart Cities Mission) with local needs to avoid duplication.

8. Capacity Building & Training

- Strengthening technical, managerial, and financial capacity of elected representatives and officials to prepare effective plans.

9. Transparency & Accountability

- Social audits, community monitoring, and RTI mechanisms to ensure accountability in planning and execution.

Conclusion

Decentralized planning in India reflects the spirit of democratic decentralization and participatory governance. It empowers local bodies to design context-specific solutions, ensures inclusiveness, and makes development more need-based. However, challenges like inadequate funds, capacity constraints, and political interference persist. Strengthening financial devolution, capacity building, and digital planning tools are essential for realizing the full potential of decentralized planning.

SECTION-B

Q.5(a) Discuss the components of food processing schemes introduced by the Government of India.

ANSWER:

The food processing sector in India is considered a sunrise industry due to its potential in reducing post-harvest losses, generating employment, enhancing farmers' income, and boosting exports. Recognizing this, the Government of India has launched several schemes under the Ministry of Food Processing Industries (MoFPI) to provide infrastructure, credit support, capacity building, and market linkages.

1. Infrastructure Development Schemes

Pradhan Mantri Kisan SAMPADA Yojana (PMKSY): Umbrella scheme covering multiple components:

Mega Food Parks: Provide common facilities like cold storage, warehousing, processing units.

Integrated Cold Chain and Value Addition Infrastructure: Seamless farm-to-fork cold supply chain.

Creation/Expansion of Food Processing & Preservation Capacities: Grants for setting up processing units.

Agro-Processing Clusters: Infrastructure for cluster-based approach in production regions.

Operation Green (TOP to TOTAL): Price stabilization and value chain development for perishables.

2. Financial Support Schemes

Production Linked Incentive (PLI) Scheme for Food Processing (2021): Encourages investment in value-added products, branding of Indian food products globally, and incentivizes companies based on sales performance.

Credit Linked Capital Subsidy: Assistance for technology upgradation in processing units.

Pradhan Mantri Formalisation of Micro Food Processing Enterprises (PM-FME): 35% credit-linked subsidy for small/micro entrepreneurs, focusing on “One District One Product” (ODOP).

3. Capacity Building & Skill Development

Human Resource Development (HRD) Scheme: Training, entrepreneurship development, food testing labs support.

NIFTEM and IIFPT: Centers of excellence for research, innovation, and training in food technology.

4. Quality & Safety Assurance

Food Safety & Quality Assurance Infrastructure Scheme: Setting up/modernizing food testing laboratories, strengthening FSSAI's role.

5. Export Promotion & Market Development

Assistance for branding, marketing abroad, and support for organic and ethnic Indian food products.

Linkages with e-NAM, APEDA, and export promotion councils.

Conclusion

The Government of India's food processing schemes collectively address the sector's bottlenecks—from infrastructure gaps and post-harvest losses to lack of finance, skills, and global branding. Effective implementation of PMKSY, PM-FME, and PLI can transform India into a global food processing hub, ensuring higher farmer incomes, reduced wastage, and enhanced export competitiveness. However, challenges of coordination, logistics, and farmer awareness must be overcome to realize the full potential.

Q.5 (b). Do you agree with the view that India's Foreign Trade Policy, 2023–2028 will boost the country's trade surplus and generate employment? Give reasons.

ANSWER:

Foreign Trade Policy (FTP) 2023–28 marks a paradigm shift from incentive-based export promotion to a facilitation-oriented approach, aiming at making India a \$2 trillion export economy by 2030. With an emphasis on process simplification, e-governance, and sectoral diversification, it seeks to enhance India's integration into global value chains (GVCs), thereby potentially boosting the trade balance and employment.

Provisions likely to boost trade surplus

- 1. Shift to facilitation rather than incentives:** Exporter-friendly digitization, automatic approvals, and paperless systems lower transaction costs.
- 2. WTO-consistent measures:** Phasing out subsidies reduces disputes and improves credibility in global trade.
- 3. Focus on new sectors:** E-commerce exports, dual-use items (SCOMET), green technology, and districts as export hubs widen the export basket.
- 4. RuPay/INR trade settlement:** Encouragement of rupee-based trade can reduce forex outflow and strengthen the trade balance.
- 5. Special thrust on sunrise sectors:** Electronics, pharmaceuticals, processed food, and services exports targeted for growth.

2. Employment-generating potential

- 1. Labour-intensive sectors:** Textiles, leather, handicrafts, and agriculture processing receive export facilitation, creating jobs in rural/semi-urban areas.
- 2. E-commerce exports:** Simplified rules for small exporters/MSMEs enable job creation through digital platforms.
- 3. Districts as Export Hubs (DEH):** Decentralization of trade promotion provides employment at the local level by linking local products to global markets.
- 4. PLI Scheme Synergy:** Complementary to FTP, sectors like electronics and food processing boost manufacturing jobs.

3. Challenges / Critical view

Persistent trade deficit: Despite policy measures, India's import dependence on crude oil, gold, and electronics may keep the trade balance negative.

Global uncertainties: Geopolitical tensions, protectionism, and slow global demand can limit export growth.

Structural bottlenecks: High logistics costs, infrastructure gaps, and compliance burdens still hamper competitiveness.

Skill mismatch: Employment generation in high-tech sectors may not absorb unskilled labour adequately.

Conclusion

India's FTP 2023–28 provides a progressive, facilitative, and WTO-compliant framework that has strong potential to diversify exports, reduce trade costs, and create employment opportunities, especially in MSMEs and labour-intensive sectors. However, whether it will convert India's trade deficit into a trade surplus remains uncertain due to structural import dependence and global headwinds. To maximize employment gains and move towards surplus, complementary reforms in logistics, skill development, and industrial competitiveness are essential.

Q.5(c). What are the structural shortcomings of the 'Public Distribution System (PDS)' in India? Explain.

ANSWER:

The Public Distribution System (PDS) is India's flagship program for ensuring food security by distributing subsidized food grains to the poor. Despite being one of the largest social safety nets globally, the system suffers from multiple structural shortcomings that weaken its efficiency and effectiveness.

1. Leakages and Diversion:

A large share of food grains meant for beneficiaries gets diverted to the open market due to corruption, weak monitoring, and lack of accountability.

The Shanta Kumar Committee (2015) estimated that only around 40% of subsidized grains actually reach the intended households.

2. Inclusion and Exclusion Errors: Errors in the identification of beneficiaries under BPL/APL categories result in the poor being excluded while non-deserving households enjoy benefits.

3. Regional Imbalances: States with better administrative capacity (e.g., Tamil Nadu, Chhattisgarh) perform well, while weaker states struggle, leading to uneven access across regions.

4. High Fiscal Burden: Procurement, storage, and transportation costs of FCI are huge, creating inefficiency and strain on fiscal resources.

Excessive buffer stocks often lead to wastage.

5. Poor Quality of Grains: Beneficiaries often receive inferior quality food grains due to poor storage and handling.

6. Limited Nutritional Coverage: Focus is largely on rice and wheat, ignoring pulses, coarse cereals, and nutritional requirements, leading to unbalanced diets.

7. Operational Inefficiencies: Delays in lifting stocks, weak supply chain management, and inadequate use of technology reduce effectiveness.

Conclusion

The structural shortcomings of PDS undermine its role in ensuring food and nutritional security. While reforms like digitization of ration cards, Direct Benefit Transfer (DBT), Aadhaar-based authentication, and decentralization (as in Chhattisgarh model) have shown promise, a comprehensive revamp towards “nutritional security, transparency, and efficiency” is necessary. A restructured PDS with improved targeting and diversification of food basket can strengthen India’s food security framework.

Q.5(d). Justify the importance of ‘Disinvestment Policy’ of India.

ANSWER:

Disinvestment refers to the government’s process of selling or diluting its stake in Public Sector Enterprises (PSEs). Introduced in the 1990s as part of economic reforms, disinvestment has evolved into a key policy instrument for improving efficiency, reducing fiscal burden, and encouraging private sector participation. The policy is not merely about raising resources, but also about redefining the role of the state in economic activity.

1. Fiscal Consolidation and Resource Mobilization

Helps the government reduce fiscal deficit by generating non-tax revenue. Provides funds for social and infrastructure spending without excessive borrowing.

2. Efficiency and Competitiveness

Many PSEs suffer from low productivity, overstaffing, and bureaucratic inefficiencies. Disinvestment introduces market discipline, improves corporate governance, and enhances competitiveness.

3. Optimal Resource Allocation

Government can focus on core sovereign functions (defence, law & order, welfare) instead of running businesses. Frees up capital locked in inefficient PSEs for better use.

4. Broadening Capital Markets

Public offers through disinvestment deepen equity markets and encourage retail participation. Improves transparency and accountability of PSEs.

5. Reducing Political Interference

Strategic disinvestment reduces scope for political patronage and mismanagement in PSEs.

6. Attracting Foreign Investment

Strategic sales allow global players to bring capital, technology, and managerial expertise, aiding India's growth and integration with the global economy.

7. Encouraging Private Sector Growth

Enhances private sector participation in key industries, fostering competition and innovation.

Criticism / Challenges (briefly):

Concerns over undervaluation of assets, job losses, and social objectives being ignored. Resistance from trade unions and political opposition.

Conclusion

The disinvestment policy is crucial for transforming India's economic landscape by ensuring fiscal prudence, efficiency in enterprises, and greater private sector dynamism. However, its success depends on transparent valuation, safeguarding workers' interests, and aligning with long-term developmental goals. A balanced approach—where the government retains control in strategic sectors while exiting non-strategic businesses—can ensure that disinvestment strengthens India's growth trajectory and social objectives simultaneously.

Q.5(e). What are the implications of the Goods and Services Tax (GST) reforms for Indian federalism? Discuss.

ANSWER:

The Goods and Services Tax (GST), implemented in 2017, represents India's most significant indirect tax reform. It subsumed multiple central and state taxes into a unified system, creating a "one nation, one tax, one market." While it enhanced efficiency and ease of doing business, it also fundamentally altered the fiscal dynamics of Indian federalism by redefining the taxation powers of Union and States.

Positive Implications for Federalism

1. Cooperative Federalism in Practice: Establishment of the GST Council with equal representation of Union and States. Consensus-based decision-making strengthens the cooperative spirit.

2. Uniform Taxation Framework: Eliminates cascading of taxes and interstate

trade barriers, promoting economic integration. Creates a common national market, benefitting all states.

3. Revenue Buoyancy and Transparency: Widening of the tax base with better compliance through technology (e-way bills, GSTN). States gain access to broader revenue streams in the long run.

4. Compensation Mechanism: Union guaranteed compensation to states for revenue losses for five years, ensuring fiscal security during transition.

Challenges / Negative Implications for Federalism

1. Erosion of Fiscal Autonomy of States: States cannot independently change GST rates; must depend on GST Council. Decline in states' freedom to levy taxes like entry tax, purchase tax, entertainment tax.

2. Union–State Tensions on Compensation: Delays in GST compensation payments (especially post-COVID) strained trust between Centre and States.

3. Dominance of Centre in GST Council: Though consensus is aimed at, Union holds one-third voting power, raising concerns of centralization.

4. Vertical Imbalance: Dependence on Centre for compensation increases vertical fiscal imbalance. Weakens states' capacity to independently finance welfare and development programs.

Conclusion

GST reforms mark a paradigm shift in Indian fiscal federalism. They have fostered cooperative federalism by institutionalizing the GST Council and creating a unified tax system. However, challenges like erosion of fiscal autonomy and disputes over compensation highlight the need for strengthening trust and financial independence of states. Going forward, balancing “one nation, one market” with the federal spirit of “unity in diversity” will determine the long-term success of GST in India's federal structure.

Q.6(a). What are the causes of industrial backwardness in India? Critically evaluate the role of the New Industrial Policy, announced in July 1991, towards correcting such backwardness.

ANSWER:

Industrialization has been central to India's development strategy since Independence. Despite planned efforts, India's industrial growth before 1991 remained sluggish compared to its potential, often described as “industrial backwardness.” The New Industrial Policy (NIP) of July 1991 marked a structural

break by introducing liberalization, privatization, and globalization (LPG) measures aimed at correcting these weaknesses.

1. Causes of Industrial Backwardness (Pre-1991)

(a) License-Permit-Quota Raj: Cumbersome licensing system restricted entrepreneurial freedom and created inefficiencies.

(b) Excessive State Control: Reservation of core industries for public sector led to inefficiency and low productivity.

(c) Protectionist Trade Regime: Import substitution with high tariffs discouraged competition, innovation, and quality improvement.

(d) Technological Obsolescence: Limited R&D investment and restrictions on foreign technology imports.

(e) Small-Scale Sector Reservation: While promoting equity, it restricted economies of scale and modernization.

(f) Industrial Sickness: Many PSUs and private units became financially unviable due to mismanagement.

(g) Low Productivity of Labour: Skill gaps, rigid labour laws, and lack of modernization reduced competitiveness.

2. Role of New Industrial Policy (1991) in Correcting Backwardness

Positive Contributions

(a) Dismantling of Industrial Licensing: Freed most industries from licensing, encouraging competition and efficiency.

(b) Reduction in Public Sector Monopoly: “Commanding heights” policy diluted; PSUs opened to private participation.

(c) Foreign Investment & Technology Inflow: Automatic approval for FDI and liberalized technology imports brought global capital and know-how.

(d) Trade Liberalization: Import tariffs reduced, quantitative restrictions phased out, integrating Indian industry with the global economy.

(e) MRTP Act Amendments: Reduced controls on large business houses, allowing economies of scale.

(f) Boost to Competition & Efficiency: Entry of private and foreign firms enhanced quality, productivity, and innovation.

3. Limitations / Criticism

(a) Regional Disparities Widened: Investments concentrated in already developed states.

(b) Neglect of Small-Scale Industry: Exposure to global competition hurt small and cottage industries.

(c) Jobless Growth: Capital-intensive industries grew faster than labour-intensive ones, limiting employment.

(d) Deindustrialization Risk: Over-dependence on imports in some sectors (electronics, machinery) created vulnerabilities.

(e) PSU Privatization Issues: Disinvestment without restructuring led to closure/job losses.

Conclusion

Industrial backwardness in India was rooted in excessive regulation, inefficiencies, and protectionism. The New Industrial Policy of 1991 successfully dismantled many structural constraints and integrated India into the global economy, leading to higher growth, technological adoption, and competitiveness. However, it also generated new challenges such as regional imbalance, employment deficits, and small industry vulnerability. Going forward, India needs a balanced industrial strategy—combining liberalization with targeted state support, infrastructure strengthening, and labour-intensive industrialization—to ensure inclusive and sustainable growth.

Q.6(b). Examine the implications for India due to agreements on agriculture that are signed under the World Trade Organisation (WTO) in 1995.

ANSWER:

The **Agreement on Agriculture (AoA)**, signed under the WTO in 1995, sought to reform global agricultural trade by reducing distortions caused by subsidies, tariffs, and quantitative restrictions. For India, where agriculture is a livelihood source for over half the population, the AoA has had mixed implications. It created opportunities for export growth but also posed challenges to small and marginal farmers dependent on subsidies and state support.

1. Key Provisions of WTO–AoA

Market Access: Gradual reduction in tariffs and removal of non-tariff barriers.

Domestic Support (Amber, Blue, Green Boxes): Reduction commitments on trade-distorting subsidies.

Export Subsidies: Progressive reduction and eventual elimination of export-related subsidies.

2. Implications for India

Positive Implications

Export Opportunities: Access to new markets for rice, cotton, spices, and processed foods due to tariff liberalization by other countries.

Competitiveness in Certain Crops: India's comparative advantage in labour-intensive crops (fruits, vegetables, marine products).

Policy Space in Green Box: Exemption for subsidies on research, extension services, and rural infrastructure.

Food Processing & Value Addition: WTO-induced integration encouraged private investment in agri-processing and global supply chains.

3. Negative Implications

Pressure on Subsidy Regime: India's input subsidies (fertilizer, electricity, irrigation) fall under Amber Box, drawing criticism for trade distortion.

MSP and Food Security Concerns: Public stockholding and MSP procurement are contested under WTO rules, threatening India's food security framework (PDS, NFSA).

Import Surge Risks: Liberalization exposes farmers to cheap subsidized imports (especially dairy, edible oils, pulses).

Small Farmer Vulnerability: Limited scale, low technology adoption, and poor infrastructure reduce competitiveness against developed country agribusinesses.

Asymmetry in Commitments: Developed countries continued high subsidies (Green Box), creating unequal playing field.

4. Critical Evaluation

India has largely complied with AoA commitments but resisted further liberalization in WTO negotiations (e.g., Doha Round, Bali & Nairobi summits). India advocates a permanent solution for public stockholding for food security. Experience shows limited export gains due to supply-side bottlenecks and greater risk exposure for domestic farmers.

Conclusion

The WTO–AoA has had dual implications for India: while it provided export opportunities and integration into global agricultural trade, it also constrained domestic policy space and exposed vulnerable farmers to global competition. For India, safeguarding food security, farmer livelihoods, and rural development is paramount. Hence, India's stance in WTO remains defensive—supporting multilateralism but demanding flexibilities for developing countries. Future agricultural reforms must combine global competitiveness with strong safety nets to balance trade obligations with socio-economic needs.

Q.6(c). Why is a National Employment Policy necessary for India? What are the initiatives taken by the Government to facilitate employment generation? Explain.

ANSWER:

India faces the dual challenge of a large labour force (nearly 500 million) and persistent issues of unemployment, underemployment, and informalisation. With nearly 90% of workers engaged in the informal sector and high youth unemployment, there is a pressing need for a comprehensive National Employment Policy (NEP) to provide a strategic framework for inclusive and sustainable job creation.

1. Necessity of a National Employment Policy

Demographic Dividend Utilisation: India's young workforce can drive growth if adequately employed; otherwise, it risks becoming a demographic liability.

Quality of Employment: Most jobs are low-paying, insecure, and lack social security. NEP can focus on formalisation and decent work. **Sectoral Mismatches:** Employment growth lags behind output growth, especially in manufacturing (jobless growth).

Skill Gaps: Structural mismatch between skills imparted and market needs.

Inclusive Development: NEP can ensure participation of women, marginalized communities, and rural workers.

Future of Work Challenges: Automation, digitisation, and climate change necessitate forward-looking employment strategies.

2. Government Initiatives for Employment Generation

a) Direct Employment Programs

MGNREGA (2005): Provides 100 days of guaranteed wage employment in rural areas.

PMEGP (Prime Minister's Employment Generation Programme): Supports self-employment and micro-enterprises.

National Career Service (NCS): Employment exchange modernisation, job matching portal.

b) Indirect Employment Promotion

Make in India (2014): Boost manufacturing to create jobs.

Startup India & Standup India: Encourage entrepreneurship and innovation-driven employment.

Skill India Mission (2015): Vocational training, PMKVY to bridge skill gaps.

Production-Linked Incentive (PLI) Scheme: Promote manufacturing in key sectors.

c) Social Security & Labour Reforms

Code on Wages & Code on Social Security (2020): Aimed at improving worker welfare and formalisation.

Atmanirbhar Bharat Rojgar Yojana (2020): EPF subsidy for new employment.

d) Sectoral Focus

Investment in infrastructure (roads, railways, housing) has strong employment multipliers.

Emphasis on MSMEs as a major employment provider.

Conclusion

A National Employment Policy is essential to provide a cohesive, multi-sectoral strategy for tackling India's employment challenges—ensuring not just more jobs, but better jobs. While government initiatives have expanded opportunities through rural employment schemes, manufacturing push, and entrepreneurship promotion, challenges remain in ensuring formalisation, inclusivity, and resilience to global disruptions. A well-designed NEP, aligned with sustainable development and future of work, is crucial for transforming India's demographic dividend into a growth driver.

Q.7(a). What is the sectoral composition of India's national income? Mention the most important source of national income in India.

ANSWER:

The national income of India, measured by Gross Value Added (GVA) at constant prices, reflects the contributions of different sectors of the economy. Traditionally, agriculture was the largest contributor, but with structural changes over time, the share of industry and services has increased significantly.

Sectoral Composition of India's National Income

India's economy is broadly divided into three sectors:

1. Primary Sector (Agriculture & Allied Activities)

- Includes agriculture, forestry, fishing, and mining.
- Contribution has declined sharply over the years.
- Currently contributes about **17–18%** of India's GVA (2023–24).

2. Secondary Sector (Industry & Manufacturing)

- Comprises manufacturing, construction, electricity, gas, water supply.
- Plays a key role in job creation and infrastructure development.
- Contribution is around **25–27%** of GVA.

3. Tertiary Sector (Services)

- Includes trade, transport, banking, IT, communication, education, health, etc.
- Fastest-growing sector due to globalization, digitalization, and reforms.
- Accounts for the largest share of GVA at about **54–55%**.

Most Important Source of National Income

- The **Services sector** is the most important source of India's national income.
- Within services, **trade, transport, communication, finance, insurance, real estate, and IT-BPM** are the major contributors.
- Its dominance reflects India's transition to a **service-led economy**, supported by IT exports, financial services, and growing domestic demand.

Conclusion

The sectoral composition of India's national income highlights a shift from an agrarian to a service-driven economy. While the services sector contributes the most, balanced growth requires strengthening agriculture for food security and industry for job creation. Achieving this balance is vital for inclusive and sustainable economic growth.

Q.7(b). What are the advantages and disadvantages of full convertibility of Indian rupee? Do you believe that capital account convertibility is feasible under the present circumstances in India? Discuss.

ANSWER:

Convertibility of currency refers to the freedom to exchange domestic currency for foreign currency without restrictions. India currently has current account convertibility (since 1994) but only partial capital account convertibility. Full convertibility would mean free inflows and outflows of capital, allowing the rupee to be determined purely by market forces. This issue has been debated since the Tarapore Committee Reports (1997, 2006).

1. Advantages of Full Convertibility of Rupee

- a) Integration with Global Economy:** Facilitates greater trade, investment, and financial flows.
- b) Attracts Foreign Capital:** Encourages FDI and FPI by improving investor confidence.
- c) Efficient Allocation of Capital:** Market-driven exchange rates reflect true economic fundamentals.
- d) Boost to Indian Multinationals:** Simplifies global operations of Indian firms, outward FDI, and acquisitions.
- e) Internationalisation of Rupee:** Enhances its status in global trade and finance.

2. Disadvantages / Risks

(a) Macroeconomic Instability: Free capital flows can cause currency volatility and financial crises (Asian Financial Crisis 1997 as an example).

(b) Speculative Attacks: Vulnerability to sudden capital flight in times of uncertainty.

(c) External Shocks Transmission: Global recessions and monetary tightening (e.g., Fed hikes) directly impact the domestic economy.

(d) Impact on Monetary Policy: RBI's control over interest rates and exchange rates weakens.

(e) Worsening Current Account Deficit (CAD): Unrestricted imports and profit repatriation may aggravate external imbalances.

3. Feasibility under Present Circumstances in India

a) Supporting Factors

Strong forex reserves (~USD 600 bn).

Robust banking system post-recapitalisation.

Rising global stature of Indian economy and rupee.

Increasing role of India in global trade and services.

b) Constraining Factors

Persistent **current account deficit** and dependence on imported energy.

High volatility of portfolio flows (hot money risks).

Inflationary pressures and rupee depreciation episodes (2022–23).

Incomplete financial market reforms, underdeveloped bond market.

Geopolitical uncertainties and global monetary tightening.

Conclusion

Full capital account convertibility offers benefits of deeper integration and rupee internationalisation, but it also carries significant risks of volatility and external vulnerability. Given India's external sector imbalances, inflation concerns, and exposure to global shocks, immediate full convertibility is not feasible. Instead, India should adopt a gradual and calibrated approach—strengthening domestic financial markets, deepening forex management capacity, and ensuring macroeconomic stability—before moving toward full capital account convertibility.

Q.7(c). What is the strategy of the Reserve Bank of India (RBI) for exchange rate management? Discuss the recent changes in India's Exchange Rate Policy.

ANSWER:

Exchange rate management is a critical component of India's macroeconomic policy, as it affects external trade, capital flows, inflation, and overall stability of the financial system. The Reserve Bank of India (RBI) follows a *managed float* or *market-determined exchange rate system with limited intervention*, wherein the

exchange rate is primarily decided by market forces but RBI intervenes to curb volatility.

1. RBI's Strategy for Exchange Rate Management:

Market-determined exchange rate: Adopted post-1991 reforms, replacing fixed and dual exchange rate regimes.

Interventionist approach: RBI intervenes through buying/selling foreign currency to reduce *excessive volatility*, prevent speculation, and maintain orderly conditions.

Reserve accumulation: Foreign exchange reserves are used as a buffer against external shocks and to ensure confidence in the rupee.

Sterilization operations: RBI uses instruments like Market Stabilisation Scheme (MSS), Open Market Operations (OMOs), and CRR adjustments to neutralize liquidity effects of interventions.

Balancing multiple objectives: Exchange rate policy is linked with inflation control, export competitiveness, and capital flow management.

2. Recent Changes in India's Exchange Rate Policy:

Greater flexibility: RBI has allowed more market-driven movement in the rupee, intervening only to prevent disorderly fluctuations.

Liberalisation of forex markets: Introduction of instruments like currency futures, swaps, and ECB relaxations to deepen markets.

Shift in intervention pattern: During global shocks (e.g., COVID-19, Russia–Ukraine war), RBI actively used reserves (over USD 100 bn in 2022) to smoothen rupee depreciation.

Focus on rupee internationalisation: Measures like settlement of trade in rupees (2022 framework) reflect a strategic shift towards reducing dollar dependence.

Resilience-oriented approach: Policy emphasis is on maintaining adequate reserves and allowing gradual depreciation/appreciation in line with fundamentals.

Conclusion:

RBI's exchange rate management has evolved from rigid control to a *pragmatic managed float system*. Recent policy changes indicate a balance between *market-determined flexibility* and *strategic interventions* to ensure external stability, control inflation, and promote rupee internationalisation. This calibrated approach has helped India withstand global financial shocks while moving towards greater currency maturity.

Q.8(a). How do the current Finance Commission's recommendations align with the Government's Fiscal Consolidation goals? Elucidate.

Answer:

The Finance Commission (FC) is a constitutional body mandated to recommend the distribution of financial resources between the Union and the States. Its recommendations on fiscal targets, debt sustainability, and expenditure priorities

have a direct bearing on India's fiscal consolidation strategy. Fiscal consolidation implies reducing fiscal deficit and public debt to sustainable levels while ensuring adequate public expenditure for growth.

1. Deficit & Debt Targets:

- The 15th Finance Commission recommended adherence to the *FRBM framework*, aiming to reduce the Union Government's fiscal deficit to around **4% of GDP by 2025-26** and general government debt to **60% of GDP** (Union: 40%, States: 20%).
- These targets align with the government's medium-term fiscal consolidation roadmap.

2. Revenue Mobilisation:

- Recommendations to improve tax buoyancy through *better GST compliance, rationalisation of tax rates*, and widening the tax base support higher revenues, reducing dependence on borrowing.

3. Expenditure Rationalisation:

- FC emphasized linking grants to outcomes, efficiency, and performance-based transfers, encouraging States to spend more responsibly.
- Prioritisation of health, education, and infrastructure ensures quality expenditure while controlling unproductive spending.

4. Borrowing Limits:

- The Commission prescribed *calibrated state borrowing limits* (with conditional relaxations) to maintain debt sustainability while supporting growth needs.

5. Fiscal Discipline Incentives:

- Performance-linked grants for power sector reforms, local bodies, and sectoral reforms incentivize States to adopt fiscal prudence.

Conclusion

The Finance Commission's recommendations complement the government's fiscal consolidation goals by focusing on *revenue enhancement, prudent expenditure management, calibrated borrowing, and debt sustainability*. While short-term deviations occurred due to COVID-19, the long-term alignment between FC's roadmap and fiscal consolidation strategy provides a credible path towards sustainable public finances in India.

Q.8(b).Why was the public sector given a leading role in industrial development during the pre-liberalisation era? Explain.

ANSWER:

At the time of Independence, India inherited a weak industrial base, regional disparities, shortage of capital, and dependence on imports for essential goods. The Industrial Policy Resolution of 1956 (IPR, 1956), known as the “Economic Constitution of India,” assigned the public sector a commanding role in industrialisation. This was in line with the Nehruvian model of planned development, which emphasised state-led growth.

1. Rationale for Public Sector Dominance in Pre-Liberalisation Era

1. Lack of Capital with Private Sector:

- Indian private entrepreneurs lacked resources to invest in large-scale, capital-intensive industries (steel, energy, transport).

2. Strategic and Basic Industries:

- Defence, railways, energy, and heavy machinery were considered too vital to be left to private hands.
- Public sector was tasked with building the ‘**commanding heights**’ of the economy.

3. Import Substitution Industrialisation (ISI):

- India adopted inward-looking industrialisation to reduce dependence on foreign countries.
- Public enterprises were created to produce capital goods domestically.

4. Planned Development Approach:

- Five-Year Plans gave priority to heavy industries (e.g., Bhilai and Rourkela steel plants).
- Public sector investment was seen as the driver of overall economic growth.

5. Employment Generation and Regional Equity:

- Public enterprises were established in backward regions to reduce regional disparities and create jobs.

6. Infrastructural Development:

- Core infrastructure (power, transport, communication) required long gestation and low-return investments unattractive to private players.

7. Socialistic Ideals:

- Inspired by Soviet planning and the Directive Principles of State Policy (DPSPs), the state assumed a welfare role through industrial control.

Outcomes of Public Sector-Led Industrialisation

Conclusion

The dominance of the public sector in India's pre-liberalisation era was a historical necessity to build an industrial base, ensure self-reliance, and achieve balanced regional growth in the absence of private capital and foreign investment. While it succeeded in laying the foundation for modern industry, its inefficiencies later highlighted the need for the New Industrial Policy of 1991 and liberalisation.

Q.8(c). Discuss the initiatives launched by the Reserve Bank of India (RBI) to promote financial inclusion.

ANSWER:

Financial inclusion refers to ensuring access to affordable financial products and services such as banking, credit, insurance, and digital payments for all sections of society, especially the weaker and marginalized groups. The Reserve Bank of India (RBI) has played a pivotal role in advancing financial inclusion as part of its developmental mandate, complementing government schemes like Jan Dhan Yojana.

1. RBI's Key Initiatives for Financial Inclusion

a) Policy Frameworks

- **Financial Inclusion Plans (FIPs):** Since 2010, banks are mandated to prepare board-approved inclusion plans with targets for rural branches, credit, and ICT-based delivery.
- **Financial Literacy Centres (FLCs):** Set up by banks under RBI guidance to spread financial education.
- **National Strategy for Financial Inclusion (2019–24):** RBI's roadmap to ensure universal access to financial services.

b) Banking Access and Infrastructure

- **Business Correspondent (BC) Model (2006):** Allowed banks to engage BCs to deliver services in unbanked villages.
- **Lead Bank Scheme Strengthening:** District-level plans for outreach and monitoring.
- **Differentiated Banking Models:** Licensing of **Small Finance Banks (SFBs)** and **Payments Banks** to cater to underserved segments.

c) Credit and Priority Sector Lending

- **Priority Sector Lending (PSL):** Mandated lending to agriculture, MSMEs, weaker sections.
- **Kisan Credit Card (KCC) and General Credit Card (GCC):** Simplified access to small credit.

d) Technological Interventions

- **Unified Payments Interface (UPI):** Promoted by RBI with NPCI, revolutionizing digital payments.
- **Aadhaar-enabled Payment Systems (AEPS):** Facilitated last-mile access.
- **Digital Banking Units (DBUs, 2022):** RBI initiative to expand digital financial inclusion.

e) Consumer Protection and Literacy

- **Banking Ombudsman Scheme (1995, now Integrated Ombudsman Scheme 2021):** To safeguard consumer interests.
- **Financial Literacy Weeks:** Awareness campaigns on themes like responsible borrowing, digital security.

2. Achievements

- Over 80% of adults now have bank accounts (World Bank Global Findex 2021).
- Rapid digital adoption via UPI, AEPS, and mobile wallets.
- Enhanced credit outreach to small farmers, MSMEs, and SHGs.

3. Challenges Remaining

- Dormancy of Jan Dhan and rural accounts.
- Low financial literacy among women and rural poor.
- Dependence on cash in informal sector.
- Digital divide in remote and tribal areas.

Conclusion

RBI's initiatives—ranging from policy frameworks (FIPs, PSL) to innovative delivery mechanisms (BC model, UPI, SFBs)—have significantly deepened financial inclusion in India. However, to make inclusion meaningful and sustainable, greater focus is required on financial literacy, digital infrastructure, and credit empowerment of vulnerable sections. Financial inclusion must evolve from “access to accounts” to “effective usage of financial services.”