INDIAN ECONOMIC POLICY AND DEVELOPMENT

Yelahanka Lokesh
Dr. Mounica Vallabhaneni

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CHAPTER 1

ROLE OF INDIAN COMMUNICATION SYSTEM

Mr. Yelahanka Lokesh, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id: lokesh.yr@presidencyuniversity.in

ABSTRACT:

The Indian communication system has seen tremendous expansion and change, contributing significantly to the flow of ideas and information as well as the promotion of socioeconomic development. The Indian communication system's development, effects, and prospects are discussed in this abstract in general terms and via in-depth examination. Following the development of India's communication system serves as the introduction to the study. The system has changed to include contemporary technology like cell phones, the internet, and digital platforms since the early days of postal services and telegraph, as well as the introduction of landline telephones. The goals of government programmes like BharatNet and Digital India were to close the digital divide, improve connection in rural regions, and advance digital literacy. On several facets of the economy and society, the communication system's effects are investigated. Improved communication infrastructure has encouraged trade, commercial partnerships, and e-commerce in the economic sphere, fostering entrepreneurship, employment, and economic progress. Improved connection has given people more power, access to information and services, and a sense of social participation in the social sphere. Telemedicine, distance learning, and remote consultations are all made possible by technological improvements in the healthcare and education sectors.

KEYWORDS:

Digital, Economic, Phone, Science, Supply.

INTRODUCTION

For certain types of commerce, both across long and small distances, inland water transport, which includes a variety of rivers, canals, backwaters, creeks, etc., is the most affordable route, provided the places of origin and destination are situated on water fronts and no transshipment of products is involved. In terms of energy usage, IWT is one of the most effective means of transportation. There is almost no investment required, in contrast to other forms of transportation. IWT is a labor-intensive form of transportation that aids underprivileged groups in the community. Only navigable water is necessary.

River and canal transportation formerly had a significant role in the nation's transportation system, but since the middle of the 20th century, inland water transportation has suffered as a result of the focus on rail travel and the diversion of river water for agriculture. As a consequence, inland water transportation only makes up a minor portion of the nation's overall transportation system. IWT transports around 17 million tonnes of freight out of the 550 million tones that are transported in total by all means of surface transportation; this represents just 0.15 percent of domestic transportation, and there is room for significant expansion.

West Bengal, Bihar, and Assam all rely heavily on inland river transportation. Between Assam and Calcutta, there are 25 lakh tonnes of trade, half of which is transported by river and the other half by rail and road. In Kerala, where rivers and backwaters are utilised to convey both people and products, inland travel is quite significant. Orissa, Andhra, and Tamil Nadu also place considerable priority on inland transportation. The total length of navigable waterways, which includes a variety of rivers, canals, backwaters, etc., is 14,500 km, of which only 5,200 km are significant rivers. Many canals are appropriate for the use of mechanical vessels. Even when there are waterways, the promise hasn't been completely realised due to a variety of limitations [1], [2].

Tenth Plan thrust areas and strategy

IWT development in areas with favorable natural conditions. Asset productivity is increased by modernization and technological advancement. Development of a competent and trained workforce for IWT operations. The Ninth Plan is putting the following actions into place in order to achieve these goals: The development of the Ganga and Brahmaputra rivers is underway. These would involve dredging and conservation efforts to achieve and maintain acceptable channel depth and breadth, the provision of suitable navigational aids, and the installation of integrated terminals to allow year-round traffic on certain lengths of water and 24-hour navigation on others. Development of specialised boats to satisfy the needs of various kinds of cargo to fit various waterways, modernization of IWT vessels and replacement of overaged ones. Private business owners would still get interest subsidies for buying better-designed ships and upgraded rural crafts. Additionally, encouraged would be private involvement in terminal installation.

Chinese Shipping

Due to fierce competition from international shipping firms and a lack of backing from the foreign rulers in India, Indian shipping enterprises did not prosper prior to India's independence. Only the Scindia Steam Navigation Company was capable of competing internationally. There were just 42 ships with less than 1.00.000 tonnes of GRT gross registered tonnage at the time of India's independence. Only after the country's independence did Indian shipping take the lead in its coastal commerce and begin to participate in international trade. Only 2% of the volume of India's diverse as commerce was carried by Indian ships.

Indian Civil Aviation

An important part is played by air travel. It provides time savings that long-distance surface transportation cannot match. In a resource-constrained economy, air transport helps to maximise technical, managerial, and administrative talents. The Rajadhyaksha Committee, also known as the Air Transport Enquiry Committee, was established in 1950. The Committee suggested that all businesses be combined into four businesses in order to eliminate fierce rivalry and ensure a scientific and zonal allocation of work. The government had to nationalise civil aviation for three reasons because the private businesses did not willingly integrate:

Operational efficiency would increase with nationalization:

It would lead to improved civil aviation organization, provide the government access to qualified mechanics, pilots, etc.; it would cut down on duplication of services and flight time waste, lowering expenses and losses. The Air Transport Corporation Act, approved by the Parliament in

1953, established the Indian Airlines Corporation as the domestic carrier and Air India International as the external carrier. Since nationalization, advancements have been made in every aspect. There are now more aerodromes. Services offered both internally and outside have been expanded [3], [4]. In India, there are several organizations that provide civil aviation services. The International Airports Authority of India and the Director General of Civil Aviation provide infrastructure facilities while aviation India, Indian Airlines, and Vayudoot provide aviation services. The four international airports are developed by IAAI, whereas civil aerodromes, civil enclaves, and aeronautical communication stations are developed and maintained by DGCA.

DISCUSSION

Due to the recent acceleration of economic activity, air travel has grown significantly. The Planning Commission estimated that annual growth in aviation traffic would be 18%. However, the real growth rate fell between 24 and 28 percent over the Tenth Plan era. As a consequence of a lack of parking spaces, insufficient landing slots, and traffic during peak hours, airlines have been experiencing infrastructural restrictions. Additionally, a significant amount of smaller domestic airports have not been modernised, which has significantly reduced demand for domestic air travel. The 11th Plan has made it a top priority to build infrastructure at a significantly quicker rate.

To modernize, enhance, and manage Delhi and Mumbai airports, the Government of India has chosen two joint venture corporations. Despite fierce resistance from the left parties, this joint venture-based effort to reorganize and modernize the airports in Mumbai and Delhi has been made. For the airports in Delhi and Mumbai, it has been anticipated that investments of close to '7,960 crores' and '6,130 crores' would be needed. In theory, the government has chosen to modernise Chennai Airport via a JV method. It should be noted that building has already started on greenfield airports with international standards in Bangalore and Hyderabad. In 2008, the two airports are anticipated to be open for business. In Goa, Ahmedabad, and Trivandrum, greenfield airports of international standards have already received "in principle" permission.

Civil aviation and five-year plans

When making investment plans for civil aviation, the Seventh, Eighth, and Ninth Plans kept a few key factors in mind. First and foremost, they have intended to rationalise the structure of the tanks and the air services. Second, several of the tourist routes used by domestic services were experiencing significant losses, necessitating the strengthening of initiatives for tourism development and marketing. Thirdly, the uncontrolled expansion of air services has led to a rise in haul operations and fuel use. Fourth Vayudoot services have been included into Indian Airlines' services and are run as feeders to the airline's non-service hubs. The Seven Plan also stressed the necessity to create a separate agency to manage helicopter services in order to satisfy ONGC's demand for helicopters to provide air transport for operations.

The five-year plans featured particular programming for the various organisations in India that provide civil aviation equipment. The Indian Airlines initiative comprised the purchase of aircraft and the modernization of workshop facilities, among other things. The plan for Air India includes the purchase of more planes, greater freight traffic capacity, improved workshop training facilities, etc. The IAAI's project calls for the construction of the domestic terminal complex in Madras and Delhi as well as the international terminal phase II in Bombay. The

installation of flight safety equipment, such as air route monitoring radar, was part of the DGCA initiative [5], [6].

The Indian Communication System

Posts and telegraphs, telecommunications, broadcasting, television, and information services make up the communication system. The communication system serves to efficiently connect buyers and sellers and helps to accelerate the development of the economy by giving important information about the markets and also by offering necessary incentive. As a result, the development process is now completely dependent on the current communication system.

Indian Postal System

The postal network has been developed throughout the nation since 1950–1951, with a recent focus on the rural, mountainous, and isolated tribal regions. India has the biggest postal network in the world, with more than 1.5 lakh post offices. The Government of India's Department of Postal Services has set a long-term goal of placing a post office three kilometres from every hamlet and installing a mail box in every village with a population of more than 500 people. There are now thought to be 1,10,000 Gramme Panchayat villages that do not have a post office. By exploiting the Panchayats' already-existing infrastructure, the Postal Department hopes to provide fundamental postal services on a contractual basis in these places. The Panchayat Sanchar Sewa Scheme, newly implemented by the government, offers the dual benefits of creating job opportunities in underserved regions while also delivering postal services there at a lower cost to the government.

Telegraphs from India

One of the oldest publicly owned utility companies in the world is Indian Telegraph. There are currently more over 30,000 telegraph offices, up from 8,200 in 1951. The general people may use the telex service to send and receive printed messages directly from one centre to another, the phonogram service to send and receive telegrams by telephone, the huge development of telephone capabilities, and direct trunk dialling.

Telecommunications

Telecommunication is a key component of both the success of India in the international markets and the global competitiveness. It is significant not only for its part in spreading the advantages of communication to all areas of India but also for its contribution to the new policy goals of raising the international competitiveness of the Indian economy and promoting and luring foreign direct investment. The telecommunications industry has grown significantly since 1995. With a capacity of 50 million lines and over 40 million operational connections, the public sector's telecommunications network is one of the biggest in Asia and includes 35,510 telephone exchanges. From roughly 10% in 1988–1989 to 30% in 1999–2000 and 17% in 2001–2002, the yearly growth rate of adding new telephone connections has been rising significantly. In only the years 2003–2004, 22 million additional phone connections were made, which was the same number of phones placed worldwide in 1999.

With declining cell phone tariff costs and a tremendous rise in the number of cellular customers, there has been a shift in emphasis towards the private sector and wireless telephony. There were just two phones per ten thousand people at the time of independence. By 2009, there were almost

four phone connections for every ten people. A consumer may now get a phone within minutes of wanting one. It used to take between eight and fifteen years to establish a phone connection before the emergence of mobility businesses. Nearly 43 crore telephone connections existed by March 2009, of which 90% were mobile connections. Due to cheaper capital costs for mobile telephony, cellular phone use has surpassed all other forms of communication in India. Today, a salaried worker can purchase a smartphone. Today, it is usual to see a plumber, carpenter, electrician, or autorickshaw driver holding a cell phone. We may examine the rise of infrastructure investment in the post-reform era using the information [7], [8].

Urban Infrastructure

Urban infrastructure includes water supply and sanitation, which are crucial necessities for raising inhabitants' quality of life and increasing their productivity. In general, State Governments and Union Administrations have designed and implemented different sanitation and drinking water supply programmes with financial and technical support from the Central Government. The National Water Supply and Sanitation Programme was started by the Indian government in the First Plan with an initial budget of '49 crores; by the Eighth Plan, the budget had grown to '16,700 crores.

The magnitude of the water supply and sanitation problem in our crowded cities and towns is assuming a critical dimension against the backdrop of depleting ground water resources, environmental pollution, poor water supply and sanitation in slum areas, and non-availability of nearby sources of water supply. This steady increase in urban population is due to rapid industrialization, natural population growth, and migration from rural areas. Despite the severity of the issue, the Indian government has set ambitious goals to meet 100% of the urban population's drinking water demands and 75% of their sanitation needs.

Municipal Corporations and Municipalities supply the majority of urban infrastructure services, and they primarily receive loans and grants from the federal and state governments to meet their needs. The Government of India has relied on the following organisations to augment urban development efforts: Life Insurance Corporation of India, which as part of its legal obligations invests in urban infrastructure projects, such as water supply, drainage, housing, electricity, and transportation; The responsibility of funding urban infrastructure is allocated to the Housing and Development Corporation Ltd. State Urban Finance Corporations, Water Supply and Sewerage Boards, Municipal Corporations, Improvement Trusts, etc. are recipients of infrastructure loans from HUDCO; and Projects for urban infrastructure are financed by Infrastructure Leasing and Finance Services Ltd.

For example, contracting out the management of urban services like the building and maintenance of toilets, garbage collection and disposal, solid waste conversion and maintenance water supply systems, etc., BOT franchises and the provision of services through volunteer organisations, community organisations, and common interest groups are just a few of the ways that many states in India are now inviting private sector participation in the provision of infrastructure services on a more cost effect.

City Transportation

The great lack of public transportation infrastructure in our cities, especially in our metropolitan regions, is another significant issue. As a consequence, over the last several decades, the number

of customised automobiles has expanded quickly in urban areas. In many places, the number of vehicles per available road and network has risen to frightening levels. There is virtually no room for new automobiles to be accommodated due to the population density and lack of available space to fulfil the rising demand for transportation. In addition, a decrease in energy use indicates the need for more rail-based and public transit in order to combat dangerously rising urban pollution.

Man strives to alter his surroundings via ideas and methods in science and technology. Technology symbolizes "refinement in tools," while science represents "accumulation of knowledge." Science and technology have aided in raising the standard of living during the last 200 years or more. The use of science and technology in transportation, manufacturing, agriculture, and all other economic and non-economic activities has become crucial for achieving quick economic advancement. In other nations like the USA, Russia, Germany, Japan, and others, S and T are evolving, and new information and new technologies are being applied in every line of production. These nations have also seen significant economic success. Recent advancements in agriculture and the green revolution they brought in have shown our people the possibilities of meeting their fundamental requirements and raising their standard of living [9], [10].

S&T and Nehru

Jawaharlal Nehru supported the dissemination of a scientific mindset. He was in charge of establishing a network of national labs focused on fundamental and applied research, developing homegrown technology and processes, and assisting commercial firms with their technical challenges. The Department of Atomic Energy and the Council of Scientific and Industrial Research were both established. Strengthening was done to the Indian Council of Agricultural Research. The Department of Electronics, the Department of Space Technology, the Indian Space Research Organisation, and other departments followed. In 1958, the Science Policy Resolution was enacted to provide encouraging incentives for the advancement and use of science and technology in activities aimed at fostering national development. This policy's main objectives were:

1. To encourage, develop, and maintain the practise of science and scientific research by proper ways, including pure, applied, and educational components;
2. To highlight the importance of research scientists' contributions to the strength of the nation and ensuring an appropriate supply of higher-caliber researchers inside the nation;
3. To promote and launch with all due haste programmes for the training of scientific and technical professionals on a sufficient scale to meet the demands of the nation in regards to agriculture, industry, defence, and education; and
4. To guarantee that the nation's citizens get all the advantages that may result from the gathering and use of scientific information.
5. The significance of R&D for India's economic development was expressly acknowledged in this 1958 Resolution.

CONCLUSION

In terms of the Indian communication system's future, the research offers future perspectives. Making sure that everyone has access to communication services requires developing a strong digital infrastructure, increasing broadband connection, and enhancing last-mile connectivity.

Citizens may fully engage in the digital economy by fostering the development of their digital skills and literacy. It is possible to strengthen India's position as a worldwide leader in the digital age by encouraging research and innovation in communication technology. In summary, connectivity, economic growth, and social inclusion have all benefited greatly from the Indian communication infrastructure. India can keep improving its communication infrastructure and using the advantages of the digital era by fixing issues, utilising new technologies, and emphasising equitable and sustainable growth. India's development, information distribution, and individuals' general well-being would benefit from a connected and digitally enabled society.

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CHAPTER 2

A BRIEF STUDY ON INFRASTRUCTURE PRIVATE INVESTMENT

Dr. Mounica Vallabhaneni, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id: mounicav@presidencyuniversity.in

ABSTRACT:

As governments throughout the globe work to close the infrastructure gap and promote economic development, private investment in infrastructure projects has taken on a substantial amount of significance. An overview and study of private infrastructure investment are given in this abstract, together with an examination of its consequences, a discussion of the difficulties encountered, and a list of the potential it offers for sustainable development. Participation from the private sector may provide significant advantages, such as improved productivity, innovation, access to money, and timely and cost-effective project completion. Private investors often contribute experience and specialised knowledge, which enhances the quality of services, advances in technology, and risk management. Additionally, infrastructure development may promote regional connectedness, offer job possibilities, and drive economic growth. The need for a supportive regulatory and legal structure that assures openness, fairness, and investor protection is one of the main issues. To strike a balance between the interests of the private sector, the government, and the general public, effective risk management and allocation methods are essential. Additionally, it might be difficult to attract private investment in economically unviable or socially sensitive areas; this calls for creative financing strategies and suitable risk-sharing systems.

KEYWORDS:

Energy, Economic, Government, Quality, Transport.

INTRODUCTION

The Indian government is coming to understand that the public sector does not have to have a monopoly on infrastructure. In the past, the government was in charge of delivering infrastructure services due to factors including expensive capital expenditures, protracted gestation periods, externalities, high risks, and poor rates of return on investment. However, the infrastructure that is owned and operated by the government has shown to be utterly ineffective and dishonest. The supply of infrastructure facilities and services has never kept up with demand, and the present supply's quality is also quite low. Long waiting lists for telephone installation, chronic transportation bottlenecks, regular power outages and load shedding, and a lack of clean drinking water are all clear signs of the ensuing capacity shortages and infrastructure facility inefficiencies. The growing gap between infrastructure demand and supply, as well as the abjectly subpar quality of the current supply, pose significant concerns for the viability of the nation's economic development in the years to come.

It is essential to quicken the pace of infrastructure investment if we are to maintain a 7% annual GDP growth rate. The Expert Group on Commercialization of Infrastructure Projects of the Finance Ministry estimates that the overall amount of infrastructure investment needed will be

between 40,000 and 45,000 crores between 1996 and 2001, and another 75,000 crores over the next five years. It is obvious that the government cannot meet these enormous investment needs. The Government has extremely little financial resources at its disposal. Public debt and other government obligations are also rapidly growing at the same time. In order to build high-quality infrastructure, both local and international private investments will be required. The private sector may now participate in the infrastructure thanks to organisational and technical advancements [1], [2].

Since 1991, government policy has placed a strong focus on building effective infrastructure and fostering an environment that encourages private investment in the sector. Additionally, a public-private cooperation may provide greater cost recovery, risk sharing, accountability, and infrastructure management. Following are a few crucial actions in this direction: Under the Indian Companies Act, the government established the Infrastructure Development Finance Company in January 1997 with a 5,000 crore authorised capital. The government has proposed a tax break for businesses involved in the construction, upkeep, and operation of infrastructure facilities, including new roads, bridges, ports, airports, and railways as well as those involved in water supply, sanitization, and sewage projects. The government has approved an exemption from income tax for funds or businesses established to build, manage, and run infrastructure facilities. This exemption includes dividends, interest, and long-term capital gains. In order for the National Highways Authority of India Ltd. to be able to leverage money from the local and foreign financial markets, the government increased the authority's corpus by 200 crores. To encourage domestic savings into these types of investments, the government has increased the tax rebate thresholds for purchases of shares and debentures issued by infrastructure corporations.

Investments in infrastructure are by definition lengthy processes. If encouraging private investment in infrastructure is necessary, then domestic capital markets must be developed so that money may be made readily accessible via long-term debt instruments. The Public Sector Infrastructure Facility has received a $300 million loan from the Asian Development Bank in order to help private sector infrastructure projects by growing the long-term financing market. ICICI, IFCI, and SCICI would borrow the funds to lend to infrastructure enterprises using long-term loan instruments, including as bonds and debentures, with a minimum duration of 15 years.

Contractual savings in the form of pension and provident funds are being tapped in many rich and developing nations for infrastructure finance since they are long-term in nature and might serve as a source of cash for debt instruments with extended maturities. To provide the private sector access to these monies for infrastructure development, the government will need to enact the necessary changes in public provident funds, pension funds, and insurance firms [3], [4]. The Indian government has launched a number of initiatives to entice foreign capital to the infrastructure sector. For instance, in key infrastructure sectors like electricity generation and transmission, non-conventional energy generation and distribution, and construction activities involving roads, bridges, railbeds, ports, and harbours, the government has permitted automatic approval for foreign equity participation up to 74%.

DISCUSSION

The government has implemented many sector-specific reform initiatives in recent years. For instance, telecom projects must be classified as infrastructure and be eligible for all tax breaks and import duty exemptions that are available for infrastructure projects. An edict has been

published by the Indian government to encourage private investment in energy transmission, as opposed to generating and distribution. The government has also announced guidelines for private investment in highway development via the Build-Operate-Transfer route. These would offer additional financial concessions and also make it easier to prepare detailed feasibility reports, obtain land right-of-way clearance, relocate utility services and relocate affected establishments, obtain environmental clearance, and participate in equity in the highway sector. Similar recommendations have been made for private port involvement.

The establishment of an independent regulatory body for each infrastructure sector, along the lines of SEBI, has also been suggested by the Expert Group on Commercialization of Infrastructure Projects in order to ensure fair competition between public and private operators, protect consumer interests, particularly the needs of weaker and more vulnerable groups, ensure public safety, sustain environmental sustainability, etc. However, public sector reforms would be required to broaden their management, upgrade their technology, improve their performance and service quality, and generate adequate investible resources through better cost recovery and service charge rationalisation. Public sector enterprises will continue to bear the majority of the burden of providing essential infrastructure services.

Public-Private Infrastructure Partnerships

Given the need for massive infrastructure, the public sector cannot meet the demand at the moment. Despite the government's emphasis on the need of infrastructure for the growth of the economy, we have seen a decrease in the amount of money invested by the government in infrastructure, both at the federal and state levels. Public-private partnerships have become more significant in the infrastructure industry during the last several years.

The Economic Survey 2009–10 emphasises the significance of PPP projects and states that they offer a number of benefits, including leveraging public capital to attract private capital and take on a larger number of infrastructure projects, bringing in private-sector expertise and cost–reducing technologies, as well as bringing in efficiencies in operation and maintenance. PPPs are thus instruments to help governments meet their fundamental duties to offer better infrastructure services by raising the responsibility of the private sector as a service provider, regardless of their financial repercussions.

However, it is not a simple or automated process. According to the Economic Survey, "A crucial pre-requisite is to establish a governmental, legal, and regulatory framework that provides a fair return for investors, safeguards the interests of customers, particularly the poor, and secures quality supply at acceptable cost. At the level of the sponsoring authorities, especially State Governments, it is crucial that concerns pertaining to the strategy, procurement techniques and templates to be used, and processes for financial structure to be taken into consideration, be clearly specified from the beginning [5], [6].

Overview of the 11th Plan's infrastructure

The Planning Commission has publicly acknowledged that India's economic performance is significantly hampered by a lack of infrastructure. The 11th Plan places a significant premium on the development of rural infrastructure, with key objectives for irrigation, rural road connection, rural drinking water, etc. The 11th Plan has planned to resolutely address the enormous gaps in general infrastructure, which includes electricity, roads, trains, ports, airports, and

telecommunications. For instance, the 11th Plan will increase overall infrastructure spending from 4.5 percent of GDP to 9.0 percent of GDP. In line with the aforementioned expectation, it has been anticipated that the Eleventh Five Year Plan would see investments in physical infrastructure totaling around "2,002 thousand crores," or almost US $ 500 billion. The central government's portion of this sum is projected to be 37%; the state governments' share is close to 33%; and the private sector's contribution is close to 30%. In the infrastructure framework, it is clear that the government has embraced the public-private partnership model.

The distribution system, which is under the control of state governments, is the main issue, and the power sector is essential for the expansion of industry. Therefore, improving the performance of distribution businesses should be given top importance. Finally, PPPs have taken over as the primary method for building and running infrastructure services including roads, ports, and airports. They provide important benefits for luring private investment in the development of public infrastructures as well as increasing effectiveness in the delivery of services to customers.

The UPA government at the centre has used this strategy in recent years while building roads, ports, airports, and trains. The public would naturally anticipate that state governments would take a similarly open strategy to guarantee the projects' success. However, if the private sector partner is seen to have gotten too advantageous treatment, a public-private cooperation may sometimes spark controversy. It is crucial that the general public understands the benefits of PPP. This may be achieved by making ensuring that concession agreements' conditions are clear and safeguard the public interest, and that there is fierce competition for the project's bids so that the lowest-cost solutions are selected.

The growth of agriculture and industry has a direct impact on a nation's economy. But in order to produce food, you need things like irrigation, electricity, financing, and transportation infrastructure. A revolution in transportation and communications, extensive use of cargo and later oil as a source of energy, tremendous expansion in banking, insurance, and other financial institutions to finance production and trade, an explosion in scientific and technological knowledge, and other factors have all contributed to the industrial and agricultural revolutions that have occurred in England and other countries over the past 200 years or more. Indian planners put significant attention to the quick construction of these facilities from the First Plan forward since they were well aware of the connection between infrastructural facilities and general economic development. The availability of energy is the most significant single element that may serve as a restraint on a nation's potential to thrive economically. India is a significant energy user and producer. India is now the fifth biggest energy user and the seventh greatest energy producer in the world [5], [6].

Energy comes from two general categories: commercial energy and non-commercial energy. Coal, petroleum, and electricity are the three main sources of commercial energy, or more accurately, commercial sources of energy. In order to address local residents' energy needs, the government has also initiated a program to use agricultural biomass that is accessible at the Taluka level for decentralized power production. The Indian government has launched a number of policy initiatives to promote partnerships and direct foreign investment. In the states of Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, and Kerala, NRIs in particular are investing in projects like wind, farms, and solar plants with a combined capacity of 450 MW. To encourage the use of biofuels, the National Biofuel Board is being established. The short-term

goal is to promote jatropa planting, adopt vehicle engines that can run on biofuels and less oil, and increase biofuel use to 20% by the conclusion of the 12th Plan.

One kind of energy, electric power, is necessary for both commercial and non-commercial applications and is a crucial component of economic growth. Electricity is used in transportation, manufacturing, and agriculture for commercial purposes.One can see that the amount of energy used by home users has grown quickly, while the amount of electricity used by railroads and for public lighting as a percentage of overall consumption has decreased .Significant power development has occurred during the last 50 years. From 1950 to 2005–2006, the installed generating capacity from all sources utilities and non-utilities rose from 2,300 MW to 1,43,800 MW.

With a significant restructure of SEB to make the operation of the sector more efficient and financially sustainable, the Government of Orissa was the first to start reform of the State power industry. Power production and delivery have always been a government monopoly in India, as they are in other developing nations. This nation has had one of the most vehement disputes on many facets of the Narasimha Rao Government's new power strategy for private electricity. Transport and communications are the nerves that support the movement of people and goods if agriculture and industry are thought of as the economy of India's body and bones. By enlarging the market for commodities, the transportation system makes it feasible for labor-intensive large-scale manufacturing.

Rail and road transport systems predominate, but other forms of transport are also important within their specialised fields taking into account the size of the country and its geographical features. Indian planners gave high priority to the development of transport because in their opinion "an efficient and well developed system of transport and communications is vital to the success of a plan of economic development which lays stress on rapid industrialization." Although transportation systems have made significant strides during 1950–1951, there are still several obstacles, limitations, and challenges. Inadequacies and imbalances in India's transport systems pose a danger to both urban and rural areas' economic development and quality of life. The overall Indian transport system has grown significantly over the years, but it still has numerous flaws, necessitating a significant effort in capacity growth, modernization, and technology advancement.

The first train travelled 22 miles between Bombay and Thana in 1853, marking the humble beginning of the Indian Railways. After a slow start in 1853, the railway expanded quickly, and by 1900, it had approximately 25,000 kilometres of track. The primary goal of planning in Indian Railways in the past was to increase rail traffic in a way that avoided production bottlenecks and ensured an effective rail transport system because Indian Railways is the largest transport organisation that is closely linked to the growth of the national economy. Prior to 1924, the Central Government's finances included the finances of the railroads. But starting in 1924, the Central Government's general finances and the railway sector's finances were divided. Despite being the cheapest form of transit in India, Indian Railways has never experienced significant losses [7], [8].

Expanding railway lines, building new engine and coach manufacturers, and other train infrastructure needs urgent attention now.The Seventh Plan highlights the significance of roads in the following way: "Roads comprise a crucial part of the transportation infrastructure since the country's economy is still predominantly agricultural in nature and the settlement pattern is rural-

oriented.For a variety of reasons, India has historically failed to build its roads. First of all, neither the Central nor the State governments saw the significance of expanding the road network.Roads and railroads complement one other far more than other types of transportation do, and they both benefit from this. The local market and the closest train station are connected to the growers via the road network. There are two types of water transport: coastal or marine transport and inland water transport, often known as river transport.

For certain types of commerce, both across long and small distances, inland water transport, which includes a variety of rivers, canals, backwaters, creeks, etc., is the most affordable route, provided the places of origin and destination are situated on water fronts and no transhipment of products is involved. Due to fierce competition from international shipping firms and a lack of backing from the foreign rulers in India, Indian shipping enterprises did not prosper prior to India's independence. Only the Scindia Steam Navigation Company was capable of competing internationally. An important part is played by air travel. It provides time savings that long-distance surface transportation cannot match. In a resource-constrained economy, air transport helps to maximise technical, managerial, and administrative talents.

To modernise, enhance, and manage Delhi and Mumbai airports, the Government of India has chosen two joint venture corporations. Despite fierce resistance from the left parties, this joint venture-based effort to reorganise and modernise the airports in Mumbai and Delhi has been made. When making investment plans for civil aviation, the Seventh, Eighth, and Ninth Plans kept in mind a few key factors. First and foremost, they have intended to rationalise the structure of the tanks and the air services. Posts and telegraphs, telecommunications, broadcasting, television, and information services make up the communication system. The communication system serves to efficiently connect buyers and sellers and helps to accelerate the development of the economy by giving important information about the markets and also by offering necessary incentive.

One of the oldest publicly owned utility companies in the world is Indian Telegraph. There are currently more over 30,000 telegraph offices, up from 8,200 in 1951. To encourage and facilitate the orderly conveyance and content of communications, the government proposed the Communication Convergence Bill, 2001, in Parliament. Urban infrastructure includes water supply and sanitation, which are crucial necessities for raising inhabitants' quality of life and increasing their productivity. Given the requirement for massive infrastructure, the public sector is unable to meet the demand of the moment. Despite the government's emphasis on the need of infrastructure for the growth of the economy, we have seen a decrease in the amount of money invested by the government in infrastructure, both at the federal and state levels. The Planning Commission has publicly acknowledged that a key barrier to India's economic growth is a lack of infrastructure. The UPA government at the centre has used this strategy in recent years while building roads, ports, airports, and trains. People would naturally expect state governments to take a similarly open attitude in order to guarantee the success of the private ventures [9], [10].

CONCLUSION

In order to encourage private infrastructure investment in the future, it is essential to create an enabling environment. Governments have to priorities reducing regulatory procedures, fostering openness, and establishing distinct policy frameworks. To reduce investment risks, it is crucial to increase institutional capacity, improve project planning and feasibility analysis, and make sure that suitable risk management systems are in place. Additionally, it is essential to include

stakeholders, such as local communities and civil society, in infrastructure projects in order to guarantee public acceptability, social inclusion, and long-term sustainability. In conclusion, private investment in infrastructure presents important chances for filling up infrastructure shortages, encouraging economic growth, and advancing sustainable development. Governments may entice private investment, capitalise on knowledge, and improve the quality and efficiency of infrastructure construction by tackling regulatory issues, guaranteeing adequate risk distribution, and fostering openness. In order to address societal requirements, construct a durable and equitable infrastructure network for future generations, and achieve infrastructure objectives, collaboration between the public and private sectors is essential.

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CHAPTER 3

INDIAN FINANCIAL SYSTEM: MONEY MARKET AND MONETARY POLICY

Mr. Yelahanka Lokesh, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id: lokesh.yr@presidencyuniversity.in

ABSTRACT:

The money market and monetary policy are crucial elements of the Indian financial system, which is crucial to the country's economic growth and stability. With an emphasis on the money market and the creation and execution of monetary policy, this abstract offers a thorough examination of the Indian financial system. The money market consists of different short-term borrowing and lending products, such as certificates of deposit, treasury bills, commercial paper, and call money markets. It offers a platform for managing short-term liquidity requirements and acts as a benchmark for interest rates for financial institutions, businesses, and the government. In order to affect the money supply, credit availability, and inflationary pressures in the economy, the RBI uses instruments including interest rates, reserve requirements, and open market operations. Addressing structural challenges in the economy, managing the trade-off between inflation and growth goals, and ensuring that monetary policy measures are effectively transmitted across the financial system are a few of them. The Indian financial system is more stable and effective as a result of the RBI's ongoing efforts to strengthen regulatory frameworks, improve the efficacy of policy, and promote financial inclusion.

KEYWORDS:

Bank, Development, Economic, Financial System, Market.

INTRODUCTION

Currently, banks, which are either owned by the government, the RBI, or the private sector and are regulated by the RBI, development financial institutions and refinancing institutions, which were established either by a separate statute or under the Companies Act, which are either owned by the government, the RBI, the private sector, or other development financial institutions, and non-bank financial companies, which are privately owned and regulated. The organizational structures, ownership structure, and areas of operations of financial institutions have changed as a result of 1990s reforms on both the asset and liability fronts. The struggle for resources among banks and financial institutions has increased as a result of the drying up of low cost capital. The rivalry for the provision of money has also grown as a result of banks joining the field of term lending and FIs branching out into disbursing short-term loans. Additionally, FIs have engaged in a number of fee-based activities including stock trading, merchant banking, advisory services, and similar ones.

Money Market in the Indian Financial System

Finance, in its broadest definition, refers to the finances or monetary resources that people, businesses, and the government require. People and families need money primarily to fulfil their immediate needs, pay for daily costs, or purchase capital assets. A business unit, such as a

factory or workshop, requires money to pay employees' wages and salaries, purchase raw materials, replace worn-out equipment with new, etc. To purchase and store products in their shops and godowns, traders need financing [1], [2].

For agricultural needs, such as purchasing seeds, manure, cattle feed, etc., farmers need financing for short periods of 12 to 15 months. These brief-term loans are often repaid once the crop has been gathered. The farmers may need financing for medium- and long-term projects, such as those lasting up to 10 years, to buy cattle, equipment for farming, drill wells, make long-term improvements to the land, etc. Last but not least, the government need money to pay for the products and services it purchases as well as to support its development initiatives.

The Organization of the Financial Sector

The demand for and supply of money by all people, organizations, businesses, and the government are referred to together as the financial system of India. The financial system is often divided into: Industrial finance: Money needed for business and industrial operations; agricultural finance: Money required and provided to carry out agriculture and related activities; Development finance is the term for the money required for development, which covers both industrial and agricultural financing. Government finance: Deals with the supply and demand for money to pay for government expenses.

The many institutions and mechanisms that impact how much money the community saves, how much money is raised, and how much money is really distributed to all of the people who need it for investments make up India's financial system. The banking system, insurance companies, mutual funds, investment funds, and other organisations that encourage public saving, gather their savings, and transfer them to the actual investors make up the bulk of the Indian financial system. Individual investors, industrial and trading companies, and the government are the investors in the nation; they enter the financial system as borrowers. There are additional crucial institutions in the Indian financial system that are truly facilitators apart from these two major groups of organisations that encourage investment and savings, respectively.

The Indian Financial System's Goal Is to Promote Capital Formation

Through the process of capital creation, which is also known as saving and investing, the Indian financial sector plays a significant part in the country's economic growth. Because of this, the financial system is sometimes referred to as the financial market. The goal of the financial market is to effectively mobilise savings and distribute them among investors, who are the final consumers of money. Rapid economic growth is dependent on a high rate of capital creation. The following factors affect capital formation: increase in savings, or the release of resources that would have typically been employed for consumption to other uses; Mobilisation of deposits the collection of domestic savings by banking and financial organisations and distribution to real investors; and Actual investment is the creation of capital commodities [3], [4].

DISCUSSION

Real capital creation is the third step or process, yet it cannot occur or exist without the prior two phases. As a result, the general population should save aside money and be ready to shift resources from capital goods to consumer products. The banks and financial sectors should mobilise people's savings. Finally, investors should be given access to public savings so they may create capital products. Despite being separate from one another, all three of these actions or

processes are essential for capital formation. Because individuals who save and those who invest in India often aren't the same people or entities, banks and financial institutions are crucial to the capital creation process. Banks and other financial organisations serve as middlemen to connect investors and savers.

The Indian Financial System's Constituents

The Indian money market and the Indian capital market are the two components of the Indian financial system, which refers to the borrowing and lending of cash or to the demand for and supply of funds. The market where short-term funds are borrowed and loaned is the Indian money market. On the other side, the medium-term and long-term funds market is the capital market in India. The Indian money market is often divided into an organised sector and an unorganised sector. Commercial banks in India, which comprise both domestic and international banks from the private and public sectors, make up the organised sector of the money market. Native bankers, including non-banking financial firms, make up the unorganised industry. The Indian money market has numerous more sub-markets than these two, as we'll see later.

The Makeup of India's Banking System

The Reserve Bank of India, the nation's central bank, commercial banks, and cooperative banks make up the three primary groups that make up India's organised banking sector. Between scheduled and non-scheduled banks is another and more typical division of banks in India. The Reserve Bank of India is the top monetary and financial authority in the nation and is in charge of overseeing the nation's banking sector. It is referred to as the "Reserve Bank" since it holds the cash reserves of all scheduled banks.

Banks that are scheduled and unscheduled

Scheduled banks and non-scheduled banks were two categories under the Reserve Bank of India Act, 1934. The banks that are included in the Second Schedule of the RBI Act of 1934 are considered scheduled banks. These banks satisfy the RBI that their operations are conducted in the interests of their depositors by having paid-up capital and reserves with a combined value of at least '5 lakhs. All commercial banks, including those that are domestic and international, rural regional, and state-owned, are scheduled banks. The banks that are not included in the Second Schedule of the RBI Act of 1934 are referred to as non-scheduled banks. Only three non-scheduled banks exist in the nation as of right now. Commercial banks and cooperative banks are two categories of scheduled banks. While cooperative banks are built on the cooperative idea, commercial banks are oriented on profit.

The capital market in India

The Indian capital market, which refers to all the institutional setups and facilities for borrowing and lending "term funds" (medium- and long-term funds), is the market for long-term capital. Private and public manufacturing enterprises, trade and transport businesses, etc. are the main consumers of long-term money capital, although agriculture also has some long-term funding needs. The capital market is a significant source of funding for the federal and state governments. Individual and corporate savers, corporate savers, commercial banks, insurance providers, public provident funds, and other specific organisations make up a substantial portion of the capital market's funding supply [5], [6]. The Indian capital market may be divided into:

1. Market for government and semi-government securities with a gilt edge;
2. Market for industrial securities;
3. Institutions that finance development; and
4. Nonbank financial institutions.

The market for government and semi-government assets with fixed interest rates is known as the "gilt-edged securities market." The market for stocks and bonds issued by businesses in the corporate sector is known as the industrial securities market. This market, often known as the stock market or stock exchange, is further divided into new issue markets for raising new capital in the form of shares and debentures and old issue markets for buying and selling shares and debentures of existing firms [7], [8].

1. The Make-Up of the Indian Financial Market

A money market, often known as a "near money" market, is a place where short-term cash may be lent out and borrowed. It is the market where borrowers, who include people, businesses, and the government, seek the short-term excess investible money of banks and other financial institutions. Both borrowers and lenders in the money market are commercial banks.

The unorganised and organised sectors make up the two components of the Indian money market. Native bankers who operate on conventional business models and non-banking financial firms make up the unorganised sector. The Reserve Bank, the State Bank of India and its affiliated banks, the 20 nationalised banks, and private sector banks both domestic and foreign make up the organised sector. The treasury bills market, the commercial bills market, and the inter-bank call money market are just a few of the sub-markets that make up India's organised money market. The Indian money market is made up of various sub-markets, each of which trades in a certain kind of short-term lending. It is not a single, uniform market.

Telephone Money Market

The Call Money Market, which is the market for extremely short-term funds, is a significant sub-sector of the Indian money market. Other names for this market are money at call and short notice. This market has really two sectors, namely. the overnight market, call market, and short notice market. The call money rate is the price at which money is borrowed and loaned in this market.

Call money rates are set by the market, or by the supply and demand for short-term financing. About 80% of the demand is met by public sector banks, with the remaining 20% of borrowings going to foreign and Indian private sector banks. As lenders, non-banking financial organisations like IDBI, LIC, GIC, and others participate in the call money market and provide up to 80% of the short-term funding. The financial system contributes the remaining 20% of the money. While some banks function in the call money market as both borrowers and lenders, others are either just borrowers or only lenders.

Indian Bill Market

The most significant area of the money market is the bill market, also known as the discount market, where short-term bills typically up to 90 days are purchased and sold. The commercial bill market and treasury bill market are additional divisions of the bill market. Contrary to London and other foreign money markets, where commercial bills are heavily purchased and

traded, the market for commercial bills has not gained popularity in India. The most popular technique for the Indian government to raise money is via 91-day treasury notes. The 182-day Treasury Bills were first presented by the government a number of years ago, and they were then changed to 364-day Treasury Bills. The government first issued 14-day intermediate treasury notes in 1997.

The RBI and the Indian Money Market

The RBI is the acknowledged market leader in India and has influence over all of these financial institutions since it is the final arbiter of monetary and banking matters in the nation. The RBI is tasked with directing and overseeing the institutions that make up the money market, and to that end, it is equipped with both qualitative and quantitative tools for credit management.

2. Specifications and Issues with the Indian Money Market

Existence of Unorganised Money Market: The biggest flaw in the Indian money market has always been the local bankers' inability to discern between short-term and long-term financing, much alone between the various financial goals. The RBI made many efforts to directly influence and control the local lenders. There have been several non-banking financial organisations during the last 50 years that generate money from the general public but are typically not under the jurisdiction and oversight of the RBI. The RBI has little control over the money market to the degree that these bankers and NBFCs operate outside of the regulated money market.

Absence of Integration: At one point, the Indian money market's fragmentation into a number of loosely linked parts or segments was a significant flaw. Every segment of the money market, including the State Bank of India and its affiliates, foreign exchange banks, urban co-operative banks, and indigenous bankers, largely constrained itself to a certain kind of activity and maintained independence in its own sector. Additionally, there were tense ties among the different segments of the money market. This still holds true today between international and Indian banks. Since the Banking Regulation Act of 1949 was passed, the RBI has treated all banks similarly with respect to licencing, branch openings, share capital, the kinds of loans and advances to be made, etc. As a result, there is a growing integration of the Indian money market [9], [10].

Due to its ability to oversee the activities of the organised sector, the RBI is now completely effective in the money market. The RBI's rediscounting and borrowing services have become more and more important to commercial and cooperative banks, particularly during the busy season. Additionally, RBI frequently audits the records of scheduled commercial banks and instructs them in their lending practises. However, the commercial banking sector is not always totally under the authority and observation of the RBI. This is evident from the 1992 Harshad Mehta scandal and the 2001 Ketan Parekh case.

Diversity in Money Rates of Interest: There are too many different rates of interest in the Indian money market, including the borrowing rate for the government, commercial banks' deposit and lending rates, cooperative banks' deposit and lending rates, DFIs' lending rates, etc. The inability of money to move from one area of the money market to another is the primary cause of the simultaneous presence of so many interest rates. The various money interest rates have recently responded quickly to changes in the bank rate.

Seasonal Stringency of Money: A very striking feature of the Indian money market was the seasonal stringency of money and high rates of interest during a particular time of the year—during the busy season from November to June when money was needed to transport the crops from the upcountry and rural areas to the cities and ports. Banks have huge cash reserves during the slow or off-season, and interest rates are at their lowest. The money interest rates vary significantly from one season of the year to another even now. By injecting money into the money market during busy seasons and withdrawing it during slow periods, RBI tries to reduce the seasonal swings in the money market. Seasonal tightness or glut is a characteristic of the money market that exists even now.

Lack of a Bill Market: The lack of a Bill Market or a Discount Market for Short Term Commercial Bills was another flaw in the Indian Money Market. To efficiently connect the different credit agencies to RBI, a well-organized bill market is required. Due to certain historical accidents, such as the practise of banks holding a significant amount of cash for liquidity purposes, the preference of industry and trade for borrowing rather than rediscounting bills, the incorrect drafting of the bazar hundi, the system of cash credit as the primary form of bank borrowing, the preference of cash transactions in certain lines of activity, the lack of warehousing facilities for storing agricultural commodities, and others, no bill market developed.

Despite widespread recognition of the necessity for such a market, the commercial bill market has not yet reached its full potential: Commercial bills are a significant source of funding for businesses and industrial buildings, along with bank loans; Commercial or trade bills are preferred by banks with excess cash because they provide a fair rate of return, are issued for a brief term, and are self-liquidating the drawee of the bills would make payment at maturity. The RBI may employ commercial bills in its open market activities. When there is a cash crunch, the RBI may purchase bills on the open market, inject more money, and support the expansion of bank credit. When there is an excess of money on the money market, the RBI may sell bills and use the proceeds from the sale to finance banks [11], [12].

In 1970, RBI created the New Bill Market Scheme, a bill market programme that rediscounted real trade bills. The Scheme did not completely materialise as planned. The development of a bill market would essentially depend on whether industry and trade are willing to recover their receivables through the medium of bills and whether the purchasers of goods are willing to bind themselves to the discipline of the bills, i.e., pay the amount due on the specified date mentioned on the bills. The creation of a bill market benefits the nation greatly from both a credit expansion and monetary policy perspective.

Highly volatile call money market: The call money market, sometimes referred to as "money at call and short notice," is the market for short-term financing. The call money rate is the rate at which money is borrowed in this market. Call money rates are set by the market, or by the supply and demand for short-term financing. The call money rates have remained very volatile despite all the efforts made by the RBI to reduce their swings. The high rates reflect the banking system's enormous need for short-term financing, particularly to fulfil the RBI's minimum CRR requirement. When there is a shortage of money and high call rates, RBI supports the market by purchasing assets from the market in an effort to control volatility. When the call market has a big surplus of funds, RBI sells securities to absorb the extra funds. However, overall, RBI has had only sporadic success in reducing the historically high volatility of the Indian call money market.

Lack of a well-organized banking system: The lack of a well-organized banking system was another significant flaw in the Indian money market. Before the nationalisation of the banks in 1969, branch banking was very sluggish. There are just a few major banks in the nation, and they are mostly found in metropolitan cities and mandi towns. The very slow branch banking in the nation is the cause of the extreme sluggishness in the transfer of cash and the occurrence of various interest rates in various places. The Reserve Bank has had significant influence and control over the banking industry ever since independence, and especially since the 1949 passage of the Banking Regulation Act. There are now much fewer banks due to mergers and amalgamations. Furthermore, branch banking has been faster since 1969.

Despite several efforts to enhance the Indian financial sector, the RBI has been unable to effectively manage and direct it. We may use three examples in this context. In 1992, Harshad Mehta orchestrated a securities fraud by utilising money from reputable institutions, both international and Indian. Ketan Parekh manipulated the share prices of a few firms in which he had a stake using the resources of urban co-operative banks, the Bank of India, and UTI. As a result, the Indian stock market almost crashed in 2001; and C.M. In March 2002, Agarwal of Home Trade participated in the gilt-edged market using cash from urban cooperative banks and pension funds [13], [14].

The fact that the RBI was unable to stop these banking system abuses shows emphatically how poorly managed and ineffectively monitored the Indian banking industry is: Credit instrument accessibility: The Indian money market lacked sufficient short-term paper instruments till 1985–1986. There existed just the treasury bill market, in addition to the call money market. There were no specialised dealers or brokers dealing in various sections of the Indian money market or with various types of paper instruments at the time.

CONCLUSION

The importance of preserving pricing stability, promoting economic expansion, and enhancing financial sector resilience cannot be overstated. Digitalization, financial innovation, and technological improvements provide potential to expand financial markets, boost financial inclusion, and improve efficiency. For the financial system to continue to advance, it is crucial that continual initiatives to enhance corporate governance, harmonise with global best practises, and tighten risk management procedures be made. In conclusion, the Indian financial system, with its monetary policy framework and money market, is essential in promoting economic development and stability. India wants to promote price stability, encourage economic growth, and preserve the resilience of the financial sector. To do this, it must manage the money market efficiently and create and execute a responsible monetary policy. Addressing issues, embracing technological improvements, and guaranteeing the stability of the financial system in the future would need ongoing changes and adaptability to changing market conditions.

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CHAPTER 4

ANALYSIS OF FINANCIAL POLICY

Dr. Mounica Vallabhaneni, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id: mounicav@presidencyuniversity.in

ABSTRACT:

Financial institutions are governed by financial policy, which also promotes economic development and stability. Financial policy is essential in determining a nation's economic landscape. This abstract offers a summary and analysis of financial policy, looking at its ramifications, emphasizing difficulties, and outlining crucial factors for successful policy creation and execution. By controlling the banking industry, guaranteeing the efficiency of the financial markets, and defending the interests of consumers, sound financial regulations help to maintain stability. By fostering an atmosphere that is favorable for capital creation, investment, and entrepreneurship, well-designed policies may aid in economic development. Financial policies that improve financial inclusion and credit availability may also aid in the eradication of poverty and the promotion of inclusive development. However, this also recognizes the difficulties in developing and carrying out financial policy. It might be challenging to strike a balance between conflicting goals, such fostering innovation while ensuring financial stability. Robust policy frameworks and cooperation amongst regulatory bodies are necessary to provide effective regulation and supervision, manage systemic risks, and lessen the effects of financial crises. Additionally, it creates continual difficulties that need for a flexible and forward-thinking strategy to adjust financial policy to quick technical breakthroughs like digital banking and cryptocurrencies.

KEYWORDS:

Banking, Economic,Financial Policy, Money, Monetary Policy.

INTRODUCTION

In general, monetary policy describes the steps taken by the monetary authorities to limit and regulate the demand for and supply of money for a certain goal. One of the two most effective instruments for managing and controlling the economy is monetary policy. In the earlier chapters, the many facets of monetary policy, particularly their effects on aggregate output, interest rates, and price levels, have been explored within a theoretical framework. We shall go into great depth on monetary policy in this part. The main facets of the mentioned monetary policy are as follows:

1. The purpose and reach of monetary policy;
2. Objectives and tools of monetary policy;
3. Monetary policy's role in accomplishing macroeconomic objectives;
4. Monetary policy's capabilities and constraints; and
5. Fiscal policy vs. monetary policy debate.

With short contributions from India's monetary policy, these components of monetary policy are examined in a theoretical manner [1], [2].

Monetary Policy: Its Purpose and Application

Different terms have been used by economists to define monetary policy. Harry Johnson, for instance, describes monetary policy as "a policy employing central bank control of the money supply as an instrument of achieving the objectives of general economic policy." According to K. Shaw, monetary policy is "any conscious action undertaken by the monetary authorities to change the quantity, availability, or cost of money." The goals of macroeconomic policy, i.e., monetary policy, are typically the same. growth, employment, price and currency stability, and a balanced balance of payments. The macroeconomic objectives are chosen based on the nation's economic requirements. Macroeconomic objectives must be established before the monetary authorities may decide whether to expand or reduce the money supply. The choosing of tools that can successfully raise or lower the public's money supply is the next stage.

Monetary Policy's Purpose

The whole realm of monetary transactions and the macroeconomic factors that monetary authorities may affect and change via the use of monetary policy tools are within the purview of monetary policy. The two main elements that determine the scope of monetary policy are: the extent to which the economy is monetized, and the degree of financial market development. The scope of monetary policy includes all aspects of the economy in a fully monetized system. In such an economy, money is used as the medium of exchange for all economic transactions. In such situation, monetary policy affects the overall level of prices as well as the supply and demand for money. Therefore, it has the potential to have an impact on all economic activities, including production, consumption, saving, and investment. All significant macroeconomic indicators, including GDP, savings and investment, employment, the general price level, international trade, and the balance of payments, are subject to monetary policy.

How developed and interconnected the capital market is is another element that affects the scope and efficacy of monetary policy. Some monetary control tools operate on the capital market. Where the capital market is moderately developed, changes in the capital market have an impact on the amount of economic activity. In an economy with a fully established financial market, it operates quicker and more efficiently. A developed financial market, by the way, is one that possesses the following characteristics: a sizable number of financially sound commercial banks, financial institutions, credit organisations, and short-term bill markets; a significant portion of financial transactions are channelled through banks and the capital markets; the operation of capital sub-markets is inter-linked and interdependent; and the commodity sector is highly sensitive to changes in the capital market. Commercial banks act as the conduit for monetary weapons like the bank rate and the cash reserve ratio. Therefore, other capital sub-markets must have a solid financial connection with the commercial banks in order for the monetary policy to have a broad influence on the economy.

Tools for Monetary Policy

The economic factors that the central bank has the authority to alter at its discretion in order to govern and regulate the supply and demand for money as well as the accessibility of credit are referred to as monetary policy tools. The tools are also known as "weapons of monetary control,"

according to Samuelson and Nordhaus, who also refer to them as "The Nuts and Bolts of Monetary Policy." Measures for general credit control, and selective restrictions over credit.

Measures for Generally Controlling Credit

Given the goal of monetary policy, monetary weapons that try to control the overall supply and demand for money are included in the broad measures of monetary control. General credit control measures, also known as classic means of monetary control. To help the government borrow money from banks, the Reserve Bank of India has added an extraordinary measure to its arsenal of standard monetary control tools called the Statutory Liquidity Ratio. Here, we provide a short explanation of the purpose and operation of these monetary measures. There will be passing mentions of the RBI strategy while talking about these elements. The next part has a thorough discussion [3], [4].

The rate at which the central bank loans money to commercial banks and rediscounts the bills of exchange such banks submit is known as the "bank rate." According to the RBI Act of 1935, "bank rate" is the "standard rate at which is prepared to buy or rediscount bills of exchange or other commercial papers eligible for purchase under this Act." Only government securities, approved bills, and "first class bills of exchange" are discounted by the RBI. When commercial banks are short on cash reserves, they turn to the central bank to borrow money for a short period of time or have their bills of exchange rediscounted. It is a typical strategy for commercial banks to borrow money from the central bank, who serves as their "lender of last resort." The banknotes supplied by the commercial bank are rediscounted by the central bank at a discount rate. Bank rate is the conventional name for this rate. such that the bank rate is the interest rate that the central bank assesses on advances and loans given to commercial banks. Depending on whether it wishes to boost or decrease the flow of loans from commercial banks, the central bank may modify this rate. When it chooses to improve the commercial banks' ability to create credit, it lowers the discount rate, and when it decides to diminish that ability, it raises the bank rate. The bank rate policy refers to this decision made by the central bank.

DISCUSSION

The Bank of England introduced the bank rate policy for the first time in 1839. Up to the open market operation, first deployed in the US in 1922 as a more potent tool of monetary control, it was the single and most commonly utilised weapon of credit control. Since its founding in 1935, the RBI in India has sometimes used the bank rate as a monetary management instrument. 3% was the same bank rate up to 1950. It was raised to 3.5% in 1951, then to 4% in 1956, and was in effect until 1962. The bank rate was hiked more often the following year, reaching 12% in 1992 and remaining constant until 1997. The bank rate was steadily decreased to 6.5% in 2001, which was the lowest rate since 1973, due to the increasing demand for credit facilities as well as the economy's 5-6% annual growth rate and declining inflation rate. In 2004, the bank rate was lowered to 6%, where it remained until 2006–2007. To combat the inflation, which peaked at 11.5 percent in July 2008, the bank rate was increased to 7.5 percent in 2008.

The way the bank rate policy operates is straightforward. Commercial banks adjust their own discount rate in accordance with changes to the bank rate, often by a difference of one percent. The flow of bank credit to the general population is impacted by changes in the bank rate. For instance, the central bank would increase the bank rate if its goal is to decrease the money supply

by limiting the amount of credit that banks provide to the general population. Three possibilities exist for a rise in bank rates to lessen loan flow.

1. One is that an increase in the bank rate decreases the value of the government bonds that commercial banks use as collateral when obtaining loans from the central bank. This limits the amount that commercial banks may borrow from the central bank. Commercial banks thus struggle to have a significant cash reserve. This limits the ability of commercial banks to create loans. Thus, there is a decrease in loan flow.
2. Two, commercial banks also increase their discount rate when the central bank rises its bank rate. The cost of bank lending increases as the discount rate rises, discouraging businesses from having their bills of exchange discounted. A higher bank rate also causes the market interest rate structure to climb. The demand for money reduces as well if the demand for credit is elastic to interest rates.
3. Third, the lending rate for banks is swiftly modified to reflect deposit rates. As a result, an increase in the bank rate also increases the deposit rate. Savings thus drop with the public and flow into banks in the form of time deposits. The result is referred to as deposit mobilisation. When the central bank lowers the bank rate, the exact opposite occurs [5], [6].

Measures of selective credit control

When used effectively, the broad credit control techniques of monetary restrictions have an impact on the whole credit market in the same manner. As planned by the monetary authorities, they either cause the total credit to expand or decline. Additionally, they have a consistent influence across all economic sectors. The policy-makers may not always want or intend this. The monetary authorities are often obliged to implement policy measures for restricting credit for various economic sectors, redirecting credit flow from non-priority to priority sectors, and reducing speculative tendency based on bank credit availability. The quantitative metrics of credit management do not effectively achieve these goals. Therefore, the monetary authorities turn to qualitative or limited credit regulations. The following section discusses a few of the popular selective credit restrictions.

Credit Rationing: The highly developed and financially sound sectors and industries often take the lion's share of the overall institutional credit when there is a lack of institutional credit available for the business sector. As a consequence, non-priority sectors get bank credit while priority sectors and key businesses go without the funding they need. The central bank uses credit restriction measures to stop this trend. In general, two methods are used: imposing upper limitations on the amount of credit accessible to major businesses and well-developed sectors, as well as charging a higher or escalating interest rate on bank loans over a specific threshold. This is done in an effort to open up bank credit to the crucial and important industries.

Changes in Lending Margins: Banks often advance money in exchange for the mortgage of some item or property, such as a piece of land, a structure, jewellery, a stock of products, or a piece of jewellery. Only a certain portion of the value of the property that is mortgaged may be borrowed against by banks. The term "lending margin" refers to the difference between the value of the mortgaged property and the amount advanced. For instance, if the value of stock is Rs. 10 million but the amount advanced is only Rs. 6 million, the lending margin is 40%. The RBI has heavily relied on this technique since 1956 in an effort to curb speculation in agricultural commodities that are in short supply, such as food grains, cotton, oil seeds, sugar, Khandsari and

gur, and cotton fabrics and yarns. Due to the high price of these items being able to get larger loans via mortgages, the price of limited agricultural supplies had risen speculatively. Higher loan amounts made it possible to purchase more agricultural goods and build up a stock that could then be mortgaged to allow for more borrowing. This led to a form of manufactured scarcity, which raised the costs even further. The RBI may be able to stop this form of speculative borrowing by raising the lending margin. In India, this technique is no longer extensively employed [7], [8].

Moral persuasion is a technique for persuading and influencing commercial banks to provide credit in compliance with the central bank's instructions and in the overall economic best interests of the nation. This strategy is used in combination to quantitative and other qualitative approaches, especially when the efficacy of other approaches is in question. In addition, quantitative and qualitative approaches are useless in developing nations with weak financial and credit markets. With this approach, the central bank communicates with banks about money and credit issues through letters and meetings.

Direct Controls: If all other measures fail, the monetary authorities turn to direct control measures that provide specific instructions on how loan activity should be carried out. Direct control techniques are, nevertheless, sometimes used.

The Boundaries and Performance of Monetary Policy

The following variables, sometimes referred to as monetary policy's limiting factors, affect how effective monetary policy is in practise.

The Time Lag: The time lag, or the length of time it takes to plan out a policy move, execute it, and respond to it, is the first and most significant obstacle to the efficient operation of monetary policy. Two components make up the time lag: "inside lag" or preparation lag, and reaction lag or "outside lag." The inner lag is the amount of time spent determining the nature of the issue, tracking down its origins, gauging its size, selecting the best course of action, and putting that course of action into action. The outer lag is the amount of time it takes for businesses and families to respond to a monetary authority's policy decision.

If preparation and implementation take a long time, the problem's nature and scope may change, making the policy useless, and it may even become worse. Many nations, especially industrialised ones, have found that excessively lengthy internal and external delays render monetary policy less successful than anticipated. It has been discovered that the time lag of monetary policy, and especially its reaction lag, is often greater than the time lag of fiscal policy. The question of time lag in the context of monetary policy is contentious, nevertheless. According to Friedman and Schwartz, there is often an 18-month lag between the maxima of the money supply and the economic cycle. Other economists' research has cast doubt on their conclusions. The consensus seems to be that the lag is around 12 to 16 months long, although "evidence from several sources suggests that the lag associated with monetary policy is long and possibly variable."

Forecasting issues: In order to formulate an effective monetary policy, it is important to accurately estimate the size of the issue whether it be inflation or a recession as this informs how much medication to provide. Predicting the results of monetary activities is increasingly crucial.

Despite improvements in forecasting methods, accurate macroeconomic variable forecasting is still a mystery. It's intriguing to use Stephen McNees' words in this context.

"How can forecasts make a mistake? They may be unable to foresee disruptions, misinterpret the status of the economy and hence base their predictions on an inaccurate assessment of the current situation, and miscalculate the timing and ferocity of the government's monetary and fiscal reactions to booms or recessions. The truth is that predicting is seldom flawless, especially at significant economic turning moments."

Predicting the results of a policy action and, as a result, formulating a suitable monetary policy have remained very challenging tasks due to the low degree of dependability of forecasting. The unexpected 2008 recession in the US economy and India's inflation provide sufficient proof of this notion. An ineffective policy founded on conjecture is certain to be ineffective. This point of view is backed up by a lot of factual data [9], [10].

Growth of Non-Banking Financial Intermediaries: In addition to the monetary policy restrictions listed above, the financial market's structural shift brought on by the quick expansion of non-banking financial intermediaries has limited the policy's potential for success. The percentage of commercial banks in the total credit has decreased due to the growth of non-banking financial intermediaries including industrial finance corporations, industrial development banks, mutual saving funds, insurance companies, chits and funds, and so on. Financial intermediaries have a significant role in financial operations, which diminishes the efficacy of monetary policy, which is implemented via banking financing, despite the fact that they cannot produce credit through the credit multiplier process.

Undeveloped Money and Capital Markets: of addition to the issues already mentioned, the undeveloped nature of the money and capital markets of the less developed nations significantly reduces the efficacy of monetary policy in such nations. The money and capital markets are fragmented, yet for monetary policy to function effectively, a reasonably developed money market is necessary, and that money market and the submarkets of the capital market interact and are reliant on one another.

CONCLUSION

For efficient policy execution, it is crucial that multiple regulatory organizations, including central banks, financial regulatory organizations, and government agencies, integrate and coordinate. Collaboration with international organisations and adherence to international best practises may improve the efficacy of policy and contribute to financial stability on a global scale. Financial policy has a significant impact on how a nation's economy and financial system are shaped. Policymakers may create successful financial policies that support stability, equitable growth, and sustainable development by comprehending the consequences, tackling problems, and taking important policy considerations into account. In an environment where the global financial landscape is continuously changing, a strong financial policy framework promotes economic growth, fosters individual and corporate well-being, and helps the financial sector remain resilient.

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CHAPTER 5

ANALYSIS OF INDIAN MONETARY POLICY

Mr. Yelahanka Lokesh, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id: lokesh.yr@presidencyuniversity.in

ABSTRACT:

Indian monetary policy is essential for preserving price stability, encouraging economic expansion, and guaranteeing financial stability. In this abstract, the Indian monetary policy is examined, along with its goals, tactics, and efficacy. In order to foster sustainable economic development, the Reserve Bank of India (RBI) targets a certain inflation rate in addition to its primary objective of maintaining price stability. Additionally, monetary policy aims to regulate exchange rate fluctuations, foster financial stability, and maintain enough credit availability. For general macroeconomic stability to be attained, these goals must be in accord. In order to affect the money supply, the availability of credit, and inflationary pressures, the central bank uses a variety of measures, including interest rate changes, reserve requirements, open market operations, and liquidity management. The recent introduction of a flexible framework for inflation targeting improves the openness and legitimacy of monetary policy choices. The efficacy of India's monetary policy execution is also assessed by the study. Maintaining price stability and controlling economic swings has benefited from the RBI's proactive strategy to monitoring both local and international economic situations, as well as its capacity to act quickly in the face of developing dangers. The efficacy and predictability of policy initiatives have improved with the implementation of forward-looking communication tactics. The propagation of changes in policy rates to lending rates, controlling inflation expectations, and dealing with fundamental economic restrictions are still problems.

KEYWORDS:

Economic, Financial Policy, Growth, Money, Monetary Policy.

INTRODUCTION

A fundamental framework for discussing the concept, range, tools, and workings of monetary policy. We also included instances of monetary actions taken by the RBI. We examine India's monetary policy in this section, including its goals, tools, and aims. As the requirements of the nation have changed through time, the RBI, the central bank of India, has periodically adjusted the goals and priorities of its monetary policy. In actuality, the RBI has overseen the nation's monetary affairs, particularly the management, supervision, and distribution of bank credit as and when necessary to meet the demands of the nation. The monetary policy of the RBI, however, has not been shown to be particularly successful. The RBI was severely limited as a result of the government of India's rising financing of its deficit. From the Chakravarty Committee Report and C.'s works, one may get a thorough understanding of the current monetary policy and how it functions in India. Former RBI Governor Rangarajan and Deputy Governor Rakesh Mohan.

Since the monetary policy is an element of the country's overall economic strategy, as was previously said, its goals cannot be distinct from or in opposition to those of the other economic strategies. India's general economic strategy has had as its three main goals: economic development, social justice, or an equal distribution of income, and price stability. Of these goals, India's monetary policy has generally aimed towards growth and price stability. Chakravarty Committee, however, saw fostering price stability as "the dominant objective of the monetary policy" out of these two goals. Since price stability, in the Committee's words, "provides the appropriate environment under which growth can occur and social justice can be ensured," Early in the 1990s, "the case for price stability as the primary objective of monetary policy began to assume importance." However, the fundamental goal of monetary policy is to preserve a sensible balance between price stability and economic expansion [1], [2].

The nation's macroeconomic circumstances, particularly its financial structure, the demand and supply of money, and the type of its monetary management requirements, have been evolving through time. Therefore, although price stabilisation remained the major focus of India's monetary policy, the goals of monetary policy and the mechanisms of monetary control and administration have also been altering. In other words, the RBI has adjusted its monetary policy goals in response to changing national economic circumstances, and it has used a variety of monetary policy tools to achieve those goals. Here, we quickly go through the goals of monetary policy as well as the tools the RBI used to get there.

Financial Measures

For price stabilisation and other monetary policy goals, the RBI has sometimes used a variety of monetary instruments, including some unconventional ones. Here, we provide a succinct summary of the RBI's policies as well as their efficacy.

1. **Bank Rate:** When necessary, the RBI has utilised the bank rate as one of its key tools for controlling inflation. As previously stated, the bank rate stayed at 3 percent from 1935 to 1950. However, the bank rate has regularly changed since 1951, with most changes being for the better. As the RBI used the bank rate sparingly as a tool for monetary management up to the mid-1990s in an effort to combat the nation's rising inflationary pressure. However, from the mid-1990s, the economy's growth rate increased along with the inflation rate, mostly as a result of economic reforms. As a consequence, starting in 1997 and continuing until May 2008, the RBI began to lower bank rates. The RBI began raising the bank rate, nevertheless, and did so in July 2008 as a result of inflation exceeding double digits. Regarding the efficiency of the bank rate as a tool for monetary management, India's experience, as well as that of other nations, demonstrates that the bank rate has not proven to be a reliable way to manage the amount of money in circulation. The RBI is not heavily relied upon by banks for their financial needs, which is the cause. Furthermore, even if commercial banks borrow from the RBI, this will only make up a tiny part of the total amount of credit they produce overall, especially if there are alternative sources of credit available.
2. **Cash Reserve Ratio (CRR):** The RBI has been employing the CRR, another conventional monetary instrument, to curb national inflation as well as credit flows to the private sector. Remember that the term "cash reserves" (CRR) refers to the portion of net demand and time obligations that commercial banks must keep in the form of "cash reserves". Net demand and time deposits are basically what the NDTL are. 'Required

reserves' and 'Excess Reserve' are the two main categories under which the cash reserves are practically split. The necessary reserve is the amount of cash that commercial banks must hold with the RBI in accordance with the law. This is a non-traditional approach, incidentally. The ‘statutory cash reserve ratio', which ranges from 3 to 15% of a bank's demand and time deposits, was established by the RBI in 1956. The'required reserve' is determined every two weeks based on the typical daily deposits. The cash reserve that banks keep on hand as "cash in hand" in order to fulfil depositors' demand for foreign currency is known as the excess reserve. The bank's own experience with the "currency drain" often serves as the basis for determining the surplus reserves [3], [4].

DISCUSSION

The RBI only ever employed the CRR approach once, in 1960, as a means of monetary management before 1973. However, the RBI has used CRR relatively regularly since 1973 as a key tool for managing the excessive supply of money. From a fixed 3 percent rate in 1935 to a 5 percent rate in 1960, the RBI often increased the statutory CRR. As a consequence, in July 1989, the bank rate had increased to 15%. Up until 1994, this rate remained constant. However, as seen below, the CRR has consistently been decreased by the RBI between 1995 till January 2006. However, the RBI started to increase the CRR and did so in July 2008 by raising it to 8.75% as a result of economic inflation pressure.

When CRR was increased to manage the money supply, the main goal of utilising SLR was to stop commercial banks from selling off their assets. Commercial banks used to convert their liquid assets into cash when the CRR increased to make up for the loss in money caused by the increase in the CRR and maintain their capacity to provide credit. This rendered monetary policy useless. The SLR functions as a weapon of monetary management in two ways: it gives the government an option to borrowing money from the RBI and it restricts the ability of banks to purchase and sell government bonds. Depending on whether the RBI wishes to restrict or expand the money supply, it has an impact in both directions. When the RBI wants to grow the money supply with the public, it lowers the SLR, and when it wants to decrease it, it raises the SLR.

The SLR was first enacted in 1949 with a set 20 percent rate that stayed the same until August 1964. The SLR was increased to 25% in September 1964 and remained there until September 1970. The SLR has been increased rather regularly since that time, as seen here. The SLR was increased to 38.5 percent in September 1990, which is extremely near to the permitted top limit of 40 percent. In actuality, the SLR has been used as a monetary and fiscal instrument for monetary management. The deficit financing strategy, which is a fiscal instrument, resulted in a sharp rise in the money supply, which kept the economy's inflationary pressures high. The SLR is currently being utilised by the RBI to regulate the short-term money supply. The flow of money from the banks to the private sector was constrained by the application of SLR. However, the SLR has been steadily decreased since 1992. It was lowered to 25% in April 1992, mostly as a result of the early 1990s drop in inflation to around 5%.

Open market operations are regarded as a highly effective and potent instrument for monetary management in industrialised nations like the USA and the UK. For the following reasons, however, the open market operation has not yet shown to be an effective tool for monetary management in India. In India, the government securities market is almost nonexistent, and the stock market, particularly the market for Treasury bills, is not yet completely established and

organized. Government bonds were formerly not particularly well-liked due to their poor rate of return. The loan rates were much less than the market rate.

Due to these factors, open market operations were not utilised to manage the money supply until the middle of the 1980s, and even then, they proved to be ineffective. In actuality, throughout the 1970s and the first part of the 1980s, open market operation was not implemented. Not just in India but also in other emerging economies, the free market operation fell short. To put it briefly, open market operations did not show to be an effective instrument for monetary regulation. However, after the Chakravarty Committee's recommendations, several significant reforms were undertaken in India. In the late 1980s, the interest rate on government securities was increased, and scheduled commercial banks were given the authority to set their own prime lending rates. Due to these two elements, open market operations was a rather efficient method for managing short-term loans. Following the economic reforms of 1991–1992, OMO was given more responsibility for monetary management. "Since reforms began, the Reserve Bank restarted open market operations as a tool for monetary control. In response to enormous capital inflows, active OMO usage was made between 1993 and 1995 to reduce inflationary pressures [5], [6].

The Repo Rate: A New Monetary Tool Up until the late 1980s, the RBI had relied on conventional monetary regulation techniques. However, as was already indicated, several significant monetary policy reforms were enacted in response to the Chakravarty Committee's recommendations. However, it wasn't until after the 1990 foreign currency crisis and following economic reforms that some significant adjustments in monetary policy were made. But controlling and regulating the rapid increase in the money supply remained the RBI's main challenge. The monetization of the government's deficit financing was primarily responsible for the overall high increase in the money supply. The World Bank and the IMF, the international organisations that helped India out of its foreign currency crisis, put pressure on the government to enact a number of significant economic changes, including monetary reforms, in 1991. The repo rate was among the new monetary management instruments and significant monetary changes that were established. Here, we provide a quick description of the Repurchase Operation Rate (or repo rate), a new financial instrument often used by the RBI.

Repurchase operation rate is a new technique that the RBI implemented in April 1997 to control the short-term liquidity of the banking sector. As was already established, the commercial banks are mandated by the SLR system to invest a certain proportion of their demand and time deposits in government securities. This approach restricts bank funds at the RBI, often leading to liquidity issues. This liquidity issue is addressed through the repo mechanism. By purchasing securities back from banks under the repo system, the RBI gives money to the banks. It is a way of giving short-term (1–14 day) loans to banks. The repo rate is the interest rate at which the RBI loans money to the bank. Reverse repo rate is in contrast. The rate at which banks may purchase securities or make deposits with the RBI is known as the reverse repo rate.

The repo rate's operating guideline is rather straightforward. When the goal is to increase liquidity or the amount of money in circulation, the central bank will repurchase assets at a low repo rate. This boosts the amount of money available to commercial banks for loan creation. The RBI, on the other hand, employs the reverse repo rate and raises the repo rate when the goal is to regulate the money supply. The repo rate was set at 5% in June 1998. The repo rate was increased to 8% in August 1998 as a result of the expected increase in liquidity brought on by Resurgent India Bonds and the East Asian Crisis. However, it was then steadily decreased, going

from 6.5 percent in 2004 to 4.5 percent in 2004, then 5 percent in April 2005, and finally 6.25 percent in October 2006. However, the repo rate was raised to 7.25 percent in 2006–07. This was because of the economy's growing inflationary pressure. The reverse repo rate was concurrently increased in tandem with the repo rate increases. Inflation in India reached a 13-year high of 12 percent in 2008, which had a negative impact on the country's economy. The RBI consistently raised the repo rate in an effort to curb inflation. The RBI increased the repo rate from 8.5 percent the previous week to 9 percent on July 29, 2008 [7], [8].

India's Monetary Policy Evaluation

Has India's monetary policy been successful? is the question that emerges after the examination of the monetary policies implemented by the RBI. In response to this question, we will evaluate monetary policy. Any policy, including monetary policy, must be assessed by determining if its goals have been met over time. As was already established, the RBI embraced "price stability" that is, managing inflation as the "dominant objective of the monetary policy" while also ensuring that the economy had enough liquidity. This was done on the Chakravarty Committee's proposal. Here, the issue of price stability at what rate of inflation emerges. Inflation is inevitable in a developing country like India, which is why this subject is relevant. Perhaps as a result of this, the Chakravarty Committee recommended price stability at an inflation rate of 4%. Even other experts have said that a growing economy should aim for an inflation rate of 3-5 percent annually based on actual evidence.

When measured against the goal of price stability, India's monetary policy seems to be only moderately effective. Let's assess the efficiency of monetary policy by looking at the decennial rate of inflation rather than the yearly variance in the inflation rate. Due to the Chinese War in 1962, the Pakistan War in 1965, and the circumstances that led to a near-famine in 1965–1966, inflationary pressure began to increase in India throughout the 1960s. As a consequence, inflationary pressure began to increase in 1962–1963, and it reached a peak of 13.9% in 1966–1967. Calculations put the 1960s' decennial average rate at 6.4%. In the 1970s, things were considerably worse. The largest inflation rate throughout the 1970s, which was 25.2 percent in 1974–1975, was substantially higher. The inflation rate in India has never been higher than it is right now. The failure of the kharif crop and the increase in oil costs were the major causes of the decennial average inflation rate, which was 9 percent. These features, incidentally, are not covered by monetary regulations.

Things only somewhat improved in the 1980s. With the greatest inflation rate of 18.2 percent in 1980–81, the decennial rate of inflation decreased from 9 percent in the 1970s to 8 percent in the 1980s. The first five years of the 1990s saw a rise in inflationary pressure, nevertheless. It was calculated that from 1990–1991 to 1995–1996 there was an average inflation rate of 10.6%. But after that, the inflation rate sharply decreased. From 3.4 percent in 2002-2003 to 6.4 percent in 2004-2005, the inflation rate fluctuated. The five percent yearly average inflation rate from 1995–1996 to 2006–2007 is calculated. This inflation rate came pretty darn near to being both economically and socially acceptable.

If one were to compare the high rate of inflation, one would come to the conclusion that the monetary policy failed to accomplish its goals during the whole 35-year period between 1960–1961 and 1995–1996. Although the inflation rate was well within the desired range of 4-5% from 1995–1996 to 2006–2007, it is difficult to credit it to monetary policy. The strong growth rate—between 7-9 percent was the primary factor in the reduced inflation rate. The RBI's monetary

restrictions may have prevented considerably worse outcomes, which is the sole argument in support of the monetary policy. Alarmingly, the inflation rate increased to almost 12 percent in June and July 2008, or 11.98 percent precisely, in spite of all monetary measures. However, if RBI had not implemented a monetary policy with the primary goal of stabilising prices, inflation may have been considerably higher. The inflation rate was within the desired range from 1995–1996 to 2006–2007, which may be ascribed to monetary policy, it may be noted in the conclusion. It may be claimed that the strong growth rate had a major role in the reduced inflation rate. However, sustaining a respectably high growth rate was also the monetary policy's second-most critical goal. This may lead to the conclusion that India's monetary policy has only been somewhat effective [9], [10].

In a general sense, the term "finance" refers to the finances or monetary resources that people, businesses, and the government require. People and families need money primarily to fulfil their immediate needs, pay for daily costs, or purchase capital assets. The term "financial system" in India refers to the system of lending and borrowing money, or the demand for and supply of money by all people, organisations, businesses, and the government. The financial system is often divided into:

1. The Indian financial system plays a significant role in the country's economic growth via the process of capital generation, commonly known as saving and investing. The financial system is frequently referred to as the financial market because of this. The Indian financial system, which refers to the demand and supply of money or to the borrowing and lending of funds, is made up of two parts: the Indian Money market and the Indian Capital market.
2. The Indian capital market, which refers to all the institutional setups and facilities for borrowing and lending "term funds" (medium- and long-term funds), is the market for long-term capital. Traders, transport companies, and other private and public industrial sectors are the main sources of the need for long-term money capital. A money market, often known as a "near money" market, is a place where short-term cash may be lent out and borrowed. It is the market where borrowers, who include people, businesses, and the government, seek the short-term excess investible money of banks and other financial institutions.
3. The Call Money Market, which is the market for extremely short-term funds, is a significant sub-sector of the Indian money market.
4. Examining the different qualities and shortcomings of the Indian money market that we have previously discussed will make it abundantly evident that it is still in its infancy and cannot be compared to more established money markets like the London and New York money markets.
5. In discussing the features of the Indian money market, we made note of the significant actions taken by the RBI to address some of those flaws. For instance, the RBI has significantly lessened the inequalities that formerly existed between the various segments of the money market.
6. In general, monetary policy refers to the steps taken by the monetary authorities to regulate and manage the supply and demand for money for a certain goal. One of the two most effective tools for managing and controlling the economy is monetary policy. The scope of monetary policy encompasses all monetary transactions and macroeconomic

variables that monetary authorities can influence and change through the use of monetary policy instruments.

The economic variables that the central bank has the authority to alter at its discretion in order to govern and regulate the supply and demand for money as well as the accessibility of credit are referred to as monetary policy tools.The tools, or "the nuts and bolts," of monetary policy have been covered above. This section examines the impact of modifications to the monetary policy tools on the real and monetary sectors as well as the overall economy. Provided a fundamental framework for discussing the concept, range, tools, and workings of monetary policy. We also included instances of monetary actions taken by the RBI. We examine India's monetary policy in this section, including its goals, tools, and aims.

CONCLUSION

The efficiency of Indian monetary policy will be further increased by further improvements to the monetary policy framework, the monetary policy transmission mechanism, and the depth of financial markets. The significance of Indian monetary policy in establishing price stability, fostering economic expansion, and guaranteeing financial stability. Indian monetary policy may successfully direct the economy and promote sustainable growth by coordinating goals, putting effective plans into place, and overcoming obstacles. given order to keep Indian monetary policy effective given the country's dynamic and changing economic environment, ongoing efforts to improve policy coordination, accept technology improvements, and boost policy transmission channels would be essential.

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CHAPTER 6

EXPLAIN THE CAPITAL MARKET IN INDIA

Dr. Mounica Vallabhaneni, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id: mounicav@presidencyuniversity.in

ABSTRACT:

A key support structure for India's financial system, the capital market makes it easier to raise money, distribute capital, and carry out investment operations. The Indian capital market is described in this abstract, with an emphasis on its structure, roles, and importance in promoting economic growth and development. The structure of the Indian capital market is first described in the study. There are main and secondary marketplaces included. Initial public offerings (IPOs) and rights issues are made possible by the main market, allowing businesses and governments to issue new securities and generate money for growth and investment. Investors may trade existing securities on over-the-counter and stock exchange platforms, which make up the secondary market. The duties carried out by the Indian capital market. Companies may use the capital market as a platform to acquire long-term cash, which enables them to support their operations, invest in growth possibilities, and generate jobs. Investing in stocks, bonds, and other financial instruments gives investors the chance to use their money and earn profits. By effectively allocating money to beneficial uses, the capital market serves as a crucial middleman between savers and borrowers. In addition, the report covers the Indian capital market's regulatory structure. The main regulatory body is the Securities and Exchange Board of India (SEBI), which keeps an eye on market players, makes sure that the law is followed, and defends the rights of investors. The goals of SEBI rules are to uphold market integrity, advance transparency, and increase investor trust.

KEYWORDS:

Bank, Industrial, Industrial Bank, Money, Reserve Bank.

INTRODUCTION

Unlike the money market, which is a market for short-term debt, the capital market also serves as a market for equity shares and long-term debt. This market issues debt and equity securities that are sold to the general public as well as privately to a small number of investors. Stock exchanges, where the majority of these instruments are exchanged, are also included in this market. Primary market and secondary market are essentially the two categories present here. The main market is the market for fresh offerings of these securities. The secondary market is where securities are exchanged after they have been issued. In the capital market, there are three primary types of players. While the borrowers, or deficit savers, are the ones who issue securities to generate money, the investors, or surplus savers, use their savings to invest in these securities. The third group consists of intermediaries, who work as brokers to match the requirements of fund buyers and sellers in exchange for a fee. Securities are issued on the main market by businesses, the federal government, and state and local governments. The secondary market offers the investor the much-needed liquidity and data on asset pricing. The Securities and

Exchange Board of India is the organisation in charge of overseeing both the main and secondary markets in India. The purpose of SEBI is to advance the growth of the securities market while defending the rights of investors in securities. The stock market has been in India for more than 200 years, but the first structured stock exchange was founded in Bombay in 1875 [1], [2].

The Indian Stock Market

Long-term investments are traded on the capital market, just as short-term investments are traded on the money market. It refers to all the institutional arrangements including borrowing and lending facilities for term money. It does not trade in capital products; rather, it is involved in raising money capital for investment objectives. Private manufacturing enterprises, agriculture, and the government, wholly for the goal of economic growth, are the main consumers of long-term money capital. As the Central and State Governments engage in basic sectors and sometimes even consumer goods businesses in addition to economic overheads like transportation, irrigation, and power development, they need significant amounts from the capital market. The majority of the capital market's funding is provided by private savers, corporate savings, banks, insurance companies, specialist finance organizations, and the government. We might mention the following institutions:

Commercial banks play a significant role as investors, however they are mostly drawn to government securities and, to a lesser degree, corporate debentures; Although their primary focus is still in government securities, LIC and GIC are becoming more significant in the Indian capital market; Despite investing mostly in government assets, provident funds are a significant source of savings; To provide long-term financing to the private sector, special institutions established after Independence, such as IFCI, ICICI, IDBI, UTI, etc., sometimes known as development financial institutions, were created. Financial intermediaries assist mobilise savings and provide money to investors on the capital market. Examples include merchant bankers, mutual funds, leasing businesses, and others.

Markets for Government Securities and Industrial Securities

The government securities market, commonly referred to as the gilt-edged market, is fundamentally different from the industrial securities market in the following ways: There is far less speculative activity in this market since there are no concerns about yield, management, capital additions, etc. The majority of investors in government securities are institutions, and they are often required by law to place a specific percentage of their assets in these securities. These entities—commonly referred to as the captive market for government securities—include commercial banks, the LIC, the GIC, and provident funds. Compared to shares and debentures of firms, the average transaction value on the government securities market is much higher. Government securities transactions sometimes include one or more transactions totaling tens of crores or even hundreds of crores of rupees.

Unlike the market for stocks, the market for government securities is "over the counter" and not an auction market. Because the average transaction amount is so big, every transaction must be negotiated. Commercial banks may make significant purchases and sales based on their deposit resources and policies. LIC, GIC, and provident funds seldom sell more than a tiny portion of their assets. Last but not least, RBI dominates the gilt-edged market via its open-market activities, which are guided by the dual goals of guaranteeing monetary stability and the success of the government's borrowing strategy. In addition to gilt edged market and variable yield

industrial securities, development financial institutions and financial intermediaries are also part of the Indian capital market [3], [4].

Indian Stock Exchange Before Independence

Prior to Independence, the Indian capital market did not develop adequately. Due to the very limited number of enterprises and the relatively low volume of securities traded on stock exchanges, the expansion of the industrial securities market was severely constrained. The majority of British businesses in India went to the London capital market rather than the Indian capital market for funding. The gilt-edged market for government and semi-government securities made up a significant portion of the capital market. Individual investors were very rare and confined to the wealthy classes in urban and rural regions prior to independence. Additionally, the government had imposed a number of limitations on institutional savers like banks and insurance firms, who were required to choose government securities over fixed interest-bearing debentures and only to a limited amount. Specialized issue houses, so widespread in Western nations, were not created in India, and the pre-Independence managing agency system, a strange organization, undertook part of the responsibilities of marketing, issuance, and underwriting of fresh capital issues. The public's money could not be mobilized and directed towards investment since there were no professional middlemen and organizations. Only after Independence were these institutions established.

Indian financial markets since independence

Since India's independence, and especially after 1951, the capital market has greatly expanded, and the amount of savings and investments has steadily increased. There are several incentives and tax breaks available in the nation to encourage saving. A lot of measures have also been implemented to safeguard investors' interests. The expansion of joint stock firms or corporate operations is a key sign of the health of the capital market. Over 70,000 firms with a paid-up capital of more than'200,000 crores existed in 2000, compared to approximately 28,500 public and private limited companies with a paid-up capital of'775 crores in 1951. With the faster pace of the Indian economy's development brought on by the Five Year Plans, investment growth has been remarkable in recent years. The expansion of public borrowing for investments is a further sign of the health of the capital market. The Central Government has 250 non-departmental public firms with a combined capital investment of '150,000 crores by 2003-04.

DISCUSSION

The Indian capital market has seen significant expansion only in the previous two decades. The amount of transactions on the capital market has drastically expanded, and it now operates in a variety of ways. There have been new financial innovations including fully and partially paid convertible debentures, 364-day treasury bills, commercial paper, and CDs. These show the increasing complexity and variety of financial services offered in the capital and money markets. Although it decreased in the following years, the number of new issues in 1994–95 was 31,800 crores. The fact that there are millions of stockholders demonstrates the expansion of the equity cult.

Institutions that finance development

The Government of India established a number of financial organisations shortly after Independence to provide particular financial assistance to the private sector enterprises. These

institutions started with IFCI. SFCs thereafter adopted the practise of financing small and medium-sized businesses for the long term. Following shortly after were ICICI, IDBI, and UTI. A fraction of the savings were invested in the capital market when LIC was established in 1956 to deploy private savings. There were also many more specialist financial institutions created, which are referred to as public sector financial institutions. When it comes to buying shares and debentures of both new and established businesses, providing credit support, underwriting new issues, and other tasks, these institutions have been quite helpful. Currently, several of them are influential shareholders in many well-known businesses. Public resources are mobilised by LIC and UTI and made available to the capital market. On the other side, the development financial institutions work to finance businesses in the private sector [5], [6].

1. Corporation for Industrial Financing in India

In July 1948, the Industrial Finance Corporation of India was established by the Indian government under a unique Act. The Union Government has guaranteed the return of capital and the payment of a minimum annual dividend. The shareholders of I.F.C.I. include the Industrial Development Bank of India, scheduled banks, insurance firms, investment trusts, and cooperative banks. The Corporation was granted permission to publicly issue bonds and debentures, to borrow foreign currency from the World Bank and other institutions, to take public deposits, and to borrow from the Reserve Bank.

The IFCI carried out three crucial tasks:

1. It provided loans and advances to businesses in the industrial sector and invested in the debentures they issued.
2. It supported loans made on the capital market by businesses with industrial issues.
3. It backed the issuance of stocks, shares, bonds, and debentures by industrial companies. Additionally, it bought company debentures, equity shares, and preference shares.
4. Companies involved in manufacturing, mining, transportation, and the production and distribution of energy may get long-term or medium-term financing from IFCI.

A major contributor to India's quick industrial growth was IFCI, which was a pioneer in financing private sector investment. The loans that IFCI approved grew from 210 crores in the 1980–81 fiscal year to 2.430 crores in the 1990–91 fiscal year and 1,860 crores in the 2000–01 fiscal year. The IFCI's mobilisation of significant financial resources and the period's fast industrial expansion both had a role in this. However, IFCI was also troubled by the buildup of non-paying assets, mostly as a result of being compelled to lend to the wrong people. As a result, IFCI is no longer an entity that finances development.

2. Financial Institutions of States

Since it worked with major public limited businesses and cooperative societies involved in manufacturing, mining, shipping, and the production and distribution of electricity, the Industrial Finance Corporation of India's aid was only partially comprehensive. However, there are small- and medium-sized businesses that need financial support, and state governments wanted to establish State Financial Corporations for this reason. The State Financial Corporations Act was enacted by the Indian government in 1951 and expanded to include all the states. The State Government determines a State Financial Corporation's authorised capital, which is divided into shares of equal value and taken by the State Governments, the Reserve Bank of India, scheduled

banks, co-operative banks, other financial institutions like insurance companies and investment trusts, as well as private parties, within the minimum and maximum limits of "50 lakhs" and "5 crores." The State Government has pledged to guarantee the shares. Bonds and debentures may be issued and sold by a State Financial Corporation to raise additional cash. State Financial Corporations are willing to work with all kinds of industrial businesses. State Financial Corporations may:

Grant loans or advances to industrial concerns repayable within a period not exceeding 20 years; underwrite the issue of stocks, shares, bonds, or debentures of industrial concerns; guarantee loans raised by industrial concerns that are repayable within a period not exceeding 20 years and that are floated in the public market; and subscribe to debentures floated by industrial concerns [7], [8].

Indian Corporation for Industrial Credit and Investment

In order to boost small and medium-sized businesses in the private sector, the Industrial Credit and Investment Corporation was supported by a World Bank mission. Under the Indian Companies Act, it was authorised in January 1955. The goal of I.C.I.C.I. was to promote new industries, help in the growth and modernization of existing businesses, and provide technical and managerial support to boost output and provide job opportunities. Accorded by the Corporation:

1. Long- or medium-term loans, in both rupees and other currencies;
2. Participated in equity capital and debentures, as well as financed fresh share and debenture offerings,
3. Guaranteed loans from other sources of private investment.
4. Financial services such delayed credit, lease credit, installment sales, asset credit, and venture capital were offered.

The amount of financial aid provided by ICICI in recent years has increased dramatically: The Corporation provided loans and guarantees to industrial firms in either rupees or any other foreign currency. Furthermore, it directly subscribed to offerings of ordinary and preference shares as well as debentures and underwrote such issues. The granting of loans and advances in foreign currencies to Indian industrial concerns so they may purchase important capital goods from other nations was a crucial job carried out by the Corporation. In 1983, ICICI started its leasing business. For computerization, modernization/replacement, energy-saving equipment, export orientation, pollution control, etc., it offered leasing help. Textiles, engineering, chemicals, fertilizers, cement, sugar, etc. were among the sectors supported by leasing.

A Merchant Banking Division that ICICI had established was doing admirably. J.P. had teamed up with ICICI. The creation of ICICI Securities and Finance Co. by Morgan & Co. Ltd. to provide assistance in the areas of problem management and credit syndication services. Additionally, ICICI established ICICI Asset Management Co Ltd. in June 1993 to run the ICICI Mutual Fund's schemes; this company eventually changed its name to Prudential ICICI Mutual Fund. There was also the establishment of ICICI Investors Services Ltd. and ICICI Banking Corporation Ltd. Apart from these, ICICI had also promoted the following businesses and organizations in recent years: Credit Rating Information Services of India Ltd., established by ICICI in collaboration with Unit Trust of India to offer credit rating services to the corporate

sector; Technology Development and Information Company of India Ltd., promoted by ICICI, to finance the transfer and advancement of technology and provide technology information.

The SCICI Ltd. specializes in providing loans for ship purchasing. With an emphasis on areas of particular importance to exports and infrastructure, it had broadened its activities to span all areas of the economy. Due to this expansion of its business ventures, SCICI Ltd. extended credit to a number of industries besides shipping and fishing, including those related to automobiles, chemicals, petrochemicals, electronics, information technology, power generation, and distribution, steel and steel products, other metals, textiles, and food processing. The SCICI Ltd. continued to give emphasis to the fishing and shipping sectors, nonetheless. SCICI has authorised a total of $12,750 crores in assistance by the end of March 1996. But in April 1996, SCICI and ICICI were combined.

The Indian government established a number of development financial organisations after Independence, but ICICI saw the greatest degree of success. In reality, throughout the 1990s, ICICI significantly increased the amount of financial assistance it sanctioned and dispensed, surpassing IDBI, the leading institution in the area of development financing, in terms of both volume and dollar amount. The emergence of India's first universal bank in March 2002 as a result of ICICI's reverse merger with its subsidiary, the ICICI Bank, was another innovative development. With this merger, ICICI ceased to be a financial institution for development [9], [10].

The Indian Industrial Development Bank

Since its founding in 1947, the Industrial Development Bank of India has provided long-term financing to the industrial sector. For many years, IFCI, the SFCs, ICICI, and the Refinance Corporation of India offered direct programmes, bought shares and bonds, and guaranteed loans and postponed payments.

These banks offered a significant amount of long-term financing, which was also continuously rising, but it was determined to be insufficient to cover the needs of emerging and expanding industrial firms. On the one hand, a new organisation with significant financial resources had to be established to meet the demands of fast industrialization. On the other hand, it was necessary to coordinate the actions of all organisations involved in providing funding for industrial development. The government created the Industrial Development Bank of India, which became legally recognised in July 1964, in order to accomplish this dual goal.

Up until 1976, IDBI was a fully owned subsidiary of the Reserve Bank of India. A Board of Directors, which was the same as the Central Board of Directors of the Reserve Bank of India, was given overall direction, control, and oversight of IDBI.

The Chairman and Vice-Chairman of IDBI were the Governor and Deputy Governor of the Reserve Bank. However, the Finance Ministry of the Government of India favoured direct management of IDBI. So, in 1976, the Finance Ministry took control of IDBI and delinked it from the Reserve Bank of India.

Features of IDBI

As its name implies, IDBI's primary purpose was to fund industrial firms, including those in the hotel, manufacturing, mining, processing, and shipping sectors. Through project loans, the

underwriting and direct subscription of industrial securities, soft loans, technical refund loans, and equipment financing loans, IDBI provided direct support. The Bank guaranteed loans from scheduled banks, State cooperative banks, and other lenders that were requested by industrial concerns on the open market. Financial institutions that have been "notified" include IFCCI. Through other institutions, it may potentially help industrial interests in a more indirect way. It might refinance term loans provided to industrial concerns by scheduled banks, state cooperative banks, the IFCI, and state financial corporations.

The Development Assistance Fund was to be established under the terms of the Industrial Development Bank of India Act, 1964. Due to the low rate of return, this Fund was utilised to help industrial firms who were unable to acquire financing in the regular course of business. Up until 2000–2001, IDBI was the most significant organisation aiding industrial units.

Indian Small Industries Development Bank

1. As a fully-owned subsidiary of IDBI, the Small Industries Development Bank of India was established by the Indian government in April 1990 according to a special Act of the Parliament. SIDBI acquired the unfinished portfolio of IDBI for the small-scale sector, valued at about '4,000 crores.
2. SIDBI is now the main financial institution in the nation for the development, financing, and promotion of small-scale companies. It coordinates the operations of current institutions that carry out comparable tasks. As a result, SIDBI is now in charge of managing the National Equity Fund and Small Industries Development Fund, which were formerly managed by IDBI.
3. SIDBI uses the existing banking and financial institutions, including the commercial banks, cooperative banks, RRBs, SFCs, and SIDCs, which have a huge network of branches throughout the nation, to provide financial support to the small units dispersed around the nation. Up to 870 institutions are qualified to receive support from SIDBI.

The following are some of SIDBI's essential duties:

1. Small-scale industrial firms were given loans and advances by the major lending banks, which SIDBI refinanced and also supported with resources;
2. Bills from the sale of machinery to or production by industrial units in the small-scale sector are subject to discounts and rediscounts from SIDBI;
3. Through designated lending organisations, SIDBI offers soft loans and seed capital through the National Equity Fund, Mahila Udyam Nidhi, Mahila Vikas Nidhi, and seed capital programmes;
4. SIDBI provides both direct assistance and refinancing loans made by major lending organisations to support the export of goods produced by industrial enterprises in the small scale sector;
5. SIDBI offers industrial enterprises in the small-scale industry services including leasing and factoring;
6. SIDBI provides State Small Industries Development Corporations with financial assistance in order to help them sell the finished goods produced by industrial units in the small scale sector and provide them with scarce raw materials;
7. National Small Industries Corporation receives financial support from SIDBI for leasing, hire-purchase, and marketing assistance for industrial units in the small scale sector.

Indian Industrial Investment Bank

Several industrial facilities, especially in the Eastern Region, were at one point in dire straits and on the brink of going down. This situation was caused, in part, by a lack of sufficient demand, management recklessness, labour issues, a scarcity of raw materials, and import limitations. These entities needed financial support due to their significance to the national economy and the necessity to hire a large workforce. The Industrial Reconstruction Corporation of India was established by the Indian Government in April 1971 in accordance with the Indian Companies Act, primarily to address the unique issues of "sick" units and offer assistance for their quick reconstruction and rehabilitation, if necessary. This was done by managing the units and creating infrastructure facilities such as those for transport, marketing, etc.

Since its founding in 1971 and to the end of March 1984, IRCI has authorised and disbursed 266 crores in rebuilding aid to 242 sick or shuttered industrial facilities. The IRCI provided assistance to the textile, engineering, mining, and foundry sectors and gave particular attention to the small-scale businesses and the units situated in the designated backward regions. Additionally, the Corporation had applied a special interest rate.

The Industrial Reconstruction Corporation of India was renamed Industrial Reconstruction Bank of India by the Finance Ministry of the Government of India in 1984, designating it as the primary all-Indian credit and reconstruction institution for industrial revival, rehabilitation, and promotion of ailing units. Industrial Investment Bank of India was the name given to IRBI by the Finance Ministry once again in 1995. The financial support provided by this organisation, despite all these name changes, was little and could have been provided by other development finance institutions; IIBI is presently being wound up.

CONCLUSION

The importance of the capital market in promoting economic growth and development is further shown by the study. It strengthens the domestic capital base, promotes financial stability, and draws in both local and international investments, all of which help the financial system as a whole. By providing a transparent and regulated forum for businesses to obtain money and interact with shareholders, the capital market plays a critical role in promoting entrepreneurship, advancing innovation, and improving corporate governance. Finally, it can be said that the Indian capital market is very important for raising money, allocating capital, and promoting economic progress. The capital market offers ways for businesses to raise money and for investors to take part in wealth creation because of its well-regulated framework. The capital market has a substantial impact on the growth and prosperity of India's economy through supporting financial stability, enabling innovation, and promoting corporate governance.

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CHAPTER 7

A STUDY ON INSTITUTIONS FOR INVESTING: THE UNIT TRUST OF INDIA

Mr. Yelahanka Lokesh, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id: lokesh.yr@presidencyuniversity.in

ABSTRACT:

The Unit Trust of India (UTI) has contributed significantly to the development of India's investment environment by giving people the chance to invest in a variety of financial instruments and benefit from the economic expansion of the nation. An overview of the UTI is given in this abstract, along with an analysis of its development, function, and effects on the financial sector. Following the UTI's development is the first step in the analysis. The UTI was India's first mutual fund, established in 1964 as a government-owned organisation, and it functioned as a means of directing modest investments into the capital market. The UTI developed a number of schemes throughout time to meet the changing demands of investors and promoted the expansion of the mutual fund sector in India. Equity funds, debt funds, and hybrid funds are just a few of the investment strategies that the UTI provides, enabling clients to diversify their portfolios and have access to various asset classes. The UTI offers economies of scale, expert fund management, and simple liquidity by pooling money from individual participants. The UTI has been instrumental in raising investor participation levels in India and popularising mutual funds. Market volatility, regulatory compliance, investor education, and dealing with shifting investor preferences are challenges. To meet the changing demands of investors, opportunities exist in using technology, growing distribution networks, and offering cutting-edge fund products.

KEYWORDS:

Bank, Finance, Fund, Industrial, Stock.

INTRODUCTION

In February 1964, the Unit-Trust of India was legally founded. The Reserve Bank of India, the Life Insurance Corporation, the State Bank of India, the scheduled banks, and other financial institutions all completely subscribed to the Trust's original capital of "5 crores." A Board of Trustees is responsible for providing broad oversight, direction, and administration of the Trust's operations and activities. The Unit Trust's main goals were to both encourage and pool the savings of middle- and low-income groups and to provide them access to the rewards and prosperity of the nation's fast expanding industrialization. These dual goals were to be accomplished through a three-pronged strategy: selling Trust Units to as many investors as possible across the nation; investing the sale proceeds in corporate and industrial securities; and paying dividends to those who had purchased Trust Units. The Trust's business activities clearly increased nearly immediately. At one point, there were more than 25 million registered unit holders with the Trust, and more than 73,000 crores in cash had been raised. The major goal of the Trust was to maximise income while maintaining capital safety. To that end, it had amassed

an investment portfolio that was evenly split between fixed income- and variable income-bearing assets. The Trust has financial holdings in around 300 reliable companies that regularly paid dividends. The Trust money were invested in financial, public utility, and manufacturing companies, with the exception of investments in bonds of public firms. In addition to purchasing company shares and debentures, UTI approved loans for the business sector. The Unit Trust's decision to start selling units in July 1964 was hailed as a turning point in the growth of India's capital market. In theory, the Unit Trust's goal was admirable since it aimed to mobilise communal funds for investments in commerce and industry. The Trust fostered public trust since it is a public sector organisation. Additionally, it was given a variety of tax breaks by the government. In addition to being secure, the capital was also very liquid in that any Unit holder may sell back their Units and get cash from the Trust [1], [2].

The unit holders' returns were respectable, as seen by the unit trust's performance throughout the first three decades. UTI typically paid yearly dividends at a rate of 20%. The response of investors, particularly those in the low- and middle-income brackets, to the unit scheme was very positive, and it appeared that the unit trust had successfully satiated the genuine needs of a significant number of investors by offering a safe, reliable, and liquid investment option. The previous CMD of UTI said, "Two crore investors come to UTI with safety and income expectations.

However, the whole structure of UTI fell apart in September and October 1998 when the famed Unit Scheme 1964, also known as US 64, encountered significant difficulties as a result of a severe downturn in the Indian stock market. UTI eventually went out of business in 2001–2002. A financial institution founded on the trust and loyalty of millions of savers from lower and middle income groups was ruthlessly destroyed by scheming, petty politicians working in concert with inept and dishonest bureaucrats on the one hand, and dishonest business organisations and stock exchange brokers on the other. The failure and demise of UTI had a number of causes.

UTI was compelled to invest in the shares of cunning business organisations and fly-by-night operations after key UTI officials and members of the finance ministry were significantly bribed. In other situations, these shares lost all of their value and turned into worthless pieces of paper. This caused UTI to lose hundreds of crores of rupees. Leading corporate houses once again significantly bribed the management of UTI to provide loans to them or to their subsidiaries; these loans were not repaid and became NPAs.

While the primary goal of UTI was to mobilise middle-class and impoverished people's savings, the Finance Ministry also utilised these funds as a tool to support and shape the stock market. Unreliable stock brokers Ketan Parekh was one borrowed a lot of money from UTI to manipulate the stock market, often at the expense of UTI.

Finally, Mr. Yashwant Sinha, the previous finance minister, and other officials from the Finance Ministry destroyed public trust in UTI by making false and deceptive claims about who owned and ran the company. When they received insider knowledge that UTI was going to fail, they let significant corporate members to withdraw their investments in US-64 units at exorbitant prices. Another apparent example of the involvement and poor administration of financial institutions by incompetent and dishonest Finance Ministry employees of the Government of India was the total collapse of UTI.

A GIC and LIC

There are two additional investment organisations in the nation, the Life Insurance Corporation of India and the General Insurance Corporation of India, in addition to the Unit Trust of India, which mobilises public money to invest primarily in industrial assets. These two organisations, particularly LIC, raise significant sums of money from the general public to offer insurance coverage, but they also utilise a portion of that money to make long-term loans to businesses or to buy industrial assets on the open market. These two institutions have grown to be dominant players on the stock market because of the substantial sums they can mobilise. In the fiscal year 2006–07, LIC provided the business sector with term financing and other forms of financial support totaling $27,000 crores [3], [4].

The corporate sector and DFIs

It's important to keep in mind that the public sector financial institutions, in particular IDBI, ICICI, and IFCI, approved direct financial support to help newly founded businesses achieve their block capital needs. Direct financial aid was made accessible to current businesses due to plans for modernization, capacity growth, etc. In addition to the fact that term lending institutions significantly increased the amount of loans they approved and the amount they disbursed, until 2000–2001 there was also a discernible rise in the amount of financial assistance they provided to start-up businesses, projects in underdeveloped areas, and small-scale industries. For instance, term lending banks' sanctions and payments for projects in disadvantaged areas have significantly expanded in recent years.

DISCUSSION

The DFIs were created and expanded particularly to satisfy the needs of business in terms of term financing, equity capital, and foreign currency resources. They were supposed to overcome the capital market's underdeveloped position and India's historical predilection for the banking industry to cater mainly to the working capital needs of business and commerce. The DFIs have mainly succeeded in achieving their main goal of providing capital for industrial investment during the last forty years. Additionally, they had attempted to direct the growing influx of aid into economically underdeveloped and underdeveloped regions. Additionally, they have tried a variety of marketing strategies, such as:

1. A strong focus on entrepreneurial development initiatives;
2. Assessing the industrial promotion requirements of worthy industrial sector segments and developing strategies for their expansion; and
3. Establishing channels for the commercialization of local resources.

In general, state level institutions met the financial needs of small and medium-sized businesses in their particular regions of jurisdiction, while all-India development financial institutions took care of the needs of major industrial organisations. DFIs accounted for a significant portion of corporate debt, and as the corporate sector relied more and more on them, they were represented on management boards and had influence over how businesses were run internally.

Using the convertibility clause and their underwriting obligations, DFIs have been growing their stake in the equity of the private business sector. Their stock stakes in the majority of big corporations were significant, along with those of the investment institutions. They have a say in mergers and acquisitions and often did.

Non-Banking Finance Companies

Non-banking finance organisations have alternatively been referred to as "finance corporations" or "loan companies" in recent years. All around the nation, "Finance Companies" and similar entities have sprung up. With very little capital sometimes less than'1 lakh these financing organisations have been soliciting deposits from the general people by providing alluring interest rates and other benefits. They provide loans to small businesses, independent contractors, and retail and wholesale dealers. Most of their loans are granted to those who either do not seek conventional banks for credit or are turned down by them. The interest rates imposed by finance businesses, which often provide unsecured loans, may vary from 24 to 36 percent annually. In addition to providing loans and advances to the small business sector, NBFCs that were established under the Companies Act of 1956 also operate chit funds, buy and discount hundis, and have expanded into merchant banking, mutual funds, hire-purchase, leasing, and other financial services.

All-India financial institutions like IFCI, ICICI, IDBI, and others have historically played a significant role in providing medium and long term lending to a variety of economic sectors. By the turn of the twenty-first century, these financial institutions also known as public sector term lending institutions, development financial institutions, etc. had lost part of their significance; some had even vanished, and others had been wound up. By usually providing refinancing to banks and other financial enterprises, several specialised lending and refinancing organisations, such as Import Export Bank of India, National Housing Bank, NABARD, SIDBI, and Tourism Finance Corporation of India, have continued to gain prominence. Another financial organisation that invests a considerable portion of its assets in marketable securities is LIC. Public sector financial firms that have been informed include State Finance firms, State Industrial Development Corporation, and North Eastern Development Finance Corporation Ltd. These non-banking financial entities, the majority of which are controlled by the government, have offered long-term project loans.

Numerous other types of intermediates, such as insurance firms, non-banking financial institutions, primary dealers, and capital market intermediaries like mutual funds, are included among other non-banking institutions. The RBI acknowledges that NBFCs are attractive, saying that their "simplified sanction procedures, orientation towards customers, attractive rates of return on deposits, flexibility, and timeliness in meeting the credit needs of specified sectors are some of the factors enhancing the attractiveness of this sector." Since they carry out the fundamental dual tasks of soliciting deposits from the general public and disbursing loans, these finance organisations are essentially banks. The RBI asserts once again that " the rapid growth of NBFCs, especially in the nineties, has led to a gradual blurring of dividing lines between banks and NBFCs, with the exception of the exclusive privilege that commercial banks exercise in the issuance of cheques."

There is no minimum cash ratio, owned funds to deposits ratio, or other ratio for NBFCs since they are not considered banking organisations and are not under the jurisdiction of the RBI. The fact that the majority of these companies' loans are unsecured and given to extremely risky businesses, which results in their charging high interest rates; the loans' ability to be renewed frequently even though they are given for brief periods, turning them into long-term loans; and the fact that there is no communication between the different companies, making it possible for one person or party to borrow from more than one

Since it accepts public deposits and loans the money to prepared parties, NBFC is analogous to a bank in several ways. It is referred to as a non-banking financial firm since it was not established as a bank and is not subject to the restrictions of the Banking Regulation Act of 1949. The RBI has listed 5 different types of NBFCs. Leasing Finance Companies, Hire-Purchase Finance Companies, Loan Finance Companies, and Investment Finance Companies are the four distinct kinds of NBFCs among these. One additional NBFC is listed by the RBI as the fifth category, which cannot be categorised by any of the first four. As a result, the RBI refers to them as Residuary Non-Banking Companies. Only four such firms have been established under section 451 A of the RBI Act, 1934, according to the RBI [5], [6].

Control via legislation over NBFCs

There is no formal law that governs NBFCs. Instead, they are governed by three distinct agencies:Due to the fact that they are limited liability businesses, NBFCs are controlled under the businesses Act of 1956, which does not even include a definition of a finance company. Application of this Act's broad requirements has unavoidably encouraged NBFC breaches.NBFCs are subject to the Non-banking Financial Companies Directions, 1997, which control deposits.SEBI is in charge of regulating NBFCs that provide merchant banking and portfolio management services. Thus, NBFCs have been operating inside a complicated web of rules and regulations that are periodically developed. NBFCs always see some of the guidelines as being drafted arbitrarily and at contrast with everyday reality. To enact and enforce separate laws over them, they have requested it.

A working group led by Dr. A.C. Shah was established by the RBI in May 1992 to research finance businesses in-depth and provide recommendations on how to support their healthy expansion. The Shah Working Group advocated particular laws for businesses with net owned funds of $50,000 or more in its report, which was turned in in September 1992. It also set entrance requirements for new financial businesses. Additionally, it set out guidelines for capital sufficiency, prudential requirements for recognising revenue, and provisions for bad and dubious debts. The group's suggestions were approved by RBI, and phased implementation of them began. The Reserve Bank of India Act, 1997, which gives the RBI broad authority to regulate the operation of NBFCs, was passed by the Indian government in the interim rather than giving in to the industry's desire for a distinct and complete legislation for NBFCs.

Important Elements of the 1997 RBI Amendment Act

According to the Act, a non-banking financial firm is a financial institution or non-banking institution that accepts deposits under any plan or arrangement and engages in any kind of lending as its primary activity. Institutions that conduct industrial or agricultural activities as their primary business are not considered NBFCs. The RBI has implemented a number of initiatives to raise the regulatory and supervisory standards of NBFCs and, over time, put them on par with commercial banks. These consist of:

1. Obtain a certificate of registration from the RBI; the minimum amount of net owned funds is 2 crores.
2. Depending on whether an NBFC is a lending and investment business, leasing and hire-purchase company, etc., there is a predetermined amount of public deposits that may be accepted by such organization between 1.5 times and 4 times NoF.
3. NBFCs must put at least 5% of their assets into authorised, unencumbered securities.

4. Each NBFC is required to establish a reserve fund and contribute at least 20% of annual net profits to the reserve fund.
5. Prudential standards have been established for NBFCs that are soliciting public deposits. For instance, such NBFCs should uphold a 12% Capital to Risks Asset Ratio for leasing and hire-purchase financing businesses, which includes TIER I and II Capital. 12% for RNBCs and 15% for lending and investment firms. Regardless of whether they retain or receive public deposits, certain standards must be followed by all NBFCs.
6. RNBCs must invest at least 80% of their total obligations to depositors in government assets, such as debentures and bonds that are backed by the government, in accordance with RBI rules. RBI has examined these rules.
7. Every year at the end of March and the beginning of September, all registered NBFCs are required to file half-yearly returns to RBI. The RBI has now decided to impose fines in addition to the deletion of certificates of registration and the ability to accept public deposits since the non-submission of periodic returns to the RBI was a frequent occurrence.

The RBI is now given the following powers: designate periodically a minimum percentage of investment for NBFCs in unencumbered "approved" securities; establish policies and give instructions to any or all NBFCs on capital adequacy, provisioning, and other prudential norms, as well as on the deployment of funds; direct them on balance sheet, profit and loss accounts, and disclosure of liabilities; and levy fines and penalties on an NBFC for violation [7], [8].

Investment funds

The most significant of the more contemporary capital market entities are mutual funds. On a tax-exempt basis, a number of public sector banks and financial organisations have established mutual funds that are almost identical to Unit Trust of India. Their primary duty is to mobilise public savings and invest them in assets traded on stock exchanges. As a result, they gained substantial investment backing and shown noteworthy success. Even middle-class investments were transferred from banks to mutual funds. The government opened the field to mutual funds from the commercial and public sectors.

Mutual Funds are governed by SEBI. SEBI has the power to set rules, monitor operations, and control mutual fund activity. The SEBI published recommendations with regard to disclosures, reporting obligations, and advertising. The status of the investors' investments in government securities, debentures, and equities must be disclosed to them. The SEBI Regulations, 1993, a uniform set of rules established by SEBI that govern mutual funds in the nation, stipulate that: mutual funds must be organised as trusts, managed by a separate asset management company, and overseen by a board of trustees; the AMC must have a minimum net worth of $ 6 crore, of which the sponsors must contribute at least 40%; SEBI should approve the offer documents of mutual fund schemes; and SEBI must set minimum net worth requirements. The advertising rule specifies standards for fair and true disclosure by mutual funds in marketing and promotional materials. If the amount raised falls short of the required minimum, the subscription money must be repaid within six weeks.

Increase in Mutual Funds

It was challenging for MFs to draw in investors in the 1990s. Banks and the government were vying with one another for funding. Investors were focusing on debt instruments, which were

becoming more and more popular over equity, as the Government offered interest rates of nearly 14% for medium-term securities the Government of India proposed to offer 10-year paper on tap with a coupon rate of 14% and banks pegged short-term rates at 12%. Leading home finance provider HDFC was giving fixed-deposit customers 14% interest; IDBI had chosen 15.75% for a twin-bond issuance.

Mutual funds found it challenging to compete with such high returns on debt securities under these circumstances. Additionally, they struggled to live up to the high expectations of investors who had yet to shake off the get-rich-quick mentality. As a result, the first wave of mutend money was unsuccessful. For many years, mutual fund performance was unimpressive. Mutual fund investor confidence was poor. This might be due to a combination of investor perception issues brought on by the stock market and a lack of confidence [9], [10].

CONCLUSION

In conclusion, the UTI has been instrumental in democratising investment in India and giving everyone the chance to contribute to the development of the economy. The UTI has changed the investing environment by providing a variety of investment options, encouraging financial inclusion, and supporting the expansion of the mutual fund sector. To continue empowering investors and fostering the expansion and development of India's financial markets, the UTI and the mutual fund sector must address difficulties, seize opportunities, and adjust to changing market conditions.

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CHAPTER 8

OVERVIEW OF INDIA'S STOCK MARKET

Dr. Mounica Vallabhaneni, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id: mounicav@presidencyuniversity.in

ABSTRACT:

The growth of India's economy is greatly aided by the stock market, which provides an essential platform for capital generation, investment, and corporate governance. This abstract offers a summary of the Indian stock market while studying its history, makeup, and effects on the country's economy and investors. The Indian stock market has seen tremendous expansion and evolution from its early beginnings in the middle of the 19th century and the construction of important stock exchanges like the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). Its growth has been accelerated by regulatory changes, technical breakthroughs, and increasing engagement from local and foreign investors. There are main and secondary sectors in the market. While the secondary market provides for the trading of listed securities, the primary market enables the issuing of new securities via rights issues and initial public offers (IPOs). Under the direction of the Securities and Exchange Board of India (SEBI), the market is run through stock exchanges, brokers, and depositories. For businesses, the stock market is an essential source of cash that enables them to finance their development and growth strategies. It offers chances for investment to people and organisations, enabling them to take part in the economic development and wealth creation of the nation. Additionally, the stock market serves as a crucial gauge of investor mood, reflecting market movements, prevailing economic circumstances, and emerging policy changes.

KEYWORDS:

Market, Money, Payment, Stock Market, Trading.

INTRODUCTION

Even the tiniest of items are produced on a vast scale in a contemporary capitalist economy, and large-scale manufacturing requires significant quantities of capital. The joint stock company or corporate form of organization is well suited to securing significant quantities of cash from everyone who has spare funds and who is ready to accept risks when investing in businesses. It releases stocks and bonds and gives people with extra money the option to productively invest it in either one, according on their preferences and financial situation. Investors who invest their funds in a firm by purchasing its securities are unable to recover their money from the company themselves.

A joint stock company's owner is only permitted to recoup the capital invested in its stocks and shares via the sale of those stocks and shares to third parties. It is possible to buy and sell stocks, shares, and other long-term assets on the stock market or exchange. The stock market is therefore a crucial institution for maintaining the capitalist economic system and ensuring the efficient operation of the corporate form of organization.

Indian Stock Exchanges' Earlier Years

The Bombay Stock market, also known as the Native Share Stock Brokers' Association, was founded there by brokers, and it was the first structured stock market in India. The BSE was the oldest stock exchange in Asia. To assist transactions involving shares of local textile factories, the Ahmedabad Stock Exchange was established in 1894. A market for shares of plantations and jute mills was established by the Calcutta Stock Exchange in 1908. The nation had significant speculative activity during the Second World War, and the number of stock exchanges increased from 7 in 1939 to 21 in 1945. In addition to these established, regular exchanges, there were a number of unregulated, unorganised exchanges known as kerb markets. These marketplaces operated according to a collection of customs and conventions rather than a set of laws that could be upheld in court. Additionally, stocks and shares were purchased and traded on unlawful "Dabba" marketplaces [1], [2].

The Government of India has so far recognised 23 stock exchanges under the Securities Contract Act of 1956. India's top exchange is located in Bombay. All regional stock exchanges have become obsolete with the creation of the National Stock Exchange.

The Way Business Is Done on a Stock Exchange

Four steps make up a typical investment transaction:

In order to purchase or sell shares of a firm at set pricing or at the best market prices, a customer must make their order with a stock broker, who is the only person authorised to do business on a stock exchange.

Execution of the order: The broker or his authorised clerk will carry out the transaction, and a record of it will be made in the Stock Exchange Daily Official List, which will contain information about the quantity and value of the shares that were traded.

Giving the customer a report on the transaction: As soon as the transaction is complete, the broker gives the client a contract note with information on the security that was purchased or sold, the price, the broker's commission, etc.

Two different ways exist for transaction settling. Payment must be provided immediately upon the transfer of the securities in a ready delivery transaction, or within one to seven days. The settlement for forward delivery contracts occurs on a specific day; it typically occurs every two weeks, while in other stock exchanges, like Chennai, it occurs every week. There is a carry-over mechanism in place for forward deliveries (i.e., postponing delivery or payment so that one party pays another). The carry-over structure offers a lot of room for speculation in the forward market.

Exchange trading and speculation

Stock markets in India are known for their high levels of speculation. Investment transactions and speculative transactions are the two different sorts of transactions that take place on a stock market. Investment transactions are defined as purchases or sales of securities made with an eye towards the future yield and price of such assets. In order to complete an investment transaction, the security must often be delivered in person and its entire purchase price must be made. Actually, no stock market can function only on the basis of investment buying and selling, since pure investors cannot sustain the necessary level of activity or continuity to guarantee accurate

assessment of the shares in accordance with their true value. Speculative transactions so complement investment transactions. It is uncommon for securities to be delivered or for the whole amount to be paid in a speculative transaction (buying or selling); instead, just the difference in prices is paid or received. The reason why speculative transactions outnumber investment transactions on a stock market is because the former need a bigger volume of money while the former may be completed with less [3], [4].

DISCUSSION

Speculative transactions may be classified into multiple categories based on whether they are resolved in spot, ready, or forward markets. Spot transactions imply that securities will be delivered and paid for on the same day. A ready delivery transaction is one that is finished in a short amount of time, meaning that the delivery of securities and their payment will be finished in one to seven days. A forward transaction indicates that securities will be delivered and paid for once every 15 or 30 days on certain defined settlement days. The forward trades on the stock market provide the most potential for speculation of the three main kinds of transactions available.

1. First off, since it takes time for transactions in the forward market to be settled, there is an incentive for the speculator to extend the life of his obligations as much as possible. This often results in excessive trading and speculating on the Indian stock market.
2. Second, there are only two options available to dealers in the cash market: either deliver the securities and accept full payment, or take delivery of the securities and make full payment. To square up their transactions, dealers must offer their purchase by sale and their sale by purchase before the time limit expires.

In addition to the first two options mentioned, forward market dealers also have a third option, which is the option to postpone delivery and payment until the next settlement day with the agreement of both contracting parties. This carryover arrangement, which delays delivery and payment, often entails payment of a consideration by one party to the other. If the purchasers want a delay because they have committed to buying something but do not want to, they must pay the sellers a sum of money known as the budla or the contango. For agreeing to accommodate them till the next settlement, known as backwardation or undha budla in Indian stock markets, the purchasers accept the sellers' request for a delay in return for payment from the sellers [5], [6].

Reforms to SEBI and the Capital Markets

Long delays, a lack of transparency in the processes, and susceptibility to price fixing and insider trading are just a few of the flaws in how India's stock exchanges operate. The Government of India established the Securities Exchange Board of India in 1988 to address these flaws and weaknesses and to regulate the capital market. Initially created as a non-statutory organisation, SEBI became a statutory organisation in January 1992. SEBI was given permission to set rules for the operation of mutual funds, monitor stock exchanges in India, and control the issuing activity of all merchant banks. In order to strengthen practises and increase transparency in the capital markets for the benefit of investors and the healthy growth of the capital markets, SEBI has taken a number of actions in cooperation with the Government:

The Capital Issues Act of 1947 regulated capital issues in India in order to ensure sound capital structures for corporate enterprises, to promote rational and healthy expansion of joint stock companies in India, and to safeguard the interests of the investing public from the dishonest tactics of fast operators. The Controller of Capital Issues managed the capital issues control in accordance with the guidelines and regulations established by the Central Government. The Narasimham Committee on the Reform of the Indian Financial System advocated abolishing the CCI and transferring its regulatory responsibilities to SEBI in order to safeguard investors. This advice was adopted by the Indian government, which also repealed the Capital Issues Act of 1947 and eliminated the position of CCI. Companies were permitted to access the capital markets without previous government approval, provided that SEBI approved of their offer paperwork. In other words, SEBI was granted authority to oversee and manage both the new issue market and the old issue market [7], [8].

India's Reforms to the Primary Market

For capital issues, SEBI has announced a number of rules and regulatory actions. firms raising money on the main market must now publish all relevant information, including significant facts and particular risk factors, along with the projects they are funding. They must also provide details on the methodology used to calculate the premium, while the premium itself is left up to the firms. For the purpose of guaranteeing fair and accurate disclosures, SEBI has also created a code of advertising for public issues.

SEBI has given firms the freedom to choose the par value of the shares they have issued in order to promote initial public offerings. SEBI has approved "book building" for IPO issues, which means reserving and allocating shares to private investors. The price, the size of the issue, and the quantity of securities being made available to the public, however, must all be disclosed by the issuer. Due to strict entrance and disclosure requirements for public offerings, issuers have recently started to choose the private placement market. The private placement industry has expanded quickly due to factors including low issuing costs, simplicity of structuring investments, and reduced time lag. From 13,360 crores in 1995–96 to approximately 50,000 crores in 1998–99, the total amount of resources mobilised via the private placement market has expanded significantly.

The underwriting of issues has been made optional by SEBI in order to lower the cost of issuance, with the caveat that the whole amount collected would be returned to investors if an issue was not underwritten and failed to collect 90% of the amount offered to the public. The lead managers are required to provide a due diligence certificate, which is now included in the offer agreement. The minimum application size as well as the percentage of each issue that firms may provide to organisations like mutual funds have been increased by SEBI. laws regulating significant share purchases and takeovers have also been developed by SEBI, and these laws also specify the circumstances in which required shareholder disclosures and public offers must be made.

Legislatively, SEBI's regulatory framework now includes merchant banking. The SEBI must now approve the merchant bankers. They must adhere to a code of conduct that outlines high standards of accountability to investors with regard to the pricing and premium fixing of issues, as well as disclosures in the prospectus or offer letters for issues, and they must adopt the required capital adequacy criteria. In the offer document and issue process, merchant bankers are now held to higher standards of responsibility. The SEBI has advised stock exchanges to request

a deposit from companies making public issues equal to 1% of the issue amount, which could be forfeited in the event that the listing agreement's terms are not followed and that refund orders and share certificates are not sent by registered mail within the required window of time. This is done in an effort to encourage companies to take more care and diligence in matters relating to the public issues of capital.

SEBI has recommended stock exchanges to revise the listing agreement to ensure that a listed firm provides stock exchanges with an annual statement outlining the differences between the planned use of funds and financial forecasts in the offer papers and the actual use of those funds. The ability for the shareholders to compare promises and performance would result from this.

A few private mutual funds have already been established as the government now permits their creation. UTI has now been placed within SEBI's regulatory purview. For firm allotments in public offerings, any mutual fund may submit an application. Mutual funds are allowed to underwrite public issues in order to broaden the range of investments they may make. The rules for investing in money market instruments have also been loosened by SEBI. Finally, SEBI has updated its standards for mutual fund advertising [5], [6].

The SEBI reviews offer documentation to make whether the business has made all required disclosures. All capital issue regulations and guidelines are designed to support the issue market's wholesome and effective operation. Even with all of these precautions, there are nevertheless gross violations of issue processes due to promoter cooperation with dishonest lead bank employees and even high SEBI officials, like in the instance of the now-famous or notorious M.S. The megaissue of Shoes East Ltd. was effectively stopped by SEBI in February or March 1995, just after it had been made public and received subscriptions.

Global Depository Receipts: Since 1992, the Government of India has permitted Indian enterprises to access foreign capital markets via equity shares denominated in dollars and euros. Indian businesses generated US $3.6 billion via the issuance of GDR issues and US $1.1 billion through the issuance of Euro Convertible Bonds up to January 1995. At first, the revenues from the Euro-issue had to be put to use within a year of the issue date for authorised purposes. The government required the issuing companies to keep the proceeds of their Euro-issue abroad and only repatriate them when they were actually needed for the approved end uses, as there was a continuous accumulation of foreign exchange reserves with RBI and long gestation periods for new investment. The Government of India has also relaxed the requirements for NRI investments, allowing them to purchase shares and debentures in Indian entities without obtaining prior approval from the RBI up to a maximum of 10% from any one FII. This also applies to overseas business entities.

India's Reforms to the Secondary Market

Under the terms of the Securities and Stock Exchange Board Act of 1992, SEBI has begun the registration procedure for intermediaries, such as stock brokers and sub-brokers. Certain qualifying requirements, including infrastructure and capital sufficiency, are used to determine registration. To take this action, SEBI has faced a lot of pushback and protest. Segregating customer and broker accounts is one of the guidelines that SEBI has created to increase the transparency of client/broker interactions.

In accordance with the SEBI Act's stipulations, SEBI has published restrictions regarding insider trading. Such rules are intended to safeguard and maintain the integrity of stock markets and, in the long term, support the development of investor trust in the stock exchange. on spite of these laws, insider trading, market manipulation, and inflated stock market quotes are all too typical on our stock markets. M.S. Market manipulation was shown in the Shoes East Ltd. debacle, which SEBI was unable to stop.

The conventional trading mechanisms used by Indian Stock Exchanges have been under regular scrutiny by SEBI since 1992. It is speeding up clearing and settlement, establishing transparency in costs and prices at which customers' orders are implemented, and, in the end, transferring shares in the names of purchasers. To provide a wide representation on the governing boards of stock exchanges, there should be 5 elected members, no more than 4 government or SEBI nominees, and no more than three public representatives.

The government has given foreign institutional investors access to the Indian capital market as long as they are registered with SEBI, including pension funds, mutual funds, investment trusts, asset or portfolio management organisations, etc. Up to January 1995, 286 FIIs were registered with SEBI, compared to only 10 in January 1993 and 136 in January 1994. The total net investments made by FIIs have grown from $200 million in January 1993 to $3 billion in January 1995, indicating both the country's economic liberalisation strategy and, to a lesser degree, the persistence of cheap interest rates overseas. The Indian government now permits joint venture stockbroking firms to allow non-Indians serve on their boards of directors. Since July 2, 2001, SEBI has implemented rolling settlements, which require settlement to be performed daily in order to reduce excessive speculation and volatility in the stock market. Extreme stock market volatility has not been reduced by this, however [9], [10].

Changes in Insurance

The Insurance Regulation and Development Authority Act's passage during the course of 1999–2000, amid fierce resistance from labour unions and the Left parties, has been the most remarkable development in the area of contractual savings. The IRDA Act, which aims to advance the private insurance sector, breaks the government's monopoly in the insurance industry. It prioritises using policyholder money for the growth of the social and infrastructural sectors. Several private sector businesses have been granted licences by the government to conduct insurance business.

SEBI's resiliency

The SEBI Act, 1992 was amended by an ordinance that the Indian government issued in January 1995. This ordinance gave SEBI more authority to ensure the orderly growth of the capital market and to better safeguard the interests of investors. The following are this ordinance's salient qualities:

1. To strengthen its independence and provide SEBI the ability to react quickly to market circumstances, SEBI has been given the authority to notice its rules and launch lawsuits without first receiving permission from the government.
2. Now that SEBI has been given regulatory authority over businesses, it may regulate how they issue money, transfer securities, and handle other associated issues.

3. Capital market intermediaries and other players may now face financial penalties from SEBI for a number of infractions that have been highlighted. A second tribunal would be established to handle appeals against decisions made by the adjudicating body, as well as an adjudicating procedure for leaving fines inside SEBI.
4. Prior to this, the SEBI Act allowed for the suspension and revocation of registrations as well as the prosecution of intermediaries, which caused businesses to halt operations. The new system of financial sanctions serves as a substitute method for handling infractions of the capital market.
5. SEBI now has the authority to summon all classes of market intermediaries, including individuals from the securities market, to appear in person and provide documents as part of an investigation into capital market abuses. Additionally, SEBI now has the authority to instruct all intermediaries and individuals associated with the securities markets in order to safeguard investor protection or ensure the orderly growth of the securities market.

It was believed that SEBI has the essential authority to oversee and regulate the securities market on the one hand, while also successfully defending the interests of shareholders on the other. A tiny group of Mumbai brokers pounded the SENSEX in March 2001 and May 2004, but SEBI utterly failed to stop them. India's stock markets had one of the worst and longest crises in their history. Just as the money market is the market for short-term funds, the capital market is the market for long-term funds. The private sector manufacturing sectors, agriculture, and the government are the main sources of demand for long-term money capital, which is primarily sought after for economic growth. The gilt-edged market and the market for industrial securities make up the bulk of the Indian capital market [11], [12].

The Reserve Bank of India-backed market for government and semi-government assets is referred to as the "gilt-edged market." Since India's independence, and especially after 1951, the Indian capital market has greatly expanded, and the amount of savings and investments has steadily increased. The Government of India established a number of financial organisations shortly after Independence to provide particular financial assistance to the private sector enterprises. The Industrial Development Bank of India was founded in 1947 to provide industries long-term financing. For numerous years, IFCI, the SFCs, ICICI, and the Refinance Corporation of India operated by offering direct plans, subscribing to shares and bonds as well as ensuring loans and deferring payments. As its name implies, IDBI's primary purpose was to finance industrial firms, including those in the manufacturing, mining, processing, shipping, and other transportation sectors, as well as the hotel industry.

Non-banking finance firms have been referred to as "finance corporations" and "loan companies" in recent years. All around the nation, "Finance Companies" and similar entities have sprung up. Among the more recent institutions of the capital market, mutual funds have recently gained the greatest prominence. In a similar vein to Unit Trust of India, a number of public sector banks and financial organisations have established mutual funds that are tax-exempt. One of the more contemporary capital market entries is venture capital finance. They have a lot of room to grow given the growth of technocrat entrepreneurs who are technically proficient and knowledgeable but lack venture money. Financial institutions often need stronger promoter participation in investment finance, therefore technocrat entrepreneurs will need the assistance of venture capital firms.

CONCLUSION

The stock market in India has developed into a crucial pillar of the nation's financial system and economic growth, to sum up. The stock market is essential in promoting economic development and wealth creation because it offers a platform for capital generation, investment possibilities, and corporate governance. In an increasingly linked and dynamic global financial ecosystem, addressing issues, using technology breakthroughs, and maintaining investor trust are essential for the sustained growth and stability of India's stock market.

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CHAPTER 9

A BRIEF DISCUSSION ON INDIAN FISCAL FEDERALISM

Mr. Yelahanka Lokesh, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id: lokesh.yr@presidencyuniversity.in

ABSTRACT:

India has embraced federalism in order to create a powerful, unified nation. The principles of national unity, cultural variety, democracy, regional autonomy, and swift socioeconomic transition have all been put into practice and upheld via joint efforts. The many political, economic, and legal elements of federal fiscal ties have been covered by the Commission on Centre State ties, which was presided over by Justice R.S. Sarkaria and issued its findings in 1988. The States have been requesting more independence in the use of economic power as a response to over-centralization in recent decades. Additionally, the present strategy of liberalization-based decentralization of economic decision-making has the potential to exacerbate regional inequities, and in this regard the Centre has a crucial role to play. Additionally, in order to attract investment, the less developed States will need to make changes to their laws; otherwise, inequities would increase. According to the Constitution, financial resources would be distributed among the States in accordance with the Finance Commission's recommendations. The Planning Commission's recommendations have led to the transfer of the capital resources for planned development. The National Development Council evaluates issues pertaining to national developmental policy and suggests actions for carrying out the goals and targets outlined in the national plans. In a centralized setting, these institutions are anticipated to serve as an effective platform for cooperation and dialogue between the States and the Union.

KEYWORDS:

Constitution,Economics, Fiscal Federalism, Government,Policy.

INTRODUCTION

The Central Government and States each have a specific set of authorities under the Indian Constitution. For instance, it includes particularly complex provisions in the banking sector. It should be mentioned that one of the most challenging issues in a federation is the financial relationship between the Centre and States. Complete taxing authority separation may appear more rational, but according to K. Santhanam, doing so has created a whole new set of challenging issues with relation to money transfers from the federal government to the states. In India, there are three fundamental tenets: The Centre and the States should have financial autonomy; they should be able to get sufficient funding; and the revenues should increase. The balancing of these ideas is never simple, however. Today, a practical approach is required rather than one that is political or ideological.

Constitutional Rules

Revenue distribution between the Centre and States: In order to prevent misunderstanding and dispute, the Constitution separated revenue sources between the Centre and the States. This

division was done to ensure that there would be no overlap in tax jurisdiction. As a result, India's tax distribution is more rational and complete than that of other federations. The Union List, the State List, and the Concurrent List are the three lists [1], [2].

Taxing Authority: The Constitution establishes a strong core when dividing resources. The primacy of Union Government actions over concurrent jurisdiction as well as the very extensive Union list is guaranteed by the Constitution. The general premise that taxes that are location-specific and relate to items of local consumption have been allocated to the States underlies the division of taxation between the Union and the States. The Union now has control over taxes like income tax, for instance, that have cross-state ramifications and in which the place of residence is not a reliable indicator of the genuine incidence of tax. The potential for disputes and legal action between the Union and States has been significantly reduced by this distinct separation of taxing authorities.

The following categories apply to the taxes over which the Union has legislative authority: The Union will levy and collect taxes, and it will keep all of the revenue generated by those taxes. Coordination tax and customs charges are a few of them.

Taxes that the Union imposes and collects, yet the States get a portion of the revenue. These include excise taxes and income taxes. Taxes that the Union imposes but that the States collect and keep. These are terminal taxes on goods and services as well as estate duties. Taxes that the Union imposes but that the States collect and keep. These are excise taxes on drugs, feminine hygiene products, opium, and other items. Article 286 of the Constitution prohibits taxation by States on imports into or exports from India's territory, interstate commerce, and sales of items deemed by the Parliament to be necessary for communal life. The Union's assets are not subject to state taxes. The Union does not tax the property or revenue of the States. Along with the provisions for tax-sharing, Article 275 of the Constitution also outlines grants for both general and particular purposes. The decision of which States need grant assistance and in what amounts has, however, been delegated to the Parliament, subject to the Finance Commission's recommendations.

Accounting Commission

India's Finance Commission was established in 1951. It was created by the President of India in accordance with Article 280 of the Indian Constitution. It was established to outline the Center's and the state's financial ties. The conditions of qualification, appointment, and disqualification, as well as the term, eligibility, and powers of the Finance Commission, are stated in the Finance Commission Act of 1951. According to the Constitution, the commission, which has a chairman and four other members, is chosen every five years. Since the first Finance Commission was established, the Indian economy has undergone significant development, which has altered the macroeconomic environment. The proposals of the Finance Commission have undergone significant adjustments as a result of time. Finance Commissions have so far presented their reports [3], [4].

Development Commission

The Planning Commission is another significant entity that plays a significant role in financial interactions between the Centre and the States. The Union and State Governments are in charge of making decisions and putting plans into action. It should be noted that the resolution placed a

strong focus on the need for "adequate coordination" between the development plans launched by the Union and the States. Additionally, this was required for thorough planning based on a detailed evaluation of the available resources and crucial circumstances for the development of the nation.

Planning Commission against. Finance Commission

The Planning Commission has limited the scope and responsibilities of the Finance Commission, according to Dr. P.V. Rajamanner, chairman of the Fourth Finance Commission. Grants for plans are distributed under numerous development headings. The Planning Commission's suggestions led to the creation of significantly larger discretionary grants than those made possible under Article 275. Furthermore, these funds are only offered during the plan period, after which they turn into committed expenses that are solely the responsibility of the States. As a result, the States approach the Finance Commission in an effort to get a higher revenue share and bigger assistance. The loans given out by the Centre considerably increased its severity. However, a significant amount of these loans have been used for non-profit endeavours, placing the weight of interest and repayment on tax revenues from the State. The federal financial relationships in our nation have substantially twisted as a result of planning.

Fiscal Federalism Issues

It has sometimes been questioned if the Central Government's expansive powers are weakening the principles of fiscal federalism. It is now apparent that the Union's and the States' perspectives on one another need to shift according to the altered circumstances. It is challenging for the Central Government to force its wishes or decisions on the States. Too much financial reliance on the Centre is the underlying source of the chorus of ever-increasing demands from the States. As a result, there is a need for increased financial authority. Through a strict and coordinated campaign against tax evasion, tax avoidance, waste, and extravagant public spending, we must find a suitable and long-lasting solution to the issue of relations between the Centre and the State. The deployment of public monies, particularly investments in successful public sector businesses, must be done with total efficiency. It is possible to conclude that the Center's selection of the Sarkaria Commission was a reflection of its understanding of the gravity of the situation.

The Center-State economic interactions have taken on additional relevance given the States' requests for more decentralisation of authorities to control their economies. The challenging issues it faces cannot be resolved by the Finance Commission alone. In order to achieve the overall investment and planning goals of the economy, a harmonic, fair, and effective delegation of financial authorities between the Centre and States must be a key component. Although the preceding arrangements gave fiscal federalism a flexible mechanism to function, there is a general perception that they have fallen short. The following are some problems with Union-State financial relations:The mechanisms set up to protect the States' budgetary independence have not been very effective.When we examine the Constitution, we see a persistent imbalance in the way that the Centre is given the majority of the authority in budgetary matters.There is disagreement about the Planning Commission's status as an unincorporated organisation.About one-fifth of all transfers are decided at the Centre's exclusive discretion.Above all, the unitary aspects have become stronger over time as a result of the Center's expanding budgetary dominance and the States' increasing reliance on financial transfers [5], [6]. A few recommendations may be made for the situation's improvement. There are three goals. In a

genuinely federal system, the Centre must carry out its coordinating, corrective, and leadership duties. The States should have an appropriate share of the responsibilities and rights.

Fiscal Policy: What It Is and What It Does

The term "fiscal policy" refers to a strategy for using the "state treasury" or government funds to accomplish certain macroeconomic objectives. The word "fisc" stands for "state treasury." However, economists have given fiscal policy a number of different definitions. "A policy under which government uses its expenditure and revenue programmes to produce desirable effects and avoid undesirable effects on the national income, production, and employment," according to Arthur Smithies, is what fiscal policy. Fiscal policy, according to renowned authority G. K. Shaw, is "any decision to change the level, composition, or timing of government expenditure or to vary the burden, structure, or frequency of tax payment." Shaw's concept assumes the existence of stated national economic objectives. A more thorough explanation of fiscal policy is provided by Samuelson and Nordhaus. They define fiscal policy as "the process of determining how taxation and public spending are to be shaped to help dampen the swings of the business cycle and help maintain a growing, high-employment economy free from high or volatile inflation." According to them, the primary objectives of fiscal policy are to stabilise the labour market and the level of prices. It seems that they have constructed fiscal policy while taking into account the issues facing industrialised nations. In broader terms, fiscal policy may be described as follows. In order to attain particular economic objectives, such as economic growth, employment, income equality, and stabilisation of the economy on a growth path, the government has a plan known as fiscal policy that involves making discretionary adjustments to the structure and amount of its spending, taxes, and borrowing.

Budgetary policy is a specific kind of fiscal policy. Fiscal policy refers to budgetary operations involving both current and capital income and expenditures, while budgetary policy relates to current revenue and expenditure of the financial year. In truth, the core of fiscal policy is found in how the government manages its budget. Revenues and expenses make up the budget of the government. Tax income, non-tax revenue, and borrowings make up the government's total revenues. The fiscal resources of the government are represented by these line items. The term "government expenditure" refers to all of the money the government spent throughout the fiscal year. Payments for goods and services, wages and salaries, interest and loan repayments, subsidies, pensions and grants-in-aid, and other expenses make up the total amount spent by the government. From the perspective of economic analysis, receiving items measure the amount of money that flows from the private sector to the public sector. The flow of money from the government to the economy as a whole is represented by the government spending, on the other hand. The government's inflows and outflows are its revenues and expenditures, respectively.

The size and composition of inflows and outflows, as well as the magnitudes of macroeconomic variables like aggregate consumer spending and private savings and investment, may all be changed by the government via the use of its legislative authorities. By altering taxes and expenditure, it is possible to affect the size and make up of inflows and outflows. Fiscal policy refers to the framework through which these modifications are implemented. The goal variables and the fiscal tools make up the scope of fiscal policy. The factors that the government may utilise and manipulate at its discretion to accomplish certain economic objectives are known as fiscal instruments. Taxation, government spending, transfer payments, and public investment are all examples of fiscal tools. The macro variables, such as disposable income, total consumption

expenditures, savings and investments, imports and exports, and the level and structure of pricing, are the goal variables. Below is a detailed discussion of the goal variables and fiscal policy tools [7], [8].

Adaptive Fiscal Policy

Fiscal policy compensation is another kind of stabilising policy. A intentional budgetary move by the government to make up for the deficit in aggregate demand and to lessen its excess is known as compensating fiscal policy. The government implements a compensation measure in the form of a surplus or deficit budget. Comparatively to automatic stabilisation policies, the government has more choice in this kind of fiscal policy, and compensating fiscal policy may be periodically updated in accordance with the needs of the nation. In addition, the government adopts a surplus budgeting strategy when it needs to manage inflation, and a deficit budgeting strategy when it wants to curb deflation.

In order to combat the economic downturn, the deficit budgeting strategy is used. Government intervention is necessary to increase aggregate demand during a depression, particularly when a lack of effective demand is causing the economy to contract. In this situation, the government is compelled to implement compensating budgetary measures. Tax cuts and increased public expenditure might be used as the compensating measures. This kind of fiscal policy boosts overall demand. The rise in price level is the first result of an increase in aggregate demand. With a delay in the rise in expenses, it increases the manufacturers' profit. An upbeat atmosphere is produced by this rise in earnings. As a result, there is more opportunity and motivation to invest. The level of production and employment are intended to increase as a result. The majority of the nations impacted by the current global recession have implemented this kind of fiscal strategy.

Governments use the surplus budgeting strategy when there is a high rate of inflation, particularly when excessive demand is to blame. Budgeting for surplus is a potent strategy for managing total demand. This strategy ensures that the government's spending stays below its income. The government has the option of raising taxes if necessary while further reducing spending. Taxation lowers available income. As a consequence, the rate of tax multiplier causes the aggregate demand to decline. A decrease in government spending on the expenditure side lowers total demand at the rate of the expenditure multiplier. The two-pronged approach to decreasing aggregate demand helps ease the pressure on demand and, therefore, inflation.

Fiscal Policy with Flexibility

A discretionary fiscal policy is one in which the government, at its discretion, makes ad hoc adjustments to the taxing and spending structures as needed. The government makes intentional adjustments to the level and pattern of taxes, the size and pattern of its expenditures, and the amount and composition of the public debt under discretionary fiscal policy. These financial instruments' discretionary adjustments are made with a particular goal in mind. Here is a quick explanation of the discretionary changes in taxes and spending on the government, as well as how they affect the goal variables.

Changes in Taxation: The discretionary changes in taxation include such adjustments as raising or lowering tax rates, enacting new taxes or eliminating old ones, and imposing taxes on new tax bases. These adjustments may affect both direct and indirect taxes. All of these taxation-related

adjustments either increase or decrease the amount of family income that goes to the government. Tax reforms that lower household disposable incomes result in a drop in consumer demand, which has a contractionary impact on the economy. This helps to ease the strain on inflation in the economy.

Discretionary Changes in Government Spending: The discretionary changes in government spending include changes to the size, pattern, and methods of financing these expenditures. They also include transfer payments, the overall budgetary surplus and deficit, and the strategies for financing deficits. Again, there are no predetermined guidelines for altering fiscal policy. The government has the right to modify any or all of these things at any moment. The government has the right to change anything or undo it. This aspect of fiscal policy is what distinguishes a discretionary policy.

DISCUSSION

Limitations of Discretionary Fiscal Policy: It is sometimes said that discretionary fiscal policy functions better in theory than in actuality. Due to several restrictions, the discretionary fiscal policy does not function well in practise.

1. First, a key restriction of discretionary policy is that it can only be utilised effectively and suitably for short-term economic repairs. The use of discretionary fiscal policy to address long-term macroeconomic adjustments or disequilibrium just exacerbates the mess and distortions already present in the economy.
2. Second, the difficulty in accurately estimating the scope of the issue and projecting the anticipated outcomes of policy adjustments is a significant element that casts doubt on the efficacy of discretionary fiscal policy, especially in the near term. Decisions are likely to be made incorrectly without accurate predictions, and the results might be devastating. For instance, India, like all other nations impacted by the global crisis, has put in place a specific short-term stimulus programme. The administration is debating whether to rescind the stimulus package now that the economy has begun to recover because of its uncertain implications.

Third, there are pre-implementation and post-implementation time-lags, which are two different types of delays in the execution of fiscal acts. The 'decision lag', or delay in reaching a choice, is what causes the pre-implementation time-lag. Government policymakers and think tanks choose the policies to be implemented and the instruments to be used. For every long-term budgetary activities or policy changes, for instance, a committee is constituted in India to provide recommendations. The committee takes longer than called for in its mandate. The report is then submitted for administrative evaluation after the committee issues its recommendations. The ministers will then review it and decide whether to approve it. The proposals made by the committee are subsequently presented to the Parliament for deliberation. Proposals are included in the Finance Bill after being approved by the Parliament. Decision lag is the term for the period of time spent making decisions. The implementation of the policy requires more time when the Finance Bill is voted on. 'Execution latency' is the name given to it [9], [10].

As a result, the decision-making and decision-making process takes a long time. Regarding the post-implementation delay, it is brought on by the lag time of fiscal activities. The lagged impact stems from the fact that fiscal changes take a while to achieve the intended consequences, unexpected/unwanted effects, or evidence that they are unable to provide any results that are

desirable since they operate via the associated variables. The effectiveness of discretionary fiscal policy is questioned due to the time lag involved in its operation. When further fiscal policy adjustments are made before a preceding action's full impact is seen, it further complicates how it works. Additionally, this makes it more difficult to evaluate how well the policy is working. Before the 1990–1991 Economic Reforms, such adjustments were of a regular nature in India fiscal modifications were always made in each yearly budget. Within a fiscal year, adjustments are also made to taxes and spending. The frequency of discretionary budgetary modifications has significantly decreased as of late.

Indian Fiscal Policy

The original formulation of India's fiscal policy took place in 1950–1951, against the backdrop of the country's economic circumstances at the time of independence. With the lowest per capita income and consumption in the whole globe, the Indian economy was mired in a never-ending cycle of poverty. The economy has seen almost no development over the 40-year period between 1910 and 1950. Following Independence, the government took on the duty of fostering the expansion of the economy. Under a democratic framework, the Indian government devised a "mixed economy" approach in which the public sector was required to take the lead. Due to the rudimentary agriculture sector's dominance of the economy, the government stepped forward to take the lead. Since the nation's private industrial sector was undeveloped, it was unlikely that it would contribute significantly to the country's economic growth for at least a decade or two. The administration accepted the Five Year Development Plans as a strategic move. Development Plans' main goals are to reach a target growth rate, often 5 percent, to encourage job opportunities, eradicate poverty, and lessen economic inequality. 'Growth with social justice' served as the overarching economic policy of the administration.

The Discretionary Fiscal Policy of India

How to raise money for development was the government of India's most challenging issue. With this context in mind, the government created its budgetary policy. The Indian government chose a flexible fiscal policy under the aforementioned circumstances. The structure and intensity of taxes and government spending have always been left up to the government's discretion. The government implemented extremely wide direct and indirect taxes with highly progressive tax rates in order to generate financial resources. Before the 1991 economic reforms, the government adjusted its tax rates and exemption thresholds about every third year, sometimes as part of each yearly budget. The amount and pattern of its spending followed the same trend. The primary goal of the government's discretionary fiscal policy was to distribute funds in a way that could support economic development and employment while also raising the greatest amount of income via direct and indirect taxes to satisfy its revenue needs. A separate question is whether the government's budgetary strategy was successful in achieving these goals. However, the overall amount of tax money received fell well short of the government's budgeted spending. As a result, the government had to depend extensively on funding the deficit, particularly borrowing from the RBI. India has, in fact, embraced a deficit budgeting strategy.

The central government's yearly budget reflects its budgetary strategy. Let's have a look at the Government of India's yearly budgets from previous years. There are two aspects to the yearly budget: Both the income side and the expense side. Government expenditures encompass both development and non-development expenditures, while government income includes both tax and non-tax revenue. income accounts and capital accounts are additional categories under which

both government income and spending are grouped. Let's take a closer look at the government's spending and income trends. Since 1991, there have been fiscal reforms and deficits. The Indian government made only minimal adjustments to its economic policies up to 1990–1991. But in 1991, significant adjustments were made to the nation's budgetary management and strategy. Here, we provide a succinct examination of the changes the government has made to its fiscal policies since 1991.

India had a never-before-seen foreign currency crisis in 1990, mostly as a result of the increase in crude oil prices after the Gulf War. The country's import cost skyrocketed from an average monthly amount of $287 million in June through August 1991 to $671 million in the subsequent six months as a result of a dramatic increase in oil prices. Foreign currency reserves decreased as a consequence, falling from $3.11 billion in August 1990 to $896 million on January 16, 1991. A collapse of the Indian economy was all but certain. But financial assistance from the IMF in the form of a $665 million loan in September 1990 helped the nation weather the crisis. Because of the crisis, it is now necessary to assess the importance and applicability of the nation's economic policies, particularly its fiscal and international trade policies. One of the primary components of the 1990–1991 changes to economic policy was fiscal reform.

The analysts felt that in order to restore the macroeconomic equilibrium in the economy, fiscal expansionism needed to be reversed. The government made a decision to cut the budget deficit. As a consequence, the fiscal deficit to GDP ratio significantly decreased. In the late 1980s, it was 5.5 percent; in the 1990s, it was 4.5 percent; in the 2007-2008 Budget, it was 3.2 percent. By limiting the growth rates of both revenue and capital expenditures, the fiscal imbalance was decreased. The budgetary Responsibility and Budget Management Act was enacted in 2003 in an effort to standardise the nation's budgetary management. The FRBM Act establishes a 3 percent GDP ceiling for the fiscal deficit, which must be met by 2008–09. According to the budget predictions for 2007–2008, the government is almost there [11], [12].

Despite the FRBM Act's limitations, the industrial and services sectors' better performance over the last five years has maintained tax income brisk. Over this time period, the average revenue growth rate was 16.2 percent, while the central government's net tax revenue growth rate was 20.7 percent. Gross tax as a percentage of GDP climbed from 8 to 9 percent during the previous ten years to 11.5 percent in 2006–07, and it is anticipated to reach 12.9 percent in 2008–09. However, the inflation rate increased from roughly 5% between 2003 and 2007 to 12% in July 2008. The RBI instituted a strict monetary policy to curb inflation. The rates for prime lending have increased. However, the inflation rate has decreased to a negative rate of 1.6% as a result of a conservative monetary policy and the modest effect of the global recession on the Indian economy. However, the budget deficit for 2008–09 was 6.1 percent of GDP. The government continues to struggle with the budgetary imbalance.

The Central Government and States each have a variety of authorities under the Indian Constitution. For instance, it includes particularly complex provisions in the banking sector. It should be mentioned that one of the most challenging issues in a federation is the financial relationship between the Centre and States. The Constitution split revenue-sources between the Centre and the States to prevent tax jurisdiction from crossing over; doing so would be confusing and may lead to conflict. As a result, India's tax distribution is more rational and complete than that of other federations. The Union's assets are not subject to state taxes. The Union does not tax the property or revenue of the States. Along with the provisions for tax-sharing, Article 275 of

the Constitution also outlines grants for both general and particular purposes. In accordance with the Constitution, the Indian government is permitted to borrow both domestically and abroad. The Consolidated Fund of India serves as collateral for any borrowing authority granted to the Government of India under Article 292. According to Article 293 which specifies that a State cannot borrow outside of India, States are also permitted to borrow.

India's Finance Commission was established in 1951. It was created by the President of India in accordance with Article 280 of the Indian Constitution. The Planning Commission is another significant entity that plays a significant role in financial interactions between the Centre and the States. The Union and State Governments are in charge of making decisions and putting plans into action. It has been noted that the population has been given more weight when determining how shared taxes should be distributed across the States. The dominance of population as the primary foundation of distribution and the rising significance of Union excise among shared taxes are the two key characteristics of tax-sharing as defined by the Finance Commissions. It has sometimes been questioned if the Central Government's expansive powers are compromising the principles of fiscal federalism. It is now apparent that the Union's and the States' perspectives on one another need to shift according to the altered circumstances. 2005 saw the incorporation of the Twelfth Finance Commission. The panel provided suggestions for how the Union and the States should split the net tax revenue. Additionally, it suggested that specific actions be taken to strengthen a State's Consolidated Fund [12], [13].

The total transfers should be 73.8% larger overall than what the TFC's predecessor permitted, with both the percentage of Central taxes and grants-in-aid being higher. This indicates that the States have little reason to complain about the TFC report. The term "fiscal policy" refers to a strategy for using the "state treasury" or government funds to accomplish certain macroeconomic objectives. However, economists have given fiscal policy a number of different definitions. Budgetary policy is a specific kind of fiscal policy. Fiscal policy refers to budgetary operations involving both current and capital income and expenditures, while budgetary policy relates to current revenue and expenditure of the financial year. The target variables and the fiscal instruments make up the fiscal policy's scope. The factors that the government may utilise and manipulate at its discretion to accomplish certain economic objectives are known as fiscal instruments. The literature on economic policy makes a lot of noise about discretionary versus automated policy making, as Peston properly noted. The difference between automatic and discretionary fiscal policies relates to how often the government may change the taxing and spending plans. The fiscal policy process that was just presented theoretically seems straightforward and workable. However, in actuality, a variety of issues arise while formulating and carrying out economic policy. The original formulation of India's fiscal policy took place in 1950–1951, against the backdrop of the country's economic circumstances at the time of independence. With the lowest per capita income and consumption in the whole globe, the Indian economy was mired in a never-ending cycle of poverty. How to mobilise resources for development was the Government of India's most challenging issue. With this context in mind, the government created its budgetary policy. The Indian government chose a flexible fiscal policy under the aforementioned circumstances.

CONCLUSION

Fiscal instruments, often known as "fiscal handles," "fiscal tools," and "Tiscal levers," are used to carry out fiscal policy. The modifications made to the fiscal tools function by connecting them

to the target variables. Internal and external borrowings are both considered public borrowings. In general, governments borrow money in order to cover their budget deficits. There is no one fiscal policy that can be used to effectively address all economic issues in all circumstances, across all nations, and at all moments in time. Adopting a fiscal system with built-in flexibility for tax income and public expenditure is referred to as an automated fiscal policy. Built-in flexibility refers to the government's automated adjustment of spending and tax collection in response to changes in GDP. An automated stabilizer's operation is straightforward. In a rapidly expanding economy, tax revenue rises in tandem with income growth, which limits aggregate demand. On the other hand, when unemployment falls, government expenditure falls. Compensatory fiscal policy is another kind of stabilising policy. A intentional budgetary move by the government to make up for the deficit in aggregate demand and to lessen its excess is known as compensating fiscal policy. A discretionary fiscal policy is one in which the government, at its discretion, makes ad hoc adjustments to the taxing and spending structures as needed.

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CHAPTER 10

A BRIEF DISCUSSION ON PARALLEL ECONOMY

Dr. Mounica Vallabhaneni, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id: mounicav@presidencyuniversity.in

ABSTRACT:

The emergence of a parallel economy also referred to as a shadow economy or an informal economy poses serious difficulties for all formal economic systems. The parallel economy is explained in this abstract, along with its nature, causes, and effects on economies and civilizations. The definition of the parallel economy and a discussion of its distinctive features come first in the examination. The term "parallel economy" designates economic activities that take place outside of the official regulatory framework and often include unregistered firms, underreported revenue, and unofficial transactions. It coexists with the legitimate economy and includes illegal labour, tax evasion, smuggling, and underground marketplaces. This also looks at the reasons and elements that led to the development of a parallel economy. High tax loads, complex laws, ineffective bureaucracy, and restricted access to official financial institutions all encourage people and enterprises to participate in the informal economy. Individuals may turn to informal work as a result of economic inequality, a lack of job possibilities, and insufficient social safety nets.

KEYWORDS:

Economic, Economy, Income, Ratio, Taxes.

INTRODUCTION

India's parallel economy is so ingrained that having black money isn't even seen as anything to be ashamed of in society. In fact, those in charge of the administrative apparatus themselves seem to have been involved in the race to amass such riches. Such sentiments may have been somewhat reasonable in the 1960s and 1970s, the height of punitive taxes and communist servitude, when it was almost difficult for an honest taxpayer to live anything other than a spartan lifestyle. Those were miserable days. However, India's tax rates are now reasonable by any standard, and the continued impunity with which black money is retained points to a far earlier origin. Looking farther back in time, the black market first appeared in India during World War II, when there was a severe shortage of basic needs and the government at the time implemented rationing as a welfare program, therefore establishing a framework for restrictions. Black marketeering the covert selling of diverted commodities at higher prices emerged as a result of prices no longer being determined by the normal interplay of market demand and supply. The post-1947 continuation of regulations that contradicted economic logic was justified in light of the then-current deprivation. The parallel economy started to grow, and with the establishment of the regulatory mechanisms, it acquired a wide range of dimensions.

Parallel Economy

The term "parallel economy" refers to an unofficial sector of the economy whose goals conflict, rather than operate parallel to, the declared societal goals. This is also known as the

"unaccounted economy" or the "black economy." "Unlawful economy" "Unsanctioned economy" or "subterranean economy." The phrase "parallel economy" highlights a conflict between the goals of the legal and illegal sectors. For instance, we include full employment, eliminating income and wealth disparities, avoiding conspicuous consumption so that there are more resources available for a larger volume of saving, eliminating poverty, achieving self-reliance, and providing equality of opportunity among the broad long-term objectives of planning to establish a socialist pattern of society. Planning's primary objective was to bring an acquisitive society's capitalist spirit under control so that higher social welfare could be achieved. The entrenched interests will unavoidably be opposed to both these progressive tendencies and any restrictions placed on their unrestricted freedom to exploitation. The main duty of the state committed to the creation of a democratic socialist society is to make sure that state policies and controls are set up in such a way that progressive forces dominate and can subjugate those who try to thwart the state's efforts to create a social order based on equality and justice for all, especially for the oppressed [1], [2].

More investment opportunities in a wide range of sectors were made possible by the achievement of independence and the introduction of planning. A governmental sector and a commercial sector coexisting was the idea behind the mixed economy. Both were anticipated to encourage productivity and investment. The development of economic infrastructure, including roads, railways, irrigation systems, and hydroelectric power plants, as well as the growth of the heavy, basic, and defence industries, as well as the provision of better facilities for education and healthcare were all prioritised in the public sector because the criterion there was social gain. The private sector was allowed to develop the remainder of the economy.The size of the black sector has increased and multiplied with the growth of economic activity in the post-independence era to the point where it is now dominantly shaping state policies, altering the structure and composition of output, and elevating a class that derives the majority of its power from black money. Evidently, a parallel economy has been established as a consequence of the size of the black money operators' activities.

D.K. Rangnekar correctly points out that if the "Parallel economy" presents a substantial danger to the stability and expansion of the official economy, it must be due to the fact that there is a significant amount of "black money" and that rigged agreements are becoming ever more numerous and intricate. Aside from the "parallel economy's" extensive effects, one may also be aware of the way "black incomes" accentuate income and wealth disparities and give rise to a new class of "black" affluent people in a society that is already sharply stratified. The disparities are no longer concealed. The ostentatious consumption of the new "black" affluent, their crass ostentation of pomp and grandeur, their unrestricted access to cash, their nest-eggs spread over many locations and nations, and their influence in key positions are now well-known. An estimate of "black income" over a period of time is necessary to comprehend the effects of the black economy.

DISCUSSION

Indian estimates of Black Income

There have been several efforts to estimate black revenues in India. The different estimates of black incomes that have been made so far generally follow two methods: Kaldor's method of calculating non-salary incomes above the threshold for income tax exemptions and Edgar L. Feige's method of calculating transaction-income based on currency deposit ratio and

extrapolating the black income of the economy from it. The Direct Taxes Enquiry Committee subsequently modified Kaldor's technique and utilised it in its report on Indian Tax Reform. D.K. The Wanchoo Committee's assumptions were further modified by Mr. O.P. Chopra in order to construct a series of black income. Rangnekar, a former editor of the Economic Times, adopted a similar method. Poonam Gupta and Sanjeev Gupta have both used Feige's technique. It would be interesting to look at these techniques in more depth [3], [4].

Black income estimates using Kaldor's methodology

Kaldor calculates: N. In his study on Indian tax reform, Kaldor assessed non-salary income using the national income's breakdown into wages and salaries, self-employment income, and profit, interest, rent, etc. He arrived at total non-salary income by excluding wages and salaries from the contributions to the net domestic product. based on projected percentages of non-salary earnings over the exemption threshold for different economic sectors. Kaldor predicted non-salary income in excess of the exemption threshold. To determine the total non-salary income assessed to tax, an estimate of the actual non-salary income assessed to tax was developed for each sector. The amount of black income is calculated as the difference between the projected non-salary income above the exemption level and the actual non-salary income subject to tax. Estimate of the Wanchoo Committee: The Direct Taxes Enquiry Committee modified the Kaldor technique as necessary. The Wanchoo Committee states that, for the years 1961–1962, and 1965–1966, respectively, "the projected income on which tax has been avoided would probably be '700 crores' and '1,000 crores. Using the percentage rise in national income from 1961–1962 to 1968–1969 as a foundation, we may extrapolate this estimate to 1968–1969 as well. It is possible to put a number on the income that was not subject to tax in 1968–1969: "1800 crores."

Rangnekar's Estimate: In his minute of dissent, Dr. D.K. Rangnekar, a member of the Wanchoo Committee, claims that the Wanchoo Committee's estimations are low. Compared to the DTEC estimate of 850 crores, he said that tax evaded income for 1961–1962 was in the neighbourhood of'1,150 crores. In 1965–1966, it was 2,350 crores as opposed to the 1,216 crores that DTEC had predicted. Black income was expected to be 2,833 crores in 1968–1969 and 3,080 crores in 1969–1970, respectively. Rangnekar concluded: "The compound rate of growth of 'black income' was of the order of 13 per cent per annum at current prices whereas the compound rate of growth of national income for the same period was 11 per cent per annum." Rangnekar adds that if one took into account the leakage of foreign currency incomes and covert foreign income transfers, the estimates of black income may have to be marked up by'200 crores.

Chopra's Estimate: For a period of 17 years, from 1960–1961 to 1976–1977, Mr. O.P. Chopra developed a series of unexplained revenue. Chopra follows a slightly modified approach that the Direct Taxes Enquiry Committee suggests. The DTEC made the assumption that the ratio of evaded income to non-salary assessable income would stay constant at the level seen in 1960–1961 since it is difficult to get information on non-salary income that has actually been assessed. Chopra abandons this presumption in favour of a less stringent one. Chopra finds a wider disparity in the two series from 1973 onwards when the income over the exemption level reported a considerable rise since his technique significantly departs from the DTEC approach. The methodology's basic presumptions are:

Only supplemental income is hidden. While this may be the case for workers of the government, it does not include any extra perks provided to wage earners in the private sector, particularly company leaders. The research is only applicable to the portion of income that is due to income

tax since taxes other than income tax are avoided. Such tax evasion, which may result from the failure to pay or paying insufficiently excise taxes, sales taxes, customs charges. It is not recorded when non-agricultural revenue is used in place of agricultural income. The effectiveness of tax administration is unaffected. The proportion of total non-salary income to non-salary income over the exemption ceiling has stayed constant. The proportion of non-salary income to all revenue derived from different economic sectors is still the same. The agriculture sector's unaccounted revenue generating has not been considered [5], [6].

The research demonstrates that there are greater prospects for unreported income in an expanding economy. It could be difficult for manufacturers to retrieve undeclared money during recessionary times. After 1973–1974 is when Chopra's investigation made its most important discovery. The Wanchoo Committee believed this ratio had stayed steady, although there has been an increase in the ratio of unexplained revenue to assessable non-salary income. As a result, from 1973–1974, there is a significant difference between the Wanchoo Committee's and Chopra's estimations. Chopra also supports the idea that the likelihood of tax evasion increases with the tax rate.

Poonam Gupta and Sanjeev Gupta have addressed several important concerns with Kaldor's technique employed in calculating black income in India in their study, "Gupta's Study of Black Income Using Feige's Method of Transaction-Income Ratio." The estimates of GNP that are used as the foundation for the assessment of the black economy are significantly understated since the revenue earned in the unlawful sector is not recorded for the computation of the official GNP. Because of this, all crucial metrics of economic activity in any community are biassed when black market activity is excluded. Therefore, the real size of the economy is grossly underestimated by official income data. As a result, the black economy's scale is likewise vastly underestimated. Feige's approach of calculating the size and expansion of the black market was used by the Guptas. Feige believed that the overall transaction to income ratio was mostly steady. Thus, it makes more sense to estimate the whole amount of transactions legal and illegal together. The Official GNP exclusively tracks legitimate business activities. As a result, if there is a proportionate link between transactions and income, then the growth of illicit economic activity would be the primary cause of any noticeable rise in this ratio.

Feige's technique necessitates the creation of estimates for money and chequing transactions. The average stock to demand deposit multiplied by the turnover rate of the deposits is what chequing transactions are. By calculating a unit's turnover and multiplying it by the entire amount of money in circulation, one may estimate the transactions facilitated by currency. It is decided on a benchmark year when it is presumed that there was no unlawful activity and that no black revenue was generated. The ratio of transactions to GNP is initially determined for this base year. By dividing the entire number of transactions in each year by the ratio from the base year, it is possible to estimate the size of legal and illicit activity in the following years. We may estimate the amount of black revenue earned throughout these years by deducting measured GNP.

This analysis shows that the black income in India surged by more than 15 times, from'3,034 crores in 1967-68 to'46,867 crores in 1978-79. In 1967–1968, the black economy's relative proportion of the GNP was 9.5%; by 1978–1979, it had increased to about 49%. Thus, approximately half of the official revenue is being generated outside of the "legal" industry, claims Guptas. The black economy not only makes up a considerable component of the

mainstream economy, but it has also expanded more quickly than the official economy. The research also shows that a 1% rise in total taxes results in an increase in the black economy's share of income by more than 3%.

Indian Black Economy NIPFP Study

A research was carried out by the National Institute of Public Finance and Policy under the supervision of Dr. S. Acharya, previously of the World Bank. The Study was under the overall direction of Dr. Raja Chelliah. According to the research, "aggregate of incomes which are taxable but are not reported to tax authorities" is what is meant by "black income." However, the report provides a more comprehensive definition of black income and refers to it as "unaccounted income" for the sake of clarity. According to the definition, it is "the degree to which estimates of national income and output are biassed downwards due to deliberate, false reporting of incomes, output, and transactions for reasons of tax evasion, flouting other economic controls, and related motives [7], [8]."

A Review of the Various Black Income Estimates

According to a staff assessment by the IMF, black money in India accounts for 50% of the country's GNP, which, at current exchange rates, was $1,45,141 crores in 1982–1983. According to this calculation, the unaccounted sector in India is over '72,000 crores. The greatest percentage, or 49% of GNP, is shown by the Guptas' estimate of black income. In contrast, some estimates show that black income was close to 10% of GNP. Which of these estimations may be regarded as credible, we wonder? The veracity of the Guptas estimate has drawn considerable criticism from certain economists. The main criticism is that the value of total transactions is affected by various factors, such as the degree of monetisation, the extent of vertical integration of the economy, the rate of introduction of technical change, etc. J.C. Sandesara writes: "The estimation of black money, at any rate for India, is far too serious a business to be handled exclusively by the tool of currency-deposit ratio, and/or to be left to monetary statisticians/economists." Disaggregating the impact of these elements would be wise. There would be overestimation to that degree. However, the critics have failed to mention a significant aspect of underestimation. The estimate of total transactions does not include a significant portion of transactions that are carried out using "hundis" or other near-money instruments but are not recorded in chequing or cash transactions. It is necessary to make an upward adjustment to this account, and it should be emphasised that both the quantity and magnitude of such transactions are significant.

Reviewing the different figures demonstrates unequivocally that the Kaldor technique, which focuses on the official GNP, significantly underestimates the amount of black revenue produced in the economy. There is sufficient data to show that production is significantly underreported. The capitalist elites are able to avoid reporting a significant fraction of total output by influencing excise department employees. Furthermore, because the monetary technique also acts as a cross-check for the other estimate, it would not be fair to completely disregard it. Truth most likely falls somewhere between these two positions. Therefore, more study in this area is necessary. The word "parallel economy" cannot be a danger if just 9–10% of GNP is produced as black income; nevertheless, if the size is significantly more, as many economists think, then the threat of "parallel economy" is genuine. Furthermore, as Chopra has done, it would be more pertinent to compare the amount of black income to GNP less agricultural income rather than the

overall GNP. An impoverished nation like India, whose agricultural revenue makes up around 40% of GNP, would benefit more from such a strategy.

The key conclusions of the several research on black income are as follows: Black money has been increasing both in absolute terms and relative ones as a proportion of GNP. Black income, which up until 1975–1976 represented less than 10% of GNP, then started to increase significantly more quickly. Although Dr. Suraj B. Gupta's estimate states that it was around 46% of GNP in 1983-84 and increased further to approximately 51% in 1987-88, the NIPFP estimate for 1983-84 has it in the 18 to 21% of GNP range. Black income creation is growing at a pace that is higher than the rate at which the GNP is growing. Businessmen and manufacturers were pushed to engage in widespread tax evasion by higher tax rates. The political system ignored the rise of unreported income while failing to take any decisive action to slow it down [9], [10].

Black incomes' effects on the economy and social system

The development of a parallel economy as a result of the increased prevalence of black money in various areas of the economy has had highly negative and harmful effects on how the Indian economy functions in many different ways. It would be interesting to research how they affected the Indian social and economic structure.

1. First and foremost, tax evasion from both direct and indirect taxes results in lost revenue for the state exchequer, which is a direct impact of black income. Furthermore, money lost as a consequence of unreported output or illicit economic activity is not included in tax evasion. The government must turn to other sources of funding since it cannot stop the flow of tax evasion. Thus, it either increases current rates of taxation on goods or imposes new taxes on them. India thus created a regressive tax system. "Black money and tax evasion, which go hand in hand, also have the effect of seriously undermining the equity concept of taxation and warping its progressiveness," the Direct Taxes Enquiry Committee said in this regard. It is the salaried person who suffers and the dishonest tax-payer who is able to get away and then use the evaded income in opulent and ostentatious consumption that leads to economic inequality and concentration of wealth in the hands of the unscrupulous few in the country. D.K. emphasised this point. According to Rangnekar, "So while the tax-paying public finds its own income falling, the non-tax-paying public is having a free run of swelling concealed incomes, thereby adding a new dimension to the problem of inequality of incomes and wealth."
2. Second, they have access to a significant quantity of money due to the availability of black revenues among businesspeople and capitalists and the resulting economic disparities. Easy money, once acquired, finds easy outlets in ostentatious, non-essential consumer goods. Every class of individuals is affected by this demonstrative impact. The result is a consumption pattern that favours the wealthy and upper classes at the expense of promoting the creation of items for general consumption. Less money is available for investment in important sectors as a result of an increase in total consumption. The aims of planning are distorted as a result of these distortions in the product-mix that promote non-essential consumption.
3. Thirdly, investing in precious stones, jewellery, bullion, etc. is encouraged by the use of dirty money. Due of its demonstrative effect, this has a negative impact on growth.
4. Fourthly, black money has promoted the diversion of funds towards the investment in luxury real estate and the acquisition of real estate. Property is severely undervalued, and

as a result, a lot of black money gets converted to white. Due to speculative land acquisitions made by black money operators, this has also driven up the price of land to absurdly high levels. As a result, buying land for homes is out of reach for the middle classes. Furthermore, a significant portion of the nation's resources are primarily employed to make materials for luxury dwellings accessible. When these buildings are given as gifts or left in wills, the government loses tax income since the majority of them are registered at undervalued values.

5. Fifthly, since a portion of black income is retained in cash, there is a surplus of liquidity that is made possible by the buildup of savings held in cash, bullion, gold, silver, etc. 'Black liquidity' is the phrase used to describe this practise. Because of the enormous liquidity offered by black money, whenever the government tries to limit excessive demand with the use of measures of credit control or rationing, such efforts are unsuccessful. This liquidity threatens price stability because it causes a significant buildup of inventories [11], [12].
6. Sixth, black money causes money to be transferred via shady routes from India to other nations. By using the tactic of underbilling exports and overbilling imports, infractions of foreign currency laws enable these transfers. The nation therefore finds itself in an ironic position, "where capital and more particularly foreign exchange resources are scarce, becomes a de facto lender of aid and capital to economically advanced and wealthier nations, with the concealed outflow of funds." Over time, the problem has become worse.

CONCLUSION

The formalisation of economic activity and the improvement of transparency may be facilitated by embracing digital technology, such as electronic payment systems and online platforms. The incentives for participating in informal economic activity may be diminished by strengthening social safety nets, encouraging fair development, and addressing income inequality. In conclusion, the problems posed by the parallel economy to established economic institutions include a negative impact on tax receipts, economic growth, and social cohesion. Societies may work towards a more equitable and sustainable economic system by comprehending its nature, locating its core causes, and adopting focused policy reforms. A comprehensive strategy that encourages formalisation, improves governance, and creates an atmosphere that is conducive to legal economic activity is needed to combat the parallel economy.

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CHAPTER 11

FACTORS CONTRIBUTING TO THE PRODUCTION OF BLACK MONEY

Mr. Yelahanka Lokesh, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id: lokesh.yr@presidencyuniversity.in

ABSTRACT:

Black money, often known as revenue obtained illegally or without being disclosed, causes serious problems for economies all over the globe, including India. In this abstract, the causes of the creation of black money are examined, along with the socioeconomic, governmental, and cultural variables that contribute to its persistence. The socioeconomic elements that lead to the creation of black money is the first step in the investigation. High tax rates, complicated tax systems, and an overabundance of rules all encourage people and corporations to engage in illegal financial activity. Corruption, informal economies, and economic inequality all contribute significantly to the production of unreported income. This also explores the regulatory and policy-related elements that support the creation of black money. Black money may be created and hidden more easily when there are weak enforcement measures, tax law gaps, and insufficient financial restrictions. A additional incentive for people and corporations to engage in illegal activity is provided by ineffective and time-consuming administrative processes. In addition, the paper explores how outside elements like tax havens and international money laundering networks influence the creation of black money. Cross-border commercial dealings, offshore firms, and illegal financial transfers provide people and companies the chance to hide their hidden riches in places with little regulatory supervision.

KEYWORDS:

Economic, Estate, Income, Political, Tax.

INTRODUCTION

The creation of black money is caused by a number of variables. To properly comprehend the origins, development, and spread of black money, it would be necessary to address those issues. The main elements are: Disparity between the acceptable net rate of return and the permitted rate of return under the law: There is a school of thinking that holds that people expecting a greater net rate of return than what is legally permitted is what leads to the production of black earnings. The higher marginal tax rates take on significant significance in this context. According to the Chambers of Commerce and Industry, very high tax rates on revenues beyond a specific threshold are in reality expropriatory in character. For instance, the marginal rate of income tax once reached 97.5%, which was equivalent to the nationalisation of almost all revenues beyond a specific threshold. Because of our high marginal rates, several public finance specialists have referred to us as "the most highly taxed nation."

A different school of thought, however, is being driven by left-leaning economists who think the case for high marginal tax rates has been overstated. They contend that the actual tax rates on reported earnings are lower than those predicted by the legally mandated marginal tax rates.

Therefore, a decrease in tax rates won't lead to a decrease in tax evasion; instead, it will just provide tax cheats greater relief [1], [2].

Dr. K.N. Kabra calculated the actual income taxes paid at different income levels during 1971–1972 and 1978–1979 as part of his empirical research on high rates of income tax and tax evasion. His research shows the following: In 1971–1972, tax evasion cost about 1,890 crores, but by 1978–1979, it had increased by three times that amount. Amounts of tax that were evaded as a proportion of prospective tax income ranged from about 78 percent in 1971–1972 to 72 percent in 1975–1976 before falling and then rebounding to over 82 percent in 1978–1979, respectively. Therefore, lowering tax rates would not be able to reduce the inclination for tax evasion. Actual tax revenue significantly increased from'874 crores in 1974–75 to'1,214 crores in 1975–76, an increase of over 40%. However, this increase in real tax collection was the consequence of tighter tax administration during the crisis, together with a strong push to uncover hidden revenues. The increase in tax income was, however, fleeting, and as the benefits of the emergency-response measures wore off, real tax revenues fell.

As a result of Kabra's analysis, it can be said that higher marginal tax rates encourage tax evasion due to their expropriatory nature. However, even a significant decrease in marginal tax rates does not guarantee that tax evasion will not occur if the costs and risks involved are significantly lower than the amount of money converted into black income. In other words, the rise in tax revenue's elasticity as a result of the marginal tax rate's lowering is less than unity. "It would be difficult to expect a better tax compliance through "soft-methods" in a regime that induces reduction in tax evasion by a method "soft" on tax evaders rather than by a method "harder" that increases the costs and risks of tax evasion," argues Kabra. Black money production as a result of restrictions and the licencing system: There is a school of thought that strongly holds the belief that the regulations, permissions, quotas, and licences that are connected to the unfair distribution of the in-demand goods lead to the creation of black money. In describing this element as a source of black money, the Wanchoo Committee noted that "controls and restrictions began to be employed by the unscrupulous for collecting money for themselves, in spite of the vigilance exerted by the Government. The fact that people in charge of administering controls had a great deal of discretion gave them room for corruption"speed money" for covering up violations of controls. All of this led to distribution malpractices, trafficking in permits, quotas, and licences, and substantial amounts of black money were produced as a result.

In agreement with DTEC, the Dagli Committee on restrictions and Subsidies stated: "Price and distribution restrictions have in the past significantly increased the formation of black money. Any price restriction without a sufficient distribution system and a quick plan to increase supply might lead to the creation of black money. Rent control, according to the Dagli Committee, creates a "pugree system" and is a further source of illicit funds. Similar to this, the licencing system requires a significant number of inspectors to complete numerous procedures, necessitating the payment of a sizeable sum in hush money. Political party donations: Ever since the government decided to outlaw them in 1968, merchants have used black money to finance political parties, particularly the governing party. In theory, this choice was made to lessen the influence of large business on the electrochemical process, but in reality, the exact reverse occurred. Businessmen all around the world have figured out at this point that if they donate a certain amount of their illicit funds to political parties, they can rest certain that the political leaders would just threaten them verbally. The political leadership has become more subservient to big business as a result, and has begun speaking in terms of big business, etc. Ineffective tax

law enforcement Although the government has a suite of tax laws including income tax, sales tax, stamp taxes, excise charges, etc., their enforcement is relatively lax owing to pervasive corruption in these agencies. Businessmen avoid documenting these transactions because of the high tax rates. Black money is created at the wholesale, retail, and manufacturing levels as a result of this evasion, which mostly goes unnoticed. Black money production in the public sector: Every subsequent five-year plan included a bigger amount of public sector investment. The bureaucrats at government agencies and public sector organisations must oversee the projects that are carried out. For a variety of projects, bids are requested, and the bureaucracy, in coordination with the political power brokers, selects the winning bid. As a result, a mutually beneficial connection between the politicians, bureaucracy, and contractors arises. Through a variety of means, expenses are inflated artificially, and shady transactions produce black money. The political system's unpredictability has accelerated this trend even more. The speed with which ministers are appointed, removed, or their cabinets are reorganised has given the issue a new facet. The maxim "Make hay while the sun shines" is embraced by the majority of ministers since they are unsure of their tenure and it is often relatively brief. The Opposition's extensive list of scandals only serves to bolster the claim that massive public sector investment represents a significant opportunity for the creation of black money [3], [4].

DISCUSSION

In order to determine the best course of action moving forward, it would be necessary at this point to conduct an analysis of the efforts made to uncover black earnings since independence and to evaluate their effectiveness. the following were the main actions taken: Restrictions on tax evasion Tax evasion is one of the primary factors in the development of black income and its subsequent conversion into either white money via a variety of methods or into black riches. Therefore, a vast array of legislative and administrative procedures were implemented to close tax evasion gaps. Numerous committees and commissions, including the Taxation Enquiry Commission, Nicholas Kaldor's ideas for Indian Tax Reform, and the Direct Taxes Administrative Enquiry Committee, made recommendations that served as the foundation for the majority of these actions. recommendations made by the Direct Tax Enquiry Committee and the Administrative Reforms Commission.

The majority of these suggestions focused on strengthening tax legislation. But more importantly, the numerous committees believed that the administration of taxes was insufficient and inefficient. The penalties provided by the tax rules were insufficiently deterrent, and the tax administration apparatus was unable to hold tax evaders accountable. All the actions made to combat tax evasion between 1965 and 1969 resulted in just 105 crores in taxes and penalties. Even while it is typical to use the income tax officials as scapegoats in this situation, the reality is that the Tax Administration did not have the political backing it required, and even the income tax officials who followed their duty honestly and assiduously were demoralised. This is shown by the fact that once state help was provided in 1975, income tax collections increased by 39% in a single year, from " 874 crores in 1974–75 to " 1,214 crores in 1975–76. However, as state support decreased, tax revenues likewise began to drop. The political rot simply serves to demoralise and dysfunctionalize the revenue collection process.

Demonetization: In 1946, demonetization was used, but the Direct Taxes Enquiry Committee acknowledged in its initial report that it had been a failure since only a very tiny part of the total amount of notes in circulation had been eliminated. Demonetization is based on the erroneous

assumption that all black money is stored in the form of cash balances, while in reality, only a tiny portion of all black income is maintained in liquid form. The remainder are being used. Second, businesspeople devise a variety of covert methods to avoid demonetization. Therefore, the overall impact of this restricted and incomplete strategy to eliminate black earnings is too little.

Schemes for Voluntary Disclosure: Various voluntary disclosure programmes were sometimes put out by the government. These programmes were nothing more than a covert way to lower tax rates for those with higher incomes. The outcomes of all the numerous systems and techniques employed to discover black revenues were calculated by Mr. H.R. Machiraju. The fact that a total of 519 crores in secret income was disclosed up until 1968, of which 131 crores were paid in taxes, underlines the government's continued inability to find hidden wealth. Therefore, the Direct Taxes Inquiry Committee vehemently opposed the implementation of any more voluntary disclosure programmes, arguing that they "placed a premium on fraud and are unfair to the honest tax payers." According to the DTEC, these were essentially methods for turning black money into white upon paying of what in most instances turned out to be a meagre sum of conscience money. On the other side, disclosures made in the names of juveniles, women, and benamidars have helped to continue evasion and made it difficult or even impossible in many instances to conduct an inquiry into suspected tax evasion. The fact that the final of the three schemes, the block scheme, had up to 77 thousand and odd disclosures from people who had never been taxed, out of a total of 1,64,226 disclosures, would be sufficient evidence of this exploitation of the plan. The Central Board of Direct Taxes told us that there were several examples of the same individuals taking use of all three programmes, contradicting the idea that such programmes aid in the rehabilitation of tax evaders who have admitted their wrongdoing and are eager to change [5], [6].

In spite of the Direct Taxes Enquiry Committee's advice, the government once again implemented a voluntary disclosure programme of income and wealth in 1975. The emergency's creation of a fear psychosis had a significant impact. As a result, 746 crores in tax revenue were generated. The black money operators were undoubtedly horrified by this, and the most of them fled. However, this mood didn't last long. The issue of locating black revenues was not taken seriously by either the Janata Government after 1977 or the Congress Government after regaining power in 1980.

Special Bearer Bonds Scheme: This programme was designed to channel unexplained funds into useful endeavours. The Special Bearer Bonds, issued in 1981, had a face value of $10,000 apiece and a 10-year maturity. At maturity, the holders of these bonds were supposed to be eligible to collect $12,000. In other words, they have a 2% annual interest rate. The initial subscriber or owner of the bonds was given complete protection from questions about their ownership or the sources of funding used to purchase them. According to information in the budget, 964 crores were invested in Special Bearer Bonds.

The SBB Scheme was harshly criticised by V.L. Mehta in the following statement. Such initiatives, like the Bearer Bonds Scheme to address the issue, are only token ones. The Bearer Bonds Scheme has given the chance for the parallel economy to operate more blatantly and successfully while temporarily regulating inflation, which may help the situation to some measure. Thus, there is a significant risk that black incomes will be produced on a bigger scale than they have in the past, significantly increasing the volume of enormous black incomes that

currently exist. He goes on to complain that it is unusual that "possession of currency has to be accounted for but not the possession of the Bearer Bonds [7], [8]."

Scheme for Voluntary Disclosure

During the presentation of the 1997–1998 budget, Finance Minister Mr. P. Chidambaram introduced the Voluntary Disclosure Scheme. In this regard, the Finance Minister remarked. Simple rules govern the plan. The amount revealed as cash, securities, or assets, whether kept in India or overseas, would be subject to tax at a rate of 30% for individuals and 35% for businesses, regardless of the year or the source of the money. Any action taken in accordance with the system under the Income Tax, Wealth Tax, and FERA Acts would be completely immune.

Development of a Policy Framework to Regulate the Parallel Economy

There are essentially two schools of thinking when it comes to stopping and eradicating the creation, development, and spread of black money. There are economists who think that black money can be removed and its magnitude can be kept within reasonable bounds within the framework of the mixed economy as it exists in India so that it does not threaten the basic goals of national economic policy. A different school of economists, on the other hand, contends that the mixed economy that currently exists in India is nothing more than a cover for a capitalist system and that there is no chance of containing the black market inside its confines.

Fundamentalist Position

Given that tax evasion is fundamental to the phenomena of the creation of black money, the issue is: What drives tax avoidance? "It is obvious that tax evasion is a disease associated with an economic system based on private property, " Meena Gupta and Thavaraj respond. When environmental contamination that affects the social, political, administrative, and ethical systems goes beyond what is tolerable, the sickness takes epidemic proportions.Dr. V.M. Dandekar echoes this sentiment when he says, "If one had any notions on this point, one would have suggested that if large incomes do not pay taxes they should, the remedy is not to lower the tax rates but abolish altogether incomes above a certain limit."

As the mixed economy does not offer the necessary framework for the goal, Sunanda Sen takes a step further and asks for a change in the state's nature. Attempts to control such evasion through a manipulation of instruments open to the state in a mixed economy are not likely to meet with much success unless the reforms are extensive enough to change the character of the state itself, the author writes. "The failure of the government's recent drive to curb smuggling is illustrative of the self-defeating nature of controls in a partially planned economy."

The fundamentalist viewpoint believes that if concrete results are to be achieved, private property must be abolished or at the very least set at a certain level in order to blunt the incentive for accumulating more wealth. It does not see any benefit in making certain marginal adjustments to tax rates because this will not serve any useful purpose in controlling black money.

The Middle Ground

The moderate stance comes in two different forms. One is exemplified by Kabra, who labels the fundamentalist perspective as a "naive, one-dimensional view of the state inasmuch as it fails to

recognise a need for partial, effective controls, without necessarily changing the character of the state in its essentials." Therefore, it wouldn't be a good idea to wait to take action within the context of the mixed economy. They make the case that there are mixed capitalist economies where the amount of black money is considerably lower, where it is much better handled, and where political ethics are much higher to support their claim. So that they may be relatively powerful in compared to the forces driving the parallel economy, they argue for internal consistency but comprehensive regulations. As a result, the regulatory mechanisms should improve the economy's performance, not only in the limited sense of generating more income or making particular necessities accessible, but also in the more general sense of establishing a fair and equitable social structure [9], [10].

Prem Shankar Jha, who stands for the opposing viewpoint, thinks that the regime of controls' perversion of the function of the profit incentive in the economy is by far its worst consequence. Currently, it is being used to take advantage of shortages rather than being harnessed to increase output. According to Prem Shankar Jha, there are four sets of reforms that can have a significant impact on the parallel economy: removing price controls from all products, with the exception of a few basic consumer goods; exempting savings from taxation; indexing direct tax rates to the cost of living; and liberalising the tax laws governing the depreciation allowance to allow businesses to write off capital at a rate of their choosing. In general, Jha reflects the viewpoint of the private sector lobby, which holds that regulations are to blame for the current shortages and that the functioning of the free market mechanism would be able to usher in a period of abundance, eliminate shortages, and thus shrink the scale of the black market economy. In the next part, we explore the specific steps recommended for regulating the parallel economy in India in light of these two major viewpoints.

Rationalisation of the tax system: Different groups of economists have offered various recommendations in this area. The majority of them try to lower tax rates. For example, it has been argued that marginal tax rates on higher incomes should be lowered, that tax laws governing depreciation and capital write-offs should be liberalised, that savings should be completely exempt from taxation, that direct taxes should be indexed to the cost of living, etc. If one carefully examines all of the proposals put forth by Federations of Chambers of Commerce and Industry and some economists who support greater private sector freedom, one comes to the conclusion that each proposal is intended to lower direct tax rates or expand the number of legal ways to avoid paying taxes, thereby significantly reducing the burden placed on the business classes. Since inflation by its very nature redistributes earnings in favour of business classes and cost of living index is primarily related to the working class, the notion that indexation to cost of living is valid is false.

The actual issue is that, even at the current low tax rates, people in high income categories choose to cheat taxes on a large scale instead of paying them. This feature is the one that requires attention. To achieve this, the "Soft State" mentality must be fundamentally changed in favour of a "Strong State," which should be eager to collect taxes from those who earn high incomes. In order to assure improved tax compliance, it is obvious that tax administration must be strengthened. Controls that are removed because they are deemed unneeded Controls and licencing requirements, according to one school of thinking, should all be eliminated since they reduce productivity and restrict the free operation of market forces. Following this logic, the government removed the restriction on cement and implemented a dual pricing structure. Even the cost of levy cement increased, going from about'28 for a bag of 50 kg to'37. The cost of

cement on the open market was set by the cement makers at 65 per bag. But what have recent events revealed? The price of cement is already $240 per bag, and the government is contemplating taking action to prevent additional price increases. The removal of regulations has assisted in alleviating the scarcity of cement, but the second expected outcome that the forces of competition would eventually drive down the cost per bag of cement has not materialised. In other words, rather than the consumers, the producers have reaped the rewards of liberalization [11], [12].

In actuality, the current situation is brought on by the inadequate use of controls. Lack of oversight leads to considerably worse circumstances when firms engage in unchecked exploitation and produce black money by fabricating artificial scarcities. The issue was correctly identified by the Dagli Committee, which said that "leakages in the distribution system, even where price control is accompanied by distribution controls, is another potential source of black money generation." Therefore, it follows that distribution control should be tried after checking the distribution system, and pricing control should not be tried without distribution control. The Dagli Committee's rationale does not call for the elimination of price regulations, but rather their rationalisation and support by a reliable distribution system. To advocate the elimination of all restrictions in order to increase the economy's pace of development is comparable to advocating the removal of a car's brakes in order to increase its speed. It is not a result of statism, but rather the absence of effective management by the State over economic affairs, which has led to distortions in investment patterns that favour hoteliers, cosmetics manufacturers, and other producers of luxury goods.

Profits from investments made with black money in real estate are appropriated: Real estate investing is a substantial conduit for illicit cash. Urban regions are rife with real estate speculation. The "capital gains" from these investments are astronomically enormous. In these residential structures, a significant amount of black income is consolidated. The best approach to combat the black money system, according to Dr. Amit Bhaduri, is to seize the profits from real estate speculation. The establishment of "a Corporation in each state and the Union territory to deal in transactions in real estate property, where all private buyers and sellers will have to transact through the corporation for legalisation of urban property transactions," is what he advises doing as a result. Therefore, the fundamental concept might be summed up as follows: "Nationalisation of all private transactions in urban real estate, not nationalisation or "ceiling" on urban private property." According to Bhaduri, these Corporations may be modelled after the STC, where a seller of, instance, an imported automobile is required to register with the STC and a buyer can only acquire it via the STC. Since the Corporation will be able to determine the capital gains resulting from these transactions, the state will have the chance to properly tax these profits.

This will serve as a dual-edged tool against illegal currency. On the one hand, it will stifle the speculative bubble by slowing down transactions in urban real estate, and on the other, it will increase state income. When such assets are nationalised, the political prerequisites for taking such action are not radically changed. Politically speaking, the recommended cure does not seem to be much more or less feasible than ceilings, etc. Kabra, as a result, makes a modified suggestion. Kabra suggests that the state acquire the authority to compel the acquisition of properties at their understated purchase price or construction expenses since the majority of urban property developed with the aid of black earnings is registered at understated prices. Kabra believes that it is crucial to limit the ability to transfer use of property via the granting of power

of attorney in order to increase the measure's efficacy. This will restrict real estate or benami transactions. Both of these ideas' main goals are to restrict the use of black money in real estate and provide the state the ability to take the profits that result from it.

The ultimate goal of both plans is to severely restrict black income real estate investment. Kabra even goes so far as to suggest that, in order to increase the efficacy of the cure, a national cap on the overall value of urban estates should be imposed. If such were the case, it simply suggests that Kabra is moving unnoticeably and tacitly closer to the fundamentalist stance while rejecting the fundamentalist claim. It is important to conduct a fair and open evaluation of the plans for appropriating the profits from investments made with black revenue in real estate. In this perspective, it is necessary to add one additional remark. On the grounds of administrative viability, it would not be prudent to reject Bhaduri's proposition, as Kabra does. The same argument becomes equally relevant to Kabra's plan if this stance is adopted. We won't be able to take on any work of enormous scope if we see the economic system as a slave to the current administrative structure. A significant dent must be made in the parallel economy, which is a massive undertaking, thus the administrative structure must be prepared to handle the challenge.

Establishment of the Ombudsman institution: In India, the concept of an Ombudsman organisation following the Swedish model has been explored for a very long time. A Lok Pal Bill was first proposed in 1968–1969 based on the suggestions of the Administrative Reforms Commission. The Bill was approved by the Lok Sabha, but the Rajya Sabha was unable to approve it since the Lok Sabha had been dissolved. On August 14, 2001, the Lok Pal Bill was presented before the Lok Sabha for the seventh time. However, it has not yet received enough votes to enter into law. The question of whether the Prime Minister's position should be within the purview of the Lok Pal was a point of dispute. The Lok Pal's authority over the Prime Minister's office was agreed to by the NDA administration. The Bill does not apply to the Chief Justice of India or any other Supreme Court justices, the President and Vice-President of India, the Speaker of the Lok Sabha, the Comptroller and Auditor General of India, the Chief Election Commissioner and Election Commissioners, the Chairman and other members of the Union Public Services Commission, or the Comptroller and Auditor General of Pakistan. It should be mentioned that there have been eight failed efforts to establish legislation in the Parliament requiring ministers and lawmakers to assure yearly disclosure of their holdings and liabilities. This merely emphasises the harsh fact that, while talking about upholding morality and honesty, political leaders really put up roadblocks to establish laws obliging them to follow societal standards under various guises [13], [14].

In Andhra Pradesh, Bihar, Gujarat, Himachal Pradesh, Karnataka, Madhya Pradesh, Rajasthan, and Uttar Pradesh, Lok Ayukta, the state-level ombudsman, has been established. A study of the state law, however, indicates that it is intended to be ineffective in certain areas. After the first term ended in numerous states, the Lok Ayukta was not appointed for a number of years. "While the institution has potential and scope for operation, it may or may not be allowed to operate freely by other structures/systems of the society," Shukla and Singh's research concluded.

Within the socioeconomic context of the mixed capitalist economy, the bundle of actions outlined above all represent positive developments. Their effectiveness relies on how sincerely and forcefully they are put into practise. The State apparatus can, however, control black money if it is treated seriously. But the possibilities of containing the threat of the parallel economy seem slim if a symbiotic connection develops between the capitalist classes, the government, and

the political system in the nation, as it does now. The nature of the state's organisational structure, its perspective on illicit financial activity, and its level of complicity with illicit financial operators are consequently of utmost importance.

CONCLUSION

In addition to fostering a culture of corruption, the growth of black money inhibits economic growth by altering market dynamics and deterring legal economic activity. It is crucial to strengthen enforcement procedures, streamline tax systems, encourage accountability and transparency, and promote a culture of moral financial conduct. Black money may be reduced via international collaboration in the fight against tax evasion and money laundering, as well as through using technology for better financial oversight. In conclusion, a variety of socioeconomic, governmental, cultural, and environmental elements interact in a complicated way to produce black money. Fighting the creation and spread of black money requires an understanding of and attention to these issues. Societies may work towards a more open, responsible, and inclusive economic system by enacting comprehensive reforms, encouraging moral behaviour, and bolstering enforcement measures.

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CHAPTER 12

ECONOMIC POLICY IMPLEMENTATION: THE ROLE OF PANCHAYATS AND PRESSURE GROUPS

Dr. Mounica Vallabhaneni, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id: mounicav@presidencyuniversity.in

ABSTRACT:

Decentralisation is the transfer of power, accountability, and duties from the federal government to local governments. Deconcentration, devolution, and delegation are words used often in public administration to denote different types of decentralisation. Democratic local governance refers to independent local government levels that are endowed with power and resources and run democratically. The growth of reciprocal ties between the national and local governments, as well as between local governments and individuals, is democratic decentralisation. Panchayats have played a significant role in the organisation of Indian villages throughout history. The Eleventh Schedule calls for 30 topics to be allotted to the PRIs. Agriculture and related fields, minor forest products, small-scale industries, roads, rural housing, drinking water, non-conventional energy, rural electrification, poverty alleviation initiatives, primary and secondary education, family, women, and children's health are a few of the crucial ones. There are several issues with the Act's implementation, including as the lack of Gramme Sabha empowerment and top-down planning, monitoring, and evaluation methods. For our purposes, "people's participation in the development process" refers to the general public's active collaboration and involvement in the administration of development. It is necessary for people to actively participate in the design, execution, and assessment of development initiatives at all levels, especially at the grassroots level. Participatory local self-government in India has a workable institutional status that may be used to undertake grassroots programming for the general public.

KEYWORDS:

Administration, Economic, Democratic, Panchayat, Policy.

INTRODUCTION

The bureaucracy's contribution to the execution of economic policy has been shown to fall short of expectations. Thus, we may use activities at the local level, i.e., Panchayats, NGOs, and Pressure Groups, which are more accessible to the general public. By involving the populace, economic policy may be implemented successfully. We may explore the potential and issues of regional institutions and provide suggestions to make them more efficient in the process to better comprehend the significance of this. It should be highlighted that decentralisation at the local level is required to support local initiatives and effectively manage socioeconomic projects, in part owing to the stress of work at the union and state levels and in part due to high-level corruption.

Decentralisation is required for the goal in order to include locals for whom the project is designed. Democratic decentralisation might help attain these goals.

Role of Panchayats

Decentralisation is the transfer of power, accountability, and duties from the federal government to local governments. Deconcentration, devolution, and delegation are words used often in public administration to denote different types of decentralisation. Decentralisation also includes a number of other characteristics that, together, represent rising and often successive phases of development in realising its governance goals. These phases are the following: Administrative, financial, and political decentralisation. Because it democratises the state, the political component is particularly important for democratic decentralisation. It offers a procedure at the local level through which various interests may be heard, discussed, and resolved. Decisions about how to allocate resources can then be made based on these conversations. Genuine political power sharing is a crucial component that is often absent from the political side of decentralization [1], [2].

Democratic local governance refers to independent local government levels that are endowed with power and resources and run democratically. In other words, they are transparent and responsible, and they include the public and civil society organisations in decision-making. locally democratic leadership It highlights the existence of systems for transparent, accountable, and fair political competition, as well as government procedures that are open to the public, answerable to the public, and subject to the rule of law. Development of reciprocal ties between central and local governments as well as between local governments and people is known as democratic decentralisation. It discusses the authority to make and carry out policy, the expansion of democratic procedures to lower governmental levels, and steps to guarantee the sustainability of democracy. Decentralisation and democratic local government are both included in democratic decentralisation.

Origins of Panchayati Raj and Legal System: Panchayats have played a significant role in the organisation of Indian communities ever since recorded history began. Gandhiji's vision of every village being a republic was brought a reality through the three-tiered Panchayati Raj. On April 24, 1993, the Constitution Act, 1992 went into effect. This day is significant in the history of Panchayati Raj in India since it was the day the Panchayati Raj Institutions received constitutional status. The following are some of the Act's distinguishing characteristics:It establishes a three-tier system of Panchayati Raj in the nation; regular Panchayat elections would take place every five years; seats would be reserved for women, members of Scheduled Castes, and members of Scheduled Tribes; State Finance Commissions would be established to make recommendations regarding the financial authority of the Panchayats; and a District Planning Committee would be established to draught development plans for the districts. Panchayats will now have the authority and capacity to operate as institutions of self-government. Panchayats will accomplish this in the following ways: They will create an economic development and social justice plan; they will implement schemes for economic development and social justice in relation to the 29 topics listed in the Eleventh Schedule of the Constitution; and they will levy, collect, and allocate taxes, duties, tolls, and fees in their respective areas.

Status in the Constitution: The experts believed that in order to provide PRI clarity, continuity, and strength, it was necessary to incorporate certain fundamental and vital elements in the Constitution. With effect from April 24, 1993, the Constitution Act, 1992 granted constitutional standing to Panchayats and Governments at all levels, starting at the village.

Under the Eleventh Schedule, 30 topics must be allotted to the PRIs. Agriculture and related fields, minor forest products, small-scale industries, roads, rural housing, drinking water, non-conventional energy, rural electrification, poverty alleviation initiatives, primary and secondary education, family, women, and children's health are a few of the crucial ones. The necessary rules have provided a solution to issues including the absence of a consistent structure, the predominance of higher castes and entrenched interests, irregular elections, and many super-sessions [3], [4].

DISCUSSION

Problems with the Act's implementation include the lack of Gramme Sabha empowerment and the top-down nature of planning, monitoring, and assessment. The pattern of reserving for the positions of Adhyakshas may also be manipulated. Aside from this, a delay in the formation of District Planning Committees would halt the process of synchronising rural and urban areas. These issues might undermine the PRIs' representational nature and damage the system's check and balances mechanism. A Round Table Conference on "Financing for District Level Development" issued the following recommendations in 200l:

1. The district may receive funds directly from the Centre.
2. The classifications, such as the separation between plans and non-plans, should be clarified.
3. There should be a system in place to uphold accountability and transparency when funds are transferred to the Panchayat. Giving exposure to the locals is not that difficult in today's electronically connected society.
4. To address over-engineering of the structure, one must shift focus between the types of conditionalities that are genuinely required and the objects that must be subject to them. Furthermore, it is important to think about how much discretion should be granted at each level.
5. There is also the problem of a variety of parallel structures and organisations that are actually not necessary to be established.

The following procedures must be taken for effective decentralisation for development: Members of Panchayats should be taught to present options to an elected body so that they are in a position to fully explain to the chairman or the Panchayat.

Administration of Justice

1. The State Government should concurrently reorganise the current District Administration after creating the devolution framework.
2. State governments should urge all line departments to take the necessary steps to integrate their operations with the Panchayati Raj System.
3. In the framework for devolution, the three Panchayati Raj levels should be maintained with sufficient autonomy.
4. The District Rural Development Agency and the District Panchayat should work in harmony to ensure that various agencies are working towards the same rural development goals.
5. Following the guidelines provided, state governments should divide up administrative authority into three categories.
6. Further efforts should be made to bring together projects for local gain.

7. The three layers of Panchayati Raj may receive authority and duties from the State Governments. the thirty things listed in the eleventh schedule.
8. The PRIs may get personnel and money for the execution of several Schemes.
9. It should be permitted for the Panchayati Raj Institutions to form a suitable number of Subject Committees that address crucial issues.
10. To ensure the seamless operation of the Panchayati Institutions, institutions or organisations along with their operations should be moved to the appropriate tier of Panchayats.
11. Mechanisms for overseeing and monitoring the operations of PRIs may be developed by strengthening the audit system, creating an inter-tier standing committee, having the Gramme Sabha conduct a social audit, requiring transparency in the work of panchayats, and creating a "Ombudsman" specifically for the purpose.
12. At all levels, qualified and trained individuals to support PRIs in their daily work Operations have to be included in the devolution package.
13. It should be emphasised that the State Cadre should be used as a deputation source for all Class-I Panchayati Raj positions. Comparably, Class-II officers may be hired on a deputation basis from the State Cadres or via the State Public Service Commissions. Class-III and below workers may be hired by an independent recruiting board at the regional or district level.
14. The District Panchayat's chief executive officer shall be an officer with the same rank as the District Collector [5]–[7].

Participation of The Public in Panchayati Raj Activities

For our purposes, "people's participation in the development process" refers to the general public's active collaboration and involvement in the administration of development. It is necessary for people to actively participate in the design, execution, and assessment of development initiatives at all levels, especially at the grassroots level. Participatory local self-government in India has a workable institutional status that may be used to undertake grassroots programming for the general public. Local self-government will ultimately be the most effective method of decentralising funds, functions, and officials, particularly for the 29 subjects and departments covered by the 73rd CAA. The voters in Gramme Sabhas must make responsible and educated choices at the village level in order for this ideal of local self-government to come true. In addition to being aware of the existence and potential of PRIs, we must also be acutely aware of the fact that much work has to be done to strengthen PRIs in rural India. If everyone concerned in rural development views the creation of PRIs as a crucial instrument for improving rural India, which accounts for 71% of the country's population, it is doable. The Gramme Sabha must take an active and responsible role in it. This is a significant difficulty in a nation where the literacy rate is 34.97% and where the educated are either uninterested or motivated by personal interests. The following are highly recommended by M. Ariz Ahmed in his paper, "Good Governance through Transparency":

It should be mentioned that openness and public involvement in regulatory and development administration are crucial for closing the gap between the public and the government as well as for nation-building by lowering corruption and complaints about the system. Rural people should behave humanely and with purpose, not like machines. Additionally, it is imperative that the populace participate in order to promote democracy in its social and economic facets. The UNDP framework for Copenhagen Implementation states the fundamental objectives as being the

empowerment of women, the preservation of the environment, the elimination of poverty, the creation of jobs, and sustainable livelihoods.

Panchayats' Local Level Delivery Mechanism

The government has implemented measures to reduce poverty in order to address many facets of rural poverty. Programmes associated to microcredit provide a range of services, including credit and funding for the establishment of microbusinesses. In addition, the plan for infrastructure development and the provision of essential services support the welfare of rural residents. These projects need the proper policy framework, sufficient funding, and an efficient delivery system to be implemented successfully. Additionally, a successful delivery system must provide proper monitoring, openness in the functioning of the programmes, and engagement of the public at different phases of their development and execution. The following ideas are offered to enhance these initiatives' qualitative impact:

1. **Organising the Poor for Greater Participation:** "Manila Mandals" and other institutions should carry out intermediate tasks like raising awareness, extending financing, etc.
2. **Unification of Plan and Policy:** A national plan of action backed by national, regional, and block level policies should be developed and followed consistently across the nation.
3. **Focus on Coordination Rather Than Control:** PRIs should report their success, and Central/State level coordinators should utilise this information to examine any issues or shortfalls and advise any required policy adjustments. This implies that information should flow both ways.
4. PRIs should have the necessary resources to gather their own data, examine their issues and priorities, and create their own schemes and programmes to improve their regions. States and centres should not be the source of these plans.
5. **Simplifying Processes/Norms:** Project planning has to be simplified, adequately understood, and applied at the General Plan level. Avoiding excessive paperwork in the name of monitoring is advisable since it irritates elected officials and enables the bureaucratization of project execution. Field reviews and feedback focused on results, such as the number and proportion of villagers living in poverty, should be promoted.
6. **Adoption of a package approach:** To assure the accomplishment of observable outcomes, as demonstrated in the Sri Kshetra Dharmasthala Model, the assistance should be offered as a package.
7. **PRIs as Corporate Bodies:** The PRIs should use public funds in a way that generates income as a result. For all programmes collectively, we should calculate the cost-benefit ratio and internal rate of return and keep an eye on them.
8. **Focus on HRD:** It should be underlined that local human development initiatives that improve access to family planning, health care, and education are just as successful at spurring economic growth as investments in industries. Mass education has more positive effects than negative ones, such as social conflicts or educated unemployment.
9. **Establishment of a Satisfactory Monitoring System to Measure and Control Performance During Implementation:** Programme control aids district-level department heads in maintaining the program's regular operation [8], [9].

It should be highlighted that in the proper spirit of democratic decentralisation for rural development, a participatory and results-driven administration working with an informed and

educated populace would establish a self-sufficient village entity. Our experience has shown that the objectives of economic expansion and poverty alleviation may and often are mutually supportive. In light of this, the 73rd Amendment to the Constitution outlines the nation's commitment to rural development via a democratic decentralisation system.

1. **PRIs as an End and not a Means:** According to the Act, Panchayats are not viewed as units of self-government, but rather as an agency for implementing rural development plans. The spirit of the Constitutional amendment, which states that Panchayats shall serve as institutions of self-government, should be reflected in PRIs.
2. **Autonomy of PRIs:** The government has granted a number of officers various powers for monitoring and inspecting Panchayats at various levels in the states. Thus, institutional autonomy and independence will not be afforded to these entities.
3. **Creating a Situation for Collective Response:** The leadership that exists at the grass-roots level may be cultivated to persuade individuals to work together towards a shared objective. Three significant leaders make up the PR organisation, as follows: The institution of PRI would be the source of power for elected officials. The administrative system serves as the source of power for bureaucratic officials. Self-appointed leaders emerge gradually with a reformist strategy, urging others to join them in exposing the pervasive corruption of the aforementioned two groups of leaders.

Influence Groups

Pressure groups are non-profit organisations with a long history of actively promoting the welfare and well-being of people. Volunteer organisations were described by Lord Beveridge as "a private enterprise for social progress." A pressure group is a well-organized organisation that works to influence government legislation or policy but does not nominate candidates for office. In addition, they might be referred to as "interest groups," "lobby groups," or "protest groups." Some individuals avoid using the word "pressure group" since it can be mistakenly taken to suggest that the groups really use pressure to accomplish their goals, which is not always the case.

The concept of "pressure group" is exceedingly broad and does not make it obvious which organisations are included in it. All pressure organisations strive to have an impact on those with decision-making authority. Pressure organisations do not pursue political office for themselves; instead, they aim to have an impact on the choices made by those who do. In the interim between elections, pressure organisations enable citizen engagement in national politics. They may sometimes muster enough support to persuade the government to change or even repeal a piece of law. Additionally, in-between-election engagement in municipal politics is made possible through pressure organisations. A pressure group may affect legislation via a number of different means.

It should be highlighted that volunteer organisations support the effective execution of programmes via cooperation and coordination with other initiatives. They may also aid in development by implementing programmes in the manner listed below:

1. They are able to evaluate and appraise current development projects.
2. They are capable of creating creative programming.
3. They may help to build and/or grow local NGO capacities and operations.

4. Voluntary organisations may make sure that their current initiatives and future programmes encourage complete community and individual engagement in the design, execution, and management of the relevant programmes.
5. To meet the need for primary health Care initiatives, they might increase their training efforts.
6. They may intensify their efforts to create locally relevant, sustainable health technology.
7. The vital responsibilities that women play in promoting health may be recognised with the aid of nonprofit organisations.
8. They can increase their ability to deal with underserved, isolated, and underprivileged communities.
9. The development of fresh and efficient health education strategies might be assisted by nonprofit organisations [10], [11].

These organisations are increasingly acting as catalysts in the implementation of public policy. The terms "pressure groups" and "different types of organisations" have been used interchangeably in the discussion above. It should be emphasised that there are two kind of organisations or pressure groups: membership-based organisations and non-governmental organisations, which are both covered below:

Organisations that are based on membership are groups and societies that prioritise the shared interests of its members. Organisations provide their members resources and services to boost their output and guarantee better customer service. Milestone Consultants offers sophisticated digital communication channels enabling professional groups, societies, trade unions, and clubs to communicate and exchange information using the most recent internet technologies. Through emails, newsletters, blogs, discussion forums, wikis, and other community sites, associations may update and educate their members about news and activities.

Non-Governmental Organisations: A non-governmental organisation is a formally organised group founded by either natural or legal people that is free of any governmental control. Governments often use this phrase to describe organisations without official government status. When NGOs get full or partial funding from governments, they retain their non-governmental status by excluding government officials from joining their ranks. The phrase is mostly exclusively used to describe organisation that work towards broader social goals with political undertones but are not explicitly political entities like political parties. The word "non-governmental organisation" does not have a commonly accepted legal meaning, in contrast to the term "inter-governmental organisation." These organisation go by many names or are referred to as "civil society organisations" in different countries.

Here, it should be mentioned that NGOs cannot serve in place of people's groups for the following reasons:

1. They are not evenly dispersed over the whole nation.
2. The presence of individuals who are committed to serving others is essential to an NGOs success.
3. It is crucial to remember that individuals can only become empowered when they are genuinely in charge of their own organisation.

Despite the aforementioned reasons, NGOs may provide a significant contribution to the development of membership-based organisations, which in turn need a lot of monetary and moral

support for capacity building. It has been noted that there are just a few legal forms available for membership-based organisations in India. The most notable of them are the cooperatives established under different State Cooperative Acts and the trade unions registered under the Trade Union Act. Alliances between MBOs, or federations of labour unions, co-ops, savings and credit organisations and organisations, result in the formation of MBOs Networks.

The Society for Technology and Development, an NGO, engages in economic activities by organising underprivileged groups together. It initially served as a field office for an NGO with its headquarters in Delhi. It was officially recognised as a distinct society in 1990. It has a network of local traditional leather workers and a manufacturing facility for tanning leather. It purchases their raw hides and processes them at the facility.

To be efficient in carrying out the nation's socio-economic plans, nonprofit organisations must undergo several reforms. For instance, companies must create an acceptable personnel strategy to draw in competent and reliable staff to carry out their initiatives. In addition to this, people must engage in social action to support social change. The necessity to increase their work in rural regions is critical [12], [13]. In order to assist social welfare and development, the function of voluntary groups in relation to government support must be clearly defined. The following may help to improve their performance:

1. The policy towards volunteer groups should be explicit on the relative importance of the Government and the voluntary sector, eligibility for funding, etc.
2. There is a pressing need to conduct a thorough examination of how nonprofit organisations operate in terms of their resources, financial stability, working conditions for their employees, level of service, etc.
3. It should be highlighted that before taking any action, the Directorates of Social Welfare should arm themselves with information on volunteer groups, their particular fields of activity, challenges they encounter in their daily operations, etc.
4. To ensure that volunteer organisation hire appropriately trained individuals to staff their programmes and schemes, certain norms and procedures regarding hiring, pay rates, and working/service conditions must be adhered to.

It should be mentioned that openness and public engagement in regulatory and development administration are crucial for nation-building by minimising corruption and complaints against the system, as well as for bridging the gap between the administration and the public. The government has introduced poverty reduction projects to target many facets of rural poverty. Programmes associated to microcredit provide a range of services, including credit and funding for the establishment of microbusinesses. The information should flow in both directions since the PRIs should report their progress and Central/State level coordinators should utilise this feedback to examine the issues and shortcomings and recommend required policy adjustments. At the general plan level, project planning has to be correctly understood, simplified, and scientifically applied [14], [15].

It should be underlined that, in the proper spirit of democratic decentralisation for rural development, a participative and results-driven bureaucracy working with an informed and educated populace would establish a self-sufficient village entity. Pressure groups are non-profit organisations that have a long history of actively promoting the welfare and well-being of people. Volunteer organisations were described by Lord Beveridge as "a private enterprise for social progress." The definition of "pressure group" is extremely broad and does not make it

obvious which organisations belong under the phrase. All pressure organisations strive to have an impact on those with decision-making authority. It should be mentioned that nonprofit organisations support the execution of programmes, teamwork, and coordination with other initiatives. Milestone Consultants offers innovative online communication channels to professional organisations, societies, trade unions, and clubs to interact and exchange information using the most recent internet technologies. Through emails, newsletters, blogs, discussion forums, wikis, and other community sites, associations may update and educate their members about news and activities.

CONCLUSION

Governments often use this phrase to describe entities without official government status. When NGOs get full or partial funding from governments, they retain their non-governmental status by excluding government officials from joining their ranks. Despite the aforementioned reasons, NGOs may make a significant contribution to the development of membership-based organisations, which in turn need a lot of monetary and moral support for capacity building. Alliances between MBOs or federations of trade unions, co-ops, savings and credit groups and organisations lead to the formation of MBOs Networks. The Society for Technology and Development, an NGO, engages in economic activities by organising underprivileged groups collectively. To make nonprofit organisations useful for carrying out the nation's socioeconomic initiatives, several adjustments are required. As a result, it is crucial to clarify precisely what function nonprofit organisations play in the government's support of social welfare and development.

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