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Rajasthan Administrative Services

Rajasthan Public Service Commission

Volume - 2

Indian Economy, State Politics and Economy of Rajasthan



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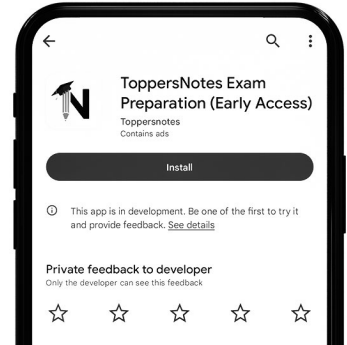
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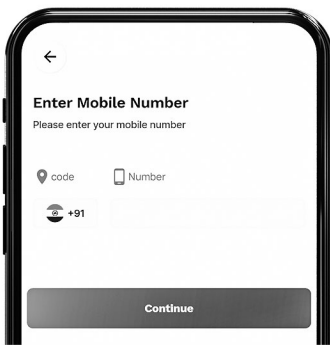
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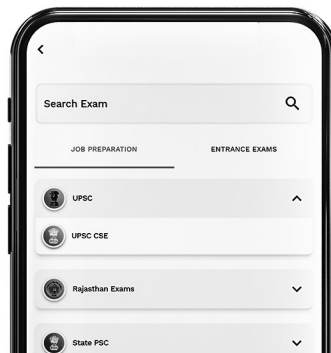
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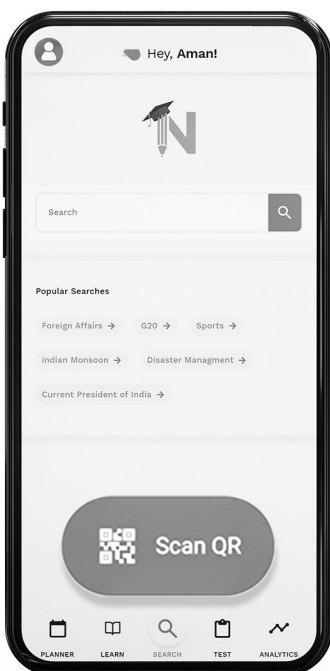
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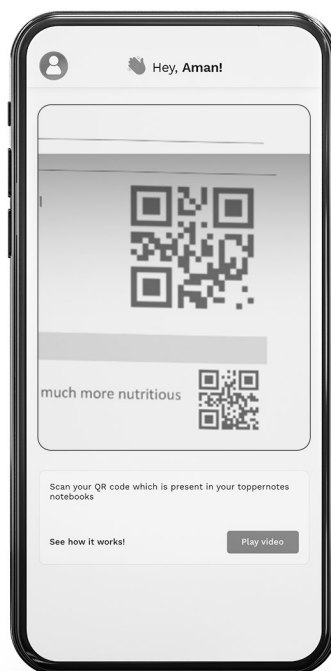
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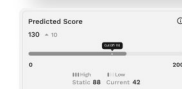
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1 CHAPTER

Service Sector

Introduction

- The contribution of the service sector to India's GDP is more than 50 percent.
- While the COVID-19 pandemic had an adverse impact on most sectors of the economy,
- The services sector was the most affected as its share in India's GVA declined from 55 per cent in 2019-20 to 53 per cent in 2021-22.
- Within the services sector, the impact of COVID-19 remained diverse while non-contact services such as information, communication, financial, professional, and business services remained resilient.
- Contact based services like tourism, retail trade, hotels, hospitality, and entertainment etc. were severely affected.

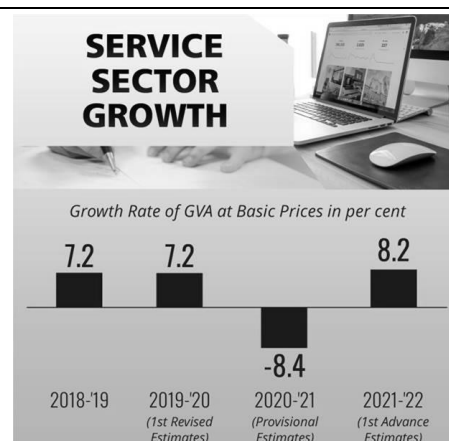
Impact of Covid-19 and Gradual Improvement

- Services sector contracted by 8.4 percent year-on-year in 2020-21
- The decline was fueled by a sharp annual contraction of 18.2% in the sub-sector 'Trade, hotels, transport, communications and services related to broadcasting'.
- Due to the connectivity-intensive nature, the services involved in this sub-sector have borne the brunt of the disruptions caused by the ongoing pandemic.
- The services sub-sector 'public administration, defense and other services' which includes expenditure by the government on the one hand and services like health, education, entertainment etc. on the other contracted 4.6 per cent year-on-year in 2020-21.
- The relatively less contact intensive sub-sector 'financial, real estate and professional services' was the least affected with a marginal decline of 1.5 per cent in its GVA during 2020-21
- In the current financial year, the service sector grew by 10.8 percent in the first half of the year 2021-22
- A closer look at the quarterly estimates shows that Gross Value Added (GVA) in the services sector (excluding construction) crossed the pre-pandemic level in Q2 of 2021-22.
- The sub-sector trade, hotels, transport, communication, and services related to broadcasting, which was most affected last year, registered a growth of 18.4 per cent in the first half of 2021-22.
- However, the quarterly GVA of this sub-sector is still below its pre-pandemic level
- On the other hand, the GVA of the public administration, defense and other services sub-sector showed tremendous improvement.
- During H1 of 2021-22, the sub-sector grew by 12 per cent year-on-year, surpassing its pre-pandemic level in Q2 of 2021-22
- Increased government spending in the wake of COVID-19 has contributed to the recovery of this sub-sector.
- Additionally, the sub-sector financial, real estate and professional services grew by 5.8 per cent year-on-year in H1 of 2021-22.

Growth in Service Sector

- As per the First Advance Estimates, the Gross Value Added (GVA) of the services sector is estimated to grow by 8.2 per cent in 2021-22.

Services	Estimated Increase in the Year 2021-22
Trade, hotels, transport, communication, and broadcasting services	11.9 Percent
Financial, real estate and professional services	4 Percent
Public administration, defense, and other services	10.7 Percent

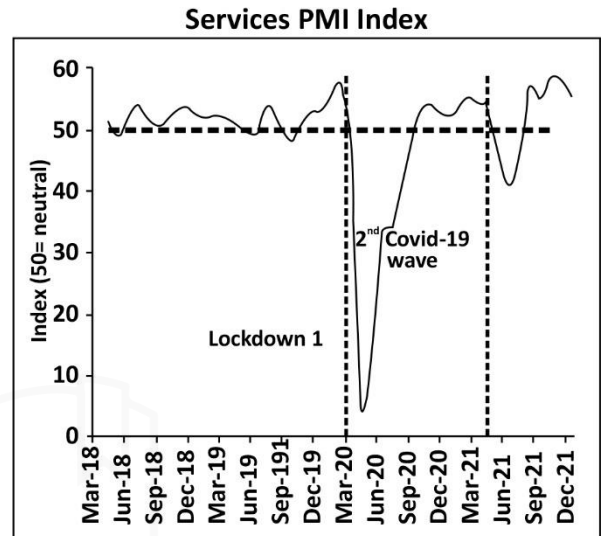


Trend in High-Frequency Indicators

- An increase in services GVA, when viewed along with trends in high-frequency indicators such as Purchasing Managers' Index (PMI), Services Index, freight traffic and passenger traffic, indicates an increase in economic momentum.

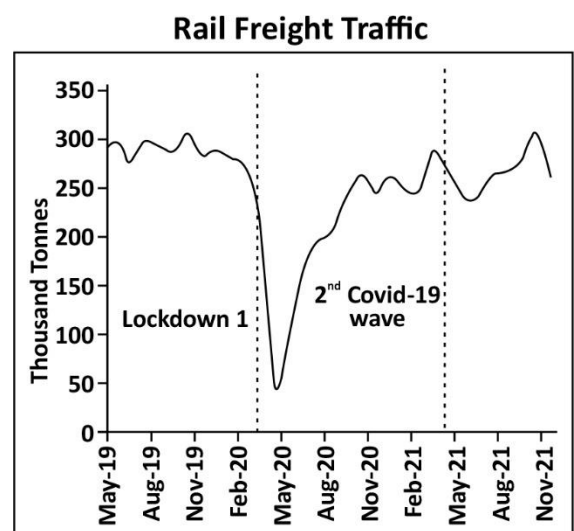
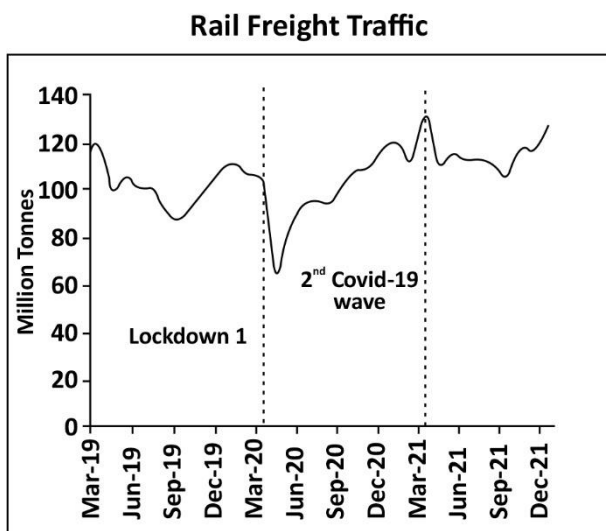
Services Purchasing Managers' Index (PMI)

- India's services sector activity, as measured by the PMI services, contracted for five consecutive months from March 2020, improving sharply in October 2020.
- It again came down for three consecutive months (May, June, and July 2021) as a result of the second Covid-19 wave.
- Notably, the contraction during May-July 2021 was not as sharp as that seen earlier during the lockdown.
- This was because instead of a complete lockdown in March 2020, the government adopted a strategy of localized restrictions during the second Covid wave.
- With the easing of restrictions, PMI services once again started rising from August 2021, making the strongest jump in 10 years to 58.4 in October 2021
- In December 2021, the PMI index came down to 55.5.



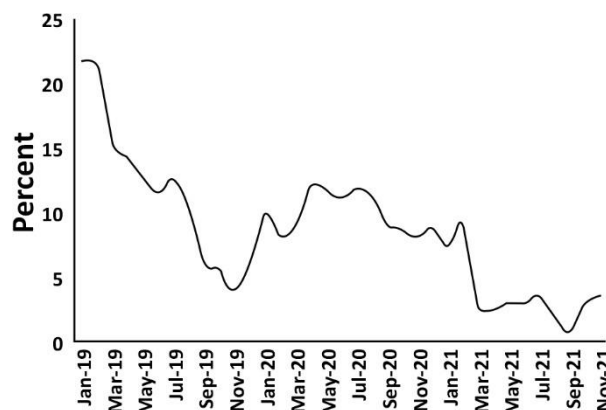
Freight Traffic

- Sharp decline in freight traffic (rail, air and port) in 2020 (due to lockdown).
- Freight traffic registered strong growth during April-June 2021, partly reflecting a rebound from a low base during the same period last year.
- The impact of second Covid wave in April-May 2021 was much less on these indicators as compared to March-May 2020.
- In the year 2021-22 (up to December), the total freight carried by the Indian Railways was 1,029.94 million tons (MT) which is 18.37 per cent higher than 870.08 MT during the same period in the year 2020-21.
- In fact, the Indian Railways registered a growth of about 16 per cent in freight loading as compared to the same period during the pre-pandemic year (2019-20), where the freight loading stood at 888.88 MT.
- Indian airports handled 20.97 lakh tons of cargo in the year 2021-22 (up to November), as against 14.44 lakh tons in the same period last year, registering a growth of 45.25 per cent.
- Between April-November 2021, Indian ports handled a total cargo traffic of 857.3 MT as compared to 779.1 MT during the same period in 2020, registering a growth of over 10 per cent.



Bank Credit to Service Sector

- Bank credit growth to the services sector accelerated to 8.8 per cent (y-o-y) at end-December 2020 from 6.2 per cent in December 2019.
- At the end of November 2021, bank credit growth decelerated to 3.6 per cent from 8.2 per cent a year ago.
- The deceleration in growth is mainly due to lower growth in credit to 'tourism, hotels and restaurants', 'transport operators' and retail as well as wholesale trade.
- On the other hand, bank credit to 'computer software', 'shipping' and 'non-banking financial companies (NBFCs)' increased.



Share of Service Sector at State and Union Territory Level

- In 12 of the 33 states and union territories, the services sector contributes more than 50 percent to the Gross State Value Added (GSVA).
- Chandigarh stands out with a particularly high share of services in GSVA at 74 per cent,
- The share of Sikkim is the lowest at 24.25 per cent.
- Notably, the share of services in Sikkim's GSVA has increased from 18 per cent in 2018-19 to over 24 per cent in 2020-21.
- Maharashtra and Karnataka are the top two contributors to the Services GSVA, with gross value added by the services sector at Rs 15.1 lakh crore and Rs 9.71 lakh crore respectively in 2020-21.
- During the year 2020-21, the service GSVA decreased by about 11 per cent in Rajasthan and by about 10 per cent in Jharkhand and Punjab.
- On the other hand, Sikkim registered the highest growth of 11.71 per cent in services GSVA during 2020-21.

FDI Inflow in Services Sector

- The services sector is the largest recipient of FDI inflows in India.
- According to the World Investment Report 2021 by the United Nations Conference on Trade and Development (UNCTAD), India was the fifth largest recipient of foreign direct investment (FDI) in 2020, improving four places from the ninth position in 2019.
- In the year 2020-21, India recorded the highest ever annual FDI inflow of US\$ 81.97 billion.
- The country received FDI inflow of US\$ 43.12 billion in the first half of the year 2021-22.
- FDI equity inflows during April-September 2021 stood at US\$ 31.15 billion, up 3.8 per cent over the corresponding period last year.
- During the first half of 2021-22, the services sector received FDI equity inflows of US\$ 16.73 billion, a decline of 29 per cent over the previous year.

FDI equity inflow	In the first half of the year 2020-21	In the first half of the year 2021-22
In the 'Computer software and hardware' sub-sector	US\$ 17.55 billion	US\$ 7.12 billion

- The education sub-sector witnessed strong inflows of US\$ 2.25 billion in April-September 2021.
- Yet, the services sector still accounts for over 50 per cent of total FDI equity inflows into India during this period

Trade in Service Sector

- Global trade in commercial services registered a decline in the year 2020 after the Covid-19 pandemic.
- The slowdown in global services was mainly due to restrictions on travel and tourism and transport services mainly due to lack of passengers (WTO, 2021).
- So far in 2021, global trade in services has shown signs of recovery as a result of widespread vaccination and resumption of global economic activity.

- Buoyed by rising commodity demand, low-capacity shipping and high freight costs, transport service improved year-on-year.
- The World Trade Organization expects global services trade to grow at a slower rate than goods trade in 2021, especially service exports in travel and leisure sectors.
- India has a leading position in global services exports
- It remained in the top ten service exporting countries in the year 2020,
- Its share in world commercial services exports increased from 3.4 per cent in 2019 to 4.1 per cent in 2020.
- The impact of the COVID-19 induced global lockdown on India's services exports was less severe as compared to merchandise exports.
- During the year 2020-21, India's merchandise exports (BOP basis) declined by 7.5 per cent (y-o-y), while services exports declined by only 3.3 per cent (y-o-y).
- Travel exports fell by nearly 72 per cent in 2020-21.
- Exports grew by 21.6 per cent as against a decline of 7.8 per cent during the first half of 2021-22. Improvement was witnessed in almost all services sub-sectors, except travel services which are in contraction mode due to continued restrictions on international travel and tourism.

Services trade performance by sub-sector

Item Group	Participation (in %)		Value (US\$ billion)				Growth (Percentage year-on-year)			
	2010-11	2020-21	2019-20	2020-21	2020-21 (April-September)	2021-22 (April-September)	2019-20	2020-21	2020-21 (April-September)	2021-22 (April-September)
Total service exports	100	100	213.19	206.09	96.75	117.64	2.5	-3.3	-7.8	21.6
Travel	12.7	4.1	30.00	8.48	4.01	3.74	5.5	-71.7	-72.5	-6.6
Transportation	11.4	10.6	20.99	21.85	10.17	14.32	7.8	4.1	-3.3	40.7
Insurance	1.6	1.2	2.43	2.38	1.15	1.57	-8.7	-2.2	-3	35.9
GNIE	0.4	0.3	0.66	0.63	0.29	0.42	8.0	-4.5	-8.8	43.7
Software service	42.6	48.5	93.10	100	47.41	57.57	11.50	8.6	2.9	21.4
Business service	19.3	23.9	45.72	49.16	22.91	26.82	16.90	7.5	2.5	17.1
Financial service	5.2	2.1	4.73	4.34	2.01	2.50	-2.60	-8.3	-20.3	24.4
Communications	1.3	1.4	2.72	2.80	1.37	1.57	6.30	2.9	2.4	15.0

Service Import

- India's services imports witnessed a sharp decline of 8.4 per cent in 2020-21 as compared to services exports mainly due to decline in travel and transport payments.
- During the first half of the year 2021-22, there was a growth of 20.7 percent in service imports due to relaxation of lockdown restrictions and resumption of domestic economic activities.
- Across key sectors, foreign travel payments grew by over 23 per cent year-on-year in the first half of 2021-22,
- International shortage of shipping vessels led to increase in transportation cost, which is evident from 64.9 per cent increase in expenditure on account of transportation service during April-September 2021.
- Business services, the largest category in India's service imports, grew by 0.9 per cent in the first half of 2021-22.
- The increase in professional service payments was due to higher outbound remittances for technical, trade related, other professional services, maintenance of offices abroad.

Services trade performance by sub-sector

Item Group	Participation (in %)		Value (US\$ billion)				Growth (Percentage year-on-year)			
	2010-11	2020-21	2019-20	2020-21	2020-21 (April-September)	2021-22 (April-September)	2019-20	2020-21	2020-21 (April-September)	2021-22 (April-September)
Total service imports	100	100	128.27	117.52	54.9	66.24	1.80	-8.4	-14.2	20.7
Travel	13.7	9.8	22.01	11.51	5.53	6.80	1.40	-47.7	-54.8	23.1
Transportation	17.2	16.8	24.28	19.76	8.98	14.80	18.30	-18.7	-25.9	64.9
Insurance	1.7	1.8	1.74	2.06	0.92	1.00	-2.90	18.4	19.9	9.6
GNIE	1.0	0.9	1.11	1.02	0.52	0.43	-0.70	-7.7	-14	-16.6
Software service	2.7	8.7	8.46	10.26	4.62	5.65	45.50	21.2	15.6	22.4
Business service	34.4	42.1	46.88	49.52	23.87	24.09	16.00	5.6	4.1	0.9
Financial service	9.3	4.1	2.92	4.76	2.17	2.58	-16.30	63.2	94.8	19.0
Communications	1.4	1.2	1.30	1.44	0.66	0.58	14.70	11.0	3.2	-11.3

Services Export Promotion Schemes

- **Diversification Services Sector:** There is a need to promote opportunities in high growth sectors outside the core information technology and IT-enabled services (ITeS). Example:
 - The introduction of domestic legal services sector will benefit Indian lawyers as they will get huge opportunities in countries like Europe, Australia and America.
 - In addition, there is a need to focus on potential areas such as higher education, hospitality and medical tourism.
- **FTA in Services:** Government is actively analyzing market access opportunities through Free Trade Agreements (FTAs) with major economies (including UK, EU, Australia, and UAE) to support the services sector
- **Fine tuning SEIS scheme:** The government is working on a program that could replace the Service Exports from India Scheme (SEIS) in its current form.
- According to the government, the service industry needs to stay away from support such as government subsidies.
- It will encourage companies to increase their competitiveness.
- Also, the subsidy amount can be used for those who need it more.

Benefits to India:

Strong Demand	Competitive Advantage	Policy Support	Increasing Investment
<ul style="list-style-type: none"> • India is the export hub for software services • The Indian IT outsourcing services market is expected to witness a growth of 6-8% between 2021 and 2024. • India's software services industry is expected to reach US\$ 1 trillion by 2030. 	<ul style="list-style-type: none"> • Large pool of skilled manpower, especially in the areas of IT and ITS, is available at relatively low cost. • Rapidly growing youth population who is migrating from agriculture to other sectors, • Will prove to be a boon for this sector. 	<ul style="list-style-type: none"> • Government of India is focusing on promoting Make-in-India initiative and expanding India's entrepreneurial ecosystem across all service sectors. • Government is promoting essential services and will levy zero tax for education and health services under GST 	<ul style="list-style-type: none"> • In India, the services sector was the largest recipient of FDI inflows (worth US\$ 87.06 billion) between April 2000 and March 2021. • In the first half of 2021, private equity investment in India stood at US\$ 11.82 billion compared to the US. • \$ 5.43 billion in the same period last year

Major Services: Sub-Sector-wise Performance and Latest Policies

- Most sub-sectors of the services sector, especially aviation, tourism, and port traffic, slowed down in 2020-21 due to the global shutdown and movement restrictions related to COVID-19.
- So far in 2021-22, these sub-sectors have shown signs of recovery, largely reflecting a rebound from the same period last year.
- All commercial international flights were banned from March 2020. This affected foreign tourist travel and consequently foreign exchange earnings from tourism.
- During April-November 2021, 95.63 million passengers traveled as against 45.2 million during the same period last year. Cargo traffic at the ports increased by nearly 10 per cent to 857.31 million tons (MT) during the April-November period of the current financial year as against 779.16 MT during April-November 2020

Tourism Sector 9.31

- In normal times, the tourism sector is a major contributor to GDP growth, foreign exchange earnings and employment.
- However, the COVID-19 pandemic has had a debilitating effect on global travel and tourism everywhere including India.
- According to the World Tourism Barometer of the United Nations World Tourism Organization (January 2021), there has been a decline of 74 percent globally in the year 2020 as compared to the previous year.
- International tourist arrivals that totaled 1.5 billion in 2019 are expected to decline to 381 million in 2020, with an estimated loss of US\$ 1.3 trillion in export revenue.
- During January-September 2021, international tourist arrivals in the world were 20 per cent lower than the same period in 2020 and 64 per cent below 2019 levels.
- Currently, India has transport bubbles with 35 countries.

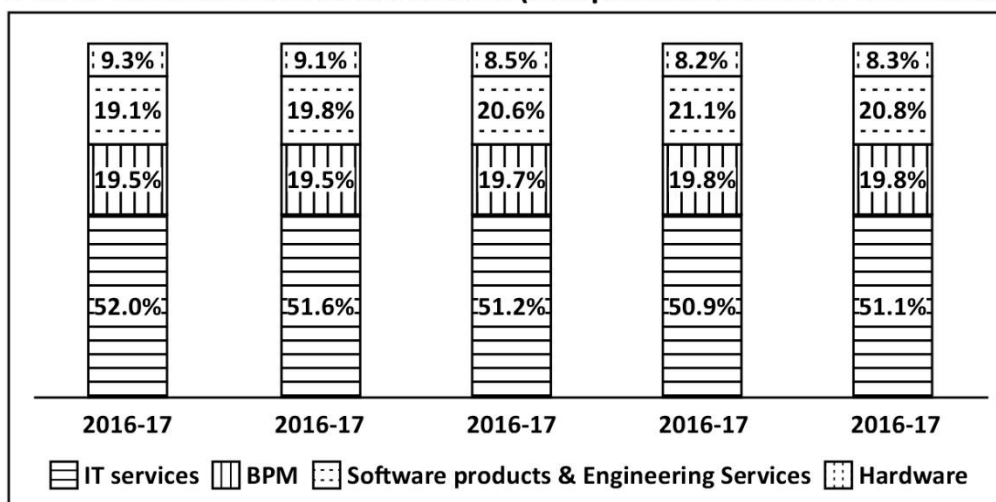
IT BPM Services

- The Information Technology-Business Process Management (IT-BPM) sector is a major segment of India's services.
- During 2020-21, IT-BPM revenue (excluding e-commerce) reached US\$ 194 billion, adding 1.38 lakh employees, a growth of 2.26 per cent, according to NASSCOM's provisional estimates.

Ports, Shipping and Waterways Services

- The ports handle about 90 per cent of the import-export cargo in India and 70 per cent by value.
- The total cargo capacity of all ports increased to 1246.86 million tons per annum (MTPA) by March 2021, as against 1,052.23 MTPA in March 2014.
- Cargo traffic at Indian ports declined by 5.4 per cent to 1246.86 MT during 2020-21 from 1,317.73 MT during 2019-20, affected by disruptions due to COVID-19.
- Registered a growth of 10.16 percent during April-November 2021 as compared to the same period last year
- During the first eight months of 2021-22, the ports handled a total traffic of about 858.3 MT as compared to 779.2 MT in the corresponding period last year.

IT-BPM revenue share of sub-sectors (except hardware and e-commerce)



Export Share in IT-BPM Sector

- During 2020-21, total revenue in the IT-BPM sector (excluding hardware and e-commerce) grew at 2.1 per cent (y-o-y).
- A major part of this revenue comes from exports.
- During 2020-21, export revenue grew by 1.93 percent to reach US\$ 149.1 billion

Distribution of Export Revenue

- United States continues to be the largest recipient of export revenue of US\$ 92.1 billion in the year 2020-21
- It accounts for about 62 percent of total IT-BPM exports (excluding hardware and e-commerce).
- Great Britain is the second largest export market for IT-BPM services with a share of around 17 per cent.
- Export revenue to Great Britain stood at US\$ 25.2 billion in 2020-21.
- Europe (excluding Great Britain) and Asia-Pacific account for 11.5 per cent and 7.7 per cent, respectively, of India's export earnings.

Sagarmala Program

- It is a flagship program of the Ministry of Ports, Shipping and Waterways to promote port-led development in the country by taking advantage of India's 7,500 km long coastline, 14,500 km of potentially navigable waterways and strategic locations along major maritime trade routes.
- The main objective of the Sagarmala program is to reduce the logistics cost for export, import and domestic trade.
- Currently, a total of 802 projects worth Rs 5.53 lakh crore are part of the Sagarmala programme.
- Of these, 181 projects worth Rs 94,712 crore have been completed and 398 projects worth Rs 2.48 lakh crore are under various stages of implementation.

Space Sector

- Since its inception in the 1960s, the Indian space program has grown significantly.
- Managed by the Department of Space (DoS) and mainly executed by its Research and Development wing, the capabilities of the Indian Space Research Organization (ISRO) have been developed in all domains of the space sector.
- Indigenous Space Transportation System; Space assets, which include fleets of satellites serving the needs of Earth observation, satellite communications, meteorology, space science and navigation, ground infrastructure and several operational programs related to applications of space technology are included for the general use of society.
- Government undertakes space sector reforms in 2020, envisages private sector to act as a co-traveler in outer space exploration and providing space-based services

Other Related Initiatives:

Indian National Space Promotion and Authorization Center (IN-SPACe):

- The Indian National Space Promotion and Authorization Center (IN-SPACe) was approved in the year 2020 to provide a level-playing field to private companies to use Indian space infrastructure.
- It serves as a single-point interface between the Indian Space Research Organization (ISRO) and every stakeholder of space-related activities or using India's space resources.

New Space India Limited (NSIL):

- NSIL, announced in Budget 2019, aims to use the research and development done by ISRO over the years for commercial purposes through Indian industry partners.

Indian Space Association (ISpA):

- ISpA will become a collective expression of the Indian space industry.
- ISpA will be represented by leading domestic and global corporations with advanced capabilities in space and satellite technologies.
- The trend in the number of start-ups engaged in the space sector reflects the pace of development of the space sector in India
- In the last three years alone, the number of startups in the space sector has increased from 11 in 2019 to 47 in 2021.

- With these recently launched policy initiatives and private sector participation, the Indian space sector is expected to capture a major share of the global space economy, which was close to US\$ 447 billion in the year 2020.
- Currently, India's contribution to the space economy is only 2 per cent, far behind the leading countries - The United States and China.

Drone Rules 2021

- In March 2021, the Ministry of Civil Aviation published the UAS Rules, 2021.
- These regulations were perceived as too strict and restrictive because of the huge amount of paperwork required, permission required for each drone flight and very few free-to-fly green zones available.
- Based on the feedback, the government has decided to repeal the Unmanned Aircraft System (UAS) Rules, 2021 and replace it with liberalized Drone Rules, 2021, notified on 25 August 2021.

Key features of the Drone Rules 2021 include:

- Many approvals were canceled –
 - Total forms to be filled reduced from 25 to 5
 - Unique Authorization Number,
 - Unique prototype identification number,
 - Certificate of Manufacturing,
 - Various approvals like operator permit etc. were abolished.
- Fee types reduced from 72 to 4
- Extended Applicability of the Rules
- Simplified and accessible authentication process
- Withdrawal of prior security clearance
- Expanded Area of Drone Operations
- Freely accessible under the green category
- Exemption to foreign companies
- Remote pilot license is not required for micro drones (for non-commercial use) and nano drones.
- Exemption for Research and Development (R&D)
- Fines reduced

Startup

- Startups in India have grown significantly in the last six years, most of them in the service sector.
- Government recognized more than 14,000 new startups during the year 2021,
- While the government recognized over 14,000 new startups as compared to only 733 new startups during the year 2016-17.
- As a result, as on 10 January 2022, more than 61,400 startups have been recognized in India.
- During the year 2021, 555 districts had at least one new startup. On the other hand, only 121 districts had at least 1 new startup in the year 2016-17.
- In recent years, Delhi has replaced Bangalore as the startup capital of India.
- More than 5,000 recognized startups were added in Delhi, while 4,514 startups were added in Bangalore between April 2019 and December 2021.
- Most recognized startups in Maharashtra, with a total of 11,308 startups
- A record number of start-ups (44) to reach unicorn status in the year 2021 in India.
- It has overtaken Great Britain to become the third largest country after America and China.
- As on 14 January 2022, India has 83 unicorns with a total valuation of US\$ 277.77 billion.

Patent

- Most of the startups in India are in the IT/Knowledge based sector.
- Intellectual property, especially patents are the key to this knowledge-based economy.
- There has been a gradual increase in filing and granting of patents in India.
- The number of patents filed in India has increased from 39,400 in 2010-11 to 45,444 in 2016-17, to 58,502 in 2020-21
- Patents granted in India increased from 7,509 to 9,847 to 28,391 during the same period.
- The share of Indian residents in total applications has increased from 20 per cent in 2010-11 to around 30 per cent in 2016-17 and 40 per cent in 2020-21.

- As a result, India's rank in the Global Innovation Index has gone up from 81 in 2015-16 to 46 in 2021.
- This is a remarkable progress, but the number of patents granted in India is still a fraction of the number of patents granted in China, US, Japan, and Korea.
- According to the World Intellectual Property Organization (WIPO), the number of patents granted in China, US, Japan, Korea stood at 5.30 lakh, 3.52 lakh, 1.79 lakh, 1.35 lakh respectively for 2020.
- One of the main reasons for relatively fewer patents in India as compared to USA, China, etc.
 - India has less expenditure on research and development activities,
 - Which was 0.7 percent of its GDP in the year 2020.
 - Procedural delay and complexity of process is another reason for low number of patents in India.
 - The average pendency for final decision in obtaining a patent in India is 42 months as of the year 2020. This is much higher than the 20.8, 20, 15.8 and 15 months for USA, China, Korea, and Japan respectively.



2 CHAPTER

Goods: Public, Private and Merit

Basis for Comparison	Goods	Services
Meaning	Goods are physical items that can be seen, touched, or felt by customers and are ready for sale.	Services are facilities, amenities, benefits or assistance provided by other people.
Nature	Tangible	Intangible
Transfer of Ownership	Yes	No
Evaluation	Very simple and easy	Complicated
Return	Item can be returned.	Services once provided cannot be returned.
Separation	Yes, the item can be separated from the seller.	No, the services cannot be separated from the service provider.
Convertibility	Similar	Different
Storage	The goods can be stored for future use or multiple use.	Services cannot be stored.
Production and Consumption	There is a time lag between the production and consumption of goods.	Production and consumption of goods take place simultaneously.

- Private goods refer to such goods which can be produced and consumed privately.
- Market mechanisms work efficiently in the provision of private goods.
- Price must be paid for the consumption of private goods.

Characteristics of Private Goods

Following are the characteristics of private goods:

- Consumption of private goods is competitive
- Consumption of a private good by one person affects the utility and availability of that good for other persons in such a way that the amount of benefit provided by those good decreases.
 - Eg, purchase of a flat by a person in a colony reduces the availability of flats for other persons.
- For private goods, the principle of exclusion and separation of consumer applies.
 - According to its principle, only those persons who have paid the market price of that good are able to consume the private good.
 - People who are unable to pay are deprived of the consumption of private goods.
- The preferences of the consumer of private goods are expressed automatically and autonomously.
- Private goods are divisible and the benefits generated by them remain confined to private individuals.
- Private goods are confined only to the consumer who purchases them.
- Overall, the purpose of a private good is limited to the supply of personal interests.
- Most of the private goods are arranged through the market system, that is, the allocation of private goods is done through the market system.
- Private goods are generally produced in the private sector, but in developing countries like India, where the public sector plays an important role in the economy, production of private goods also takes place in the public sector.
- However, due to the intensification of the process of liberalization and globalization, the market and the private sector have started playing a major role in the production of most of the goods in India.

Public Goods

- Public goods are those whose production creates external benefits and savings
- They are used collectively.
- These goods are non-competitive in consumption
- The principle of exclusion and separation of the consumer does not apply in the context of these goods.
- The main objective of production of public goods is to satisfy public needs.

- Allocation of public goods is generally done through fiscal and budget policies.
- Common examples of public goods include defense, lighthouses, street lighting, bridges, parks, clean air, environmental goods, and information goods.
- Invention and innovation, technical development, writing etc. come under the information goods.
- No one wants to pay for getting benefit from information goods because the principle of exclusion does not apply to it and the cost of its reproduction is almost zero.

Characteristics of Public Goods

- Use of public goods is non-competitive.
- The principle of exclusion and separation of consumer does not apply to public goods.
- The expression of preferences for public goods is not automatic but determined by the society.
- Public goods are available in equal quantity to everyone in the society for consumption and benefit.
- Public goods are consumed collectively
- Supply of goods serves public purposes.
- Public goods create benefits for society through external savings.
- Benefits generated by public goods are indivisible.
- Market system and price mechanism fail in relation to public goods.
- There is a difference between marginal social cost and marginal private cost for public goods.

Difference Between Private and Public Goods -

Public Goods	Private Goods
Non-competitive consumption of a public good	There is competitive consumption of private goods.
Consumption of a public good by an individual does not affect other individuals	The consumption of a private good has a negative effect on the quantity of the good available to other consumers.
No one can be denied the benefits of a public good whether the consumer has paid or not. For example, no one can be deprived of the benefits of defense, lighthouse, street lighting, pure air prevention program etc.	On the other hand, due to the application of the principle of exclusion in relation to a commodity, the consumer is deprived of consumption in the event of being able to pay.
Public goods are consumed collectively.	Private goods are consumed privately.
Consumers' preferences about private goods are automatically expressed in the market.	Preferences for private goods are not automatically expressed.
The purpose of public goods is to meet public and social welfare and consumption.	Whereas the purpose of private goods is limited to the fulfillment of personal welfare.
At the same time, it is not possible to measure and assess the benefits derived from the consumption of public goods.	It is possible to estimate and measure how much each person has benefited from the consumption of private goods.
The market system fails in relation to the pricing of public goods and their arrangement.	In respect of private goods, the price and market mechanism work efficiently.
The provision of public goods is mostly done through fiscal and budget policies.	On the other hand, the market system works effectively for the provision of private goods.

Merit Goods

- Goods of merit are also called excellent or quality goods.
- Merit goods concept has been developed by Musgrave.
- According to Musgrave, the merit good is not determined based on payment but based on need.
- Merit goods include such items whose consumption fulfills the capacity, efficiency, and basic needs of the society.
- Assistance given for education and health, arrangement of food in schools, assistance for food and nutrition, employment etc. are included under merit goods.
- Merit goods are arranged by the government to fulfill the purpose that if these facilities are completely left to the private sector, many people in the society will be deprived of these essential facilities due to lack of their ability.
- Inadequate supply of merit items can have adverse effects on the society.
- Merit items may or may not be competitive.

- Under merit goods, the government makes provision of those goods and services, about which the government makes the concept that they are not being consumed as expected, and to increase the consumption of these goods and services in the interest of the society, they are provided with state assistance.
- Merit goods have some properties like public goods, but the principle of exclusion also applies to them.

Basic Concepts of Merit goods

- Merit goods when consumed create positive externalities that create external benefits for society for which consumers do not have to pay anything.
- The supply of merit goods is based on interference with the preferences of the consumers. The preferences of the consumers are not taken into consideration while arranging for these items and the government imposes their preferences. For example, the government imposes rules on consumers for accident insurance of vehicles.
- Social benefits of merit goods exceed private benefits due to externalities. That is, the marginal social cost becomes less than the marginal private cost of these goods.
- Individual consumer puts more emphasis on the supply of his immediate interests and in the fulfillment of long-term and comprehensive interests, he is not able to properly consume consumer merit goods in the absence of far-sighted approach and better and complete information.
- Merit goods cannot be left only to the private sector and market system. There is a possibility of being deprived of the consumption of these essential commodities due to the inability of consumers to express preference towards these commodities and lack of ability to buy them.
- In order to increase the welfare of specific sections of the society, the government makes provision of merit goods through the budget to increase the consumption of these goods and to make them available to each consumer at reasonable prices.
- In the context of arrangement of merit goods, it is not always necessary that the supply of these goods should be made according to the public system, but it is necessary that the supply of these goods should be supplemented or promoted by the public system.
- One quality found in merit goods is that they are not supplied for the entire society like public goods but for a particular section of the society. For example, government assistance for women's health or distribution of food grain for the poor, etc.

Demerit or Harmful Goods

- To clarify the concept of merit goods, analysis of demerit or harmful goods is necessary.
- The nature and concepts of demerit goods are opposite to merit goods.
- Demerit goods include those goods which are socially harmful and undesirable and which are produced in excessive quantity by the market system.
- Cigarettes, tobacco, liquor, drugs, obscene cinema etc. can be included under this category.

Features of Demerit goods-

- Negative externalities and external losses are created for the society by demerit goods. Means, along with the consumer who directly consumes these goods, other persons also must bear the loss, whether he is responsible for them or not. For example, along with a smoker, others also must suffer.
- In case of demerit goods, the marginal social cost is greater than the marginal private cost. Due to negative externalities, the amount of social loss exceeds the private cost.
- Due to negative externalities, the society must bear such loss for which the society is not responsible. At the same time, the market system is not able to include this loss in the private cost. Because of which the person who creates conditions of social harm does not get the motivation to improve his actions. For example, society must bear the loss of environmental pollution caused by industrial units during the process of production and the market system cannot compel the responsible industrial unit to include this loss in its personal cost.
- Due to negative externalities, the amount of marginal private benefit exceeds marginal social benefit due to which there is loss of social welfare.
- To control the production of demerit goods and to discourage the consumption of these goods in the society, the government uses the following strategy -
 - Can issue license on a limited scale for the production and use of these items.
 - Can discourage their use by imposing high taxes on these goods.
 - Can prohibit the use of harmful items for a specific class.
 - Can provide for monetary penalty on unnecessary production and use of harmful goods.
 - Can legally prohibit the production and consumption of harmful goods.

3 CHAPTER

Role of State Economics Development

Role of State in Economic Development

- “The state is no longer just a watchman and a magistrate. Today, the state works on the principle that the interests of the individual and society can be achieved through a social process of reason and action and can be implemented through statutes. The territory of the state is increasing in every direction. -**Alexander Pope**.

Functions carried out by the State

- At present, the state determines the form of institutions related to economic activities,
- Administers public services
- Determines the process of using resources,
- Determines appropriations,
- Keeps control on economic high-values,
- Establishes industries and plays an important role in their operation.
- Determines and controls the amount of currency,
- Provides employment.

Role in Economic Development

- To understand the role of the state in the economic development of a country, the functions of the state can be divided into the following two parts.

Direct Role of the State

(1) Mobilizing Economic and Social Facilities

- Economic and social facilities play a major role in the development of every country.
- It is the primary responsibility of the state to make proper arrangements for these facilities.
- Every state arranges good roads in the country.
- Provides proper means of energy,
- Provides advanced means of communication
- Invests money in public welfare.
- Education is arranged for the general public.
- Health facilities are expanded,
- Housing schemes are implemented
- Arrangements are made to spend money on many other similar public welfare schemes.
- With the execution of these tasks, the establishment of industries becomes easier, the pace of industrial development becomes faster and there is a huge reduction in capital investment.

(2) Playing a Direct Role in Industrialization

- Many small and big industries are established by the state,
- The control of the country's weak industrial units is taken in its hands, important works of industrial development are completed by the state.
- Establishes those basic industries in which huge amount of money is invested.
- In the country, when the tendency of monopoly is encouraged by the private sector or an attempt is made to centralize the poignant power, then the state imposes various types of restrictions on such tendencies to prevent them from growing.
- If there is an extreme need, the state nationalizes such units and takes over their complete control.

(3) To ensure an uninterrupted supply of means of production

- In underdeveloped countries, the means of production as well as mobility are very less.
- Therefore, the state itself plays an important role in accumulating the means of production.
- Production units are also set up.
- New entrepreneurs are encouraged to set up industries
- Facilities are made available for setting up industries.

- The state establishes educational institutions for general and technical education, so that the industries established by the state can get educated and skilled managers.
- Employment Exchanges are also established by the state, due to which mobility among the workers is ensured.
- The state can invest in industries by obtaining capital from abroad in the form of loan.

(4) Efforts to Bring Institutional Organizational Change

- Generally, in underdeveloped countries, systems like casteism, religious fanaticism, social traditions and rules of faulty succession create obstacles in economic development. Therefore, with a view to change them, the state must make many efforts. For example-
 - Rectifying defective rules of succession
 - Smooth implementation of programs of rural development
 - Banning monopolistic tendencies
 - Making laws to improve the land system
- With these systems, where the organization of the production system gets tight, the production also increases and the wastage is stopped.
- Many rules and regulations are made by the government keeping the interests of the workers in mind, due to which a healthy industrial environment is created.
- Markets are organized by the government for economic development and efforts are made to expand them.
- Credit facilities are made available,
- Demand and supply are affected.

Indirect Role of the State in Economic Development

(1) Helpful in the Formulation of Monetary Policy

(2) In Determining the Tariff Policy

- This policy is determined and regulated by the state itself.
- Imposition of various taxes, public debt, public income, deficit financing, etc. are included under the tariff policy.
- State reduces the inequality of distribution of income and wealth by setting tariff policy,
- Inspires entrepreneurs to set up industries.
- Increases national income and savings,
- Increases the investment rate.
- Controls consumption.

(3) In Determining Tariff Policy

- A state also decides the import and export policy of the country.
- Import and export policy is called tariff policy.
- This policy has an important role in the economic development of the country. Exports are encouraged and domestic industries are protected by controlling imports through tariff policy.

(4) In Determining the Pricing Policy

- Price policy refers to keeping an eye on the prices of various commodities by the state and controlling them.
- When a country passes through the phase of economic development, the amount of expenditure increases in that country.
- The speed at which the amount of this expenditure increases. Production does not increase at that speed. As a result, there is a situation of continuous price rise in the country.
- Although price rise is a normal process in economic development, but when prices start increasing at an uncontrolled pace, there is a hindrance in economic development.
- In such a situation, the interests of both producer and consumer are protected by the fair price policy by the state and continuity is maintained in the pace of economic development.

State's Role in Industrial Development

- The state has an important role in the industrial development of an underdeveloped country.
- This role of the state can be divided into the following four categories

1. Role of Management

2. Role of promoter

3. Role of Entrepreneur

4. Role of planner

(1) Role of Management

- The role of management is important in capitalist and mixed economy countries.
- Under this, the state performs the following functions:
 - Determines the conditions for starting business activities, this condition is called 'Government Permission' or 'License System'.
 - Determines the behavior of business institutions, under whose parameters such institution will be able to run its institution. For example. - An institution will have to pay the prescribed taxes; the institute will have to arrange for the prescribed best class goods.
 - Regulates the profits of the business etc.
 - Regulates various parts of the economy. Consumers, workers, investors, etc. are the main parts of the economy. The state makes many efforts to protect their interests. like-
 - To make the goods available to the consumers at a reasonable price
 - Fixing the minimum rate of wages for the workers
 - Banning economic centralization,
 - Nominating investors as directors in companies to protect their interests.
- **The above management functions of the state can also be divided into two parts, direct and indirect.**

Direct Action	Indirect Action
<ul style="list-style-type: none"> • Providing license for establishment of industries • To control the issue of capital • Keeping control over foreign exchange • Keeping control on import-export • Keeping control over production and distribution • Ensuring control under company law 	<ul style="list-style-type: none"> • Formulating the monetary policy of the state • Formulation of tariff policy

(2) Role of promoter

- Development and expansion of communication
- Development of rail and road facilities,
- Establishing power stations for energy resources.
- Establishing financial institutions,
- Raising facilities for industrial research
- Establishing institutions
- Establishing an institute for the education and training of hostages

(3) Role of Entrepreneur

- Today, all the nations of the world are establishing public enterprises to end the economic imbalance and protect the interests of the society.
- The state plays an important role as an entrepreneur in setting up public enterprises.

(4) Planning Role

- The role of planning is very important for economic development in underdeveloped countries.
- Every underdeveloped nation develops itself through planning.
- These nations decide their priorities, and then keeping these priorities in view, outlining the plans for the development of the country.
- These drafts of development plans are prepared keeping in view the program of balanced and complete development.
- This not only increases production and consumption, but also encourages savings and investment.
- This also solves the problem of unequal distribution of income and wealth.

Conclusion - Role of the State in India: From 1947 to 1991, the role of the State has been as a regulator and from 1991 to 2014 as a strong regulator, but at present (from 2014 to present) it has been a promoter, a facilitator, and an indirect role (minimum government maximum governance)