Chapter-1

Economy & The History Of Its Development

The idea of Indian Economy has always been with us. The root of this is very deep. Before we got independence on 15th August, 1947, India was ruled by the Britishers for almost about 200 years. That was the period when the metaphor "The Golden Bird" was used for our country. But the Golden Bird was exploited brutally by the Britishers which resulted in the slow economic development which became negligible with time.

During independence, it was a challenge before our policy makers to prove our social, cultural, economic, and political strength before the world.

In this chapter, an introduction of economy, its development, the scale of development, and its various indexes, the situation of development in Bihar, the role of Bihar's economic development and its contribution in the country's economy development, basic features in context to development have been thrown light upon.

Economy : An Introduction

The British Government had colonized our Indian economy. Their policy of **"Divide and Rule"** made us their slaves. Despite India being an agricultural country, it was far ahead of other countries in terms of industries, business, transport and sub-structures but due to exploitation and repressive policies, the economic condition of India became ineffective and powerless. An empire of poverty, illiteracy, superstition, disparity and exploitation was created during the British rule. There was no development in Indian economy in those 200 years of British rule. There was no income stability, over-

dependence of the population on agriculture, the downfall of handicraft industries and devastated industries make it very clear that the Britishers exploited our Indian economy to its maximum.

Colony

When a particular country is under the control of administration of most prosperous nation and its economic and commercial activities are directed and controlled by the most prosperous country then this type of administered country is known as Colony of the most prosperous nation. India remained the colony of British rule for almost about 200 years.

The Meaning of Economy

In our daily life we see that almost all people are engaged in various activities to earn their livelihood. These actions are mainly related to the production of commodities and services. For example, farmers in fields and barns, workers in factories, teachers in schools and colleges, lawyers in their court are engaged in their own work. Now the question is why are these people engaged in their own work ?

The answer to this is that these people earn because they want to fulfill the demands and needs of their family members. **Our all such activities which generate income are known as Economic Activities.**

Economy is such as structure under which various financial or economic activities are performed, for example agriculture, industry, business, banking, insurance, transport and telecommunication etc. These economic activities on the one hand make good use of resources and services and on the other hand provide employment to the population so that they are able to fulfill their needs and demands from the resources available in our country.

Thus, we can say that economy functions at two different levels:

i.) for the satisfaction of needs of the people a variety of goods and services are produced,

ii.) provides employment opportunities to people.

Some economists have defined the economy in the following ways:

According to Arthur Lewis, **"Economy 'means' a nation whose entire practice is based on the satisfaction of human needs for which the resources are used."**

According to Brown, **"Economy is system of earning livelihood."**

In other words, **"The economy is an organization of economic activity under which people work to earn their livelihood."**

In short, **"The social economy is a the sum of all economic activities."**

Thus the **Economy of Bihar** means the study of absolute economic activities of the Biharis on the basis of which their basic necessities can be fulfilled by the resources made available to them.

Structure of Economy:

The structure of economy means its division into various production areas. Since various economic activities such as agriculture, industry, business, banking, insurance, transport, communication etc function within an economy, these activities can be divided into three different sections:-

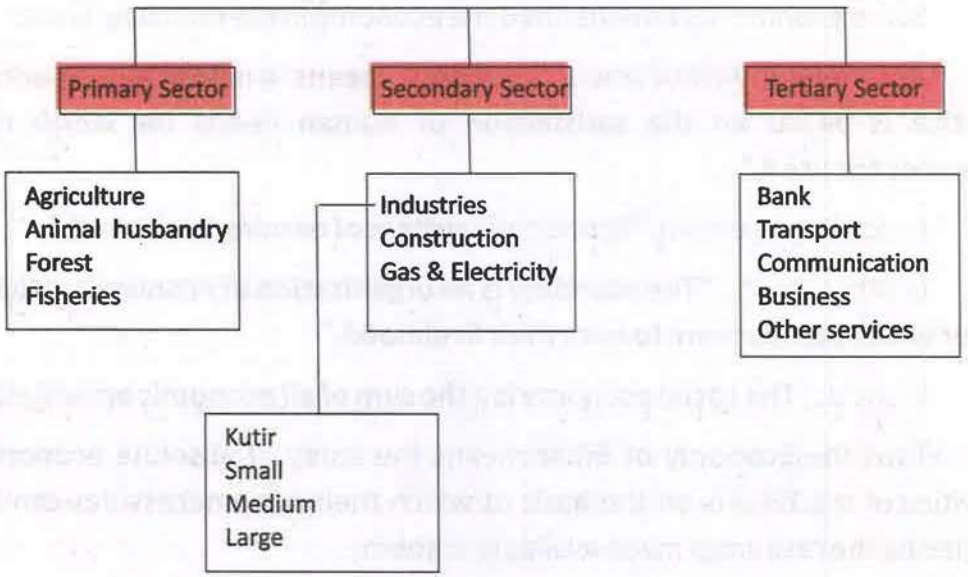
i.) Primary Sector

ii.) Secondary Sector

iii.) Tertiary Sector or Service Sector

Like every economy, the structure of Indian economy can be divided into three different sectors. This can be explained properly through the chart given below.

Structure of the Indian Economy



i.) **Primary Sector- It is also known as the agricultural sector.** Agriculture, animal husbandry, fish farming, resources from forests come under this category.

ii.) **Secondary Sector- It is also known as the industrial sector.** It includes mineral production, construction, public services.

iii.) **Tertiary Sector- It is also known as the service sector.** Banking and insurance, transportation, information, and trade etc. are included in this sector. All these activities provide help to activities performed in primary and secondary sectors, so it is known as service sector.

With the help of a Table, we can understand the contribution of all these sectors in national income-

Table 1.1 Contribution of Different Sectors in National Income

Sector	1901	1947	2007
1. Primary Sector	63.6%	58.7%	22.0%
2. Secondary Sector	12.7%	14.3%	22.0%
3. Tertiary Sector	23.7%	27.0%	56.0%
	100.0%	100.0%	100.0%

Table 1.1 makes it clear that during independence, the primary sector contributed 58.7 per cent which is now only 22 percent. The secondary sector contributed 14.3 per cent in 1947, now has increased upto 22 per cent. The contribution of the tertiary sector in 1947 was 27.0, which is 56 per cent now. This means that post-independence India is gradually moving with prosperity towards strategic development.

Types of Economy

The following three types are found in the world economy today-

i.) **Capitalist Economy-** Capitalist economy is the economy where private individuals own the means of production who use it for their own advantages. Ex- America, Japan, Australia, etc.

ii.) **Socialist Economy-** Socialist economy is the economy in which means of production are owned and operated by the government of the country which is used for social welfare. China, Cuba etc. have socialist economy. Over the years, the format of socialist economy began to change due to globalization and liberalization.

iii) Mixed Economy- Mixed economy is a mixture of capitalist and socialist economy. Mixed economy is the economy where means of production are owned by the government and private individuals. There is Mixed Economy in India. It is a mid way between capitalism and socialism.

Growth of Economy

Development of the economy has a long history. Development of the economy is like the growth of a plant. The plant evolution and maturation occurs gradually and in that situation its fruit and branches are used for human welfare, the same way the economy has grown since primitive times. We can bring changes in the economy and this is the story of development of economy.

We will have to look at India's economic growth situation to see development of the economy. The position of India's economic growth is not a miracle of only a period of time. It has its own history.

For the growth of the economy, we shall interpret the following two conditions which are both mutually cooperative actions:-

(i) Economic Development (ii) Monetary Development

(i)) Economic Development:

First we shall discuss economic development which takes place through economic planning. So first it is essential to know what is economic growth ?

There is difference of opinions among the economists regarding the definition of economic development. No universally acceptable definition can be given about it. Still you should know some of the important definitions of Economic Development. According to **Prof. Rostow**, "Economic Development is the relationship between rate of increase in Labour power and population growth".

Inclusive Growth

The process of economic growth which helps in improving the standard of living of all sections of the society and not a single section of society remains untouched with the fruits of development is known as Inclusive Growth.

According to **Prof. Meier and Baldwin**, "Economic Development is a process whereby an economy's real national income increases over a long period of time."

Therefore, it is clear that economic development is essentially a process of transformation. Due to this, changes occur in the structure of the economy. The real per capita income varies and the determinants of economic growth is constantly changing. **The main objective of economic development is to increase the productivity of all sectors of economy.** For this we have to adopt a speedy development process.

Now after understanding the concept of economic development, we must know the difference between **Economic Development, Economic Growth and Economic Progress.** Generally, it is accepted that there is no difference between Economic Development and Economic Growth. Both the concepts can be used interchangeably. But now-a-days, we have started differentiating both the concepts.

According to **Mrs. Urshala Hicks**, "The concept of growth is used with respect to developed countries from economic point of view when the term development is used with reference to developing economies." According to **Dr. Bright Singh**, the word Growth can be used for developed countries also.

Sustainable Development

The process of present utilization of natural resources for ex coal gas petroleum forest water resources, solar energy etc will deprive the coming generation from these natural resources. Not only this, the present production technique has created the grave problem of environmental pollution. All productive activities are polluting water air and land which is the subject of grave concern. Because of all these problems, the process and activity of development cannot be sustained. All these grave problems gave birth to new concept of **Sustainable Development**.

The word meaning of sustainable development is that development which can be sustained. It includes the present as well as the future generation.

According **to Brundland Commission**, "Sustainable development is that process of development which fulfills the present needs of economy/population without compromising with the abilities and capabilities of the future generation."

Maddison, a renowned economist, is of the view that **Economic Growth** is the indicator of increasing level of income of rich countries and economic development is the indicator of increasing level of income of poor countries.

The concept of Economic Progress is wider in comparison to economic development and economic growth because it is used for any economic unit and it includes both the economic growth and economic development. Generally, the word 'economic growth' or 'economic development' is used in place of 'economic progress'. Economic growth and economic development are used interchangeably. Infact, the meaning of the word Growth is inherent

in the word 'Development'. Thus there is no difference between economic development, economic growth and economic progress. Practially all three are understood as same. **Prof. Lewis** is of the same opinion.

Now we will study about Economic Planning according to which economic development is aimed at.

The meaning of economic planning is a time-bound programe under which all available resources of economy are used for fulfillment of pre-determined economic and social objectives.

There is a Planning Commission in India which plans for economic development for the coming five years. **This commission was constituted on 15th March, 1950.** The prime minister of the country is the ex-officio president of this commission. The first president of Planning Commission was Prime Minister Jawaharlal Nehru.

According to Planning Commission, "Economic planning means utilization of country's resources into different development activities in accordance with national priorities."

India has completed its 10 Five Year Plans and development is going under 11th Five Year Plan. The duration of the First Five Year Plan was 1951-1956 and the duration of 11th Five Year Plan is 2007-2012. The credit goes to planning for the economic development of India. The main objectives of planning in India are, to increase the rate of economic development, modernization of agriculture and industries, to achieve self sufficiency and promote social justice.

Meaning of Economic Planning

The use of resources of a country in different development activities according to priorities of the nation.

Planning commission of India was constituted on 15th March, 1950. The Prime Minister of India is the ex-officio president of this commission. There is a deputy president to look after the activities and eight members of the commission help the deputy president in the whole functioning.

Table 1.2 Planning in India

Planning	Period
First Five Year Plan	1951-1956
Second Five Year Plan	1956-1961
Seventh Five Year Plan	1985-1990
Tenth Five Year Plan	2002-2007
Eleventh Five Year Plan	2007-2012

National Development Council- N.D.C.

It was constituted on 6th August 1952 in India. This was constituted basically to maintain the cordial relationship and cooperation between state government and planning commission for the implementation of economic planning. Chief Ministers of all states are ex officio members of National Development Council. The function of Planning Commission is to formulate each five year plan and ultimately it is approved by National Development Council.

ii.) **Monetary Development-** In the present 21st century, there are many facilities available for people. If you go into the details of history of past years, it is clear that people had to struggle for the availability of all the comforts and facilities. In the absence of money as a means of exchange, people used to satisfy their wants by exchanging one good in terms of other.

This condition of Economic Planning is known as **Barter System.** This was the preliminary stage of Economic Development. During that time, the population as well as their demands and needs were limited. Because of their limited wants, exchange of goods was possible.

Later on, the demands of the people increased and as population increased, people started spreading out in villages and towns. Because of the development of small villages into big towns, wants of people started increasing. Amidst all this, on the basis of all the thinking of the people, **Money** was developed as a unit of exchange. Instead of goods, money became a means of exchange. Because of this development of money as a means, it was not required to move bundles of goods from one place to another. **Money became a common measure/means of exchange.** At that time, to administer a group of people, **Government came into existence. Money came into existence on the basis of acceptance of the government and the faith and confidence of people.**

People started demanding more lighter means of exchange with the development of economy.

Consequently, under the authority of the Government, banking system was constituted with the help of which it became more easier to transfer money from one place to another, known as Cheque. This is issued by one individual or institution in the name of another individual or institution and money is exchanged and transferred under the authorization of the **Government**.

In the present age, a machine known as **Computer** has replaced the mental working of the people. This is an invention of the human mind which has a more memorizing capacity in comparison to men. The computer, which runs on electricity, has made the transfer and exchange of money much easier. What is a Computer ? Look at the picture 1.1. Today, computer has

become a means of information, education and knowledge. Due to the scientific invention and its usage, where bigger computers were in use, now-a-days laptops have taken its place. Due to the increasing demands and scientific inventions, computer technicalities can be used on mobile phones also. This has been possible only due to the increasing demands of the people and scientific inventions.



Pic. 1.1 Computer : A new Invention

Nowadays, a plastic card with a magnetic stripe and with a chip has facilitated the transfer and withdrawal of money. When a person is able to do transaction of money without any delay, it is known as **Core Banking System.** In the same manner, a person who has a plastic card with mechanical marks can easily withdraw money from an indicated place any time. All this is done with the help of an electrically operated computer. The indicated place from where the customer can withdraw money is known as ATM (Automatic Teller Machine).

Per capita Income :

The most preferred indicator to measure economic development is Per capita Income. Per capita income is the average income of individuals living in the country. National income when divided by the total population of the country and that which is the quotient, that is called per capita income. As a formula-

Per-capita Income= National Income/Total Population

The World Development Report, 2006 of World Bank stated that in 2004 countries where per capita income was 4,53,000 rupees per annum or more, they are developed countries and countries whose per capita income was Rs 37,000 per annum or less are the low-income country India falls in low-income countries, because India's per capita income was only Rs 28,000 per annum in 2004.

A study of some selected states shows that there is low per capita income in Bihar. It is evident from the following table-

Table 1.3 Per capita Income of Selected States

State	Per capita Income for the year 2000-2003 (in rupees)
Punjab	26,000
Kerala	22800
Bihar	5700

From Table 1.3 it is clear that in these states Punjab has the highest per capita income and Bihar has the lowest per capita income. If per capita income is used to measure the development in these three states, then Punjab will be considered the most developed state and Bihar an undeveloped state.

Human Development Index- Human Development Index as proposed in first **Human Development Report** was prepared by **United Nation Development Program (UNDP)** under the direction of Mahbub-Ul-Haq. Human Development Report as published by UNDP compares different countries on the basis of level of education, health status and per capita income. As far as **Human Development Index (HDI)** is concerned, it has three indicators: (i) Life-expectancy (ii) Level of education (iii) Standard of living

In the form of formula :

HDI= Life expectancy index + Education Level Index + Standard of living index

HDI is the average of all these indexes. The scale of measurement of HDI of all countries varies from zero to one.

Human Development Report of India and its neighbouring countries for the year 2004 can be explained with the help of table given below:

Table 1.4 : HDI of Different countries for the year 2004

Country	HDI Value	HDI Serial
Norway	0.965	1
Austria	0.957	3
Srilanka	0.755	93
Pakistan	0.539	1.34
India	0.611	126
China	0.768	81
Bangladesh	0.530	137

Source : UNDP Human Development Report, 2006

HDI for 177 countries was computed in the year 2006. The value of HDI is 0.611 in India and it is on 126th position. This indicates that the human development is of moderate level. On the basis of Gender Development Index (GDI) India improved from 105th position in 2000 to 96th position in 2004.

Thus we can see how we have progressed from the Barter System to the system of Money Exchange. Today, we have entered into Core Banking System which has surpassed the use of Cheque. Besides ATM, we also have the facility of **Debit Card** and **Credit Card**. This is also one of the areas of Economic Development.

A Short Account of Monetary Development

1. Barter System- Goods exchanged for goods.
2. Monetary System- Exchange of goods and services in terms of money.
3. Banking System- The exchange activity through the medium of cheque.
4. Core Banking System- Under the Core Banking System, by the use of one indicator for one individual, money is transferred to another individual in another place.
5. ATM- The facility of withdrawal of money at any bank at any time by the use of a plastic card with a magnetic stripe.
6. Debit Card- Debit Card is a plastic payment card that provides the card holder electronic access to his or her bank account at a financial institution.
7. Credit Card- A Credit Card is a payment card issued to users as a system of payment which allows the card holder to pay for goods and services based on the holder's promise to pay for them.

Story of The Village Singhasini

A boy named Chottu of Village Singhasini under Ramgrahwa thana in the East Champaran district of Bihar usually observed that his mother used to exchange vegetables for grains. Whenever he was in need of sugar, paper, pencil etc., his mother used to give him grains which he exchanged for the essentials that he needed. When his father used to go to the town, he exchanged grains for Chottu and his mother's

cloth. Shyam Kumar, a relative of Chottu, was working in Patna. He once invited Chottu during Holi. One day he took him to the market on his car. After purchasing from a shop, Shyam Kumar made the payment with a small piece of plastic card.

Chottu was amazed and he questioned Shyam Kumar as to how did he get the things that he had purchased without giving anything. Shyam Kumar explained to Chottu that before evolution of money, there was barter system as your mother used to exchange grains for goods. It was monetary system in which your father sold grains for money and which he exchanged for goods and today in this computerized banking system, the price of a good is paid with a small piece of plastic card. Today we can make payments with the help of cheque also. The small piece of plastic known as **Credit Card** or **Debit Card** is also used for making payments. He was amazed to hear facts from Shyam Kumar and was determined to communicate the development of exchange with his friends of school and village.

Index and Measure of Economic Development

National Income :

It is considered the main indicator of economic development. The monetary value of all goods and services produced within a country in a particular year is known as National Income. Generally when there is more national income, the country is known as developed and when the national income is low, the country is under developed or developing.

It is surprising to know that our neighbouring country Sri Lanka is ahead of India and India being such a large country is at the lowest position in the world. But because of the increasing growth rate, situation has started improving in India.

National Human Development Report (NHDP)-

On the basis of Human Development, the first Human Development Report of India was released in April 2002 by UNDP (United Nation Development Program). The report prepared by Planning Commission was released by the then Prime Minister Atal Bihari Vajpayee on 23th April, 2002 in New Delhi. This report of Indian republic was considered as an important document by Shri K.C. Pant, the then President of Planning Commission, who was of the view that this report can form a basis for the preparation of structure of planning of different states. This first National Human Development Report (NHDR) included the estimation of the values of Human Development Index (HDI) of states and union territories for the year 1981, 1991 and 2001. Kerala was at the top most position while Bihar, Madhya Pradesh, Assam, Rajasthan and Uttar Pradesh (BIMARU) occupied lowest ranking.

Human Poverty Index as proposed in the report to know the status of poverty is very much similar to traditional poverty ratio of poverty measurement. According to National Human Development Report, Human Poverty Index (HPI) of Himachal Pradesh, Tamil Nadu, Maharashtra, Jammu Kashmir, etc has decreased. There is hardly any difference in the Human Poverty Index (H.P.I) of Bihar, Uttar Pradesh and Rajasthan.

Infrastructure

Infrastructure denotes all those facilities and services which are helpful in economic development of country. **All these factors for ex- electricity, transport, information, banking, school, college, hospital etc. are the basis of Economic Development of a country. These are known as Infrastructure.** Infrastructure is very important in the economic development of a country. A country with developed infrastructure is more developed.

In the first **National Human Development Report** it is stated that during the past years expenditure of rural mass has decreased while it has increased in urban areas by considering consumer expenditure as an indicator of economic development.

Development of Bihar

Bihar has a glorious historical background. Gautam Buddha got enlightment in Bihar. Here only Mahavir gave the message of peace. All great persons like Chandragupta, Ashok, Sher Shah, Guru Gobind Singh, Babu Veer Kunwar Singh, Gem of Nation Dr. Rajendra Prasad were born in Bihar. Mahatma Gandhi had initiated **Champaran Movement** in Bihar only. Loknayak Jai Prakash had given the slogan of "Total Revolution". Folk singer Bikhari Thakur was also born in Bihar.

But today Bihar has become a victim of various problems. There is problem of poverty, unemployment, corruption and violence prevalent in Bihar. Bihar is in a miserable condition in spite of its abundant and rich resources. Today Bihar is amongst one of the backward states.

The causes of backwardness of Bihar- These are the main causes of Backwardness of Bihar from economic point of view:

1. Increasing Rate of Population : Population is increasing very rapidly in Bihar because of which resources of development are exhausted in the fulfillment of their needs and requirements.

The causes of backwardness of Bihar

1. Increasing Rate of Population
2. Lack of Infrastructure
3. Dependence on Agriculture
4. Loss due to Flood and Famine
5. Industrial Backwardness
6. Poverty
7. Poor Legal System
8. Lack of Able Administration

2. Lack of Infrastructure : Infrastructure is very important for the development of any state or country but Bihar is backward in this state. There is lack of road, electricity and irrigation facility. There is less availability of education and health facilities. Because of this also Bihar is backward.

3. Dependence on Agriculture- Bihar's economy is based on agriculture. Majority of its population depends on agriculture for their livelihood but the situation of our agriculture is pathetic. Our agriculture is very backward. Because of this there is low productivity.

4. Loss due to Flood and Famine- Basically in Bihar water coming from Nepal causes flood in North Bihar. Every year Bihar is flooded. We have faced the disaster of Kosi flood in 2008. We have suffered so much of loss from this flood. In 2009, we also suffered from flood caused by the Baghmati River flowing from Nepal. It caused great loss to crops in its neighboring places like Sitamarhi, Darbhanga and Madhubani etc. This can be explained with the help of picture 1.2



Pic. 1.2 : Flood situation

In the same way, south Bihar also faced great famine. Because of these natural calamities, our farmers face the problem of drought. This can be explained with the picture 1.3.



Pic. 1.3 : Famine situation

Thus, our Bihar suffers from both flood and famine at the same time.

5. **Industrial Backwardness-** Development of industry is very important for any state or country. But we don't see any kind of industrial development in Bihar. All minerals and industries and engineering institutions are now in Jharkhand after partition of Bihar. For this reason there is negligible number of functioning industrial unit in Bihar.

6. **Poverty-** Bihar is suffering from immense poverty. The per capita income in Bihar is less than the half of the national average. For this reason also, Bihar is backward. There is vicious circle of poverty in Bihar.

7. **Poor Legal System-** Peaceful atmosphere is very important for any state or country but in Bihar there was weak legal system for years which prohibited people from peaceful operation of industries. Thus poor legal system is one the most important causes of its backwardness.

8. **Lack of Able Administration-** There is lack of transparency in the administration of Bihar. That is why a number of instances of corruption can be seen.

Country	Bihar	India
Population as per 2001	8.29 Crore	102.9 Crore
Population growth rate	2.5%	1.9%
Literacy rate (Total)	47.53%	65.4%
Literacy rate (Male)	60.3%	75.8%
Literacy rate (Female)	33.5%	54.1%
Annual Development rate	2.7%	6.0%
Agricultural Development rate	73%	60.0%
Population of BPL	42.6%	26.0%
Per capita Income	Rs. 3948	Rs. 13226

Source : Different Govt. documents

The present Governor on 27th June, 2005 in the National Development Council presented the economic condition of Bihar which is evident in the above mentioned table. From the above mentioned table, it is clear that the economic development is very slow in Bihar, but in the present, according to the estimation of C.S.O where the G.D.P in 2003-04 was negative by -5.15 % which drastically changed from 2004-05 to 2008-09 into 11.03 % and this rapid development made its stand next only to Gujarat which was a faster developing state. The growth rate of Gujarat in 2008-09 was 11.05 % while the growth rate in Bihar was 11.03%. This rapid development in Bihar is called by some economists as Miracle Economics.

Steps to remove the backwardness in Bihar- Rapid economic development is the solution to improve the condition of Bihar. To enhance the economic development in Bihar it is necessary to curb its backwardness. The former president of India Dr. A.P.J. Abdul Kalam has rightly said, "India cannot be developed without the development of Bihar." Bihar is a big state and progress in its development would ultimately lead to India's progress.

The following steps can be taken to remove the backwardness in Bihar-

1. **Population Control-** The population should be kept well under control. Family planning programme should be put into practice. For this the people of Bihar, esp. women should be given education.

2. **Rapid Growth in Agriculture-** Bihar is an agriculture based state. So new techniques and machines should be used. Good quality of fertilizers and seeds should be used so that there is increase in production. This agricultural development in Bihar would automatically improve its economic development.

3. **Flood Control-** Flood is one of the major hindrances in the development of Bihar. Crops are destroyed due to floods and there is loss of

life too. Many of the rivers of North Bihar originate from the Himalayas. With the help of Nepal government flood control could be made successful.

Unfortunately the southern Bihar is in the grip of famine which can be improved by adopting new techniques of irrigation.

4. Development of Infrastructure- There is shortage of electricity in Bihar. So, electricity generation should be increased. Roadways should be improved. To enhance the rate of economic development, there must be improvement in education and health facilities.

5. Industrial Development- After Bihar Jharkhand partition, Bihar was deprived of industries. Only the sugar mills which were closed were left in Bihar. For the revival of the industries, during the past few years, effort was made to increase and promote the foreign capital investment in the country.

6. Removal of Poverty- Poverty has the biggest impact on Bihar. More than 42 % of the people are under poverty line. Employment facilities should be increased. To increase self-employment, the people of Bihar should be given training in different fields.

7. Establishment of Peaceful Environment- There should be a peaceful environment in Bihar which would encourage the industrialists/businessmen to establish themselves in Bihar which would facilitate the rapid economic development.

Steps to remove the backwardness in Bihar:

1. Population Control
2. Rapid Growth in Agriculture
3. Flood Control
4. Development of Infrastructure
5. Industrial Development
6. Removal of Poverty
7. Establishment of Peaceful Environment
8. Clean and Honest Administration
9. Transfer of Resources from the Centre

8. **Clean and Honest Administration-** For the economic development of Bihar, a clean and honest administration is essential.

9. **Transfer of Resources from the Centre-** For the development of Bihar, transfer of resources from the centre is essential. By providing status of special states, more assistance from the Centre can be provided to them. After being declared as a 'Special State', Jammu and Kashmir, Punjab and North Eastern States of India have been getting this special assistance.

From the economic point of view, Bihar has been considered a backward state. After the Bihar Jharkhand partition on 15th November, 2000, many of the mineral enriched areas went into Jharkhand state and Bihar was left with some industries and fertile lands. Majority of the population's dependence on agriculture, lack of irrigation facilities, high rate of increase in population and poverty are some of the major concerns of Bihar. Mostly there is flood in North Bihar and famine in South Bihar. In 2008 the effect of the Kosi flood was devastating. In these adverse conditions, development of roads, electricity, canals and health facilities need extra requirement. The internal resources are unable to fulfill these requirements. So these days more emphasis is given for providing status of 'Special State' to Bihar. Several political efforts were made in this respect. More assistance from the Centre for the development and exemption from different taxes will be given to Bihar after securing the status of Special State, which will accelerate the growth rate of development in Bihar. But there is a lot of practical and administrative problems in giving the status of Special State to Bihar.

Role of Development of Bihar in Economic Development of the Country

Bihar is an important state of the country. Bihar has its own importance in India from geographical area and population point of view. So it is rightly said that **development of Bihar is necessary for the development of the country.** With respect to the determination of the scale of

development and political participation, Bihar cannot be ignored. A famous economist, Kuznett was of the view with respect to the world, "Poverty is just like cancer. As cancer of a small part of body poisons the whole body, in the same way poverty of a small section harms the prosperity of the whole world."

The justification of the above statement is that we cannot think of development and growth of India leaving behind poor and backward Bihar.

Bihar is such a state of the country where there is more fertile land. There are continuous flowing rivers from Himalayas. We get water at the lower level of the earth. We can save North Bihar from adverse effect of flood and South Bihar from drought by providing irrigation facilities, by river interlinking of Bihar and implementing planning of use of water resources.

There is no shortage of skilled human resources in Bihar. Today Bihar is not only more participative in technological area but less educated labourers also contributed towards development by moving to other states.Human resources of Bihar have contributed in information technology of the country and agricultural development of Punjab.

Biharis have contributed significantly towards the economic development of every area of the country. By developing agriculture of Bihar and agro-based industries with the contribution of natural resources and industrious human resources, the state can be developed. Recently the rate of development has accelerated in Bihar. According to Central Statistical Organization (C.S.O.), the present rate of development of Bihar is 11.03 % which is second in the country after Gujarat 11.5 %.

Agro-Based Industry

All those industries which are dependent on agricultural production or get raw materials from agriculture in their production are known as Agro-Based Industries. For ex. to prepare pickle from mango and tomato sauce from tomato etc.

In the recent years, the rate of development has accelerated in India. Because of the accelerated rate of development, there was less adverse effect of economic crisis of present time on economy of India. It is a matter of immense satisfaction that different efforts were made for the development of Bihar in the last few years. This progress of Bihar has been acclaimed worldwide. If the country and Bihar participate in the present process of development, then India will be amongst the developed countries in the 21st century from the economic point of view. So it is clear that the economic development of Bihar has an important role to play in the economic development of the country.

Relation Between Basic Wants and Development

The minimum basic requirement of the people of the country is food, clothing and shelter. There is repetitive strong slogans for food, clothing and shelter in the corridors of administration so that minimum requirements of the people are fulfilled by the development of the country. The desire of the poor people of the country is to fulfill these minimum basic requirements. Many programmes were implemented for the development of the country from more than past sixty years of its independence. Increasing population is a major obstacle in the development process. Even increasing rate of development could not alleviate poverty. Because of this the total number of people below the poverty line has not decreased.

Poverty Line :

A border line has been defined by Planning Commission to understand poverty. It has been defined as per calory standard. 2400 calory for rural areas and 2100 calory per person for urban area has been established as standard line.

People who live below this standard line defined as Below Poverty Line, which is called BPL in short form.

MNREGA

MNREGA is a national scheme for rural employment. Under this rural labourers are provided at least 100 days of employment per year. For this, minimum wage is fixed.

Food can be provided to the people through the integrated justifiable **Public Distribution System**. Income of the people can be increased through employment opportunities in the country which will make them available food, clothing and shelter. There are national employment schemes for the poor labourers of rural areas in the country. This scheme started under National Rural Employment Guarantee Act. In short, it is known as **"NREGA"**. This scheme is a major employment scheme of the world to provide rural employment.

The concept of development means the integrated development of all areas and sectors of the country. By all areas we mean agriculture, industry, business etc. and development of all sections mean development of the whole society without any discrimination and bias. These days the concept of integrated development of all sections has become important which is known as **"Inclusive Growth"** in economic dictionary. Thus our effort is to fulfill basic requirements of the people with the development of the country.

SUMMARY

- The idea of Indian economy development has always been with us. The roots of this development are very deep. Before the British rule, India was known as the 'Golden Bird' but during the British rule of 200 years, the Indian economy was exploited to its maximum.
- Economy is the system of earning livelihood.
- The structure of economy means its division into different productive areas. Indian economy has been divided into three parts (i) Primary

- The world economy has been categorized into (i) Capitalist Economy, (ii) Socialist Economy and (iii) Mixed Economy. India has Mixed Economy.
- Economic Development is such a process in which there is increase in actual National Income of a economy.
- The credit goes to Planning for economic development.
- The meaning of Economic Planning is the best possible use of resources of the country in different developmental activities on the basis of the Nation.
- Per Capita Income is the best possible index for measuring Economic Development.
- According to the Human Development Report- HDR published by UNDP, the educational status, health conditions and per capita income are some of the index on which different countries can be compared.
- In spite of its rich resources, the condition of Bihar is miserable. Bihar comes under the category of a backward state. This state suffers from flood and famine every year and this is the major cause of its backwardness.
- The condition of Bihar can be improved by accelerating the rate of Economic Development. Former President A.P.J. has rightly said "The development of India is impossible without the development of Bihar."
- Today the status of 'Special State' for Bihar is demanded from the Central Government. If this demand of the people of Bihar is accepted by the Central Government, then Bihar may get a special economic package. Bihar can improve itself economically with the help of this special economic package.
- Central Government is facing many practical and administrative problems in providing the status of 'Special State' to Bihar.

Questions

Objective Questions

I. Tick the correct option

1. The following are known as Primary Sector
   (a) Service Sector (b) Agricultural Sector
   (c) Industrial Sector (d) None of these

2. Which country has a Mixed Economy ?
   (a) America (b) China
   (c) India (d) None of these

3. When was Planning Commission constituted in India ?
   (a) 15th March, 1950 (b) 15th September 1950
   (c) 15th October 1951 (d) None of these

4. The country which has more National Income is known as —
   (a) Underdeveloped (b) Developed
   (c) Partially Developed (d) None of these

5. Which of these are known as Backward State
   (a) Punjab (b) Kerala
   (c) Bihar (d) Delhi

II. Fill in the blanks :

1. India was a ..... of British rule.
2. The British Rule has ..... the Indian Economy.
3. Economy is the ..... of livelihood.
4. Secondary Sector is known as .....
5. Necessarily economic development is .....
6. The credit of Economic Development of India goes to .....
7. ..... is the most appropriate measure of Economic Development.

8. Bihar is ....., even though it is rich in natural resources.
9. ..... is the basis of life in Bihar.
10. ..... is the main obstacle in the development of Bihar.

III. Short-Answer Question :

1. What is Economy ?
2. What is Mixed Economy ?
3. What is Sustainable Development ?
4. What do you understand by Economic Planning ?
5. What is Human Development Report ?
6. Give a short account of Infrastructure.

IV. Long-Answer Question :

1. What do you understand by Structure of Economy ? What are its different parts ?
2. What is Economic Development ? Differentiate between Economic Development and Economic Growth.
3. Use some of the index to measure Economic Development.
4. What are the causes of economic backwardness in Bihar ? Suggest some remedies to remove its backwardness.

Project Work:

1. Present a project proposal for the Economic Development of your town/village.

Answers to Objective Questions :

I. 1. (b) 2. (c) 3. (a) 4. (b) 5. (c)

II. 1. Colony 2. Exploitation 3. System 4. Industrial Development 5. Change 6. Planning 7. Per Capita Income 8. Miserable 9. Agriculture 10. Flood.

Chapter-2

State and National Income

Income:

We all know that every person of the society earns through his labour, and that earning is known as Income. Income may be in terms of money or goods. Income is monetary expression of earnings. The wealth which is earned by people as a reward for labour is expressed in terms of Income.

Individual and social income is the index of prosperity or poverty of any economy. Income is that measuring rod with the help of which situation of economic development of a country can be computed. It is the income which categorizes any state or country into developed and developing stage. Among Indian states Goa, Delhi and Haryana are considered as developed on the basis of income, while, on the other side Bihar, Odisha, and Madhya Pradesh are considered as states of lower stage of development. Thus, countries such as United States of America and Japan are considered as developed and India is on the lower ladder of development on the basis of income. This is different because of growth rate, India is heading towards the category of developed countries for the past few years.

Income

The remuneration which a person gets for any type of physical and mental work is known as Income of a person.

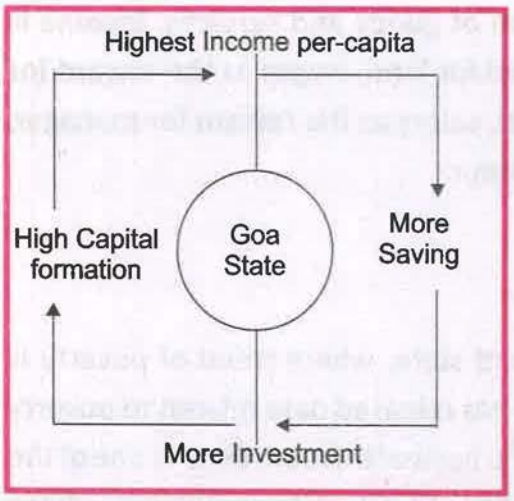
As for example **in the production of goods and services, Income is expressed in terms of rent as the reward for land, wages as the reward for labour, interest as the reward for capital, salary as the reward for manager, profit or loss as the reward for entrepreneur.**

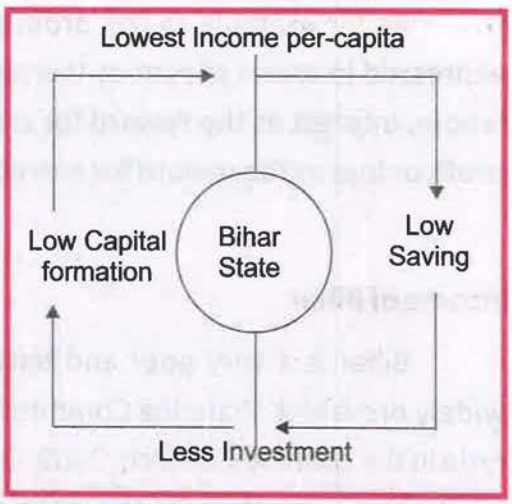
Income of Bihar

Bihar is a very poor and backward state, where trend of poverty is widely prevalent. Planning Commission has released data related to poverty ratio in the country in March, 2009. On the basis of this data Bihar is one of the most poor states after Odisha in the country. 41.4 % of its population is living below poverty line. Per Capita Income of Bihar is lowest in the whole country which causes low level of saving. Because of less saving, rate of capital formation is low. Low rate of capital formation causes less investment, as a consequence Per Capita Income again stands at low rate. Contrary to this, Per Capita Income is high in other developed states for example Goa, Delhi etc., which causes high saving and investment. Rate of capital formation is high and consequently Per Capita Income increases. Generally, we know that poverty gives birth to poverty. **This statement is expressed by Ragnar Nurkse in terms of Vicious Circle of Poverty** which summarizes that the poor is poor because of poverty, which causes low income. Because of lack of education and knowledge more children are born and thus their future generation becomes more poor. This vicious circle of poverty goes on continuously. This means that poverty gives birth to poverty.

Let Us Know

The concept of Vicious Circle of Poverty was given by Ragnar Nurkse. Bihar is victim of this vicious circle of poverty. For this reason only Per Capita Income in Bihar is the lowest in the country.





Among all 28 states and 7 union territories in India, Chandigarh has the highest Per Capita Income. For the last five years, with respect to this, it is maintaining the same position. An institution, known as Directorate of Economics and Statistics, determines the scale of measurement of income. On the basis of the data released by it on 16th September, 2008, Per Capita Income in Chandigarh is 70,361. With respect to only 28 states, Goa and Delhi has the highest Per Capita Income. **According to recent data of Directorate, Per Capita Income in Goa is Rs. 54,850, in Delhi Rs. 50,565 and Haryana is at third place leaving behind Punjab.** According to Central Statistical Organization in Bihar in 2008-09, growth rate of National Income is 11.03 % which is at the second place after Gujarat (11.05%). Thus, now Bihar is heading towards development leaving behind its backwardness.

Let's Know

According to this report of Commission, India's per capita income in 2008-09 is Rs. 25,494 whereas Bihar's per capita income in 2005-06 is Rs. 6,610. Amongst all the 38 districts of Bihar, Patna has highest per capita income and Sheohar distict has lowest per capita income.

National Income

The concept of National Income is the most important aspect of Economics. Economic Development of any country depends on National Income. And the most appropriate means to measure the economic progress is National Income. National Income is the result of the coordinated effort of different factors of production. Each and every factor contributes in production, so the income earned from produced goods is distributed among all factors of production. In the computation of National Income, the concept of distribution has an important role to play. In fact, National Income is the result of the cooperation of different factors of production. And National Income is distributed among these factors of production. So we will study National Income in detail.

Let's Know:

By national income we mean the total value of all the production and services in one given year. In other words the total earning of a country in the one full year is called national income.

Area is constructed with the group of people, state is constructed with the group of areas, country is constructed with the group of states, in the same manner, total monetary value of all material (which can be measured in terms of value) and immaterial (those services which increase the resource indirectly) things produced with the help of available labour and capital, and natural resources is known as **National Income.**

Children, you know that usually material goods are produced by field and factories in villages and urban areas. Teachers, doctors, engineers, clerks, officers and people of other classes contribute towards the prosperity of the nation with their services. Thus produced items from agricultural land and production done by knowledge and ability is known as **National Income.**

When the income earned from material and immaterial services is computed in totality, then it is known as Total Production. When the expenditure incurred during production is substracted from income then it is known as Net National Income. The concepts of Gross Production and Net Production have their own importance in Economics.

Some definitions of famous economists to explain the term of National Income are mentioned as follows-

According to Prof. Alfered Marshall, "The labour and capital of a country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial, including services of all kinds is called **National Income.**"

It is clear from Marshall's definition that all those goods and services come under National Income, whose production is usually done with the help of labour, capital, and natural resources during a particular year.

Let Us Know

If the total capital is invested in foreign countries, then income earned from this is also added to **National Income.**

Prof. Pigou has defined National Income as discussed below:

"National dividend is that part of the objective income of the community, including of course income derived from abroad, which can be measured in money."

Another famous economist Prof. Fisher was of the view that "The true National Income is that part of annual net produce which is directly consumed during that year."

Prof. Keynes defined **National** Income from new **angle to overcome the great** Depression of Thirties (1929-33). According to him **National Income is** expressed **in terms** of total consumption expenditure and **investment** expenditure. In the terms of formula

$$Y = C + I$$

Where,

Y= National Income,

C= Consumption Expenditure,

I= Investment.

Now we will discuss **the** concept of National Income, to know **the** different types of **income** which are included **under** National Income. The concept of National Income can **be explained by the following aspects.**

Concept of National Income

1. Gross Domestic Product
2. Gross National Product
3. Net National Product

1. Gross Domestic Product (GDP)- The total quantity of goods and services produced in an economy in a given year is called Gross Domestic Product.

Gross Domestic Product

Gross Domestic Product (GDP) is the market value of the final goods and services produced during a year within the domestic territory of a country.

2. Gross National Product (GNP)- Gross National Product is the market value of the final goods and services produced within the domestic territory of a country by the normal residents during an accounting year along with net factor income earned from abroad.

GNP= Gross Domestic Product + Net factor income from abroad.

Net factor income from abroad is the difference between factor income (rest, interest, profit and wages) earned by our residents from rest of the world and factor income earned by non-residents within our country.

3. Net National Product (NNP)- Some capital goods are used up in the production process through normal wear and tear, obsolescence and accidental destruction (for example, the machinery that breaks down and no longer works). The cost to replace these capital goods is called the capital consumption allowance or depreciation. When we substract depreciation from Gross National Product, it is known as Net National Product (NNP). Thus when we substract the cost of raw material, expenditure on wear and tear of capital and expenditure of insurance from Gross National Product, we get Net National Product.

National Income of India- A Historical Perspective

Before Independence, no special effort was made for the estimation of National Income. In **1868, Dada Bhai Naoroji** estimated National Income

for the first time. In his book 'Poverty and British Rule in India', he stated that the Per Capita Annual Income is Rs. 20. After that other intellectuals also estimated National Income and Per Capita Income individually. National Income Statistics as suggested by famous economist **Dr. V.K.R.V. Rao** between **1925-29** was more widely prevalent.

After independence, a committee on the National Income was constituted in August 1949 under the chairmanship of **Prof. P.C. Mahalanobise** and its objective was to estimate National Income of India. This committee released its first report in April 1951. According to this report, total National Income and Per Capita Income of the country was Rs. 8,650 crores and Rs. 246.9 respectively in 1948-49. After 1954 **Central Statistical Organization** was constituted by the Government for estimation of National Income. This institution publishes National Income Statistics regularly. All the three sectors of economy have contributed towards the creation of National Income.

Per Capita Income

In a country like India, where population is increasing at a higher rate, there is low per capita income, high illiteracy level, and diversity of languages, standard of living and cultures. It has been continuously recognized that the Per Capita Income should be increased to fulfill different economic and social objectives. Only after that we can make our life full of happiness, and increase our standard of living.

Per Capita Income

The quotient remaining after dividing total income by population is known as Per Capita Income.

$$\text{Per Capita Income} = \frac{\text{National Income}}{\text{Total Population of the Country}}$$

Let's Know :

India has very low income and the level of per capita income is also low. According to World Development Report 2009, per capita income in India in 2007 was 950 dollar. Per capita income of India is about 1/48 of per capita income of the United States of America. Thus per capita income of some of the countries of the world are as follows :

Per capita income in America= 46,040 dollar

Per capita income in England= 42,740 dollar

Per capita income in China= 2,360 dollar

Per capita income in Bangladesh= 870 dollar

Many steps were taken in five years plan for the restructuring of rural economy, but because population is increasing at a higher rate of growth in comparison to growth rate of industries, the burden of population on the land is continuously increasing during the past years, which is the cause of poverty and unemployment. Now at present times, even though agricultural reforms, qualitative development in science, technology and many other sectors are not providing employment opportunities to the people. This is the reason that unemployment causes poverty by reducing Per Capita Income. In this respect, by providing employment opportunities in non-agricultural sector, excessive burden of labour force on agriculture can be lessened, and we can contribute significantly in agriculture, industry, removal of unemployment and national development.

Measurement of National Income

We know that production of goods and services is the result of combined efforts of different factors of production. Under production process, factors of production receive income in the form of rent, wages,

interest and profit. The owners of these earnings demand different goods and services to satisfy their own wants. This increase in demand causes increase in production and circle of productive activities is completed. This statement can be explained with the following diagram:

Production → Creation of Income —Demand→ Expenditure → again incentive for increase in production

Production

Expenditure Income

Measurement of National Income

Production Income Expenditure

Production and Value Added Method | Income Method | Expenditure Method

There are various ways of computation of National Income, because the people of the nation get income through the medium of production or monetary income. So when it is computed by adding production, it is known as Census of Production Method. When the National Income is estimated on the basis of income of people of the nation, then this estimation method is known as **Census of Income Method.** All people spend their earning as consumption. Therefore, National income can be estimated by measuring expenditure of

Let's Know

National Income is the most reliable measure of calculation of Economic Status of the Nation.

people. This process of estimation of National Income is known as **Census of Expenditure Method**. When the market value of produced goods increases through the efforts of people in different situations, then the method used in this situation for estimation of income, is known as **Census of Value Added Method**. When National Income is estimated on the basis of occupational structure, this estimation is known as **Census of Occupation Method**.

Although National Income is estimated with five above mentioned methods, but the **Census of Production Method** and **Census of Income Method** is used in economics, are simple, scientific and practical from economic point of view, for the estimation of **National Income**.

Difficulties in the Measurement of National Income

To know the economic situation of the nation, it is necessary to know the National Income of that country. National Income is simple measure of economic development of the country which is calculated by adding Per Capita Income of the people of the country. It is on the basis of National Income, that different countries of the world are categorized into developed, developing and under developed for evaluation. Even though National Income is the universal measure of estimating economic status of the nation, practically we face a lot of problems in the estimation of National Income which can be expressed briefly as mentioned below-

(i) Difficulty in collecting data- Income of the people of whole country is estimated either in terms of production or income but we face many problems in the process of collecting data. If the correct data is not available, the actual status of development of the nation cannot be known.

(ii) Possibility of double counting- It is not easy to collect the data related to production or income of whole nation. Structure of geographical and human resource structure is such that sometimes some income or production is indicated at two places. Because of this double counting income appears to be more than actual income.

(II) Difficulty in measuring the value- In the market it is always seen that the same good is valued differently because of its movement from different business conditions. This difference in the price of the commodity is due to addition of its expenditure on transportation and advertisement and the amount of profit of sellers by moving from one section to another section of the sellers, for example- the production value of sugar is always less than the machineries but the value increases when it reaches wholesellers and lastly its price becomes high in comparison to its earlier price by reaching to retailers. Often in this situation, when the data is added at two points separately, then there is possibility of misleading situation of National Income.

While estimating National Income, all the above mentioned factors should be considered for clear, practical and reliable data. As we know that through the process of collection of National Income Statistics only one measure should be adopted for the correct evaluation of economic situation of the nation.

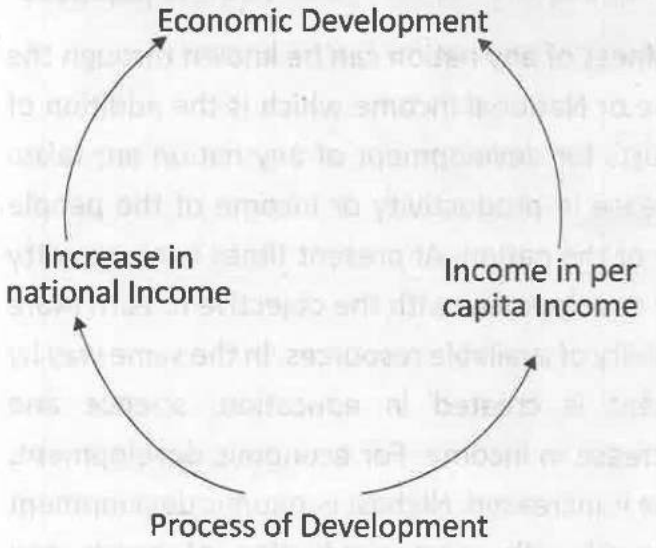
Contribution of National and Per Capita Income in Economic Development

Prosperity or backwardness of any nation can be known through the medium of Per Capita Income or National Income which is the addition of income of all people. All efforts for development of any nation are taken through the medium of increase in productivity or income of the people residing within the boundary of the nation. At present times every country prepares its own planning for development with the objective to earn more income by increasing productivity of available resources. In the same way by investing capital, employment is created in education, science and technology, which causes increase in income. For economic development, mainly production and income is increased. Highest economic development of the nation can be achieved with more production of goods and

maximization of income of the people. Thus, we can say that 'Per Capita Income and National Income are correct measure of Economic Development. Without increasing production neither income of the people is increased nor economy is developed.

The standard of living of people is affected by changes in National Income and Per Capita Income. In fact, National Income is the produced net product within the country in a particular area. Productivity can be increased by increasing the number of labourers in production. Thus with the increase in production more employment will be created, wages of labourers will increase, and standard of living will be better with the increased income. Development of people is possible with the increase in Per Capita Income. Increase in Index of National Income shows the improvement in economic development of people.

National Income includes all those services which can be expressed in terms of money or for which payment is made. Estimation of National Income does not include all those services for which payment is not made. For example- Services of a nurse to her child is not included in National Income. But at the same time contribution of her services to the hospital is included in estimation of National Income. Generally after this estimation, the process of development goes on continuously.



There should not be any decrease in the income of the poor. If the Per Capita Income and National Income increase under the process of development, because if the increasing part of the income goes to the rich, balanced economic development is not possible even though there is an increase in income. This is the reason that these days Government is giving emphasis on Inclusive Growth through Planning Commission.

If the increase in population is in the same proportion or increasing proportion in which National Income increases, then in that case economic development of the society is not possible. In spite of all these situations if there is general increase in National Income, then we can find some general economic development of people.

With the change in the income and time, there is change in test, preferences and nature of poor people, because of which, they make best use of their increased income. Thus the economic development is definite. We can conclude that because of the increase in Per Capita as well as National Income, economic development of the society increases or will increase except few situations and economic development of society will decrease because of the decrease in National Income and Per Capita Income.

SUMMARY

- Bihar has the lowest Per Capita Income in India.
- At present Gross Domestic Product (GDP) is (negative) -5.15 % and (positive) 11.03 % in 2003-04, and between 2004-05 and 2008-09 respectively. It is a good sign of development of Bihar.
- National Income is most scientific and acceptable statistics of Economic Development of any country. There are many such institutions who publish certified statistics of income of that country.
- Per Capita Income= The ratio between National Income and National population in a particular period.
- Central Statistical Organization is an universal certified institution for the estimation of National Income in India.
- In the most popular earlier effort for computation of National Income, industrialist Dada Bhai Naoroji was of the view that Per Capita Income in 1968 is Rs. 20.
- Several efforts were made for the estimation of National Income, but statistics given by its famous economist Dr. V.K.R.V Rao was most popular in 1925-29.
- The monetary value of all goods and services produced within the country in a particular year is known as Gross Domestic Product.
- Census of Production Method and Census of Income Method for estimation of National Income are simple, scientific and practical from economic point of view.
- Problems in estimation of National Income- (i) Difficulty in collecting data, (ii) Possibility of double counting, (iii) Difficulty in measuring the value.
- Economic Development is possible only with the increase in income and Per Capita Income through the medium of the process of development.

Questions

Objective Questions

I. Choose the correct option-

1. According to 2008-09, Per Capita Income in India is —
   (a) Rs. 22,553 (b) Rs. 25,494
   (c) Rs. 6,610 (d) Rs. 54,850

2. Financial year in India is —
   (a) From 1st Jan to 31st Dec (b) From 1st July to 30th June
   (c) From 1st April to 31st March (d) From 1st Sept to 31st August

3. Which state in India has maximum Per Capita Income ?
   (a) Bihar (b) Punjab
   (c) Haryana (d) Goa

4. Which district of Bihar has maximum Per Capita Income ?
   (a) Patna (b) Gaya
   (c) Shivhar (d) Nalanda

5. From economic point of view, production and income method are—
   (a) simple (b) scientific
   (c) practical (d) All of above

II. Fill Up The Blanks :

1. ..... percentage of population in Bihar is below poverty line.
2. Production, income and ..... complete a circular group.
3. Increase in National Income causes ..... in Per Capita Income.
4. The process of ..... is completed by increase in National Income and Per Capita Income.
5. In Bihar Gross Domestic Product was ..... in the year 2008-09.

III. Which of the following statements is true or false :

1. National Income increases the productive capacity of any economy in a particular period.
2. Production Income and expenditure do not complete the circular group.
3. Per Capita Income in India is more than Per Capita Income of America.
4. According to Dada Bhai Naoroji, Per Capita Income in India was Rs. 20 in 1968.
5. Agriculture sector contributed mostly in the Per Capita Income in Bihar.

IV. Complete the Abbreviation :

(i) G.D.P.	(ii) P.C.I.	(iii) N.S.S.O.	(iv) C.S.O.
(v) G.N.P.	(vi) N.N.P.	(vii) N.I.	(viii) E.D.I.

V. Short-Answer Question :

1. What is Income ?
2. What do you mean by Gross Domestic Product ?
3. What is Per Capita Income ?
4. When and by whom was National Income estimated in India for the first time?
5. By which institution in is India National Income computed ?
6. Explain the problems involved in the computation of National Income.
7. Explain the relationship between Income and Poverty.

VI. Long-Answer Question :

1. When and for which objective did Indian Government constitute National Income committee after Independence ?
2. Define National Income. What are the methods of its measurement ?

3. Explain the difference between Per Capita Income and National Income.
4. How is increase in income profitable for development of India ? Explain.
5. Write a short note on Per Capita Income in development.
6. Does the increase in Per Capita Income affect National Income ? Explain.

VII. Project Work

1. Students, explain sources of income of your own family through chart.
2. Plan for a debate relating to National Income and Per Capita Income by dividing students of the class among two groups.
3. Students, prepare a table explaining total monthly income of your family, and expenditure incurred on dependents on income.

Answer to Objective Questions

I. 1. (b) 2. (c) 3. (d) 4. (a) 5. (d)

II. 1. 41.4 2. Expenditure 3. Increase
4. Development 5. 11.03

III. 1. True 2. False 3. False 4. True 5. True.

Chapter-3

Money, Savings and Credit

Today, money plays an instrumental role in shaping economic structure. Without money, an economic system has no existence. In the present times, all activities related to production, consumption, exchange and distribution etc. are effected by money. Thus money has become an inseparable part of life. Modern society gets many advantage from money, and because of this, money has more utility. According to Marshall, "The credit for present progress goes to money. According to Truscott, "If money is not the heart of our economic system, it can certainly be considered its blood stream. Thus money is the strength of our life economy."

EVOLUTION OF MONEY- HISTORY OF MONEY

Money has an important role to play in our economic and commercial life. It is considered as the backbone of our modern economy. At the early stage of civilization, human wants were limited, and they used to satisfy their wants by producing themselves. But with the increase in population, human needs started increasing. It became difficult to satisfy all human wants by their own production. Gradually, they started satisfying their wants by exchanging goods among themselves. Today for the satisfaction of most of

the wants, people depend on other people. Usually each person is engaged in a particular activity. The income earned by them is used for purchasing other goods. Thus, the importance of exchange has increased today.

Forms of exchange

(I) Barter system

(II) Monetary system

(i) BARTER SYSTEM

Barter means direct exchange of goods and services. Under barter system, both sale and purchase of goods and services takes place without the use of money. In other words, barter system of exchange is a system in which goods are exchanged for goods with the mediation of money. For example, exchange of rice is for wheat, exchange of oils for vegetable, exchange of curd for milk etc. This system was prevalent in old days. Practically because of this system, people suffered a lot of problems,

Difficulties of Barter system:

People suffered following difficulties due to the barter system,

1. Lack of double coincidence of wants:

The barter system requires a double coincidence of wants on the part of those who want to exchange goods and services. It is necessary for a person who wishes to trade his goods and services to find some other person who is not only working to buy his goods and services, but also possesses that goods which the farmer wants. Such a double coincidence is a rare possibility. This can be explained with the help of an example. Lieutenant Cameron wanted to cross the river in Africa, but the boatman used to ask for the teeth of elephant for helping him in crossing the river which he did not have

Cameron came to know about the person who wanted to exchange elephant teeth for cloth, but Cameron had no cloth. After some times, he knew about a third person who had cloth and wanted to exchange it for wire. Fortunately, Cameron had wire. He exchange wire for cloth and cloth for elephant teeth, and ultimately crossed the river by paying elephant teeth. But his time was wasted because of lack of double coincidence of wants.

Difficulties of barter system :

1. Lack of double coincidence
2. Lack of common measure of value
3. Lack of store of value
4. Lack of divisibility
5. Difficulty of future payment
6. Problem of transfer of value

2. Lack of common measure of value-:

another major difficulty of barter system is related with common measure of value. There was lack of a common measure of value to measure the price of goods and services. For example, what will be quantity of ghee required for one kilo of rice? How will it be determined as to how many goods are required for a cow etc?

3. Lack of stone of value :

In barter system, there was difficulty of storing the produced goods. Because store of purchasing power for future cannot be made due to perishable in nature of most of the goods. It was difficult to store perishable goods for example fish, fruit, vegetables etc. for long time.

4. Lack of Divisibility:

some of the goods are of such nature that cannot be divided. If divided, the utility is lost e. g. Living animals. This difficulty related to lack of divisibility occurs when a person has a cow and he wants three or four things which are available from different persons. In this situation, a cow cannot

be divided into three or four pieces because it will destroy the utility of a cow. Exchange was difficult in this situation.

5. Difficulty of future payment:

in barter system, lending and borrowing was difficult. For example, a man lends his cow to the other man for two years.

In these two years, the other man is availing the cow's milk and using the cow dung as fuel. So, it was found that the lender is in loss and the borrower has advantage.

6. Problem of transfer of value:

Barter system faces the problem of transfer of value because in many situations, it was difficult to shift the static asset from one place to another place. The problem was more critical when a person was migrating from one place to another. In this condition, he had to leave his asset because it was difficult to sell them. For e.g., a person living in Allahabad is shifting to Agra, could not exchange his house for another one in Agra. But with the development of money, he can sell his house in Allahabad and can buy one in Agra.

MONETARY SYSTEM

Revolution of market is the outcome of human needs. Difficulties in barter system gave birth to money. With the invention of money, the transaction of goods and services between the buyer and seller became quite easy. Invention of money made merchandising easier. Invention of money is a great achievement for human civilization. Renowned author Crothers has said, "As in mechanics wheel is important, in science fire and in politics democracy has its own place, the same place money has in economic life of a man." Money is one of the most fundamental of all man's invention.

In monetary system, the man first sells his goods or services and earns money and then spends the money to buy other goods of his need. So, this system is known as the monetary system. The development of money, is in a way, an epitome of the history of human civilization.

World's Currencies :

In the following table no.3.1, various currencies across the world are mentioned.

Table 3.1 : World's Currencies

	Country	Currency
1.	India	Rupee
2.	Pakistan	Rupee
3.	Bangladesh	Taka
4.	Nepal	Rupee
5.	America	Dollar
6.	England	Pound
7.	Russia	Ruble
8.	Singapore	Dollar
9.	Afghanistan	Afghani
10.	Iran	Riyal
11.	Iraq	Dinar
12.	Sweden	Crona

Functions of money

In the modern era, money has become an important instrument to lead life and its importance in one's life is increasing day to day. The four basic

functions of money are:

1. Medium of exchange
2. Measure of value
3. Standard of deferred payment
4. Store of value

These four functions of money can be explained through this little poem.

Money is a matter of functions four;
A medium, a measure, a standard, a store.

In recent years, economists have given various functions of money. In short, the main functions of money are discussed below:

1. Medium of exchange:

Money is a medium of exchange, money acts as a medium for selling and purchasing of goods in market. It serves as a standard medium of exchange by removing the difficulties of barter system and acts as a convenience of making transactions. It acts as a legal tenders, so its noted value and its cognizable features facilitate moneys universal acceptability as means of payment.

2. Measures of value:

Money acts as a unit of measure of value. In other words, it acts as a yardstick of standard measure of value to which all other things can be measured. Evolution of money has removed the difficulties of measuring value of goods. In modern times, the value of every commodity can be measured in money. With the use of money, the value of exchange has become easier and economic calculation for measuring value have been simplified.

3. Standard of deferred payment:

In modern era, much of the economic activities are carried on credit, payment is done in future. In other words, money in modern era has helped the people deal effectively with credit transaction. For e.g. Ram has lend Rs. 100 to Shyam for one year. After one year, Shyam can return Rs.100 to Ram. Money functions as a standard of deferred payments settling the doubts and future transactions. In modern business credit acts as a backbone and money has made it easier. Barter system was found limited to this facility of lending and borrowing.

4. State of value:

Human being has tendency to save a part of his income for future to fulfil his future requirements. Money has special feature of being stored and held future purpose. In barter system, there was difficulty of storing and holding goods because goods can get perished. Money can be stored for longer periods of time. Utility of money is never lost, it can be used in future for purchasing goods and services.

5. Transfer of purchasing power:

Money is a liquid means of exchange. Hence purchasing power of money can be transferred from one place to the other. Because of this unique characteristic of money, buying and selling process has become easier and can be done at the global level. Goods can be purchased and sold from one place to another and can be taken from one place to another because money has been accepted as a mode of exchange across the world. Money has made lending and borrowing easier, people can sell their assets and properties and can move to other place and purchase new things because money has become the best means of transferring the value of money.

6. Basis of credit:

In present times, credit is used as money. On the basis of money, credit is given. Bank or financial institutions create credit on the basis of money. Various credit notes are created on the basis of money such as cheque, Hundi, draft etc. for e.g. Cheque can be issued or used only if the person has account in the bank. Commercial bank provides credit on the cash reserve basis. If amount of money is more, credit will be small. Thus money is the basis of credit.

WHAT IS MONEY?

In practical life, every moment, money has its own importance and its use. In general times, if we talk about money, people think it as a thing made of metal or paper used for buying and selling of goods. For having a clear money we need to analyze day to day activities which include purchasing and selling of across the country or in foreign countries. During early civilization, things like goat, cow, wheat skin etc. were used as mode of exchange. With the development of civilization, skin, stones, beads, gold, silver and paper money came into existence. Nowadays, payment is done through paper money and cheque. In general terms, money is understond as metallic coins. The terms 'money' is also used as a sign of stamp. That's only anything with government stamp on sign is considered as money. In economics, money has been defined in various ways by various authors. Some of these definitions are broader in concept while some of these are based on other facts.

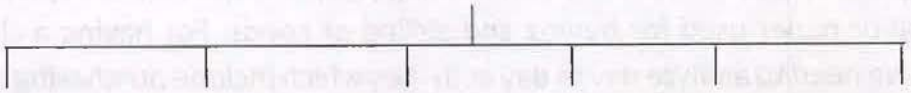
Prof. Hartley Withers says, "Money is what money does." Coulborn has defined money as "money may be defined as the means of valuation of payment". According to Knapp, "Anything which is declared money by the state becomes money." According to Aeligmaw, "money is one thing that possesses general acceptability." It can be concluded that anything with general acceptability, independent in nature, used as exchange as a means of nature, has a standard for payment is considered as money. Money is that

commodity which is generally accepted by the people as a medium of exchange, measure of nature, store of nature and transfer of value.

In present days of Globalisation and with the race for economic development, paper money, cheque etc. are used as a medium of exchange. Today exchange is possible even with plastic money which is known as ATM-cm-Debit card and credit card. Because of the facility of core banking in this present age of computer, guaranteed transfer of money from one place to another within the country is possible in few minutes.

Development of money has been described in table 3.1

Table 3.1 : Development of Money



1. Barter	2. Commodity Money	3. Mettalic Money	4. Coins	5. Paper Money	6. Credit Money

Table 3.1 describes these things:

1. Barter:

It involves exchange of goods for goods.

2. Commodity money:

In primitive age, any particular commodity was used as money. In hunting age animal skin, in pastoral age commodities such as animals like

cows and goats, during agrarian age goods like wheat, maze, rice etc. were used as generally accepted medium of exchange.

3. Metallic money:

Because of the use of commodity money, people faced a lot of difficulties and so the use of metals started. Metallic money refers to coins prepared out of various metals like gold, silver, bronze, nickel etc.

4. Coins :

The use of metallic money was getting difficult day by day, so it gave birth to coins on full-bodied money, which refers to coins. Goods prepared out of various metals like gold, silver, bronze, nickel etc. With value certified by an exclusive monopoly of the state came to be known as coins. Various types of coins are shown in the figure below.



Pict. 3.1 : Coins

5. Paper money:

It was very difficult to transfer coins from one place to another. Eventually paper money came into existence. At present, generally in all

countries of the world, paper money is in vogue. Notes made of paper generated by government and central bank of the country are known as paper money. In India, denomination of one rupee or more are issued by reserve bank of India of the country. Thus central govt. issues one rupee notes and reserve bank of India issues rupees of denomination 2, 5, 10, 20, 50, 100, 500 and 1000. Smples of some notes used in India and America are shown below:



Pict. 3.2 : Indian Paper Currency

6. Credit money:

With the economic development, use of credit money started. Mostly cheque, hundis and other types of credit money are used as money. These are

known as credit money. International transaction, credit money for e.g. Cheques and hundis are mostly used in comparison to metal or paper money.

Plastic money : Today plastic money is widely used. ATM-cum-debit card and credit card are famous plastic money.

(i) ATM-cum-debit card- During the process of economic development, banking institutions started using a small piece of plastic as money. ATM is one type of plastic money. The meaning of ATM is automatic teller machine. This machine provides service of withdrawal and deposits through 24 hours. In India, all these services are provided to the customers through all commercial banks for example-state bank, Allahabad bank, ICICI etc. ATM of state bank of India is shown below.



Pict. 3.4 : ATM centre

In the above picture we see an ATM centre. ATM-cum-debit card is required for withdrawal of money from ATM.



Pict. 3.4 : ATM Card

ATM-cum-debit card is shown in picture 3.4. A secret pin is required for the operation through ATM-cum-debit card. How we draw money from ATM machine is shown in picture 3.5.



Pict. 3.5 : ATM Machine

(II) Credit card:

Credit card is also a type of plastic money. UISA, Master card, America express etc. are mostly used credit card. Bank limits the amount of credit of its customer under credit card, after considering customer's financial situation. Customers usually buy goods and services through the medium of credit cards within the fixed limit of money. Credit card is shown in picture 3.6.



Pict. 3.6 : Credit card

Economic Importance of money:

Money has its own importance in modern and economic system. Our economic system would collapse without money in modern society. Economic progress of different countries of the world was not possible without money. During the process of economic development, money has an important role to play in socialist economy or capitalist economy and even in mixed economy. A famous economist Truscott is of the opinion regarding economic importance of money, "money is necessarily a source of blood, if not the heart of the economy." Today

economic system cannot operate even for a minute without money. Therefore Prof. Marshall is of the opinion that "Money is the pivot around which the whole economic service clusters." Crowther throws light on the importance of money and says that "every branch of knowledge has its own important invention for example, wheel in mechanics, fire in science, and vote in political success. In the same manner, in the economic and commercial life of people, money is the most useful invention, which is the basis of complete system. Infact money is an important invention of human bird. The following lines explain the importance of money.

"money ! money!! Money!!!

Brighter than sunshine

Sweeter than honey."

Thus it is clear that each aspect of modern life is affected by money. Prof. Pigeon has rightly said, "In the modern world, industry is closely unfolded in the garment of money.

Advantage of Money:

Money is most useful for us. The whole society is affected by money positively. Money has an important place in all divisions of economics for e.g. consumption, production, exchange, distribution and public finance. Some of the important advantages of money are a follow:

1. Money has facilitated consumers: The invention of money is most profitable. Each consumer purchases goods according to his or

her choice. This facility was not possible under faster system. Money is the base of demand of consumers. The person with more money demands more goods and services. Scarcity of money decreases the demand.

2. Money has facilitated production:

Money has facilitated production. Producers can assemble appropriate quantity of factors of production, purchase and store of raw materials and arrange capital on credit with the help of money time to time. It is impossible to know the cost of production, expected price of the good and expected amount of profit without money.

3. Money and Credit:

Credit system is possible only because of money and credit money: The structure of modern business is based on credit. Banks promote small savings of people and provide money on credit & industries. Thus money is the basis of credit.

4. Removal of Barter difficulties:

The money has removed the inconvenience of barter and exchange has become easier due to money.

5. Liquidity of money and capital:

People accept capital, as money provides liquidity to capital. Capital can be used in the form of money. A person with money can buy things according to his necessity and satisfy his wants.

6. Mobility of money and capital:

Money makes capital mobile. With the use of money, capital can be transferred not only from one place to an other but also from one country to another. It has made the development of business and trade successful.

7. Money and capital formation:

Money is an important source of capital formation. People save money and transfer it to productive uses. It accelerates capital formation. Thus, money is an important source of capital formation.

8. Money and large scale industries:

It is because of money production that establishment of industries is possible on large scale.

9. Money and economic progress:

Money is an index of economic progress.

10. Money and social welfare:

Money is a measure of National Income and per capita income of any country. Increasing per capita income of any country promotes economic welfare of the country. Social welfare can be measured with the help of money.

Importance of money can be understood after going through all the above-mentioned advantages. It is an important source of satisfying human wants not only of labourers, farmers, doctors, professors, engineers, politicians and socialists but also saints. Money has provided many services in economic life. So, it is rightly said, "Money is a good servant"

Advantage of Money

- Benefit to consumer
- Benefit to production
- Money and Credit
- Removal of Barter facilities
- Liquidity of money and capital
- Mobility of money and capital
- Money and capital formation
- Money and large scale industries
- Money and economic progress
- Money and social welfare

What is saving?

The whole income of the society is spent on goods and services. Goods are of two types:

i. There are some goods which are used immediately or purchasable. These are known as current goods.

ii. There are some goods which are used in productive activity. These are known as durable goods.

The whole income of the society is spent on these two types of commodities. That part of total income which is spent on current goods is known as consumption and that part of income which is spent on durable goods is known as saving. Thus it is clear that saving is the difference between income and consumption.

Saving = Income Consumption

Saving is of two types:

i) Saving in cash

ii) Saving in goods

That part of income is known as saving in cash which is not spent on any type of commodities while saving in goods is known as investment. According to Crowther, "A man's saving is that part of his income which is not spent on consumption goods." Economists are of the view that for development and stability of an economy, saving and investment are equally important. This can be expressed with the help of formulae:

S = I or Saving = Investment

Credit:

The meaning of credit is faith and confidence. Having more faith in a person means his credit is more. In economics, credit means faith in the ability of payment of debt. We say that if the credit worthiness of Arun is more in market, this means that people have more faith in his ability of debt-repayment. On the basis of this creditworthiness, each person on institution gives credit to another person on institution. According to Gide, "Credit is an exchange which is complete after the expiry of a certain period of time after payment."

There are two sides of credit: (i) Creditor (ii) Debtor

Creditor gives money and goods on credit and payment is deferred. This is done on the basis of faith. The money borrowed from him is repaid after some time. The repayment of goods and services is also done in the same manner. The basis of credit is faith and confidence on debtor. It is impossible to make transaction without faith and confidence. Thus it is clear that debtor borrows money, goods and services on the basis of faith at a particular time and promises to repay the amount with interest after a stipulated period of time.

Basis of Credit

The main basis of credit are as follows:

1. Confidence:

The main basis of credit is confidence. Creditor pays money on credit only when he has confidence on debtor that he will repay the same on time.

2. Character:

Character of debtor is also an important basis of credit. If the debtor is honest and having good character, he easily gets debt. The credit worthiness of characterless people is low and nobody wants to give them debt.

3. Capacity to repay:

Repayment capacity and ability of a person also affects his credit worthiness. Creditor advances money or debt only when he has confidence on the repayment capacity of the person. So, repaying worthiness of characterless people is low and nobody wants to give them debt.

4. Capacity to repay:

Repayment capacity and ability of a person also affects his credit worthiness. Creditor advances money or debt only when he has confidence on the repayment capacity of the person. So, repaying capacity of a person also affects his credit worthiness.

5. Period of loan:

The amount of loan also depends on the period of loan. Creditors hesitate in advancing loan for a long period because of the change in character, economic situation and capacity to pay the customer. This is the reason creditor always takes to advance loans for a short period of time.

Thus, all the above mentioned bases are essential elements of credit. These elements can be expressed in the following manner: "A person's credit depends on four C's: Confidence, Character, Capacity and Capital."

Credit paper:

Credit paper relate to all those resources which are used as credit money. Exchange of credit or debt is possible on the basis of credit-paper. These work as a medium of exchange in the transactions of goods and services. Credit paper functions as money. But there is a difference between money and credit paper, that is, money is legal tender and credit paper is not accepted legally. So, nobody can be forced to accept credit paper in the transaction.

These are of various types:

1. Cheque
2. Bill of exchange
3. Bank draft
4. Hundi
5. Promissory note
6. Traveler's cheque
7. Book credit
8. Credit proof paper

1. Cheque:

Cheque is the most common form of credit paper. It is a type of written order given by the depositor to the particular bank for the payment of written amount to written payee. The format of cheque is shown in the picture 3.7.



Pic. 3.7 : Cheque

1. Bank Draft:

Bank draft is a paper which is an order of a particular bank to its other branch or other banks for the payment of written amount to indicated person concerned on it. It is less costly to transfer from one place to another through bank draft. Bank draft is of two types, i.e. national and international. The format of bank draft is shown in fig. 3.8



Pic. 3.8 : Bank Draft

3. Travelers cheque:

Travelers cheque is issued by banks for the convenience of passengers. Any passenger can obtain traveler's cheque by depositing a fixed amount in bank. A fixed amount is printed in every traveler's cheque. Any other person cannot use this cheque because specimen signature of the concerned traveler is indicated on it.

4. Promissory note:

This is also a type of credit paper. A legal document between a lender and a borrower whereby the latter agrees to certain conditions for the repayment of the sum of money borrowed.

Today credit and credit papers are becoming more important.

Summary

- Money is an indispensable part of our life. The credit goes to money for the progress of modern age.
- The development of money is in a way an epitome of history of human civilization.
- There are two types of exchange :
  (i) Barter system and (ii) Monetary system
- There were lots of difficulties in barter system for the removal of the difficulties of barter system, money was invented. The invention of money solved all the difficulties of barter system.
- Money is a matter of functions four — A medium, a measure, a standard, a store.
- Anything which possesses general acceptability as a legal tender and independent in nature, used as a medium of exchange, measure of value, standard of deferred payment and as a measure of value, is known as money.

- In India, one rupee note and coins are issued by finance department of central government, and rupees of denomination two or more are issued by Reserve Bank of India.
- Today, plastic money is more popular. ATM-cum-Debit card and credit card are most popular among plastic money. This has made exchange easier.
- Money is the pivot around which the whole economic science clusters

Money! Money!! Money!!!
Brighter than sunshine
Sweeter than Honey!

- The difference between income and consumption is saving.
- Credit is the exchange activity which is completed with repayment within stipulated period of time.
- Credit papers denote all those resources which are used in the form of credit money.
- Credit paper is of different types — Cheque, Bill of exchange, Bank draft, Hundi, Promissory note, Traveler's cheque, Book credit, Credit proof.
- Credit paper functions as money but there is one basic difference between them. Money is a legal tender while credit paper is not accepted legally.

Questions

Objective questions:

Fill up the blanks:

1. The credit goes to _____ for the progress of modern age.
2. Money is _____ of an economy.
3. The history of development of money is _____ human civilization.
4. An exchange of goods is known as _____ system.

5. Invention of money is the greatest _____ of human beings.
6. Money is a _____ of exchange
7. Due to plastic money, the exchange has become _____.
8. Money is a good _____.
9. Difference between income and expenditure is known as _____.
10. The base of credit is _____.

Short Answer type questions:

1. What is Barter system?
2. What is monetary system?
3. Define Money.
4. What is ATM?
5. What is credit card?
6. What is saving?
7. What is credit?

Long Answer type questions:

1. Explain the difficulties of barter system.
2. Explain the functions of money.
3. Discuss the economic importance of money.
4. Explain the development of money.
5. What is credit? Explain some important credit papers.

Answer of Objective Questions:

1. Money 2. Strength of life 3. History 4. Barter
5. Achievement 6. Medium 7. Easy 8. Servant
9. Saving 10. Confidence

Chapter-4

Our Financial Institution

We have noticed that credit or loan (debt) is essential for the fulfilment of need of money. In our day-to-day life, requirement of credit or loan can be fulfilled by the financial institutions of the state. Today, credit or loan is very important in our economic life. For the execution of any type of economic activity, a person cannot fulfill all industrial and commercial need through the medium of available resources, even though (he is a wealthy person) or he is blessed with sufficient amount of resources. We have to depend on government or semi-government financial institutions for this type of financial management. This is to be noted here that financial institutions established or administered by government or through the cooperation and participation of the people, are known as semi-government financial institutions. For example, on the one hand, credit or loan is made available by financial institutions established or governed by government and on the other, semi-government institutions established on the basis of co-operation advances loan to agricultural sector. BISCOMAN is an institution in Bihar, relevant to cooperation, advances loan or credit especially to agricultural sector. In other states of the country also, co-operation based main institutions are functioning on the basis of same approach. These institutions are known as institutions of co-operative sector of banking systems. At present the micro-financing in Bangladesh has encouraged the sincere efforts towards the arrangement of availability of credit or loan for small poor farmers of the villages through the medium of mutual co-operation on a small scale.

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We will discuss in detail financial institutions, which make available credit or loan in our daily life.

Financial Institutions:

Financial institutions are those institutions in monetary sector of a country or state which complete the activities related to credit or money for the fulfilment of human need. Financial management for economic activities such as agriculture, industry and trade is done through financial institutions. These institutions advance loans for short term, medium term and long term on the basis of need for the economic development of society. For the completion of any type of economic and business activity, money is required. It is impossible for any industrialist to run his business activity on his own resource, due to lack of sufficient economic resources. In this situation, financial institutions make available to people economic resources according to their need and demand.

Financial Institutions:

All those institutions of our country who fulfil the financial need of enterprise and business are known as financial institutions . Generally these financial institutions are governed by state and function under the direction of Reserve Bank of India on a fixed standard.

Government Financial Institutions:

Financial Institutions established and governed by government is known as Government Financial Institutions. For e.g. State Bank of India, Central Bank of India, Punjab National Bank, Allahabad Bank etc.

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Semi-Government Financial Institutions:

All those financial institutions which work under the direction of central bank (Reserve Bank of India) of the government on the standard as fixed by RBI to fulfill the financial need of the people of the society are known as semi-government financial institutions. For e.g. Regional Rural Bank, Bihar State Co-operative Bank etc.

Micro-Financial Institutions:

All institutions which advance credit or loan at low interest to poor needy persons though the medium of self-financed institution on small scale are known as Micro financial institutions. Prof. Md. Yunus of neighbouring country Bangladesh was awarded Nobel Prize for the appreciable effort in this regard. He helped the poor rural in the developmental activity through micro financial management. This can be used for the neglected rural sector in Bihar.

It is clear from above that the amount of capital required for economic development of country is provided by financial institutions. It is to be noted here that these financial institutions meet financial requirements of their customers on the basis of fixed legal standard. All people or commercial establishment which are involved in the process of development and demand for money for the completion of their own activities are the customers of financial institutions. Participation and involvement of financial institutions is essential for economic development, without which development process cannot be completed.

Kind of Financial Institutions: Financial Institutions are of two types—

a. National Financial Institutions

b. State level Financial Institutions

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a. National Financial Institutions

All financial institutions which determine and direct financial and credit policies of the country and implement the activities of financial arrangement at national level, are known as National Financial Institutions.

There are two important parts of the financial institutions.

- **Indian Money Market**
- **Indian Capital Market**

In a money market where short term and medium term provision and management of financial need is done for the industrial and business sector of the country is known as Indian Money Market. Long term provision and management of financial need of industries and business is fulfilled in Indian Capital Market.

Generally, Indian Money Market is divided into organized and unorganized sector. All commercial banks, private sector banks, public sector banks and foreign banks come under organized sector. Money lender including non-banking financial institutions come under unorganized sector.

Organised banking system of the country functions in the form of three types of banking form.

1. Central Bank :

Reserve Bank of India is the central bank of India. This, as the head of the banking institutions of the country helps in directing and conduction of banking, financial and economic activities.

2. Commercial Bank :

Conduction of banking and financial activities is possible in the country by many commercial banks. Majority of commercial banks working under the direct control of the govt. is known as nationalized commercial banks. Some of the commercial banks are known as private sector commercial banks. All the banks with 'Ltd.' at the end of their name is known as private sector banks.

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3. Co-operative Bank :

Many financial institutions function in co-operative sector on the basis of mutual cooperation and goodwill. Co-operative bank is known in different states by different names. Although these banks function on the direction of RBI, but their management is done through state government.

Industrialists and agriculturists are provided financial assistance through these financial institutions in India, which encouraged the development of many industrial houses. Major industries are their main examples. Farmers are profited by these financial institutions and industries are being developed by them.

Organized Banking System:

1. Central Bank: RBI is the central bank of India, This functions as the main banking system.
2. Commercial Bank: All banking and financial activities are performed through commercial banks.
3. Cooperative Bank: Financial Institutions working on the basis of co-operation and goodwill are known as co-operative bank, even though they are operated through state government.

Indian Capital Market:

Indian capital market provides long term capital. Long term capital is demanded for implementation of public construction activities and large scale industries. This is classified as follows:



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Indian capital market is basically dependent on these four financial institutions. All national level development activities such as road, railway, hospital, educational institutions, electricity generation machines, major industries of private as well as public sector are performed because of these long term capital. As a consequence, financial institutions have contributed in the building of the nation.

Financial Institutions are backbone of any country. Organized financial institutions are essential for economic development of a country. It is a matter of satisfaction that in 'Mumbai', the financial capital of India, there is an organized capital market, through which finance is arranged for industrial sector. Because of the strong capital market, India is less affected by ongoing worldwide economic depression at present. The main sector of the capital market is known as Dalal Street. Bihar is industrially backward in the absence of healthy and organized financial institutions. Banks advance low percentage of money deposited by people of Bihar as loan to the agricultural and industrial sector. So, because of the absence of healthy financial institutions, economic development of Bihar is not possible at a high speed. During the last few years because of continuous effort of Bihar government, limit of investment by banks for agriculture and industry has increased. But even now this is not enough to meet the requirement of economic development and human welfare.

State Level Financial Institutions (in the context of Bihar)

We know that the economy of Bihar is primarily based on agriculture. 87% of the population live in village and around 75% people are directly or indirectly associated with agriculture and is related to small scale industries.

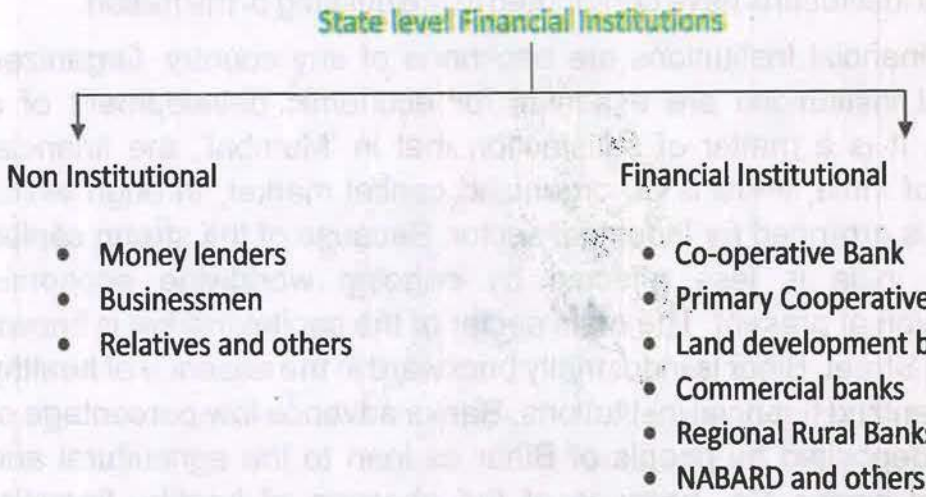
Majorities of farmers come under the category of marginal farmer, whose income is low and save marginally. Thus, they are unable to invest in agriculture and its related industries, and that is why loan or capital is mostly required from these financial institutions.

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There are two types of financial institutions:

1. Non-Institutional financial institutions
2. Financial Institutions

Credit or loan can be made available through these institutions.



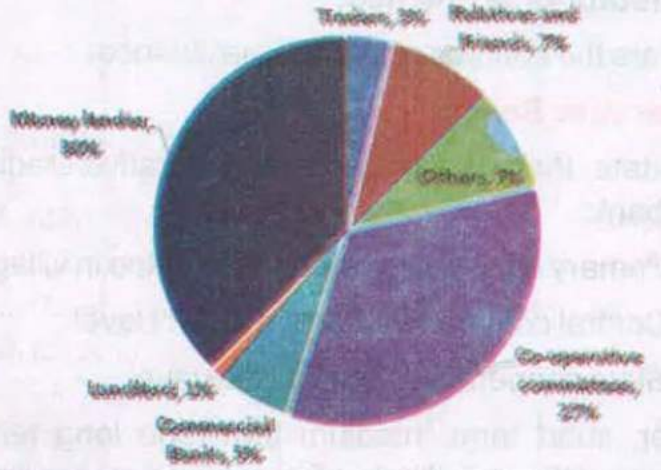
Non-Institutional Financial Institutions

Even today, money lenders advancing loan to the villages is the most famous source of advancing loans. It is easier to acquire loan from money lenders. These money lenders and businessmen advance loan to villagers for production and consumption related activities. Advancing of loan is based on the mortgage of land, jewellery and costly items. At the time of failure of repayment of loan, these things are sold for payment of loan. Rate of interest charged for loan on the mortgage basis is always higher than government rate of interest. In the absence of timely payment of loan, repayment becomes difficult.

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Easy availability of loan for villagers is also possible from farmers, relatives and others with and without interest. Non-financial institutions contribute 48% of the total loan given to rural sectors. This can be explained with the help of a pie-chart.

Average statistics of source of credit (2003) of rural families of India



Story based on loan given by Non-Institutional Financial Institutions

Dindayal is a poor agricultural labourer. He has two sons and three daughters. Husband and wife work in agricultural lands and earn their livelihood. He barely earns his livelihood from this labour. He owns only 4 Katha of land on which he used to produce vegetables. One day, Dindayal's wife fell ill seriously. He became tired of treatment in the village. Rural doctor advised him to take her for treatment to the town, but he was unable to do so because of insufficient money. So Dindayal mortgaged his land to the farmer and borrowed Rs. Two thousand on ten percent per month rate of interest. Dindayal became bankrupt after the treatment of his wife in the town. He could not repay the loan to the farmer for many days. As a consequence, the farmer got the land transferred in his own name.

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Thus, it is clear from this story that though non-financial institutions advance loan to the poor at the time of necessity, the high rate of interest and ill treatment of money lenders, poor labourers are very much exploited.

Sources of Institutional Finance:

These are the sources of institutional finance:

1. Co-operative Bank :

In our state, there is a three-tier co-operative credit system by co-operative bank:

a. Primary cooperative credit committee in villages.

b. Central cooperative bank at district level

c. State cooperative bank at state level

In Bihar, short term, medium term and long term credit is provided to farmer through the medium of cooperative banks. There are 25 central cooperative banks at district level but the Bihar State Cooperative Bank functions at state level.

2. Primary Cooperative Societies:

These are established to meet the requirement of short term loan for agricultural sector. At least ten persons of a village or a place can form a primary credit society. These societies are known as primary agricultural cooperative societies PACS. These societies advance loan for short period i.e. for one year. But in a special situation, this period can be extended to three year. According to the 10th Five Year Plan in Bihar, 6845 primary cooperative agricultural credit societies are functioning.

3. Land Development Bank: Land mortgage bank which used to advance long term loan to farmer in state is today known as Land Development Bank. This bank advances long term loan to the farmer

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for stable development and improvement of mortgage of land. Land Development Bank advances loan for state improvement in agriculture repayment of old loan, construction of houses and for purchasing tractor, power tiller and pumping set for the period of 15 or 20 years. Primary unit is known as cooperative agriculture and rural development bank. Bihar state Land Development Bank functions at state level, which is also known as state cooperative Agriculture and Rural Development Bank.

4. Commercial Bank :

After the public control of the banks policy in 1968 and Nationalisation of bank in 1969, commercial banks started advancing larger quantity of loan to farmers in the country. Total number of banks and its branches have increased in Bihar and their contribution to the agricultural sector through credit or loan is explained below as follows:

Agricultural Credit in Bihar by Commercial Bank

Year	Rupees in crore
1972	7.30
1990-91	181.00
1995-96	242.00
2001	548.00

Source : Reserve Bank of India and State Focus paper of Bihar 2002-03

Although farmers are provided the credit facility by commercial banks in the state, but is not sufficient according to the need. In 2000-01, only 44% of estimated agricultural credit was advanced. There is requirement of more than 700 crores of agricultural credit, while availability was 548 crores only.

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1. Regional Rural Bank:

In 1975, Regional Rural bank was established to meet the need of small and regional farmers, artisans and people of weaker classes. The regional rural bank in Bihar was established in the same year. Now 196 regional rural banks are functioning today in the country.

Brief account of credit sanctioned by Regional Rural Banks in Bihar in the past few years is mentioned below:

Available Credit in the state by Regional Rural Banks

Year	Rupees
March, 1992	43276
March, 1996	66360
March, 2001	107940

Source: Report for improvement in Regional Rural Bank Rule, 1976, Govt. of India, Finance Department, June, 2002.

It is clear from the above table, that the amount advanced as loan by regional rural banks in the state has increased. Even then they are unsuccessful in meeting the needs of small and marginal farmers.

NABARD:

National Agriculture and Rural Development Bank is the top most institution for refinancing of agricultural and rural development of the country. This bank provides finance to government institutions, commercial banks and regional rural banks for agricultural and rural development and they provide loan facility to farmers. In Bihar NABARD provided refinancing facility of 539.27 crores between 1998-99 and 200-01. Out of which 172.30 crores in 1998-99, 175.90 crores in 999-2000 and 191.07 crores in 2000-01 were provided.

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Besides, this, in Bihar, government provides credit facility in special situation for example, after some natural disasters like earth quake, flood, famine etc. And credit facility is being provided to people of small poor villages on small scale, which is enhancing rapidly.

Functions of Commercial Banks:

Commercial banks are primary banks in our country. They are an integral part of economy. Whenever the term 'bank' is used without any objective, it connotes to the commercial banks because of its importance. Infact, commercial banks serve the society through performing various activities.

These are the main functions of Commercial Banks.

I. Accepting Deposits:

The main function of commercial bank is to accept money in the form of deposit from the customers. Majority of the people or institutions generally save a part of their saving and deposit their savings to earn interest and to save it from theft. These deposits are very important for banks because they provide the basis for advancing loans and earn a sufficient part of income as profit.

Function of Commercial Banks

1. Accepting Deposits
2. Providing Loans
3. General Utility Functions
4. Agency Functions

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Commercial banks accept four types of deposits

I. Fixed Deposits :

In this type of deposits, money is deposited for a fixed period for example one year or more than one year. During this period, withdrawal of money is generally not accepted. These are known as time deposits. Banks extend attractive rate for interest on the money deposited for a fixed period.

ii. Current Deposits:

In this type of deposit, a person deposits and withdraws money according to his desire.

Type of deposits accepted by Commercial Banks

1. Fixed Deposits
2. Current Deposits
3. Saving Deposits
4. Recurring Deposits

iii. Saving Deposits:

In this type of deposit, a person can deposit money anytime but the right to withdraw money is limited, and withdrawal is also not possible for more than a fixed amount. The cheque facility is promoted for this type of deposits.

iv. Recurring Deposits:

In this type of deposits, commercial banks accept a fixed amount per month in the form of deposits for a fixed period of 60 or 72 months and give a fixed amount also. There is cumulative time deposits also.

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i. Collecting business information and statistics:

Because of their awareness of economic situation, banks collects business information and statistics and hence advice their customers on financial matter.

4. Agency Function:

Today, commercial banks serve as an agent to its customers. Under agency function (a) Collection of cheque, bills and drafts,(b) Collection and distribution of interest and profit (c) Collection and repayment of loans, instalment of loans and insurance premium (d) Exchange of securities and (e)Transfer of funds through draft and post etc. activities are performed.

Co-operation and its Role in the Development of State

Co-operation:

During the last century, co-operation was started for the upliftment of poor and weaker sections of the society. The meaning of the word 'co-operation' is 'to work together'. But in economics, this word has a wider meaning. 'Co-operation is an organization through which two or more than two persons- according to their wishes, try to meet economic interest on the general level. Thus co-operation is economic system in which people work together for the fulfillment of any economic objective. The principle of co-operation explains that poor and powerless people, by working together, can get all physical advantages and happiness through trading partnership which rich and wealthy persons usually get, and they can be developed morally. Achievement of high development and more prosperity can be expected on the basis of cooperation in which efficient agriculture and prosperous life is possible. Lastly, its principle is "All for each and each for all."

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Important Elements:

There are three basic principles of Co-operation. Firstly, the membership of the organization is optional. People generally become members of their organization according to their desire. There is no external pressure or binding on them. Secondly, its management and conduction is democratic. There is no discrimination among the members because of capital, states or any other basis. All are treated equally and all avail the same rights and opportunities. Thirdly, it includes moral and social elements in economic objectives. It functions not only for earning profit but also in the interest of its members from moral and social aspect also. Its objective is not to be rich by exploiting others but to enhance profit and economic prosperity of people and groups of people through self-help and mutual co-operation.

Importance of Co-operation in India:

At the beginning of the last century, the emphasis was given on the establishment of co-operative societies for the poor and weaker sections of people and to make them available loans at cheaper rate of interest. For the first time in 1904, Co-operative credit society was enacted according to which ten persons of a village or city together can establish co-operative credit society. In 1912, one more act was enacted to bring about improvement in the process of working and expansion of co-operative societies established under the act of 1904.

According to this new act provision was made for the establishment of co-operative societies for fulfillment of other objectives other than loans and establishment of central organization for taking care of primary societies. Immediately in 1914, Macllagan Committee was appointed for evaluation of its progress and to determine the framework of its future development. In 1919, according to political reform, co-operation became transferred subject of provincial government. So, its administration went in the lands of the government.

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II. Providing Loans:

Another important work of commercial bank is to advance loan to the people. After keeping certain percentage of deposits accepted by customers as there serve fund, rest of the money is lent out to the other people by bank. These banks advance loan for productive activities on the basis of security. The amount of loan is less than the value of security given by customers. Different types of loans are advanced by commercial banks.

i. Loans at call and short notices:

These types of loans are for short period i.e. from one day to one week, and which is repaid on demand. Thus money making institutions generally demand this type of loan.

Different types of loans provided by commercial banks

i. Loans at call and short notice.
ii. Cash credits
iii. Overdraft
iv. Discounting of Bill of exchange
v. Loans and advances

ii. Cash Credit:

Under this, credit banks advance loan on the basis of bonds, trading goods or securities.

iii. Overdraft :

When commercial banks give permission to withdraw more than the deposited money to its customers, then it is known as overdraft facility.

iv. Discounting of Bill of Exchange:

In this type of loan, banks make payment of loans after making some discount to loanee. Generally, discounting rate is same as rate of interest.

v. Loans and Advances:

When loan is advanced for pre-determined period, then it is known as loan or advance. Bank charges high rate of interest and accepts security for the type of loan.

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I. General Utility Functions:

Commercial banks perform many other functions which are known as general utility functions.

i. Traveler's Cheque and to issue letter of credit:

These banks issue traveler's cheque and letter of credit also, through which businessmen can buy things easily from foreign countries. By issuing letters of credit, modern banks help in exchange of goods and services.

ii. Locker facilities

Banks also provide locker facilities to its customers in which people keep their gold and silver jewellery and important documents safely. Its yearly rent is very low.

Other services provided to customers by commercial banks:

i. Traveler's cheque and letters of credit

ii. Locker facilities

iii. ATM and Credit Card facilities

iv. Collecting business information and statistics

iii. ATM and Credit Card Facilities:

Nowadays, banks provide facility of withdrawal of money throughout twenty four hours to their account holders with ATM service. Because of credit card facility, customers can make payment of fixed amount within and outside country on the purchase.

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Great economic depression of 1929 stopped its development. But in 1935, RBI was established in India. Under it one agricultural credit department was established, which functions for advancing economic help for agricultural development and giving important suggestions. Co-operative banks meet the financial requirement of co-operative societies, which function at three steps which is shown in the box.

Co-operative Banks

1. Primary
2. Co-operative Societies
3. State Co-operative banks
4. Central Co-operative banks

It's Role in Development of State

Bihar is a backward state of India. Before division of Bihar, its economic resources were enormous. But after the division, all these resources went out of today's Bihar. That part of the land where natural resources were mostly concentrated, after the division of state went to Jharkhand. As consequence in the rest part of Bihar, the agricultural land is the only resource. 80% of the population of Bihar depend on agriculture. Here agriculture also depends on monsoon. Generally investment in agriculture is considered as gamble. Because agriculture is the main basis of livelihood of Bihari people, so even in economic deprivation farmers and labourers of Bihar are forced to spend on agriculture.

Especially in Bihar, paddy harvesting, fragrance stick production, bidi production, shoes and brick construction etc. are important employment opportunities which are run with the help of cooperation. For this cooperative bank loans are made available at the state level. Because of these cooperative banks, employment is increasing to a large extent at village level. Wherever these types of employment opportunities exist, their effect on the people of that place is observed. Consequently per capita income is increasing and the living standard of the people is also improving.

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Self-help groups:

Its role in the development of villages, town and districts:

In the last unit we have seen that even today poor families of a country depend mainly on non-institutional sources of loans. Non-availability of banking facility in some of the villages of India is one of the reasons for this. On the other hand, sources of non-institutional for example money lenders and businessmen become ready to advance the loans without any security because of their personal acquaintances on individual level. But, they charge high rate of interest. They don't even complete the written statement and exploit the poor and weak.

In recent years, they started using new techniques for giving loans to poor. Out of these, one is based on the organization of small self-help group of poor, specially, women and collection of saving capital.

Self-help group is an optional and institutional association of the people, who are equal on social and economic level. This is operated by rules, and functions effortlessly for mutual co-operation and development. This is helpful in satisfying basic needs of the life and helps in controlling their life in a better way.

Self-help Group

Self-help group is infact an informal group of 15-20 persons basically women of a village, who fulfill the needs of their family with their savings to short term loans from banks, and contribute towards the development of villages and women empowerment through development activities.

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This can be understood with the help of the figure 4.1



Fig. 4.1 : Self help group

Historical Background:

For the first time in India, in the last century of 1980, some of the self-help organization started organizing the people of rural sector for the conduction of income-related activities. Because of the initiative and special interest taken by NABARD (National Bank for Agriculture and Rural Development) in the early century of 1990 self-help groups spread all over the country. Now, all government and non-government banks and social and economic organizations have started encouraging its development by accepting its importance. Self-help group is the new ray of hope for giving belief to the families from poverty, who were suffering from the bites of poverty from generation to generation.

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Introduction:

One self-help group includes 15 to 20 members of the neighbourhood, who meet together daily and save. Per capita saving varies from Rs. 25 to 100 or more. This depends on the capacity of saving of the family. This group charges interest for loan but this is less than charged by businessmen.

After saving for a year or two continuously the group becomes ready for loan. Loan is advanced in the name of group for the creation of self employment opportunities for its members. For example, members are provided short term loan for release of the land form mortgage for need of working capital (for purchase of seed, fertilizers, bamboo and clothes), construction of houses and buying of sewing machine, handloom, animals etc.

All the important decisions regarding saving and loan activities are generally taken by members of the group. It makes decision regarding loan and its objective, its amount, interest rate and the time of repayment etc. the responsibility of the group is the repayment of loan. If any member does not return the loan, the other members take it seriously. This is the reason banks become ready to advance loan, when they organize themselves in self-help groups, although they do not have basis of loan.

Thus we see that self-help group helps the people in getting loan without any security. They are in a position to get the loan at a reasonable rate of interest of their different needs from time to time. Above all, it helps in organizing the poor of rural sector of different districts, villages and localities. It

Self-Help Group and Microfinance Planning : Micro-finance planning is a planning, through which poor people from villages, kasba and district are attached with Self Help Group and provided loan. In this plan, loans are given at micro level.

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not only helps women in becoming economically independent but people get a (common) general state due to the regular meetings of the people of the group. This is the common place where they can discuss between themselves, about the social matters, such as, health, nutrition and domestic violence etc.

Self Help Group:

Self-help group can be understood with the help of a story. Nawada is a very backward district of Bihar. Gobindpur is a block of this distraction, whose natural surroundings are very beautiful. There is a mountain's river in the village known as Salari river. Darshan is a small village besides this river. Soil erosion in this village is continuously increasing because of the flood. The main occupation of the people of this village is agricultural labour. Besides agriculture, people move here and there for earning in the off season. Twenty women of this village made a group. After making a group, these women approached the block and got a loan of Rs. 15,000/- from Punjab National Bank and together they started making baskets. This industry started with the help of the group. At the beginning profit was Rs. 6,000/- from this basket-making industry. All women opened their account in the bank separately and distributed this amount equally amongst them and deposited Rs. 300/- as income per women in their account. Now these women by self employment through self-help group started improving their economic situation. Today, this group is the Premier self-help group in this block and also the most popular at block level.

This story can be understand with the fig. 4.2

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Fig. 4.2: Basket making women working together in the self-help group

In the above figure 4.2 women making basket through self-help group is shown.

SUMMARY

- Financial Institutions meet the requirement of credit or loan. These financial institutions are established and regulated by government or semi-government financial institution.
- Financial Institution — Those institutions which fulfill the financial need of industry and business for economic development are known as financial institutions.

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- Types of Financial Institutions — They are of two types (1) National Level, and (2) State Level Financial Institutions.
- National Financial Institutions: Institutions that direct and determine financial and credit policies of the country and implement activities related to financial management at National level are known as financial institutions.
- It has two important parts (a) Indian Money Market (b) Indian Capital Market. Indian Money Market makes arrangement and management of short term and medium term finance. Indian capital market makes arrangement and management of long term finance.
- Indian money market is divided into organized and unorganized sectors and Indian Capital Market is divided into securities market and industrial market, development financial institutions and non-banking finance companies.
- State level Financial Institutions : It has two important parts (a) Non-Institutional and (b) Institutional Financial source
- Commercial Bank: It performs four important functions: (a) Accepts deposits (b) Provides loan (c) General utility related functions (d) Agency function.
- Co-operation: Co-operation is an organization where people work together according to their desire for the fulfilment of general economic objectives.
- Self-help group: This is a group of 15 to 20 persons in the rural sector who borrow loan from banks to meet family needs and contribute towards the development of village.

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Questions

Objective Questions:

I. Choose the correct option:

1. The most popular source of non-institutional finance is—
   (a) National banks (b) Money Lenders
   (c) Traders (d) Co-operative Banks

2. Which of the following is the source of institutional finance?
   (a) Businessmen (b) Relatives
   (c) Commercial Bank (d) Money lenders

3. Which is the Central Bank of India?
   (a) Reserve Bank of India (b) State Bank of India
   (c) Regional Rural Bank (d) Punjab National Bank

4. What is the number of Central Co-operative Bank functioning in the state?
   (a) 50 (b) 35
   (c) 75 (d) 25

5. Which institution promotes long term loans?
   (a) Agricultural lenders
   (b) Land Development Banks
   (c) Primary agricultural credit society (d) None of the above

6. Which is the financial capital of India?
   (a) Mumbai (b) Delhi
   (c) Patna (d) Bangalore

7. When did co-operation become the transferred subject of provincial government?
   (a) 1929 (b) 1919
   (c) 1918 (d) 1914

8. Today, the number of functioning regional rural banks is:
   (a) 190 (b) 192

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9. When was commercial bank nationalized?
   (a) 1966 (b) 1980
   (c) 1969 (d) 1975

II. Fill in the blanks:

1. _____ institutions meet the need of credit or loan.
2. Businessmen provide _____ percent of loan in rural sector.
3. Primary agricultural credit society provides farmers _____ loan.
4. Reserve Bank of India was established in _____.
5. Financial institution of any country is considered _____.
6. Total number of members in the self group is _____.
7. Saving and loan related rights decision in SHG is taken by _____.
8. Commercial banks accept _____ type of deposits.
9. Indian capital market provides _____.
10. Micro finance scheme provides credit or loan facility on _____ scale.

III. Short Answer Questions: (Answer in about 20 words)

1. What do you mean by financial institution?
2. In how many parts are financial institution divided?
3. Why do farmers need credit or loan?
4. What are the different types of deposits accepted by commercial banks? Explain in brief.
5. What do you mean by co-operation?
6. What is self-help group?

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7. When was co-operation started? Explain in brief.
8. Define Micro financing scheme.

IV. Long Answer Questions : (Answer in about 100 words)

1. What is National financial institution? In how many parts is it divided? Explain.
2. Explain the functions of state level financial institutional sources.
3. Discuss the main functions of commercial banks.
4. What are the important elements of co-operation. Explain its role in development.
5. What type of role do women play in the self-help group? Explain.

V. Project / Activity

On the basis of the questionnaire given below, find out, by investigating banks of the neighbour-hood as to which group required what amount of loan. Whether the loan was made available to them or not, if the loan was made available to them, what were the loan amount and the loan was made available in how many days. If not, then discuss its causes. Indicate the following four points in project activity.

1. Name of the bank.
2. Background of loan applicant.
3. The amount of loan demanded.
4. The period of making possible the availability of loan.

Answer of objective questions

I. (1) b (2) c (3) a (4) d (5) b (6) a (7) b (8) d (9) c

II. (1) financial (2) 30% (3) short term (4) 1935 (5) backbone (6) 15-20 (7) Members of group (8) Four (9) Long term (10) small

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Chapter-5

Employment and Services

Employment is very important in service sector. By employment we mean all human resources that are engaged in such activities which increase productivity and minimum necessities like food, clothing and shelter can be made available to the general mass. The government of every country of the world tried to make work available to human resources on the basis of their capability. Those people who are capable of working but are without work with reasonable wages are known as unemployed. Those people who do not want to work according to their desire, are not unemployed. Or if the work is not available at reasonable wages for the capable people, then it is known as unemployment. During the process of planned development service sector has improved substantially, because of which, unemployment has decreased. In service sector employment is made available on the basis of physical labour, capability and ability. In India agriculture is major source of employment and along with this industry, business, health, transport etc. are other sectors which provide different types of services to the people.

Employment and Services:

"Employment and services relate to all those facts, which help in earning of money on the basis of labour and education for their livelihood. Accumulated money invested in productive sector in the form of capital, gives birth to services sector. So, employment and services are both complementary to each other. Increase in employment leads to expansion in service sector.

Sectors for Economic Development:

Increase in economic activities and expansion leads to employment and services. This is always said that service sector expands with the development of country because of economic progress. As a consequence, new opportunities for employment start increasing.

There are three sectors of Economic Development :

a. Agricultural sector

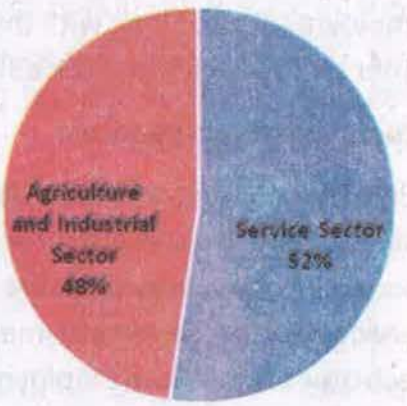
b. Industrial sector and

c. Service sector.

Sectors for Economic Development:
a. Agricultural sector
b. Industrial sector and
c. Service sector.

a. Agricultural sector :

India is primarily an agricultural country. 67% of the total population depend on agriculture. Because of excessive burden of population, agriculture employment opportunities are lagging behind. As a consequence disguised unemployment and other types of unemployment are found in agriculture. With the increase in the population the burden of coming generation increases on the same piece of land, which causes decreasing productivity per person.



b. Industrial sector :

Another sector for employment is 'industrial sector.' This sector also provides employment. Because of increase in the rate of industrial development employment increases in industrial sector.

c. Service Sector:

Because of economic liberaralisation and globalisation there is remarkable progress seen in service sector. Service sector is a more wider field in which employment is made available for the human resources on a large scale. Service sector contributes 50% of the gross domestic product at present time. According to economic survey 2006-07 and central budget 2007-08, service sector contributes 68.60%. According to 2006-07, agriculture contributes only 18.5 percent , gross domestic produces contribution of industry and service sector increases to 26.4% and 55.1% respectively.

These data exhibit the increasing development of our country.

Role of Service Sector:

In comparison to developed countries of the world, underdeveloped and developing countries are having more poor unemployed. It is always said that two-third of the world population are poor and suffering from poverty. There is overpopulation in underdeveloped and developing countries and there is scarcity of resources or production because of which they are facing unemployment problem. More employment opportunities can be made available with the growth of service sector. For the development of service sector, it requires to educate people. Efficient human capital of any country accelerates the rate of their growth of the country. Developed human capital gives birth to strong labour power which helps them in getting employment, and people start working in the interest or state giving up their inferiority complex and results in state of development.

It will not be out of context to mention that skilled human resources of India do not play as important role in the expansion of services sector in USA and Canada. In India also ,the available human

resources can accelerate the rate of economic development if high level productive sectors are made working. It is also said that Indian human resources is counted among best human resources" of the world.

Bihar is the backward state of the country which has been the centre for poverty and unemployment for many years. The other states of the country like Orissa, Madhya Pradesh and Uttar Pradesh are the states where development has not been taking place at a faster pace. During the last few years economic progress is observed in Bihar. For example, expansion of roads and health services.

Flood and farming of past days gave a serious jolt to the developing activities of Bihar, despite the expansion of services like telecommunication, transportation, health, education, beauty parlour and self employment. Service sector of Bihar has experienced sufficient expansion. Role of service sector cannot be ignored at state level. Many people are influenced by the impact positively at government or non-government level both.

Division of Service Sector:

Service sector is divided into two parts: a. Government services b. Non-government services

a. Government services:

When people are paid for their work in different fields by Central or State Government it is known as government services. Some of the wider fields of government services are police services educations, health services, engineering services, financial services, and banking services etc.

Govt. Service Sector:

1. Military Services
2. Education Services
3. Rail Services
4. Bus Services
5. Airlines services
6. Agriculture services
7. Health services
8. Engineering services
9. Financial services
10. Banking services
11. Other Govt. services

b. Non-government services :

When the government regulated different programmes are made available to the people through non-government institutions or people get benefit through the creation of these services by themselves, then it is known as non-government services.

Non-Govt. Service Sector:
1. Banking services
2. Telecommunication
3. Traffic services
4. Health services
5. Self-employment services
6. Other Non-Govt. services

Some of the examples of this field are : Banking services, telecommunication services, transport services, self-employment services etc., out of these services, some services are administered at both the levels. Mainly scope of transportation services, educational services, health services, telecommunication services, banking services etc are so wide that government alone is not efficient.

Story of Gobindpur Village :

Suresh lived in Govindpur with his parents. This village of Nalanda district is in Bihar. Suresh is the eldest among his four brothers. Being an eldest son of his family, he is more responsible. Jawahar, Hira and Ashutosh are brothers of Suresh. The main source of livelihood is shopkeeping of this family. People get their essentials from the shop as it is in the village. Suresh wanted to continue his studies after passing matriculation in 2nd division. Because of weak economic condition of the family his studies discontinued. He decided to continue his studies by providing tuition to the children in the town. He fulfilled his desire to study by teaching others. His hard labour helped him and he passed intermediate. To continue his studies he came to the town. He got admitted in

Gaya College, Gaya. He passed in 1st division. After graduation, he started searching for a job. Here also he got success and became an official in financial services. The economic condition of his family started improving. He encouraged his brothers to continue their studies. His brothers also worked hard and got jobs successfully - one in police services, other in administrative services, third one in engineering services got jobs successfully. Today his family is considered as highly educated. Nowadays father of Suresh is looking after his 'Telephone booth' along with his shopkeeping. Thus Suresh's family joined different services. Because of the expansion of service sector family members of Suresh got work and their economic condition improved.

Importance of Service Sector:

Service sector is very important in employment generation, services and employment are complementary to each other. These two can be seen in the form of two parts of a balance. In other words they are two sides of the same coin. Expansion of service sector help increase employment opportunities. For example, a farmer produces paddy and gets reward after working hard. When he cleans the rice and sells them in the polythene bag of 1 kg. at a reasonable price in the market, he gets employment from the beginning to the end. If the farmer wants to trade, he can trade on large scale, and provide opportunities to more and more people. If the farmer gets technical training and knowledge, then he can increase his income also. Two main facts are clear from the above examples : first, a farmer opens wider opportunities of employment, he increase productivity and improves the quality of the product through his labour and skill, which causes the expansion of service sector. Secondly, when quality of a commodity improves it can be sold at a high price. The increase in quality is known as value added.

Role of Services in Creation of Employment:

Service sector creates employment either it is government or non-government. Human wants are increasing day by day with the increase in population. Industries are expanding in the economy to fulfil these needs of the people. New factories are being established. The basic necessary infrastructure is developing with these factories. There is requirement of literate, semi-literate and illiterates for the development of infrastructure. These literates, illiterates and semi-illiterates are human capital. An effort is to be made for the development in the education sector on large scale to strengthen human capital and make it more efficient. Human force will be utilised in the industries on large scale if the level of education will be strong. As a consequence, production will increase and will be successful in satisfying more and more human wants.



Pict. 5.1 : MNREGA

Many employment generation programmes are seen at national level by Indian government, and are being implemented by state

government. These are the following schemes which are seen by government in the country for employment creation. These are different schemes which are running and shown with their year of starting.

- Food for work (14th Nov. 2004)
- National Rural Employment Programme (1980)
- Rural Youth self-employment training programme (1979)
- Rural Landless Employment guarantee programme (1983)
- Integrated Rural Development Programme (20th October 1980)
- Jawahar Rojgar Yojna (1989)
- MNREGA etc.
- Efforts are made to solve the problem of unemployment through the medium of above-mentioned programmes. It is estimated by the government that above 62% of the unemployed can be provided employment through these schemes. Several efforts are also made to solve the problem of unemployment in the urban areas. With the expansion of service sector it is expected that 38% of urban unemployment can be solved. MNREGA is considered to be the major scheme in the world to make available the employment opportunities in the field of rural employment. Poor people of Bihar in rural sector are not profited much by this because of brokers. This is the reason that sincere efforts are being made for removal of the difficulties in the implementation of MNREGA and providing more strong schemes for employment creation in rural sector.

India in the form of Service provider to the world:

Indian labour-force has sizeable contribution in the 21st century world service sector. Earlier also Indian labour force contributed much towards the health and transport services of England. Even today contribution of Indian labour-force in science and information

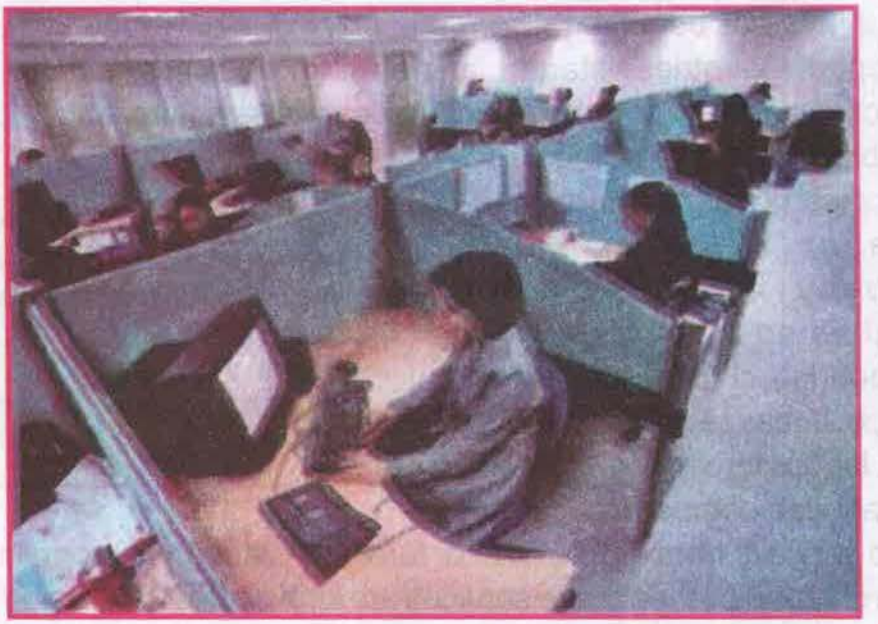
technology is acknowledged. Prior to this, increasing population was a cause for a country but because of contribution of skilled labour-force and enhancement of knowledge now it is considered as human capital. In the perspective of changed population related analysis in economics, it is being weighed as human capital. Today India is known as the number one country of the world in terms of the youth, because energized youths class has increased relatively in the whole population. This is helpful in accelerating the race of development.

Liberalisation resulted in increasing the pace of development in service sector, by creating more and more opportunities through which all countries are benefited. From this point of view today industrially developed countries started performing activities related with producting and services in those countries where cheap labour force is available. For example, most of the electronics goods are produced in China or Korea and Dabur Company of India is also establishing factories in its neighbouring country Nepal for its produce because of availability of cheap labour force there. When the multinational companies get their related services from any outside or foreign institution or group instead of own companies then these services are known as out-sourcing.

Outsourcing:
When the multinational companies get their related services from any outside or foreign institution or group instead of own companies, then these services are known as outsourcing.

At present age of liberalisation and globalisation, the whole world has converted into a market. Because of this not only goods of a country is available in all markets of the world but production sector of that good is separated by each other and producing institution has established where cheap labour is available. Because of this service sector has expanded in the sector where cheap labour is available and goods are available relatively at low price.

These policies have wider impact on the economy of India. In India voice based business process known As BPO or call centre is progressing at a faster rate, through which companies of developed countries like USA and European Union usually get record keeping, accounting, banking services, railway inquiry, recording of music, book transcription, medical transcription, educations and research related services from small companies or institutions of India. The system or working of call centre is shown in the picture 5.2. whereby setting at a centre production and service activities of different countries of the worked are performed.



Picture 5.2 Call Centre

It is profitable for multinational companies or government to get these services or information on the basis of comparative analysis of cost because in India cost of these services is comparatively cheaper. The main reason for this is sufficient availability of efficient labour force and low rates of wages. Cost of intelligence, efficiency, especially low wages of labour and, cost of those services which India provides to the foreign companies is comparatively low. This is the reason there are

more employment opportunities in this sector. India has become a destination in the context of out-sourcing which has become the subject of discussion with respect to employment in other countries.

Infrastructure of service sector:

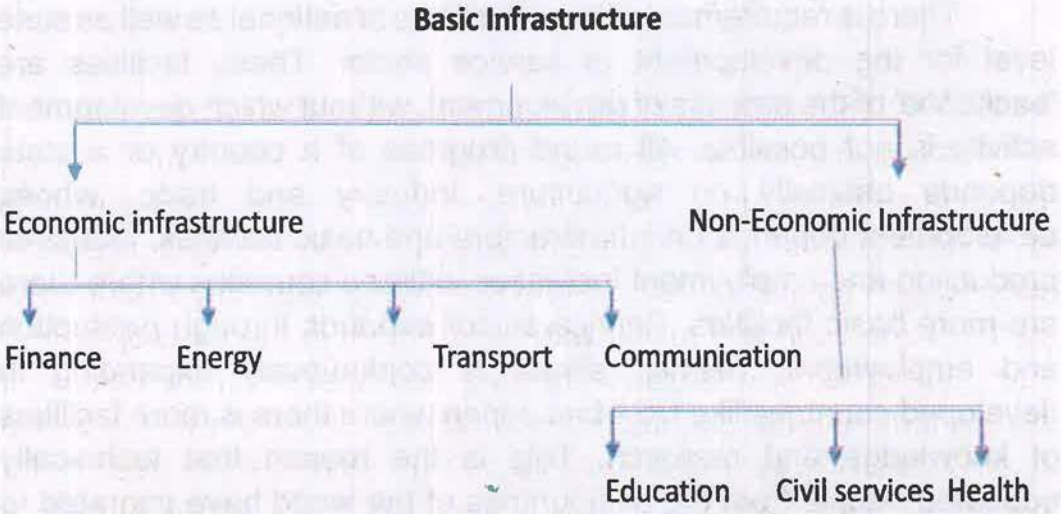
There is requirement of basic facilities at national as well as state level for the development of service sector. These facilities are 'backbone' of the process of development, without which development activity is not possible. All round progress of a country or a state depends basically on agriculture, industry and trade, whose development depends on infrastructure and basic facilities. Industrial production and employment increases in those countries where there are more basic facilities. Service sector expands through production and employment. Service sector is continuously expanding in developed countries like USA and Japan where there is more facilities of knowledge and research. This is the reason that technically educated people from the all countries of the world have migrated to these countries. The young persons, educated from centre or highest technical education known as IIT and highest commercial education known as IIM in India usually go to these countries for employment at highest income. In the same way because of the increase in the use of information technology related knowledge, information technology educated youth go to Bangalore for the employment.

On the other hand Bihar, Orissa, Madhya Pradesh, Rajasthan etc. are most backward states of India, which are known as BIMARU. There is lack of basic facilities like electricity, irrigation, transport and communication etc. These states do not want to be known as BIMARU as it sounds negative. Planning Commission also does not recommend this word for these states. Among these states Bihar moved a step further towards economic growth, so people avoid using the word

BIMARU		
BI	-	Bihar
MA	-	Madhya Pradesh
R	-	Rajasthan
U	-	Orissa

BIMARU. Thus, for any sector of economic development like agriculture industry or services basic facilities are required necessarily.

The following chart will explain these services in a better way:



Economic infrastructure directly increases production and happiness of the people. This is directly related to all the sectors of economic development. Economic infrastructure includes these—

Finance : Banking sector, Insurance sector and other government financial sector.

Energy : Coal, Electricity, Oil, Petroleum, Gas, Non-traditional sources or energy and others.

Transport : Railways, Roadways, Airways, Waterways.

Communication : Post and Telegraph, Telephone, Telecommunication, Media and Others.

Non-economic infrastructure helps in production and economic development by indirectly increasing capability of people and

productivity, which are as follows:

Education: Informal Education Primary education, secondary education, higher secondary education, technical education and others.

Heath: Hospital, Primary Health Centres, Nursing home and others.

Civil Services: Civic sense, cleanliness and others.

Traditionally it is the responsibility of the government to develop basic infrastructure in India, but investment of the government was not sufficient. This is the reason that after 1991 private sectors started playing an important role during the phase of economic reforms by participating itself and jointly with government in the development of basic infrastructure. Because of joint participation in investment in basic infrastructure, condition has improved a lot. But there is lack of basic infrastructure in India inspite of high technical progress of the world. Specially, there is also developed basic infrastructure in relatively backward states from economic point of view.

Role of Education in Service Sector:

Economic development is not possible only by expanding production of goods and services. For this, human development and human capital formation is essential. Human capital is more important than physical capital. Productivity of the country can be increased by increasing efficiency through education, training, and health facilities. Income is only an alternative, or income is means to an end and end is human development. Human capital formation is directly possible with education and health. Physical capital is tangible while human capital is intangible. Economic development is only imaginary without human capital formation.

Thus, special attention should be given to the Chief components of human capital formation. Its chief components are food, clothes, housing, education and health. Human capital can be strengthened

through these components. It is essential to make it strong for the development of service sector.

When human capital is forceful, its importance increases. Investment in human capital is required for the development of service sector. Actually by investing capital in education, health, working place, training, migration and information, human capital is empowered because of which economic development is possible in all sectors.

Thus human capital is the stock of efficiency, ability, education and knowledge at a particular period of time. This is the stock of all types of professional and efficient persons who are involved in productive activities.

Thus, human capital formation is the process of increasing the member of efficient and qualified experienced persons. Good human capital; for example; Scientist, Doctor, Engineer, able administrator, Social servant, Psychologist, Teacher and Academician etc. produce human capital. This means that with human resources, more human capital investment in human capital is required. Maximum economic development of a country or state requires high level investment in human capital.

We have to think seriously, emperor and make stronger human resources. If the three primary necessities - food, clothing and shelter are provided to the whole of population by working hard, half of the problem is solved. There is need to provide attention to the health of population for making them stronger. In this context, it is always said, "Healthy mind lives in Health body." These four elements altogether affect the people, they can be enriched through the medium of education; it is an able indicator of economic development and this indicator contributes in capital formation, which will facilitate economic development whole wide.

Efficient human capital gives birth to different sectors of employment. Today India is counted among the best countries of the

world in the context of Information technology. Indian engineers are intelligent and efficient, as a consequence there is more inflow of foreign capital within the country and employment opportunities are created in this sector. Bangalore, Pune, Mumbai, Hyderabad, Delhi etc. are centres of Information and Technology, where thousands of the people get employment every year.

Impact of economic slow-down on service sector:

Economic development is a continuous process of any country or a state. With the passage of time the process of development increases. Disappearance of old things from the economy is its indication. With the change in time demand of a person changes. Person falls prey to fashion. After 1991 in India after globalisation massive change was observed. Liberalisation of industrial policy increased competition among the trading countries. People easily started getting services from foreign goods. People got the opportunity for making qualitative companion of the goods on the basis of their prices.

Sectors of economic development started getting benefit from globalisation, liberalisation and privatisation. Now people got the idea to look out for jobs in other countries. Although there is one group of economic thinkers which has the view that life of the common people has become difficult due to globalisation, privatisation, and liberalisation and rich persons and countries started dominating the economy. There is a strong point in this crisis that role of trade union has become negligible in labour market because of globalisation and liberalisation, and common people remain silent spectator. The mind-set of this group of people is changing slowly and thye have started acknowledging the advantages of these policies.

Scientists of Indian origin got the opportunities to work in developed countries like USA, Switzerland, France, Russia, Japan, China etc. It was not possible increasing the number of scientists of technical sector in the developing country like India because of less availability of basic infrastructure in comparison to developed countries.

Service sector has affected by present recession. Demand of consumers has increased but producers are not getting reasonable price. Producers are getting income less than its cost price. This is the reason that technical scientists are retrenched in developed nations and exempted from employment. It affected those scientists of India also, who were working in other countries. Producers were forced to step their productions. Because of enormous loss incidents like suicide started increasing in developed nations. Many financial institutions in America stopped their services. Thus developed countries were adversely affected by present recession or slowdown.

Its impact on India was not enormous because of strong capital market existing here. Engineers are involved in outsourcing here .Even new Information technology service sector of India is very strong and engineers of India are ranked higher in the whole world. Present recession slowdown has less impact on India even though there is weak basic infrastructure. Information technology of city like Bangalore in India is counted among the premier category information technology of the world.

This recession has also less impact on Bihar, Engineers of our state employed in the recession affected nations were thrown out of employment. As a consequence there was requirement of new jobs. The case from these countries coming to our state was reduced.

Thus most parts of the world was adversely affected by the present recession. Because of being an agricultural country, there was

not much negative impact of the recession in India. There is the necessity of strengthening agriculture and agro-based industries in Bihar. We have seen that India was less adversely affected by the present recession in the comparison to developed countries. It is expected that in 21st century India will be counted among the developed countries by reaching the highest level because of strong Indian capital market, high level efficiency of human labour, and major labour force.

There are many possibilities of development of service sector in India and especially in Bihar in coming years. There will be more aging persons in comparison to youth in whole of America including China and countries of Europe, where as India will be the country of youths, and outsourcing of efficient workers will take place in the whole world.

Summary

- Employment and services are complementary to each other. Provision for employment and services is possible through of economic development. There are three sectors of economic development (a) Agricultural sector (b) Industrial sector (c) Service sector
- 'Service sector' is the third sector of economic development. Service sector contributes 55.1% of the gross domestic product while agriculture and industry contribute 44.9%.

  'Service sector' developed because of the uncertainty in agriculture and industry.
- Main service sector:
  a. Government service sector
  b. Non-government service sector
- **a. Government service sector:** Police service, education, health services, engineering services, financial services, banking services, telecommunication, railways, airways, bus services, agriculture services and others.

- **(b) Non-government service sector :** Telecommunication, Banking services, transport services, health services, mall, self-employment services and others.
- **Some of the services** both in government and non-government are the services developed with the help of government and private sector. For example transport services, tele-communication services, banking services, health services etc.
- **Importance of service sector:** Employment and services are the two sides of the balance.
- **Role of services in employment section:** Service sector either government or non-government, create employment in both the situations. In government sector employment is generated through the following services food for work-2004, National Rural Employment Programme-1980, Rural landless employment guarantee programme-1983, Rural Youth self-employment training programme-1980, Integrated rural development programme-1980, Jawahar Rojgar Yojana, Self-help group, MNREGA etc.
- **India as a service provider to the world:**
- **Out-sourcing:** When multinational companies or other companies get regular services from outside or foreign services or institution or group instead of own companies is known as out-sourcing.
- Basic-information or service sector : (a) Economic (b) Non-economic
- **a. Economic :** Finance, energy, transportation and communication,
- **b. Non-Economic :** Education, Civic services and Health
- Main components of human capital: Food, clothing, housing, health and education.
- **Impact of present slowdown on service sector:** More adverse impact on developed countries, while less on India.
- Bihar state is adversely less affected in comparison to other states.

Questions

Objective questions:

I. Choose correct alternative:

1. Which is the third sector of economic development?
   a. Agriculture sector
   b. Science sector
   c. Education Sector
   d. Service sector

2. How many components of human capital are there?
   a. 6
   b. 4
   c. 4
   d. 8

3. Which of the following is not a BIMARU state?
   a. Bihar
   b. Madhya Pradesh
   c. Karnataka
   d. Orissa

4. Which of the following is a non-government service sector?
   a. Police services
   b. Finance services
   c. Mall services
   d. Railway services

5. What are the sources of energy?
   a. Coal
   b. Petroleum
   c. Electricity
   d. All of the above

Short Answer Question:

1. What is out-sourcing?
2. Write five services of Information technology.
3. What is government services?
4. What is non-government services?
5. What is basic infrastructure facilities?

6. What is the relation between 'employment' and 'service'?
7. What is the importance of economic infrastructure?
8. Explain the impact of slowdown or recession on India.
9. What is the impact of globalisation on service sector?

Long Answer Questions:

1. Write a brief note on service sector.
2. Explain with example that India is known as service provider to the world.
3. What was done in the form of government efforts in the service sector? Explain.
4. How does non-government institutions help in developing service sector? Explain with examples.
5. What was the impact of present economic slowdown or recession on service sector in India? Discuss.

Answer to objective questions :

I. **1 (d)** **2 (c)** **3 (c)** **4 (c)** **5 (d)**

Chapter-6

Globalisation

The 1990's were the decade which saw rapid changes in the world economy. Globalization has made the regions of the world come in close contact with each other. Before globalization, the export and import of various goods and commodities was quite difficult. In the present situation, goods are made available even in small towns and villages, which has been manufactured in different countries of the world. Globalization is thus, the process of rapid integration or inter connection between countries. In short, it can be said that due to globalization, the world market is turning into a borderless world.

A few years back, in India, only cars and motorcycles of reputed companies were seen on the road, e.g. Rajdoot, Yezdi in motorcycles and Fiat and Ambassadors in cars. Today, even in small towns and cities, cars of different companies and varieties can be seen on the road which



Pic. : 6.1 Cars of different companies

have been manufactured in other countries. Similarly, commodities manufactured and produced in other countries, are made available to us. Malls have been opened in small towns and big cities where the smallest as well as the biggest commodities are made available to the consumers. Cars of different sizes and varieties, commodities like mobiles and televisions are made easily available in the Indian market. More and more goods and services, investments and technology are being made available all over the world. This is due to the effective result of globalization.

Mall

The setting up of malls is a new development in the Indian market. It is only due to globalization and liberalization that malls have been developed where consumers can get their smallest and biggest needs fulfilled. A market which makes available all products of, whether big or small, available to the consumers is known as MALL. As the owner of the mall buys goods and services in large quantities, they lure the customers by advertising lucrative offers and attracting them to buy those commodities. The consumers are profited if the goods and services come with attractive offers. But due to the setting up of malls, small businessmen are in danger.



What is globalization?

It is only in the last few years that the term globalization has been tagged along with liberalization and privatization. In globalization, various political, social, economic, and social aspects have to be taken into consideration. In this chapter, we will have a closer look at the economic aspect of globalization.

Globalisation is that activity where the world economy comes together so that goods and services, investments and technology are made available to each other without any trade restrictions. According to Branko Milnovic "Globalisation means free movement of capital,

goods, technology, ideas and people. Any globalization that omits the last one is partial and not sustainable." Thus, in globalization, more and more goods and services, investments and technology are moving between countries. Globalisation attempts to establish links in such a way that the happenings in India can be influenced by events happening miles away. It is turning the world into one whole or creating a borderless world.

In other words, we can say that globalization is the outcome of the policies of liberalization and privatization.

Privatisation

The process of reducing the role of public sector in the economy and increasing the role of private sector is known as privatization. For the economic improvement and development, the Indian government adopted the policies of privatization in 1991.

Liberalisation

Liberalisation means to remove all restrictions imposed by the government on license and reservation. The government of India adopted the policy of liberalization in the year 1991.

Globalisation

Globalisation is the outcome of the policies of liberalization and privatization

Component of Globalisation:

There are five main components of globalization.

1. Lessen the obstacles of Business and Trade:

Free flow of goods and services is the essentiality of globalization for which the obstacles of business and trade should be minimized. Foreign companies should be able to sell their goods and services to India freely and the Indian companies should also export their goods and services without any restriction.

2. Free flow of Capital:

Such an environment should be created where there is free flow of capital from one country to another. The foreign companies can invest in India and so can the Indian companies invest in foreign countries.

3. Free flow of technology:

All the barriers should be removed and there should be free flow of technology from one country to another.

4. Free flow of labour:

Free flow of labour is one of the basic ingredients of globalization.

5. Free convertibility of capital:

Free convertibility of capital is very important for globalization.

It has been seen that in capital, investment, industrialization and in the areas of goods and services, there is a huge development. But free flow of labour and movement of people is acting as a hindrance to globalization. The developed countries are imposing various restrictions on these.

Global Village

Due to the impact and development of globalization a global village is being constituted in every country where modern facilities are being made available to the people. People across the world can reside in this village according to their own free will. A residential place where people of various countries, religions can reside with each other freely is known as a global village. In India, a global village has been set up near Mumbai. Till now, the idea of global village has not sunk deep into the minds of the people and thus has not become practically relevant.

Role of Multinational Companies in Globalisation:

Multinational companies play an important role in Globalisation.

Multinational Company

A multinational company is a company that owns or controls production in more than one nation such as Ford Motors, Samsung, Coca-Cola, Nokia, Infosys, Tata Motors etc.

Working system of Multinational Companies

Multinational companies set up offices and factories for production in regions where they can get cheap labour and other resources. For e.g.

Dabur, a reputed Indian company, is manufacturing its products in Nepal due to low cost of labours and cheap land resources. The multinational companies are producing their goods and services globally in order to get more profit.

Outsourcing is one of the important outcomes of the globalization process.

Multinational companies can neither produce all the goods on their own nor can they do it at one place. The production process is divided into small parts and spread across the globe. For example, a large multi-national company (MNC), producing industrial equipment, designs into products in research centres in the United States, and then has the components manufactured in China because China provides the advantage of being a cheap manufacturing location. These are then shipped to Mexico and Eastern Europe where the products are assembled and the finished products are sold all over the world. Meanwhile, the company's customer care is carried out through call centres located in India. India also has educated English speaking youth who can provide customer care services. And all this probably can mean 50-60% cost saving for the MNC. The advantage as spreading out production across the borders to the multinationals can be very productive and useful.

Global Connection of Products:

The multi-national companies advertise their products on different levels.

1. The MNCs set up and buy local companies and then advertise their products. For example, the Coca Cola, an MNC company bought the right of Thums Up brand which is a product of Parle Group.



Pic : 6.3 - This is a call center situated in Patna

2. At times, MNCs set up production jointly with some of the local companies of these countries. The MNCs bring with them the latest technology for production. They also provide money for additional investments.

Investment : Amount expend in purchasing of capitals like Land, Houses, Machines and other tools are called Investment.

Foreign Investment : Investment done by International Companies are called Foreign Investment. Objective of this investment is to make profit.

3. Big MNCs buy up local companies to expand their production. For example, Garments, shoes, toys, sports items are produced in large quantities by small local companies and the MNCs sell these products

Thus we see that there are a number of varieities in which the MNCs are spreading their production and interacting with local producers in various countries across the globe.

The MNCs are exerting a strong influence on production by setting up partnership with local companies. As a result, production is getting widely interlinked in these widely dispersed locations. Thus, the MNCs are playing a vital role in the globalisation.

Globalisation and Integration of Market:

For a large time, foreign trade have been the main channel connecting countries. In history we have read about different trade routes connecting India and South Asia to market both in the east and the west. It was due to their trading interests that the East India Company came to India. Foreign trade creates an opportunity for the producers to reach beyond their own domestic market and sell their products. Producers can sell their products not only in local market but also in market located in other countries of the world. In general, with the help of trade, goods travel from one market to another. Choice of goods in the market rises and the prices of similar goods in the two markets tend to become equal. Thus due to globalisation, the policies of foreign trade have become quite liberal.

Foreign trade thus results in connecting the market in integration of market in different countries.

Factors Responsible for Globalisation:

There are two main factors responsible for globalisation which have been discussed below:

1. Rapid Improvement in Technology:

Rapid improvement in technology has been one major factor that has stimulated the globalisation process. We are living in an age of

industrialisation where places have come near globally and the world has turned into a global cottage. In recent times, technology in the areas of telecommunication are used to connect people and access information instantly. Commuters have now entered in almost every field of activity which has made the world come closer at negligible costs.

In the field of transport too, goods and commodities are transported from one place to another at a very cheap rate. Goods are placed in containers and loaded into ships, places, railways and trucks. These containers have led to huge reduction of costs and increased the speed of export. Similarly the cost of air transport has been reduced which has enabled greater volumes of goods being transported by airlines.



Pict. 64 : Container for goods transportation

Development in Information and Communication Technology:

There has been remarkable development in the field of

information and technology. Telecommunication facilities like telephones, mobiles, fax enables us to establish contact with one another around the world.

Computer has now entered in almost every field of activity. It is due to the easy accessibility of the internet that we can obtain and share information about anything that we want to know. We can send e-mail and voice mail across the world at negligible costs. Information technology has been a great help in the development of globalisation. This has be best explained by this example A New York publication wants to publish a book or a journal. The text of the journal is designed and sent through the internet to the Mumbai office. The design is sent using telecommunication facilities and the designing is done in Mumbai. The designers design and print the magazine, which is sent by air to New York. Even the payment of money for designing and printing is sent through the internet (e-banking) to the bank in Mumbai instantly.

Thus we see that information and communication technology has played a major role in globalisation.

2. Liberalisation of foreign trade and foreign investment policy:

The India Government, after independence, had put certain barriers on foreign trade and investment. This was necessary to protect the producers within the country from foreign competition. Around 1991, some changes in policy were made in India. Government decided that the time had come for Indian producers to compete with producers around the globe. It felt that the completion would improve the performance of producers within the country since they would have to improve their quality. Thus, barriers

Trade barrier:

It is called a barrier because some restrictions have been set up. Government can use trade barriers to increase or decrease foreign trade and to decide what kinds of goods and how much of each should come into the country.

on foreign trade and foreign investment were removed to a large extent. Removing barriers or restriction set by the government is what is known as liberalisation.

Foreign trade and foreign investment also plays a major role in globalisation.

World Trade Organisation (W.T.O.)

The World trade organisation (WTO) is one such organisation the aim of which is to liberalise international trade. This organisation was set up in 1995. India has been its founder member. Nearly 149 countries of the world are members of the WTO (2006). Its main office is in Geneva. WTO establishes rules regarding international trade and sees that these rules are obeyed. WTO allows free trade for all but it is seen that the developed countries have unfairly retained trade barriers. But the WTO rules have forced the developing countries to remove trade barriers.

Globalisation in India — Why?

There is a great need for industrial and trade development in the present day scenario. India is a big country and with its huge population and bigger area, production can be done at a large scale. Being a member of the biggest consumer country, the whole world has its eyes on India. Globalisation has made its impact due to the new techniques of information technology and capital investment.

The following points are drawn in favour of globalisation in India.

1. Increase in Direct Foreign Investment :

With globalisation, India will be able to benefit a lot as there would be more and more foreign investment.

2. Increase in competitive power:

Due to globalisation, India would benefit from the increased competition in the world market which would also enhance its economic states.

3. Facilitates new Technology:

With globalisation, India is able to use newer technology and raise their production standards.

4. Availability of High Quality Consumer Goods:

Globalisation has made available to India high quality consumer goods at a cheaper rate.

5. Availability of New Market:

Due to globalisation a way to reach world markets will be opened for developing country like India.

Points in favour in globalisation:

1. Increase in Direct Foreign Investment
2. Increase in competitive power
3. Facilitates new Technology
4. Availability of High Quality Consumer Goods
5. Availability of New Market
6. Improvement in the quality of product
7. Banking and Financial Reforms
8. Improvement in the Efficiency of Human Capital

6. **Improvement in the quality of product:**

The quality of product has also been raised due to the powerful impact of globalisation.

7. **Banking and Financial Reforms:**

Globalisation would definitely help in bringing about certain reforms in banking and financial sectors which would made transfer of money easy.

8. **Improvement in the Efficiency of Human Capital:**

The main areas on which globalisation concentrates is improvement in the educational and technical areas. With it, there would indeed be a sharp increase in the efficiency of human capital.

But there are certain statement on the benefits and loss due to the globalisation. A section of economic and social informers think that globalisation would be very harmful and non-beneficiary for India. They are of the view that small industries, labours and manufacturers would shut down rendering many workers jobless. But in recent years, the world has entered into a new era of 21st century. The government of China and Russia has made certain reforms in the investment policies. So, it would be difficult for India to keep itself away from the impact of globalisation. Moreover, for the development of our country, the policies of globalisation has infact become essential.

Globalisation : It's Historical Perspective (Globalisation before 1991):

Globalisation is not new to the world. From 1870 to 1914, there was a wave of globalisation. There is a lot of similarity between the globalisation of today and that of yester years. During the end of 19th century, due to foreign trade, the world economy had become organised. The only difference between these two eras of globalisation is that of international residency. During 1870 to 1914, there was

liberalisation in the movement of skilled labourers, but in the present era, this movement has slowed down and the labour laws and policies too have changed.

The factors behind globalisation in both these era are more or less the same. There has been a great change due to the new techniques of information and communication technology. Invention of various industrial techniques has come into existence. As America is the major focus, Britain had this impact in the last era of globalisation pound and sterling were considered to be the international basis of money transaction.

Effect of globalisation on Bihar :

The economy of Bihar is changing due to globalisation. For economic development, like other states, Bihar too needs capital and financial investments. Investments are made only in those places where there is scope for economic and social development (as water is attracted more to the lower level because of its area). For industries to flourish, there should be sufficient supply of water, electricity and transport and then there can be economic development in a state. On the social front too, there should be peace so that the investors feel free to put in their capital. Though electricity insufficiency is one of the major causes of under-developed Bihar, yet there is wide progress in the transport facilities and law and order situations. The infrastructure is being developed, so that Bihar can progress rapidly. Prof. A. P. J. Abdul Kalam had once said, "For the development of India, it is necessary and essential that Bihar should be developed."

In the present era, in the field of production and consumption, the whole world has turned into one country. This effect of globalisation is evident also in Bihar. In the age of progress and development, emphasis should be put on development, so that globalisation can show its true colours.

But globalisation, besides having its positive impact on Bihar, has its negative effects too which are as follows:

The positive impact on Bihar are as follows:

1. Increase in agricultural production :

After globalisation, there has been a rapid increase in agricultural production. Like the country, Bihar too, is dependent on the monsoon for its agricultural production. In the year 2009, there has been famine due to less rainfall. But it is due to globalisation that the govt. of Bihar is now capable of confirming that there is abundance of food production & supply.

Positive impact of Globalisation in Bihar

1. Increase in agriculture production.
2. Increase in exports
3. Availability of foreign direct investment
4. Increase in net state domestic product and per capita net state domestic product
5. Availability of International Consumer Goods.
6. Increase in Employment opportunities
7. Establishment of Banking and Insurance Company

2. Increase in exports:

Due to globalisation, there has been a rapid increase in exports. Export of raw materials, products of small scale industries, fruits are some of the major areas where Bihar has shown a rapid development. Fruits like Litchi, Mango and Makhana are some of the famous products which are exported today.

3. Availability of Foreign direct investment:

Foreign investors have shown a great interest in investing in Bihar because of the rapid development. Due to the shortfall in the production of electricity, the investors are a little hesitant in investing, but this situation would definitely improve in the coming days.

2. Increase in net state domestic product and per capita net state domestic product:

Due to globalisation, there has been a considerable increase in net state domestic product and per capita net state domestic product in Bihar.

3. Availability of world-class consumer goods:

Due to globalisation, world-class consumer goods are easily available in the market. Different international company products like mobile phones, shoes, garments, food products, cars and various electronic goods are easily available in Bihar.

4. Increase in employment opportunities:

Due to globalisation, there has been increase in employment opportunities. Highly educated and skilled labourers are getting better opportunities of employment outside the country. Many software engineers of Bihar are working in foreign countries, especially in USA and England.

5. Establishment of Banking and Insurance Company:

It is the effect of globalisation that many new banking and insurance companies have come forward to establish themselves.

In Bihar, many Insurance companies in collaboration with various Indian companies have been established for example, Bajaj Allianz, Birla Sunlife, Tata AIG, Aviva etc.

The markets of Bihar have now been flooded with various international products. Various higher education and industrial companies are eager to establish themselves in Bihar. The skilled labourers of Bihar are in great demand around the world and are getting good opportunities of employment. In the recent years, the infrastructure of Bihar is attracting the tourists which is eventually increasing the rate of capital investment in Bihar.

Negative Impact:

The negative impact of globalisation on Bihar are as follows:

1. **Neglect of agriculture and agro-based industries:**

   Bihar is an agricultural state. Big industries are almost negligible over here. But the investment on agriculture is not satisfactory. Agriculture based industries are in demand over here. But inspite of globalisation, people are not very keen to invest in agricultural industries.

2. **Adverse effect on cottage and small scale industries:**

   Industries on a large scale in Bihar are very negligible in comparison to the cottage and small scale industries. Due to globalisation, the products of these small scale industries do not reach the market because of the competition from the international companies which are better and available at a cheap rate. For example, The Chinese toys are in great demand because of their quality and affordable price. The Chinese markets have side-lined the toys manufactured by the cottage and small scale industries.

3. Adverse effect on employment :

Due to the international companies and their products flooding the local market, many small scale and cottage industries have shut down. Due to this, unemployment has increased. Due to the stiff competition in the market, people are not ready to pay to unskilled workers on a permanent basis. Thus unemployment is increasing on a day to day basis.

4. Low investment due to poor infrastructure:

There has been low capital investment in Bihar in comparison to other states. This is because Bihar lacks in the field of infrastructure. There is lack of good transport facilities, electricity, international standard of hotels and airports. The government of Bihar is trying its level best to improve its infrastructure, but still, a lot of improvement is to be done.

Negative impact of Globalisation in Bihar

1. Neglect of agriculture and agro-based industries
2. Adverse effect on cottage and small scale industries
3. Adverse effect on employment
4. Low investment due to poor infrastructure

In conclusion, we can say that the positive impact of globalisation on Bihar is much more than its negative impact. Globalisation is a reality which has its own place. We have to concentrate more on its positive results rather than its negative impact.

Economic Reforms since 1991:

The financial crisis can be traced from the inefficient management of the Indian economy in the 1980s. For implementing various policies and for its administration, the government generates funds from various sources such as taxation, running of public sector enterprises. When expenditure is more than the income, the government borrows to finance the deficit from banks, from people within the country and from international financial institutions. In 1991, India met with an economic crisis relating to its external debt. The govt. was not able to make repayment on its borrowings from abroad, foreign exchange reserves which is to generally maintain petrol and other important items, dropped, to a level that were not sufficient for even a fortnight. The gulf war of 1990-91 deepened the crisis. The crisis was further compounded by the rising prices of essential goods. All these led the government to introduce a new set of policy measures which changed the direction of our developmental strategies.

Meaning of Economic Reforms:

Economic reforms means those policies of 1991 through which there is increase productivity, efficiency, profit and competition.

Economic reforms is based on the policies of liberalisation, privatisation and globalisation. It is thus also known as (LPG). In other word, it is also known as the New Economic Policy.

Describe LPG

L = Liberalisation

P = Privatisation

G Globalisation

Objectives of Economic Reforms or New Economic Policy:

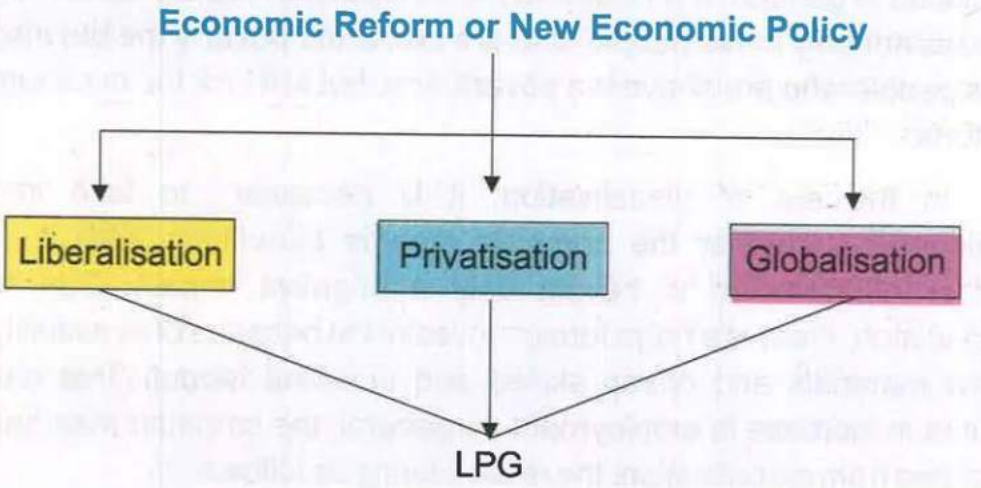
The objectives of the economic reforms or New Economic Policy are as follows:

1. To increase the productivity and efficiency of the economy.

2. To increase its international competitiveness.
3. Maximum use of foreign investments and technology upgradation.
4. To increase the rate of economic development.
5. Use of various international mechanism for economic development.
6. To improve and develop the financial sectors so that they are able to fulfil the demands of the economy.
7. To improve the performance of the public and social sectors.

Main features of Economic Reforms or New Economic Policy:

The main features of the New Economic Policy are liberalisation, privatisation and globalisation.



All these have been discussed already in the chapter.

Globalisation and Common Man:

A majority of the population are deprived even of the minimum comfort needed for their survival. The common man is that section of the society who are deprived of the minimum comfort benefits and are surviving only a meagre amounts. In 2009-10, in India, almost 85% of the population belonged to low income group and were deprived of the basic amenities. This group is known as the common man. The National Council of Applied Economic Research (NCAER) in 2006 published 'The Great Indian Middle Class' in which it state that in the construction of Indian social sector, the contribution of the common man is to a large extent.

85% of the Indian population is deprived of the minimum comforts and lead a hard life. This is because of the over-population of the country. The contribution of the population in the formation of the Indian economy is to a large extent. That is why, during elections, the parties make promises for the betterment and the upliftment of the population in general. It is necessary to mention that the common man includes not only those people who are below the poverty the but also those people who are above the poverty line, but still lack the minimum comforts.

In the era of globalisation, it is necessary to take into consideration whether the common man is benefitting from it or whether globalisation is having only a negative impact. Due to globalisation, there is a huge foreign investment because of availability of raw materials and cheap skilled and unskilled labour. This has resulted in increase in employment. In general, the common man has benefitted from globalisation; the reason being as follows:

1. Availability of goods and services :

Due to globalisation, the world market has become one and people are able to use and buy goods and services of other

countries at an affordable price. For example, the common man used to entertain themselves through radio only, but now, as coloured televisions are affordable, they can buy and entertain themselves by watching different programmes.

2. Increase in employment:

Employment has increased as new areas in various industries have opened up to employ skilled labourers.

3. Availability of new technology:

Technology has played a vital role in globalisation. New techniques are easily available and the common man is able to use and get benefit from them:

Impact of globalisation on the common man:

1. Availability of goods and services
2. Increase in employment
3. Availability of new technology

But globalisation also has its negative impact on the common man which are as follows:

1. Increase of unemployment:

Globalisation has increased the use of machines and as a result, the semi-skilled and unskilled labourers are losing their jobs. Hence unemployment is increasing.

2. Increase in competition in the industrial and business sectors:

Due to the multi-national companies and their goods and attractive products, the local companies are facing a stiff competition.

3. Bad effect on labour organisation:

The labour organisations work as a group to ensure proper wage and other necessities to each and every labourer. But due to globalisation there has been reforms and changes in the labour policies, the labour organisations have become weak and the common labourers are suffering a lot.

4. Difficulties for small scale and cottage industries:

The small scale and cottage industries are suffering from a set-back due to the multi-national companies. It is truly said that as big fishes in the water eat up all the small fishes, in the same manner, the multi-national companies are endangering the very existence of small scale and cottage industries.

Negative Impact of Globalisation on Common Man

1. Increase of unemployment
2. Increase in competition in the industrial and business sectors
3. Bad effect on labour organisation
4. Difficulties for small scale and cottage industries
5. Hardships in agriculture based village

4. Hardships in agriculture based village:

The negative impact of globalisation is that the idea of modern farmhouses are coming into existence in which due to new techniques and technology, the demand for labour decreased. Due to this the farmers are facing a lot of hardships.

After discussing the positive and negative impacts of globalisation on the common man, we have come to the conclusion that the common man is surely going to benefit from globalisation in the long

run. It is time that there would be increase in capital investment, production and income in general. But only handful of the population, the rich and the educated are going to benefit from it. Due to globalisation the income and standard of living of the high class would increase and 85% of the population would become poorer day by day. So, the development of globalisation should ensure that its benefits are shared by all.

The common man is hardly able to meet his minimum needs. For them, it is just out of question that they can use and buy goods and services of high quality. Most of the population is below the poverty line, so they are hardly going to benefit from globalisation. It is altogether a different thing that the underdeveloped and developed countries are trying to set up new industries which will benefit the labour class. We are hopeful that with the increase in employment of under skilled and semi-skilled labourers, the standard of living would definitely increase.

After seeing the impact of globalisation on the common man, we can come to the conclusion that India has, till now, hardly benefitted from it. India is on the map of developing country in the 21st century. If there is fair distribution and inclusive growth on all fronts of the society, the common man will definitely benefit from globalisation. If the goods and services are also made available to them, India is sure be on the ladder of a developed country. For this, we have to be honest and fair with all the sections of the society and let each and every person benefit from it, which we can describe as Inclusive Growth.

Summary

- Globalisation — Globalisation is the process of rapid integration of countries. So that goods and services, industrial sector, capital investment and labour can be exchanged without any hindrance.

- Five main parts of globalisation — (i) Lessen the obstacles of business and trade (ii) Free flow of capital (iii) Free flow of technology (iv) Free flow of labour (v) Free convertibility of capita
- Multi-National companies are producing the goods and services globally and thus playing an important role in globalisation.
- Foreign trade is the main channel to connect the world and the national market.
- The main factors that have stimulated globalisation are : (a) development in information and communication technology (b) liberation in foreign trade and foreign investment.
- World Trade Organisation (WTO) establishes rules regarding international trade and sees that the rules are obeyed.
- The factors favouring globalisation are (i) Encouragement in foreign investment (ii) Increase in competition (iii) Facilitates new technology (iv) Availability of high quality product (v) Reach new market (vi) Increase the standard of goods and services (vii) Reforms in Banking and Financial sector (viii) Improvement
- Effect of globalisation on Bihar Globalisation has both positive and negative impacts on Bihar.

Positive Impact — **(i)** Increase in agricultural production (ii) Increase in exports (iv) Availability of foreign direct investment (v) Increase in net state domestic product and per-capita net domestic product (vi) Availability of International consumer goods (vi) Increase in employment opportunities (viii) Establishment of Banking and Insurance company

Negative Impact — **(i)** Neglect of agricultures and agro based industries (ii) Adverse effect on cottage and small scale industries (iii) Adverse effect on employment (iv)Low investment due to poor infrastructure

- Economic Reform Since 1991: Liberalisation, Privatisation and Globalisation are the basis of economic reforms. It is also known as LPG. It is also known as the New Economic Policy.
- Liberalisation: Liberalisation means to remove all restrictions imposed by the government on license and reservation.
- Privatisation: The process of reducing the role of the public sector in the economy and increasing the role of the private sector is known as privatisation.
- Privatisation and the Common Man: Globalisation has some positive and more negative impact on the Common Man.

Questions

Objective Questions:

I. Choose the correct answer:

1. What was included in the New Economic Policy?
   (a) Liberalisation (b) Privatisation
   (c) Globalisation (d) All of the above

2. How many factors constitute globalisation?
   (a) One (b) Two
   (c) Five (d) Four

3. Which of the following is a multi-national company?
   (a) Ford Motors (b) Samsung
   (c) Coca-Cola (d) All of the above

4. The meaning of globalisation is:
   (a) Control on foreign investment and trade
   (b) Trade, capital, technology, information & communication collaboration between national and world economy
   (c) To increase nationalisation
   (d) None of the above

5. Which company bought the 'Thums Up' from the Parle Group?

(a) Coca-Cola (b) LG

(c) Reebok (d) Nokia

II. Fill up the blanks:

1. Globalisation means collaboration of National economy with the _____ economy.
2. _____ is encouraged due to trade, capital, technology, information and communication.
3. The multinational companies are playing an _____ part in globalisation.
4. Foreign trade _____ all the markets of the nation.
5. The WTO was constituted in _____.

Short Answer Question:

1. What do you understand by globalisation?
2. What are multinational companies?
3. What is World Trade Organisation? When and why was it constituted?
4. What do you understand by the Economic Reform of 1991?
5. Define liberalisation.
6. What do you understand by privatisation?

Long Answer Question:

1. What are the factors which affect the establishment of a multinational company in any country?
2. Discuss the factors affecting globalisation in Bihar.

3. Give your view regarding the positive impact of globalisation in India.
4. What are the effect of globalisation on the common man?

Project work:

What are the effects of globalisation and how much have the people gained from it? Discuss with ten people of middle class near your school or locality.

a) In recent years, has there been an increase in the use of consumer goods?

b) If yes then

(i) Have they been bought from the local market or multi-national companies?

(ii) How many goods are of multi-national companies?

(iii) Explain globalisation to them and ask about the positive and negative impact on their lives.

On the basis of the questionnaire, discuss the positive as well as the negative impact of globalisation in about ten lines.

Answer to Objective Questions

I. 1 (d) 2 (c) 3 (d) 4 (b) 5 (a)

II. 1. World 2. Globalisation 3. Main/Important
4. Combines/Joins 5. 1995

Chapter-7

Consumer Awareness and Protection

'Consumer' is an important component of market system. When a person purchases goods and services for his use, he is known as consumer. A person is also a consumer who uses goods and services by the permission of buyers.

The consumer is very important in the business world. Mahatma Gandhi had accepted the importance of consumers very early and expressed his views on consumer awareness, which is indicated even today at banks and other institutions.

"Consumer is the most important person who visits our shop. He is not dependent on us, but we are dependent on him."

The consumer is highly placed in the market system. There will be no demand for produced goods without the consumers. The whole activity of production is regulated by consumer. It is important to remember here that we have participatory role in market both as producer and consumer. As a producer we first produce goods and services and then we satisfy our wants with these goods and services according to our need. Consumers play an important role in market system because the whole process of productive activity depends on them.

Producer and consumer both play their seperate roles in the market system. At present consumers are aware of the price-determination and quality of goods, which is known as **"Consumer Awareness."**

CONSUMER AWARNESS :

All people are surrounded by different wants from birth till death, and for meeting these wants they buy different goods and services.



Picture 7.1

So, a person is a consumer in one form or other A 'Consumer' comes in contact with different goods and services everyday, but he is exploited at different stages, the reason is he has no knowledge of his rights and lack of awareness. In today's process of globalisation, awareness is very essential in each and every consumer. This can be known with the picture 7.1.

A consumer of a good has the right to have knowledge about the quality of goods, quantity, important elements used in production of goods and its impacts. If a consumer consumes any particular good, and the goods is not of good quality, then the consumer can ask for compensation by filing a complain in his neighbouring 'consumer centre.'

This can be explained with a story which is given in this box.



Picture 7.2 : Guarantee/Warranty card, and receipts are essential while purchasing goods.



While purchasing of goods check right weight and quantity

Story

Anil of 'Berma' village of Saraiya block in Vaishali district of Bihar bought mustard oil from a shop of the village on the occasion of Holi festival. When his mother 'Yashoda' prepared *pakori* from this oil, it emitted smell.. His mother complained to her son about the impurity of the oil. Anil went to Consumer Manch in his neighbourhood with the container of oil, where members complained the shopkeeper for the impurity of oil. The shopkeeper didn't listen to him. Anil submitted a written complain in 'Consumer Forum' on the advice of members of the consumer manch. As a consequence, it was found that the oil was not pure. So, Anil got Rs. 25,000/- as a compensation from shopkeeper and producer.

It is clear from this story that if a good is not of the standard measure, then a consumer can complain. The producer compensates for the loss to the consumer who complains.

Different measures for relief of consumers:

- To remove the impurities of the goods.
- Exchange of goods
- Return of paid price
- Remove weaknesses of services
- Compensation for loss

These days, the Indian government tries to make us aware of the rights of consumers through the medium of advertisement or awareness, which creates awareness among the consumers about their rights.

It is our duty as a civilian to bring about awareness regarding consumers among the uneducated mass of the village.

Attractive Slogans for Consumer Awareness:

- Conscious consumer is protected consumer
- Consumer Attention
- Recognise your rights
- Jago Grahak Jago
- As a consumer protect your rights

CONSUMER EXPLOITATION:

The condition of consumers in Indian economy is miserable. They are always cheated by businessmen because of their motive of earning unreasonable profit. Consumers are easy prey to exploitation because of lack of education, impact of poverty and lack of awareness.



Pict. 7.3 : Exploited consumer

You have always heard the people complaining that this particular person has cheated him, the goods purchased from shop was not of good quality, and the shopkeeper charged abnormal price etc. In picture 7.3 exploited consumer is being observed while complaining.

At present there is not a single field where consumers are not exploited. It may be field of education, banking, medical services, telecommunication, postal services, food items or construction activity. In all these sectors loopholes, carelessness and black marketing are injurious to consumers. Let us see some example:

Examples

Gas Agencies:

Gas agencies do not make available gas cylinders on time at the residence of the consumers, because of this, they become easy prey to black marketing, and are forced to roam about gas agencies, and are exploited.

Educational Instituions:

There is mushroom growth of unrecognised educational instituions, where there is lack of capable teacher, library, laboratory, furniture, playground and standard syllabus and they charge fees from students by misleading advertisements and false promises.





Doctors:

Patients are not provided with complete knowledge of fees and payment of receipts by doctors, while treating patients. Consumers are exploited even when they are not provided with the knowledge of adverse impact of operation.



Whines and fancies of Cable Operators:

Consumers are not provided the telecast of all those channels, which are determined by TRAI (Telecom Regulatory Authority of India) and while at the same time consumers are paying for the same.



Thus consumers are exploited in many ways, i.e. sometimes because of inferior quantity of service or material, sometimes because of wrong measurement, and availability of duplicate goods, black marketing of goods, substandard advertisements and undermining of the interest of consumers. Today there is a main problem of providing promises with products. For example;

- One good free on the purchase of one
- Exchange the old one for new
- Gold pendent with bathing soap
- Diamond in the packet of bra



- Promises of gift or lacs of rupees with many goods for example scooter, refrigerator, T.V., mobile etc.

Have you ever thought about such a situation? There is only one cause for this lack of awareness among consumers and lack of consciousness about their rights. It is essential for consumers to be aware and conscious of their rights.

Causes of consumer's exploitation

- The problem of adulteration Consumers are exploited with adulterated costly items.
- By wrong measurement Consumers are exploited by wrong weighing of the goods
- Lower quality goods consumers are exploited by providing lower quality goods in place of good quality products by mischief.
- By high price Consumes are exploited by charging high prices
- Duplicate goods Consumers are exploited by duplicate goods of good company.

Features of Aware Consumers

- It is important for interested students to know about the institutions recognised by state government, and UGC before taking admission.
- Sign the credit card at specified place immediately after receiving it.
- Purchase licenced medicines before the date of their expiry from sellers.
- Always be sure that you are getting right quantity of petrol.
- Know about the last date of gas cylinder
- Always observe and examine ISI, Agmark and Hallmark goods

CONSUMER PROTECTION AND GOVERNMENT

There are many goods and services available before consumers. Again, it is must to make it clear that the customer of goods and services who consume them is known as consumer. There are many alternatives available in the market for the customer (consumer) to make choice among them accordingly, but if alternative information regarding goods and services is not available, he is unable to make right choice. So, it is an important responsibility of the government to make available the appropriate informations in the right form for providing protection to consumers.

Government has enacted many 'consumer acts' from time to time in the interest of the consumers. At present government is making right effort in the direction of making consumers aware through various mediums, so that they can understand their rights and can get the solution of their complains. In this direction an important step taken by the government is the "Consumer Protection Act of 1986." After making a thorough analysis of system and popular 'Consumer Protection Act' implemented in developed countries like USA, Great Britain, Newzealand, Australia etc. Indian government has adopted this act.

This act gives emphasis on rights, protection and prosperity of consumers, which is the fundamental rights of the consumers. Now, we will discuss the provisions of this act in brief.

Consumer Protection Act 1986

Consumer Protection Act 1986 is an important act enacted by Indian government for protection and security of consumers, which provides the right to protection to the consumers regarding the goods that are sold in the market.

This Consumer Protection Act includes all goods, services and people either they belong to private sector or public sector. Under this act consumers have the right to know about the quality, measurement, ability, purity, standard and price of any good or service. Besides this, consumers have the right to examine the good or service, which they are getting, so that it is not dangerous to them and they can save themselves.

- 'Consumer Protection Act empowers you:
- You can log on to the computer to know the consumer forum in your neighbourhood ncdrc.nic.in
- Website of consumer organisation is www.cuts.international.org
- This website publishes various items for consumer awareness
- Consumer can acquire knowledge regarding consumer protection free of cost from any telephone or mobile.

National consumer Toll free Helpline No. 1800-11-4000 (BSNL, MTNL line)

Always observe BIS Hallmark on gold jewellery.

Hallmark indicates that jewellery has been verified independently, which determines its purity.

- Only purchase ISI marked products. ISI mark always provides security against duplicate and sub-standard products.
- About 1500 products are indicated with ISI, which are basically those goods which are injurious to health and this mark provides security to consumers.
- It includes products like LPG cylinders, electrical equipments, security helmet, food items, colour, cement, food items of children and Bubble gum etc.

These are some provisions of the rights of customers under the article of consumer Protection Act, which are discussed below:

Medium of information:

- Product
- Seller
- Company
- Telephone (1800-11-4000) Toll free
- Sources of public communication (TV, Newspaper, Hoarding, Billboard)

Website of producer

1. Right to Protection: The primary right of consumer is right to protection. This right is directly related to the purchases of goods and services from the market. Consumer has the right to have the security from those goods and services which harm his body or wealth. For example Electric iron harms because of bad electric supply or a doctor's negligence while operating the patient may cause loss or danger to the patient.

2. Right to information : The consumer has the right to have all necessary information on the basis of which he can take the decision regarding purchase of goods or services. For example price on the purchase of sealed product, duration of its use, information regarding quality etc.

Know the following facts regarding the sealed food items:





- List of elements
- Weight of product
- Name and address of producer
- Process of production
- Expiry date
- Vegetarian / Non-vegetarian mark
- Authentication of the colour and flavour used in the product
- Nutritional content
- Alertness of harmful effect to health
- Legal awareness Tobacco / light alternative for a baby

3. Right to choose: A particular consumer has the right to choose among the product of different brands, types, quality, form, colour and price of different products.

4. Right to be heard: The consumer has the right to place all the facts affecting his interest on the appropriate stage. Consumer must associate themselves with the different stages to express their views.

5. Right to seek redressal: This right provides assurance to the people that they will be provided with compensation when the purchased good or service is not appropriate.

6. Right to consumer education: This right includes price, utility, and service related information and facility of getting knowledge of right etc.

Are you helpless?



There is a National Consumer helpline established by Delhi University for your help and direction, when the purchased goods and services are not appropriate or you are cheated by trademarks of retail traders.

Remember the number and see how your voice is heard.

As a consumer you have following rights:

- Right to production
- Right to information
- Right to choose
- Right to be heard
- Right to seek redressal
- Right to consumer education

Through which educated consumers can become strong, protected and educated to save them from cheating and can stand for right justice. So, to be an aware consumer, right to receive the constant education is provided to the consumer.

'Central Consumer Protection Council' at central level and 'State Consumer Protection Council' at state level were established to provide security to the rights and to protect the interest of consumers.

Duties of consumers

When a consumer purchases a good, he must ask for the receipt, and must be careful and conscious while availing the services, about the quality of good, brand, quantity, purity, standard, measurement of product / date of manufacture, expiry date, guarantee/warrantee paper, marks of quality for example ISI, EGMARK, WOOLMARK, HALLMARK (Jewellery) and any demerit from the point of view of the price, and incompleteness of the product etc.

For the redressal of the complains of consumers under the 'Consumer Protection Act 1986' arrangements have been made at three level

- National Commission', at national level.
- 'State level Commission' at state level
- District Forum' at district level.

Judicial system organised by government for consumer protection:

For redressal of complains of consumers or consumer's arguments government established three tier semi-judicial system, i.e. District Forum, State Commission and National Commission under Consumer Protection Act, 1986.

Three tier semi-judicial system:

i. District Forum,

ii. State Commission and

iii. National Commission

This judicial system is very useful and practical for consumers. Consumers receive speedy and low-price justice and save time and money. At first, complain is lodged in 'District Forum'. If the consumer is not satisfied then, matter can be referred to 'State Commission' and 'National Commission' respectively. Even if he is not satisfied with National Commission, he can make an appeal to Supreme within 30 days after the order.

'Consumer-complain' What, Where, How?

The question is What to explain, How to complain, Where to complain.

What to complain?

If a 'producer' or 'trader' acts against the defined rights of consumers then consumer can lodge a complain.

Where to Complain?

If the pricing of a good or service is less than 20 lakhs, then complain can be lodged in District Forum. Again, if the price of good or service is more than 20 lakhs, and below

Let us know it in details

There are 582 District Forums, 35 State Commissions and 1 National Commissions are working in our country, in which 24 lakh complains have been resolved.

Situations under which complain can be lodged:

Situation of complain

- If a trader harms the person through the use of wrong/restricted process
- If the purchased goods are bad
- Goods on rent/services utilised are below standard
- If the price charged is more than the advertised price or the price implemented by law

If by violating the laws, goods are being sold which are risky for life and security.

one crore, complain is pledged in State Commission. If the price of good or service or compensation is more than one crore, the complain can be pledged in National Consumer Commission.

Ways to Complain:

Complain is pledged on white paper, and no price is charged for this, and it can be sent through post or individually.

Where to complain?

This depends on the cost of services of goods or demand compensation

- If it is less than 20 lakh In District Forum
- If it is more than 20 lakhs and less than 1 crore In State commission
- If it is more than 1 crore In National Commission



How to complain?

Complain can be pledged on white paper. It should include following details:

- Names of the persons who complain and details of opposite party.
- Facts related with complains and when ad where did it happen.
- Documents certifying the mentioned facts
- There should be the signature of the person, who complains and registered agent
- Sent your complains, so that they can be tackled.

Economic Exploitation and its Elimination:

At present age of globalisation there are many alternative things of consumption for consumer. They are always confused regarding the purchase of commodities so that their wants can be fulfilled. In this situation usually producer or trader exploit the consumers by different ways on large scale. Now it is time to make consumers aware of their right regarding the process of getting rid of various exploitation. In India there are many such constitutional institutions like other countries, which are working in the direction of elimination of economic exploitation of consumers.

Mainly, two institutions are important for the protection of life and rights of consumers at national, state and low administrative level known as :

1. Human rights Commission
2. International Bureau

Now we will discuss the process of protection of life of civilian and rights of consumers being implemented by these institutions:

Human Right Commission:

In our country there is an apex institution at national level to protect the rights of people and provides security to their interests which are related to rights. This institution is known as 'National Human Rights Commission.'

National Human rights Commission is important because retired Chief Justice of Supreme Court of India is the president of this Commission. In the same way State human rights Commission is formed in every state which takes care of rights of people and security of related matters. It is very sensitive which is clear from its activities during the past years.

On the same basis, 'National Women Commission' and 'State Women Commission' have been formed for eliminating the complains related with exploitation and injustice done against women.

Information Bureau:

Commission can protect their rights only. When they have information regarding goods and services. To provide them with information 'National Information Bureau' at national level and 'State Information Bureau' at state level have been formed. If a consume wants to have the information regarding any good of service, he may ask for it from the producer through an application.

What is the right to information?

Right to information is a step in right direction by the government to empower rights to people. The meaning of right to information is "Any person can acquire required information through application, E-mail order, bulletin, proof, and electronic data. For this, the applicant can apply to appropriate public information official.

Information is made available to the related person within 30 days (in special case, in 48 hours).

Summary:

- Consumer is very important in market system because all activities of process of production is regulated by consumers.
- At present in the age of globalisation, many goods and services are available in the market, which create many practical difficulties to the consumers while making choice among them. So, consumers are required to be aware while making choice.
- There are various types of consumers, among them some are poor and some are illiterate. They are cheated by traders, because of this and lack of awareness.
- Various rights have been provided to consumers by the government to save the people from exploitation, make them aware and to provide protection under the 'Consumer Protection Act 1986, and for the redressal of their complain three-tier judicial system (at national level, state level and district level) has been established for the protection of their rights.

Some Constitutional Institutions have been established to save for consumer from economic exploitation and, in this direction 'Human Rights Commission' and 'Information Bureau' play important role.

Thus, we see that 'Consumer' , 'Consumer-awareness' and their rights and redressal of their complains are very important issues discussed today.

Questions

Objective Questions:

I. Choose the correct option

1. When was Indian Consumer Protection Act announced?
   (a) 1986 (b) 1980 (c) 1987 (d) 1988
2. When is Consumer Rights Day celebrated?
   (a) 17 March (b) 15 March (c) 17 April (d) 22 April
3. What is National Consumer Helpline Number?
   (a) 100 (b) 1000-100 (c) 1800-11-4000 (d) 2000-11-4000
4. Which of the following Standardised mark is necessary for the determination of the purity of gold jewellery?
   (a) ISI market (b) Hallmark (c) EGMARK (d) None of these
5. In which forum the complain will be lodged if the price of a good or service is more than one crore?
   (a) District Forum (b) State Commission
   (c) National commission (d) None of these
6. What is the application free for making a complaint by the consumer?
   (a) Rs. 50 (b) Rs. 70 (c) Rs. 10 (d) None

I. Write correct (√) or incorrect (x) against the following statement:

1. Consumer Protection Act 1986 is also known AS copra in short.
2. National Consumer Helpline Telephone No. is 15000
3. Right to information Act 2005 was enacted in India
4. Consumer has the right to get compensation on the basis of the quantity of damage, in the place of inferior good or service.
5. 'Hallmark' is the mark to certify the quality of jewellery.

II. Short Answer Questions:

1. Discuss the important facts taken into consideration while purchasing goods related with food items.
2. Write different slogans of consumer awareness.
3. Discuss some elements causing consumer exploitation
4. Explain the duties of consumers in the market
5. Who is a consumer? Discuss in brief.

III. Long-Answer Questions:

1. What are the rights of Consumers? Explain every right with example.
2. Explain the main features of 'Consumer Protection Act 1986.'
3. Explain in detail the three-tier judicial system organised by government for consumer protection.
4. Explain the requirement of Consumer Awareness with the help of two examples.
5. Write a brief note on importance of human rights.

IV. Project Work

1. Prepare a poster explaining all right of consumers to display in the poster competition organised by your school in your class for consumer awareness.
2. Prepare an advertisement exhibiting attractive slogans
   - Jago Grahak Jago
   - Recognise your rights
   - Alert consumer is protected consumer
3. Collect the information from 4 to 5 persons in you neighbouring area on the basis of interviewing them through questionnaire regarding where and how they are being exploited. Write their experiences of exploitation in a story.

4. Make a survey of your area about the extent of awareness of consumers on the basis of distribution of questionnaire related to consumer rights.

Mark only one for every questions

		Always (A)	Sometimes (B)	Never (C)
1.	Did you ask for the receipt on the purchase of a good?			
2.	Did you keep the receipt properly?			
3.	Did you complain when you felt that you are cheated by shopkeeper?			
4.	Are you successful in explaining to him that you are cheated?			
5.	Are you satisfied ensuring your fate that you are cheated always and there is nothing new in it?			
6.	Do you verify ISI mark and expiry date?			
7.	Do you ask for the new packet if the expiry date is only after a months or nearby?			
8.	Do you verify the weight while purchasing new gas cylinder or buying/selling of newspapers?			
9.	Do you oppose when the vegetable seller uses stones instead of weights?			
10.	Does the most bright coloured vegetables increase your doubt?			
11.	Do you have the knowledge of brands?			
12.	Do you consider the high price as measure high quality? (At last, you are satisfied that you have not paid more).			

		Always (A)	Sometimes (B)	Never (C)
13.	Do you react immediately on attractive offers?			
14.	Do you compare the price paid by you with the price by others?			
15.	Are you confident that your shopkeeper never cheat the permanent customers like you?			
16.	Do you support the home delivery of proposed good without any doubt of its appropriate weight?			
17.	Do you demand for 'meter reading' while traveling by Auto?			

Notes:

a. If your answer for question nos. 5, 12, 13, 15 and 16 is 'c' and for the rest of the questions 'a' then you are completely aware as a consumer.

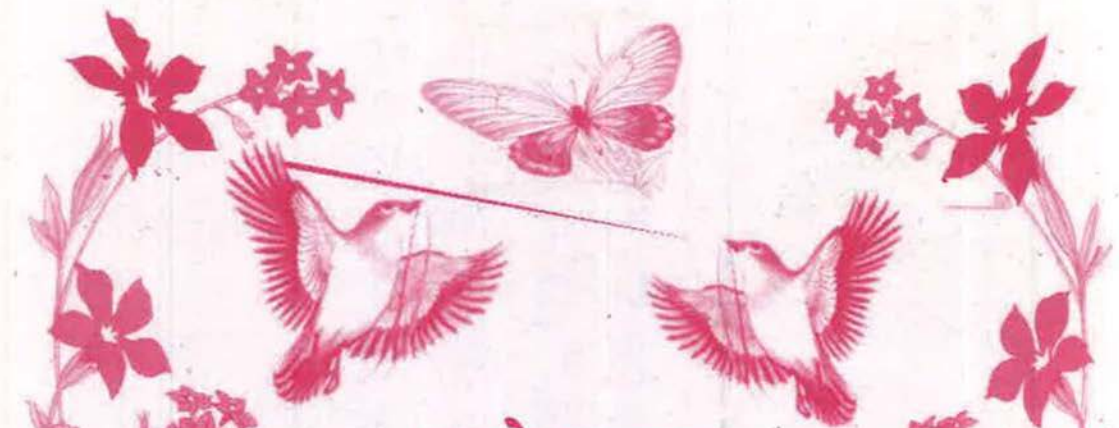
b. If your answer for question nos. 5, 12, 13, 15 and 16 is 'a', and for the rest of the questions 'c', then you are required to be aware as a consumer.

c. If your answer is 'b' for all the questions, then you are practically aware.

Answers of objective questions

I. 1 (a) 2 (b) 3 (c) 4 (b) 5 (b) 6 (d) 7 (a)

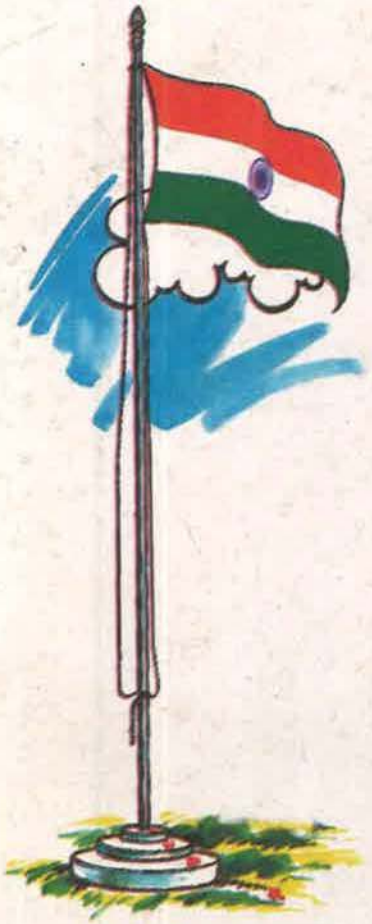
II. 1. Correct 2. Incorrect 3. Correct 4. Correct 5. Correct



वन्दे मातरम्

सुजलां सुफलां मलयजशीतलाम्
शस्य-श्यामलां मातरम्।
वन्दे मातरम्॥
शुभ्र-ज्योत्स्ना-पुलकित-यामिनीम्
फुल्ल-कुसुमित-द्रुमदल-शोभिनीम्
सुहासिनीं, सुमधुरभाषिणीम्
सुखदां, वरदां, मातरम्।
वन्दे मातरम्॥





राष्ट्र-गान

जन-गण-मन-अधिनायक जय हे,
भारत - भाग्य - विधाता।
पंजाब सिंध गुजरात मराठा,
द्राविड़ - उत्कल - बंग,
विंध्य - हिमाचल - यमुना-गंगा,
उच्छल - जलधि - तरंग।
तव शुभ नामे जागे,
तव शुभ आशिष मागे
गाहे तव जय गाथा।
जन-गण-मंगलदायक जय हे,
भारत - भाग्य - विधाता।
जय हे, जय हे, जय हे,
जय जय जय जय हे।

बिहार स्टेट टेक्स्टबुक पब्लिशिंग कॉरपोरेशन लिमिटेड, बुद्ध मार्ग, पटना–1
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