

## UNIT 4 : UNDERSTANDING ECONOMIC DEVELOPMENT

### CHAPTER 1 : Development

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#### WHAT DEVELOPMENT PROMISES - DIFFERENT PEOPLE, DIFFERENT GOALS

- Development is the sum total of income plus quality of life. Besides seeking more income one way or another, people also seek things like equal treatment, freedom, security, respect of others, etc.
- Different people have different goals in their life. What may be development for one may not be development for another. This can be understood by the following example : To get more electricity, an industrialist may want more dams. But this may submerge the land and disrupt the lives of people who are displaced, such as tribes.
- One common thing among all people is the desire for more income. With this income they buy goods and services for their daily needs. Quality of life depends on non-material things also. Example - A job may give you less pay but may offer regular employment that enhances your sense of security.

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**NATIONAL DEVELOPMENTMENT**

- Ideas of development differ at individual and national level. For example, a landless rural labourer may desire more days of work and better wages at individual level; but at national level he may want good educational and health facilities in local area.
- The average income can be calculated by dividing national income by the population. It is also called per capita income.
- Standard of living of people in a country depends on their per capita income. Countries with higher per capita income are more developed than others with less per capita income.
- Education and health also play an important role in the country's development. To know about other criteria we should be familiar with some terms :
  - (i) **Infant Mortality Rate (IMR)** : It indicates the number of children who die before the age of one year, as a proportion of 1000 live children born in that particular year.
  - (ii) **Literacy Rate** : It measures the proportion of literate population in the 7 and above age group.
  - (iii) **Net Attendance Ratio** : It is the total number of children of age group 6-10 attending school as a percentage of total number of children in the same age group.

**PUBLIC FACILITIES**

- Public facilities are those which are provided by the government to satisfy collective needs of the people. Example – schools, hospitals, community halls, etc. It is the best and the cheapest way to provide these goods and services collectively. Public facilities play an essential role in providing support services to create viable, sustainable, healthy and cohesive communities, overcoming social barriers and increasing achievements.
- Government has to provide certain essential facilities like healthcare, sanitation, electricity, public transport and educational institutions.
- Human development index is the quality of life-index prepared by UNDP. It has some indicators such as :
  - **Life Expectancy at Birth** : It denotes average expected length of life of a person at the time of birth.
  - **Per Capita Income** : It is calculated in dollars for all countries so that it can be compared.
- Human Development Report published by UNDP is useful for comparison between different countries regarding the educational level of their people, their health status and per capita income.
- In some states, the Public Distribution System (PDS) functions well. If a PDS shop, i.e., ration shop, does not function properly at any place, the people there are able to get the problem rectified. Health and nutritional status of people of such states is certainly likely to be better.

**SUSTAINABILITY OF DEVELOPMENT**

- **Sustainable development** is that process which fulfils the needs of present generation, without causing any harm to the ability of the future generation to meet their own needs.
 

**The various measures for sustainable development are :**
- Controlling over-exploitation and creating an awareness to provide sustainable development.
- Increased use of renewable resources.
- Less use of fossil fuels.
- Introduction of organic farming.
- Adopting measures to reduce global warming.
- It requires preservation of stock of resources including exhaustible natural resources and environmental resources.
- Recent studies show that groundwater in India is exhausted because of its overuse. 1/3<sup>rd</sup> of the country is overusing its groundwater reserves.
- Another area of concern is exhaustion of natural resources. The resources of crude oil would last only for 46 years more in the whole world if it is used at this pace.

# CHAPTER 2 : Sectors of the Indian Economy

## SECTORS OF ECONOMIC ACTIVITIES

- All activities that give an income in return are called economic activities. Example, people going for work in factories, banks, schools, etc.
- Economic activities can be classified into different sectors on the basis of nature of work.
  - **Primary sector** : Goods which are produced by exploiting natural resources come under the category of primary sector. This sector is also called agriculture and related sector, e.g. - cotton which is a natural product.
  - **Secondary sector** : Transformation of one good into another comes under the category of secondary sector. Manufacturing is one of the important components of this sector.  
**Example** : Transformation of sugarcane into sugar.
  - **Tertiary sector** : All production units producing services which help in the development of primary and secondary sectors come under the category of tertiary sector. This is also known as service sector.  
**Example** – Services given by doctors, teachers, lawyers etc.
- These three sectors are highly interdependent on one another. This can be explained with the help of an example : Farmers buy goods such as tractors, pumpsets, fertilizers (manufacturing sector) to produce agricultural goods (primary sector). This shows dependence of primary sector on secondary sector. Now farmers want to sell their output.  
For this, they need transport facilities. It shows dependence of primary sector on tertiary sector.
- The value of final goods and services produced in each sector during a particular year provides the total production of the sector for that year and the sum of production in these sectors gives us gross domestic product (GDP) of a country.
- Tertiary sector has emerged as the largest sector because it helps in the development of primary and secondary sectors.
- Several services such as hospitals, banks, insurance companies, transport, educational institutions are the basic services which are required by primary and secondary sectors for their normal functioning.

## DIVISION OF SECTORS AS ORGANISED AND UNORGANISED

- **Organized sector** covers those enterprises or places of work where the terms of employment are regular. They are registered by the government and have to follow its rules and regulations. Therefore people have job security.
- **Unorganised sector** covers small and scattered units which are largely outside the control of the government. There are rules and regulations but they are generally not being implemented by the unorganised sector. Employment is not secure in the unorganised sector.
- In unorganised sector, protection and support is required for the workers for their economic and social development. Besides getting irregular and low paid work, they also face social discrimination.

## SECTORS IN TERMS OF OWNERSHIP, PUBLIC AND PRIVATE SECTORS

- **Public sector** is the sector which is owned, controlled and managed by the government. Activities in the government sector are guided by the motive of social welfare and not to earn profit.
- In **private sector** ownership, the production units is in the hands of private individuals.
- Activities in the private sector are mainly guided by the motive to earn profit. Examples of privately owned companies are TISCO and RIL.
- Employment is an activity from which a person earns the means of living, i.e. income in cash or in kind.

## HOW TO CREATE MORE EMPLOYMENT?

- Unemployment refers to a situation where the people who are able to work and are willing to work, fail to secure work.
- Underemployment is a situation in which people in a labor force are employed at less than full-time or regular jobs or at jobs inadequate with respect to their training or economic needs.
- In our country, majority of workers from scheduled castes, tribes and backward communities are working in the unorganised sector .
- Government can create more employment opportunities by providing better infrastructure such as roads, dams, canals etc. Further, this can be enhanced by providing services like banks, transport and communication.
- Set up industries that process vegetables and agricultural produce like potatoes, rice, wheat, tomato, fruits which can be sold in outside markets. This will provide employment in industries located in semi-rural areas.
- **Mahatma Gandhi National Rural Employment Guarantee Programme-2005 (NREGA-2005) :**  
This act is implemented as 'Right to Work' in 200 districts of India and then extended to an additional 130 districts. Under this act, all those who are able to work and are in need of work have been guaranteed 100 days of employment in a year by the government. However, only one person per family is entitled to this benefit.

## CHAPTER 3 : Money and Credit

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### MONEY AND CREDIT

- In the early times, people used to exchange one commodity for another, depending on their requirement under the barter system. However, exchanging goods in the barter system required **double coincidence of wants**.
- But money eliminates the need for **double coincidence of wants**. Since money enables the exchange process, it is also called a 'Medium of Exchange'. Early forms of money were things of daily use.
- **Modern currency :**
  - Uses paper notes and coins made of relatively inexpensive metals.
  - Has no value of its own.
  - Has a value only because it is authorised by the government of a country.
- In India, the **Reserve Bank of India** is the only legal authority that can issue currency notes and coins on behalf of the Central Government. The Rupee is India's currency and nobody can refuse to accept a payment made in rupees in India.
- People deposit their extra cash in bank. A bank in addition to keeping the money also pays interest on the deposit to the depositor. Thus, bank deposits are also called **demand deposits**.
- A person simply needs to have an account with the bank to deposit money. A cheque can be used to make payment directly from a bank deposit without using cash.
- A cheque is a written instruction to a bank by an account holder to pay a specific sum to a specific person from his deposit. A cheque has all the information about the person to whom payment is to be made, the amount and date of payment and signature of account holder issuing the cheque.

### CREDIT TERMS AND TYPES

- As per the Reserve Bank of India, banks hold about 15% of their deposits as cash to arrange for daily withdrawals by depositors.
- A major portion of the remaining deposits is used by banks to give loans to people. The depositors of a bank are allowed to withdraw their deposits on demand and are paid interest on their deposits. The borrowers taking loans repay it to the bank along with interest.

- The interest charged on loans is more than the interest paid by the banks on deposits. The difference between the interest charged on loans and the interest paid on deposits is the bank's income or profit.
- The loan given by a bank is also referred to as **credit**.
- A loan or credit is subject to certain conditions that the borrower must agree to. These conditions are called **terms of credit** and include :
  - A specified rate of interest.
  - Security against the loan to recover the money if the borrower fails to repay it. This security is called **collateral**.
  - The assets accepted as collateral are land or property, vehicles, livestock, standing crops and bank deposits.
  - A borrower needs to submit certain documents like proofs of identity, residence, employment and income to avail a loan.
  - The lender reserves the right to sell the collateral in case of non-repayment to recover the loan amount.

#### FORMAL AND INFORMAL CREDIT

The different sources of credit are :

- Banks
- Traders
- Cooperative societies
- Landlords
- Moneylenders
- Relatives and friends

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- Formal credit is generally available with the banks and cooperatives. They charge lesser rates of interest than informal institutions. The Reserve Bank of India (RBI) supervises the functioning of the formal sources of loan.
- Informal lenders include moneylenders, traders, employers, relatives and friends, etc. They charge much higher interest on loans. There is no one to stop them from using unfair means to get their money back.

#### SELF HELP GROUPS

- A self-help group is a financial intermediary committee usually composed of 10 to 25 local women between the ages of 18 and 40.
- Most self-help groups are in India, though they can be found in other countries, especially in South Asia and Southeast Asia.
- Self-help Groups (SHGs) are informal associations of people who come together to find ways to improve their living conditions.
- They are generally self-governed and peer-controlled.  
The basic objective of the 'Self Help Groups' (SHG's) is to organize the rural poor, in particular, women, into small groups so that they can pool in their savings.
- Members can take loans from the group's savings themselves on a decided rate of interest.
- Self Help Group borrowers overcome the problem of non-availability of collateral documents.

## CHAPTER 4 : Globalisation and The Indian Economy

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#### GLOBALISATION

- Globalisation means integrating the economy of a country with the economies of other countries under conditions of free flow of trade and capital and movement of persons across borders.

- Integration of markets in different countries is known as **foreign trade**.
- Planning Commission in India has laid emphasis on the development of foreign trade in the Five Year Plans due to the following reasons :
  - A country can make efficient use of its natural resources.
  - It can export its surplus production.
  - Further, through effective regularisation of foreign trade, employment, output, prices and industrialisation, economic development of a country can properly accelerate.
- Investment made by Multinational Corporations (MNCs) is called **foreign investment**.
- MNCs are playing a major role in the process of rapid integration or interconnection between countries. Now more regions of the world are in closer contact with each other than a few decades back.
- MNCs play an important role in the Indian economy by setting up production jointly with some of the local companies. Example : MNCs can provide money for additional investments like buying new machines for faster production. Take another example - Cargil foods, a very large American MNC, has bought smaller Indian companies such as Parakh Foods.
- Rapid improvement in information and communication technology has been one major factor that has stimulated the globalisation process. To access information instantly and to communicate from remote areas, devices such as telephones, mobiles and computers are very useful. Further, it has played a major role in spreading out production of services across countries.

### IMPACT OF GLOBALISATION

- Impact of globalisation on the country is manifold. This can be understood by these examples.
- MNCs have increased their investment over the past 20 years, which is beneficial for them as well as for Indians also. This is because these MNCs provide employment opportunities to the masses and local companies supplying raw material to these industries have prospered. But globalisation has failed to solve the problem of poverty and it has widened the gap between the rich and the poor. Only skilled and educated class has benefited from globalisation.
- There is a greater choice for consumers, with a variety of goods and at cheap prices. Now they enjoy a much higher standard of living.
- **Liberalisation of economy** means to free it from direct or physical controls imposed by the government. In other words, it implies liberating the trade and industry from unwanted government control and restrictions.
- Let us see the effect of foreign trade through the example of Chinese toys in the Indian market. Chinese toys have become more popular in the Indian market because of their cheaper prices and new designs. Now Indian buyers have a greater choice of toys at lower prices. Simultaneously, Chinese toy makers get the opportunity to expand business. On the other side, Indian toy makers face losses.
- **World Trade Organisation (WTO)** was started at the initiative of developed countries. The main objective of the World Trade Organisation is to liberalise international trade. At present 149 countries are members of the WTO.
- At present, central and state governments in India are taking special steps to attract foreign companies to invest in India. For this, Special Economic Zones (SEZs) are being set up. Special Economic Zones have world class facilities – electricity, telecommunication, broadband internet, roads, transport, storage and recreational facilities – to attract investment from MNCs and other companies.

### CHALLENGES AND FACTORS THAT ENABLED GLOBALISATION

- Globalisation and liberalisation have posed major challenges for small producers and workers.
- Small manufacturers have been hit hard due to competition. Several of the units have shut down rendering many workers jobless.
- Around 20 millions of workers are employed in small industries. Because of growing competition, most employers these days prefer to employ workers flexibly. This means that workers have no secure jobs.

A day off from work means no wage.

- Competition among the garment exporters has allowed the MNCs to make large profits, but workers are denied their fair share of benefits brought about by globalisation.

The government can take steps to ensure that the benefits of globalisation reach everyone :

- Formulate labour laws that are effective and watertight to ensure rights of workers.
- Have policies to protect the interests of the small producers against the MNCs.
- Erect barriers to protect the domestic economy from foreign trade and unfair competition from developed countries.
- Align with other developing countries to negotiate with WTO to impose trade restrictions like imposition of tariff and quotas.

## ➤ FACTORS THAT ENABLED GLOBALISATION : My Tutorials Coaching, Jaipur

Factors that supported globalization in India are as follows :

- Reduction of trade barriers with a view to allowing free flow of goods to and from other countries.
- Involvement of various local producers with MNCs in various ways.
- Some of the large Indian companies like Tata Motors, Infosys (IT), Ranbaxy, Asian Paints, etc. emerged as MNCs and start working globally.