Effects of Globalisation on Employment and Poverty in Dualistic Economies: The Case of India

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A B S T R A C T

Although it is too early to evaluate the long-run socio-economic effects of economic liberalisation and privatisation, along with the overall globalisation process, on a dualistic economy like India's, the paper will first examine the often-raised concern that these economic changes have, in general, led to the erosion of living standards of the poor; increase in regional disparities in terms of industrial benefits; deterioration or, at least, a sluggishness in employment generation; greater casualisation; feminisation and deskilling of the work-force; and growing uncertainty and hidden hardships associated with recent patterns of economic changes; etc. It then intends to look into the kind of ripple effect all these will cause in the unorganised segment of the Indian economy which includes major part of the agricultural sector, rural non-agricultural and urban informal sector activities.

1. Introduction

Although various aspects of *globalisation* are intentional and reflexive, many globalising forces are impersonal and beyond the control and intentions of any individual or group of individuals[1]. In response to the contemporary globalisation process[2], economic liberalisation has been taking place in India— a labour surplus dualistic economy— over the past two decades. In the current chapter, the author would like to focus on the change, if any, of the degree of socio-economic dualism in India that has adopted a comprehensive economic reform in July 1991. Many argue that the liberalisation policy has been, in many ways, erratic, hasty, and unplanned. According to the critics, it has eroded the role of the planning process and aggravated the social problems of unemployment and poverty, and also increased the external vulnerability. In order to test validity or otherwise of these arguments made, let us first mention that India has a *structural dualism* at the very aggregate level. This means that India has two different socio-economic-technological environments— the *organised* (or modern) segment (predominantly *capitalistic*) and the *unorganised* (or traditional) segment (predominantly *pre-capitalistic*)— co-exist within its geographical boundary. The *organised* segment includes all establishments in the Public Sector irrespective of size of employment and non-agricultural establishments in the Private Sector employing 10 or more persons. The *unorganised* (or traditional) segment is usually defined to be the segment that is not recorded under any factory legislation. This segment is mostly comprised of self-employed households and casual labour with no steady employment and, therefore, no secure or sustainable incomes, and above all with no access to the benefits of social security[3]. Although the share of the organised segment in Net Domestic Product (NDP) (at factor cost) has increased from 30% during 1980-81 to 39.1% during 1998-99 (**Table–A1**), but that in employment has steadily declined from only 7.49% of total workers in 1981 to only 6.38% in 1999 (**Table–A2**). As a result, the unorganised segment continues to contain over 93% of India's labour force, in spite of the decline in its share in net domestic product from 70.0% in 1980-81 to 60.9% in 1998-99 (**Table–A3**).

In his address to the nation on the eve of the Golden Jubilee of the Indian Republic in 2000, the then President, Shri K. R. Narayan takes pride in India's achievements of being the world's largest democracy and one of the 10 fastest growing economies in the world. He also reminds us that, over the past fifty years, in our sovereign democratic Republic 'Justice— social, economic and political— remains an unrealised dream for millions of our fellow citizens.' He himself describes different facets of the unrealised dream saying:

> The benefits of our economic growth are yet to reach them. We have one of the world's largest reservoirs of technical personnel, but also the world's largest number of illiterates; the world's largest middle class, but also the largest number of people below the poverty line, and the largest number of children suffering from malnutrition. Our giant factories rise from out of squalor; our satellites shoot up from the midst of the hovels of the poor. ….. Tragically, the growth in our economy has not been uniform. It has been accompanied by great regional and social inequalities……. The unabashed, vulgar indulgence in conspicuous consumption by the noveau-riche has left the underclass seething in frustration. One half of our society guzzles aerated beverages while the other has to make do with palmfuls of muddied water. Our three-way fast-lane of liberalization, privatisation and globalisation must provide safe pedestrian crossings for the unempowered India also so that it too can move towards 'Equality of Status and Opportunity' (Narayan, 2000).

Although the former President's 'unempowered India' refers to the 'lowest tier of society' including *Dalits* and *tribals* in general, and more specifically *Dalit women* of some parts of rural India, I will basically refer it to the working class people of India's *unorganised* segment. An earlier *Report of the National Commission on Labour* (1969, p. 417) provides a list of major categories of unorganised sectors that involve large number of workers— mostly are *under*- and *un*-employed. These categories include contract labour including construction workers; labour employed in small scale industry; hand-loom/power-loom workers; bidi and cigar workers; employees in shops and commercial establishments; sweepers and scavengers; workers in tanneries; tribal labour; casual and other unprotected labour; *etc*. After more than 30 years, since the publication of this *Report*, the number of categories certainly has increased, but the characteristics of the *unorganised* segment remain virtually the same. Such segment is usually characterised by low capital-labour ratio, low level of formal schooling, low-paying jobs, poor working condition, little job security, inferior social status, and, above all, lack of governmental support. It goes without saying that India's poverty syndrome is a direct result of the very state and nature of its vast *unorganised* segment, although it is functionally related to its *organised* segment.

For the sake of analysis, the Indian experiences of economic liberalisation and their effects on economic development will be divided into two phases (as discussed in Sections 2 and 3):

Phase I: Policy changes towards liberalisation (1980-90), and

Phase II: Comprehensive liberalisation (1991 and onwards).

Section 4 will focus on the general impacts of liberalisation and privatisation along with the overall globalisation process on the Indian economy during 1980's and

1990's, while an attempt will be made in Section 5 to provide their specific implications for its *unorganised* segment. Finally, a conclusion[4] will follow in Section 6.

2. Policy changes towards liberalisation (1980-90)

Although the Sixth Five Year Plan (1980-85) was originally scheduled by the Janata Government[5] for the period of 1978-83, but it was actually launched after Indira Gandhi came back into power as the Prime Minister in January 1980. 'New Industrial Growth with Direct Measures for Poverty Eradications' was the development strategy of this Plan[6]. Just before the Sixth FiveYear Plan document was published, a new Industrial Policy Statement was issued by Mrs. Gandhi's government in July 1980. In fact, this Statement was a special effort to stimulate and accelerate industrial growth against the background of India's slower growth/stagnation in the industrial sphere during the late sixties and the seventies. The Statement emphasised the necessity of 'a set of pragmatic policies which will remove the lingering constraints to industrial production and, at the same time, act as catalyst for faster growth in coming decades.'[7] Although no special designation was given to the 'directional changes' that the Statement was pushing forward, but in retrospect the shift was in favour of 'liberalisation' and 'export-promotion'— two thrusts of the industrial policy which came to be explicitly recognised afterwards by the government of Rajiv Gandhi since the mid-eighties[8].

During the regime of Mr. Gandhi, a number of steps were taken to reform the overall industrial policy in such a way that it could become more conducive to the promotion of competition, modernisation and cost efficiency. The reform measures had three basic objectives, namely, to facilitate capacity creation, to facilitate output expansion, and to remove procedural impediments[9]. Support for these policy reforms is also reflected in the underlying development strategy of the Seventh Five Year Plan (1985-90)— 'Industrial Growth and Liberalisation'.

Some of the major industrial policy changes that resulted from the New Industrial Policy Initiatives were: delicensing of a wide range of industries, expansion of asset ceiling of the big monopoly houses and the MRTP companies[10], liberalisation of depreciation provisions, reduction of both corporate and personal tax rates, drastic import liberalisation, extension of *broad-banding*[11] to a larger number of industries, elimination of many of the existing government controls, etc. The main objective of the industrial policy under the Rajiv Government was thus to encourage economic growth led by the private sector, with the public sector playing more and more of a subordinate role. In fact, the modernisation programme through technological rationalisation and managerial competence had been, since the independence, a very drastic one without any social cost consideration. As the Rajiv Government had complete faith in the 'trickle down' approach of economic growth and development, the direct programmes for poverty eradication of the previous Plan were no longer an important preoccupation of Mr. Gandhi's regime.

According to *Economic Survey*— the official annual report of the Government of India, industrial production during 1980-87 grew at a compound annual rate of 7.6 per cent and during 1987-88 grew at 7.5 per cent as against that of 4.2 per cent per annum during 1971-80. There had been a number of infrastructural developments in the Indian capital market during the second half of the eighties[12]. In spite of the various positive developments on the industrial front, the regime started experiencing some disturbing trends since 1987-88. Besides the monsoon failures, there had been a substantial decline in industrial licences, especially for the backward areas, virtual stagnation of employment growth in the *organised* segment, the increasing incidence of industrial sickness, increasing foreign debt, *etc*. There had been evidence of a marked slowing down of the rate of growth of industrial production since the first quarter of the year of 1989-90. During the short period of about eighteen months from December 1989 to June 1991, when two non-Congress governments[13] were in power, the liberalisation process was also slowed down.

3. Comprehensive liberalisation (since 1991)

After the assassination of Rajiv Gandhi on 21 May 1991, a minority Congress government of the Prime Minister P.V. Narasimha Rao was voted to power in June 1991. Faced with India's foreign exchange reserves in a state of near bankruptcy[14], the Rao government, while making a proposed request for a loan of US$ 2.26 billion from the IMF, succumbed to the World Bank-IMF prescription in embarking on the so-called stabilisation and structural adjustment programmes. Because the World Bank already had a ready-made report on India— 'Strategy for Trade Reform', the government, with the initiatives taken by the then Finance Minister, Manmohan Singh, was able to hastily introduce the New Economic Policy (NEP) in early July 1991. The NEP can be divided into two parts: the *stabilisation programmes* and the *structural adjustment and reform programmes* [15]. Whilst the former part basically aims at reducing macroeconomic imbalances (such as fiscal and current account deficits) by restraining aggregate demand, the latter essentially aims at increasing growth, by eliminating supply bottlenecks that hinder competitiveness, efficiency and dynamism to the economic system.

Over the past decade of comprehensive liberalisation, the Indian economy has undergone substantial changes. Almost all areas of the economy have been gradually opened to both domestic and foreign private investment, import licensing restrictions on intermediates and capital goods have been virtually eliminated, tariffs have been significantly reduced, and full convertibility of foreign exchange earnings has been established for current account transactions. Financial markets have been liberalised to a greater extent, international standards of regulation have been introduced in the financial sector, and decontrol of the banking system continued during 1996-97. As a result of the general election in April 1996, the Congress government of Narasimha Rao had been replaced by non-Congress governments[16], but reforms process went on, although its pace had slowed down. One significant policy adopted in June 1997 by the government of I.K. Gujral was that of the liberalisation of outward investment flow, which was in keeping with the government’s intention to move towards capital account convertibility. Accordingly, the Indian Corporates were permitted to invest in an overseas joint venture up to 50 per cent of their resources raised through equity issues abroad.

After the government of Atal Behari Vajpayee’s Hindu nationalist *Bharatiya Janata Party* (BJP) was voted to power on 19 March, 1998[17], economic reforms continue[18]. Some of the major steps taken include delicensing of sugar, coal, mineral oils, *etc*; shifting of 340 items of import from the restricted Open General List (OGL) to the special import licence list; passage of two Bills in December, 1999—an industry-friendly Foreign Exchange Management (FEMA) Bill to replace Foreign Exchange

Regulation Act (FERA), and the Insurance Regulatory and Development Authority (IRDA) Bill to open the Indian insurance sector to both foreign and private domestic players; and widening of foreign direct investment (FDI) automatic route in February, 2000; *etc*. The EXIM Policy announced in March 2001 has completed the process of removal of Quantitative Restrictions (QRs) on Balance-of-Payment (BOP) grounds by dismantling restrictions on the remaining 715 items[19]. It is to be noted that this policy has, however, put in place necessary mechanisms to provide a level playing field to domestic players vis-à-vis imports[20]. Following the enactment of the IRDA Act in 1999, the IRDA was set up on April 19, 2000 to protect the interest of the insurance policy holders, and to regulate, promote and ensure orderly growth of the insurance industry. Ten life insurance companies and six general insurance companies have been granted certificate of registration, out of which 12 companies have already commenced business[21]. Recently, a host of measures have also been undertaken for further liberalizing the FDI regime. For examples, FDI up to 49% from all sources are now permitted in the private banking sector; 100% FDI permitted for B to B e-commerce, courier services, oil refining, hotel and tourism sector, drugs and pharmaceuticals, Mass Rapid Transport Systems including associated commercial development of real estate; the defence industry has been allowed to open up to 100% private sector participation by Indian companies with FDI permitted up to 26%, both subject to licensing; international financial institutions have been allowed to invest in domestic companies through the automatic route, subject to SEBI/RBI guidelines and sector specific caps on FDI; etc.

The State owned public sector enterprises (PSEs), initially instituted to enable the economy to achieve 'commanding heights,' have also gone through the process of structural reforms under the recent liberalisation programmes. In order to increase efficiency and financial viability of the PSEs, the priority areas for their growth in the future have been confined only to the basic infrastructural and strategic sectors, even allowing for some degree of selective private sector participation. The traditional budgetary support for meeting the new investment requirements of the PSEs under the Plan programme had been drastically reduced, at least during the initial periods of liberalisation[22]. The chronically sick PSEs are referred to the Board for the Industrial and Financial and Reconstruction (BIFR) for a decision as to the future of these units. The National Renewal Fund (NRF) has been established by the government in

February 1992. Its tasks are to reduce excess employment in the public sector and provide a safety net for workers affected in the restructuring process[23]. As announced in July 1991, attempts have also been made for disinvestment of a part of government holdings in the share capital of selected PSEs in order to provide market discipline and to improve the performance of public enterprises[24]. But, attempts at disinvestment have not fared up to the expectation[25]. The government of I.K. Gujral was considering a plan[26] of choosing successful nine PSEs known as 'the nine gems' or *navaratnas*[27] to form industrial heavyweights of the sort more commonly associated with South Korea or Taiwan. The same government, in October 1997, had not only accorded the *navaratna* status to nine successful PSEs[28], but also accorded the *miniratna* status to additional 97 other profit-making PSEs in order to make them competitive as well. In order to offer more functional autonomy to PSEs and remove Government's interference in their management at the micro level, 696 guidelines, issued for PSEs over the last three decades, have been withdrawn[29].

Meanwhile, the Disinvestment Commission, set up in August 1996, had submitted seven reports covering 41 PSUs till March 1998, when Vajpayee Government came in power. Disinvestment had been recommended at varying levels for 12 PSUs, strategic sales of various proportions for 21 enterprises and 'no disinvestment at present' for 8 enterprises[30]. The Vajpayee Government's strategy towards the public sector continues, in line with the recommendations of the Disinvestment Commission, to encompass a judicious mix of strengthening strategic units, privatizing non-strategic ones through gradual disinvestment or strategic sale and devising viable rehabilitation strategies for weak units. The new Government also intended to encourage marginally profit-making PSEs to promote VRS (Voluntary Retirement Scheme) by raising money from banks against Government guarantees and interest subsidy. These PSEs had also been encouraged to issue bonds to workers opting for VRS with the Government guaranteeing the repayment of such bonds and fully reimbursing interest payments[31]. The GDR (Global Depositary Receipts) issue of the Gas Authority of India Limited (GAIL) was successfully completed in the international markets on 4 November 1999. A new Department of Disinvestment has been created for expediting disinvestment in PSEs. In January, 2000, the Vajpayee Government has given a green signal for privatising the public sector's Indian Airlines (IA) by deciding to divest 51% of its equity to a private party through a bidding process. It is expected that the divestment would be done within the framework of domestic air transport policy meaning that bidders should not have more than 40% of foreign equity[32].

Currently, the main elements of Government policy towards PSEs are[33]:

- Bring down Government equity in all non-strategic PSEs to 26 per cent or lower, if necessary;
- Restructure and revive potentially viable PSEs;
- Close down PSEs which cannot be revived; and
- Fully protect the interest of workers.

Although legal obstacles in the process of disinvestment have been resolved with the Supreme Court decision in the Bharat Aluminium Company Limited (BALCO) case in December 2001[34], political obstacles to the disinvestment programme of PSEs have recently resurfaced in relation to privatisation of Hindustan Petroleum Corp. Ltd.(HPCL) and Bharat Petroleum Corp. Ltd. (BPCL), and disinvestment through public offerings of 10-25 per cent in Indian Oil Corporation (IOC), Oil and Natural Gas Corporation (ONGC), Gas Authority of India Ltd. (GAIL), Bharat Sanchar Nigam Ltd. (BSNL) and National Thermal Power Corp. Ltd. (NTPC). The Cabinet Committee on Disinvestment (CCD) has put aside all decisions on privatisation and disinvestment till December 2002[35].

With delicensing of consumer electronics industry— the fastest growing sub-sector of the Indian industry[36], liberalisation in foreign investment and export-import policies, many global giants have either established production facilities in India or are present in the market through technical/financial collaborations. More importantly, the software industry has recorded not only a CAGR (compound annual growth rate) exceeding 50% in production during the last five years (1995-96 to 1999-2000) of the twentieth century , but also had a turnover of US $6 billion and exports of US $ 4 billion during 1999-2000[37]. Recognising the impressive growth achieved by India since the mid-1980s in information technology (IT) and its potential, the Vajpayee Government has been taking several important initiatives to make India a global information technology superpower and a frontrunner in the era of information revolution. Among the initiatives, the first step was setting up a National Task Force on Information Technology and Software Development on 22 May, 1998 under the chairmanship of the Deputy Chairman, Planning Commission. The Task Force submitted the Information Technology Action Plan comprising 108 recommendations in July, 1998. The Government of India, after accepting all the recommendations, has already directed all concerned departments for their implementation.

As expected, the role of the Planning Commission has largely diminished since the comprehensive economic liberalisation has been in place. In order to keep pace with the liberalisation policy, the Eighth Five Year Plan (1992-97) has therefore redefined the role of the Planning Commission as an instrument of *indicative* planning. However, it duly recognises 'human development' as the core of all developmental effort, and it realises the essential need to involve people in the process of development. Similarly, the Ninth Five Year Plan (1997-2002) recognises the integral link between rapid economic growth and the quality of life of the masses. It also recognises the need to combine high growth policies with the pursuit of the ultimate objective of improving policies that are pro-poor and are aimed at the correction of historical inequalities. Thus the focus of the Ninth Plan is: 'Growth with Social Justice and Equity'. The development strategy of the Ninth Plan is oriented to enabling India's broad based and varied private sector to reach its full potential for raising production, creating jobs and raising income levels in society. A vigorous private sector, operating under the discipline of competition and free markets, is expected to encourage efficient use of scarce resources and ensure rapid growth at least cost. The government's role is, according to the Ninth Plan document, to design government policies that must create an environment encouraging this outcome.

4. Evaluation of India's economic development from 1980-81 to 2000-2001

During the 50 years of planned development after the independence, average annual growth rates of India's national income and per capita national income (both at 1993-94 prices) had been at a moderate rates of 4.3% and 2.2% respectively (**Table–A4**), as against the population growth rate of 2.09% per annum (**Table–A5**)[38]. It is only during 1980s and 1990s (except in 1991-92), annual average growth rates (in both the measures) have been consistently above the average, and even higher in the nineties (except in 1997-98[39]) compared to those in the eighties. It is true that the industrial base had been diversified during the pre-reform period; yet many of the industries were reported to be less efficient compared to the international standard. Although the import substitution strategy of the earlier decades had been successful to a certain extent, many industries had failed to maintain an appropriate technological standard and, as a result, they required the importation of technology all over again. The emphasis on public sector might have helped contain expansion of large private monopolies, but the cost of many inefficient public monopolies had been a much lower growth rate.

In spite of having more than self-sufficiency in food-grain production and considerable increase in industrial production, about 26.1% of population was, even according to the official source, still below the poverty level during 1999-2000 (**Table–A6**)[40]. Although the poverty ratio has steadily declined over time, it is to be noted that the number of poor remained stable at around 320 million for more than two decades (1973-1994). The latest estimate for 1999-2000, however, shows a significant reduction to about 260 million. One must not, however, ignore the fact that rural-urban and inter-state disparities in terms of poverty ratio are visible[41].

One can now look at the trend of two important macro variables namely, investment and employment, in order to have a better picture of the post-reform period. On the basis of disaggregate data published in different issues of *National Accounts Statistics*, although one could find that real investment in 1990s has expanded slowly in agriculture and its allied sub-sectors, but that in non-agricultural sector has been unstable, more so during the post-1995 years. There has been an overall steep decline in the growth rate of total investment from 5.48% per annum during 1983/1993-94 to 3.90% per annum during 1993-94/1999-2000, or equally seriously, from 5.97% to 3.90% in the case of the non-agricultural sector[42].

In order to have a better picture of the post-reform period's impact on poverty, let's now have a look at the trend of employment– a very important macro variable related to the incidence of poverty. Firstly, annual growth rate of overall employment (in both the organised and unorganised segments) was 2.73% per annum during the period from 1972-73 to 1977-78, which declined to 1.54% per annum over the period from 1983 to 1987-88 (**Table–A7**). Although the growth rate of overall employment increased to 2.43% per annum during 1987-88 to 1993-94, it dropped below 1% per annum in the subsequent period from 1993-94 to 1999-2000. Trends in organized sector employment have been slowing down as can be seen from **Table–A8**. This is mainly due to the slowing down of employment in the public sector from 1.52% per annum during 1983-94 to -0.03% per annum during 1994-2000. In the post-reform phase, a natural attrition of excess labour must be happening as industry restructures. While the private sector has been laying off workers with the increase in competition, the public sector seems to be relying on voluntary retirement schemes more in recent times than in the 1980s[43]. The sector-wise employment trend (**Table–A9**) indicates that the deceleration of overall employment growth rate during the period from 1983-1994 to 1994-2000 have been primarily due to slower growth in agricultural employment, with the absolute number of persons employed in agriculture showing a decline for the first time . On the contrary, employment in some of the service related sectors (such as trade, construction, financial services, transport, storage, communication, etc.) has grown faster than the average; also share of these sectors in total employment has also increased. These trends show some explicit structural changes in product markets in the post-reform (comprehensive) period[44].

In some of the years of the post-reform (comprehensive) period, the real investment (*i.e*., real gross capital formation as a percentage of real GDP at market prices) has moved in an opposite direction to that of the movement in real GDP growth[45]. Both these trends suggest that productivity increase may have been playing an important role in the growth process during the post-reform period, even though there are not many definite studies to prove it[46]. What is, however, non-debatable is a structural shift in the composition of the GDP resulting particularly from a greater contribution of the services sector to it since the 1980s. According to the Reserve Bank of India's 1998-99 Report on Currency and Finance, the services sector's contribution has been more pronounced in recent years— its share has grown from 42.2 per cent of GDP in the 1980s to 46.6 per cent in the 1990s[47]. The Report adds that it was the growth in the services sector that helped GDP growth, for example, in 1998-99 despite industrial sluggishness, more specifically it was the contribution of services to software exports[48].

Notwithstanding various improvements, all the Governments of the recent years have been aware of the importance of urgently addressing the remaining structural constraints to higher growth. Chief among them are[49]: reducing the country's chronically high fiscal deficits[50]; removing the remaining investment and trade restrictions, particularly in agriculture; averting a crisis in infrastructure; and strengthening the country's human capital base.

5. Implications of Economic Liberalisation for India's *unorganised* segment

Although it is too early to evaluate the long run social implications of the policy of economic liberalisation adopted more drastically since the middle of 1991, there has been concern that some of the stabilisation and structural reforms might have led to the erosion of living standards of the poor[51]; increase in regional disparities in terms of industrial benefits[52]; deterioration or, at best, a sluggishness in employment generation[53]; greater casualisation, feminisation and deskiling of the work-force[54], *etc*. It is, therefore, difficult to speculate on what kind of ripple effect all these will cause in the *unorganised* segment of the Indian economy. On the one hand, the share of total labour force in the *unorganised* segment has been steadily increasing (Table–A2), on the other hand, that of net domestic product in the same segment is moving towards the opposite direction. The Table–A3 shows that the *unorganised* segment's share of net domestic product in agriculture remains virtually unchanged since the early 1980s. However, the overall declining trend in its share of net domestic product is mainly due to its reduction in the manufacturing sector and in a few categories (such as financing, insurance, real estate, business, *etc*.) of the services sector during the 1990s (**Table–A3**).

> Indian economists are concerned that the economy is experiencing a distorted development process— the service sector has bypassed the industry sector in the order. What is significant is that the distortion in the development process is not because the industry sector lagged behind, but because the service sector grew at a higher rate. …. There is a positive side though— a buoyant service sector will add to industry's growth potential. However, if industry fails to grow at the required rate, not only will the growth of the service sector suffer, but it will drag down the GDP growth too[55].

In a recent study on manufacturing sector of urban India for the decade between 1983 and 1993-94, Pais (2002, p. 651) finds there has been a significant decline in casualisation, specifically in manufacturing industries based on agricultural inputs, while incidence of casual labour in construction and agriculture has increased. In fact, casual labour, according to this study, dominated the construction industry. It is noteworthy that only two sectors in India's unorganized segment– construction and transportation etc.– have an increasing trend in their share of net domestic product; but this trend in construction sector has been relatively much higher (**Table–A3**). Deaton and Dreze (2002) have noted several other recent adverse trends such as impoverishment among specific regions or social groups, and growing uncertainty and hidden hardships associated with recent patterns of economic changes, particularly, of the disadvantageous section of India's unorganised segment[56].

As the Ninth Five Year Plan (1997-2002) document agues, the Government recognises that high growth of incomes is by itself not enough to improve the quality of life of the poor which is organically related to India's unorganised segment. It goes on adding:

> If the growth is sourced upon those sectors of the economy or those activities which have a natural tendency to involve the poor in their expansion, such growth helps poverty eradication. Therefore, it is important to source a large part of economic growth in agriculture, in rural non-agricultural activities and in productive expansion of the informal sector which all have high employment elasticities, as well as in an export strategy based on labour intensive exports[57].

On the basis of several recent studies across different states in India, social scientists do not seem to be very optimistic about the possibility for implementing appropriate strategy of any credible food or employment security for the poor in the near future. For example, Rao (1998, p. 1954) argues that given the ruling elite groups formulating and implementing the strategy for the poorer stratum among the poor, the policies shaped by them lack responsiveness to the aspirations and needs of the large *unorganised* masses including the poor. Perhaps, the former President's 'safe pedestrian crossings for the unempowered India across the three-way fast-lane of liberalisation, privatisation and globalisation' hopefully partly lie in the poor people's direct involvement in the recently revamped Panchayati Raj Institutions (PRI)[58]. Unfortunately, instead of evolving as 'institutions of self-government', the PRI has been, as Aiyar (2002, p. 3296) argues, 'reduced to functional impotence and the corruption which arises out of chairpersons [pradhans] exercising their authority without the involvement and sanction of the members of the panchayat at all levels and of the gram sabha at the village level.'

6. Conclusion

If one looks at the political economy of the Indian nation, one could easily identify the three contending dominant classes such as the industrial capital class, the capitalist farms, and the rentier class including State bureaucrats, politicians and professionals. At the outset of the nation building, attempt was made to move India towards a 'socialistic pattern of society' based on the ideology of Fabian socialism. From mid sixties and onwards the country had been gradually relaxing various kinds of control mechanisms especially in the case of industrial licensing and import policies. In the eighties the country had been pushed towards a stage of transitional capitalism. In spite of being a mixed economy with a very strong public sector, the Indian State had been fundamentally capitalist because of the separation of the immediate producers from the means of production, whatever may be the juridical forms of property ('private' or 'public'). It may be true that the Indian State enjoys some degree of relative autonomy from any single major dominant class. It would, however, be naive to believe that the Indian State could effectively function in the interest of the 'society as a whole' or more specifically in the real interest of the vast majority of the poor people.

The bureaucracy of the civil administrative apparatus, inherited from the British regime, had grown at a phenomenal rate (about 6 per cent of the total work force), and pocketed a substantial proportion of national cake in the form of unproductive rent. Another source of unproductive leakage from the national exchequer had been a huge amount of subsidies to the rich capitalist farmers. Generally speaking, the economically deprived class of the Indian society had been all along left at the mercy of 'trickle down' effect of whatever moderate growth had taken place. Over time, the rhetoric of pro-poor promises by the State had been intensified in terms of several laws and programmes such as land reform laws, anti-monopoly laws, labour laws, progressive tax laws, anti-poverty programmes, etc. The resulting consequences of these measures had done very little to benefit the poor. ‘It is,’ as Krishna (1988, p. 15) once notes, ‘a significant novelty of India's political revolution that the relative balance of class forces does not operate at the stage of legislation, planning and pronouncements to prevent a progressive stance, but it effectively blocks and perverts their redistributive effects at the implementation stage'. The case of functional impotence of the recently revamped Panchayati Raj Institutions (PRI) is another example of such institutional failures.

The fact that the unorganised segment continues to contain over 93% of India's labour force, in spite of the continual decline in its share in net domestic product, tends to support the view that economic reforms are, by and large, all about the organised segment and its benefit at the cost of the unorganised segment. The Panchayati Raj Institutions had been expected to rescue the people, closely linked to rural India's unorganized segment, from their ever ending sufferings at all levels of the Indian society. But, alas, corruption in the panchayats at all levels has become rampant in India's most states[59]. Very recently, the Government of India has been attempting to integrate a comprehensive district level development programme into the Tenth Five Year Plan (2002-07) development strategy, with a view to involve backward districts into overall growth process[60]. Unless the central and state governments together take all necessary steps to ensure genuine participation of the panchayats at the village and intermediate levels in the district planning committees, the above attempt is certainly going to be ineffective.

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Appendix

TABLE–A1: SHARE OF ORGANISED AND UNORGANISED SEGMENTS IN NET DOMESTIC PRODUCT (at factor cost) (percent)

Year	Organised	Unorganised
1980-81	30.0	70.0
1985-86	35.2	64.8
1989-90	36.3	63.7
1990-91	36.2	63.8
1991-92	36.7	63.3
1992-93	36.5	63.5
1993-94	36.9	63.1
1994-95	37.5	62.5
1995-96	39.6	60.4
1996-97	38.7	61.3
1997-98	39.4	60.6
1998-99	39.1	60.9

Source: *National Accounts Statistics*, Govt of India, 1993 (pp. 203-04), 1998 (pp. 198-99), 2000 (p. 180) & 2001 (p. 192).

TABLE–A2: ESTIMATES OF EMPLOYMENT IN ORGANISED AND UNORGANISED SEGMENTS (in Millions)

Year	Organised[a]	Unorganised[b]	Total labour force[c]	Share of organised segment employment
1981	22.90	282.83	305.73	7.49
1985	24.58	304.43	329.01	7.47
1990	26.35	334.69	361.04	7.30
1991	26.73	342.41	369.14	7.24
1992	27.06	350.56	377.62	7.17
1993	27.18	358.15	385.33	7.05
1994	27.38	366.38	393.76	6.95
1995	27.53	374.88	402.41	6.84
1996	27.94	383.40	411.34	6.79
1997	28.25	392.31	420.56	6.72
1998	28.17	401.91	430.08	6.55
1999	28.11	412.79	440.90	6.38

Notes: (*a*) Estimates of employment in organised public and private sectors (in Million persons as on March 31) obtained from various issues of *Economic Survey*, Govt. of India.

(*b*) Employment in *unorganised* segment is derived as total labour force *minus* employment in *organised* segment (Parthasarathy, 1996, p. 1860).

(*c*) Data on total labour force are taken from *World Development Indicator2001*, World Bank.

TABLE–A3: SHARE OF UNORGANISED SEGMENT IN NET DOMESTIC PRODUCT BY ECONOMIC ACTIVITY (Old series at current prices) (percent)

Sectors	**80-81**	**89-90**	**90-91**	**91-92**	**92-93**	**93-94**	**94-95**	**95-96**	**96-97**	**97-98**	**98-99**
Agri, forestry & fishing	95.2	95.7	96.2	96.4	96.5	96.5	96.6	96.0	96.4	96.5	97.0
Mining & Quarrying	9.6	7.2	7.7	9.4	9.2	7.3	6.9	8.2	7.2	7.4	7.0
Manufact-uring	46.3	38.5	39.1	38.3	39.8	36.6	34.9	35.1	34.5	37.8	38.9
Elec, gas & water supply	6.0	4.7	3.6	3.4	2.8	7.2	5.9	5.6	6.4	5.8	5.2
Construction	48.0	54.8	55.5	53.4	55.2	51.1	52.2	50.0	51.9	56.0	57.4
Trade, hotels & restaurants	89.6	93.1	91.9	89.7	88.4	88.8	87.6	85.8	85.1	83.4	82.2
Trans, storage & communica	45.2	49.1	52.3	54.8	54.5	42.7	44.4	43.2	46.3	47.4	49.1
Fin, insu, real est & bus serv	65.0	43.0	40.6	35.1	36.7	50.7	48.7	44.1	44.1	42.5	42.2
Comm, soc & personal servs	25.9	19.6	19.4	20.0	20.3	19.0	19.4	19.1	19.2	18.0	17.3
Total (at factor cost)	**70.0**	**63.7**	**63.8**	**63.3**	**63.5**	**63.1**	**62.5**	**60.4**	**61.3**	**60.6**	**60.9**

Source: *National Accounts Statistics*, Govt of India, 1997 (pp. 250-51), 1998 (pp. 198-99), 2000 (pp. 180-81) & 2001 (p. 192).

TABLE–A4: ANNUAL AVERAGE GROWTH RATE

Plan Period		**GNP at Factor cost**		**NNP at Factor cost**		**Per Capita NNP at Factor cost**	
		At current prices	At 1993-94 prices	At current prices	At 1993-94 prices	At current prices	At 1993-94 prices
First Plan	1951-56	1.8	3.7	1.5	3.6	-0.3	1.8
Second Plan	1956-61	9.5	4.2	9.4	4.1	7.3	2.0
Third Plan	1961-66	9.6	2.8	9.5	2.5	7.1	0.2
Annual Plan	1966-69	12.2	3.9	12.2	3.8	9.8	1.5
Fourth Plan	1969-74	11.1	3.4	11.0	3.3	8.5	1.0
Fifth Plan	1974-79	10.7	5.0	10.4	5.0	7.9	2.7
Annual Plan	1979-80	9.4	-5.0	8.3	-6.0	5.7	-8.3
Sixth Plan	1980-85	15.2	5.5	15.1	5.4	12.7	3.2
Seventh Plan	1985-90	14.4	5.8	14.2	5.8	11.8	3.6
Annual Plan	1990-91	16.5	5.5	16.7	5.4	14.3	3.3
Annual Plan	1991-92	15.0	1.1	14.3	0.5	12.0	-1.5
Eight Plan	1992-97	16.3	6.8	16.3	6.7	14.1	4.6
	1997-98	11.9	4.8	12.0	4.5	10.1	2.8
	1998-99	16.3	6.5	17.1	6.5	15.2	4.8
	1999-00	10.6	6.5	10.9	6.6	9.1	4.8
Average	1951-2000	11.4	4.4	11.3	4.3	9.0	2.2

Source: *National Accounts Statistics 2001***,** CSO, Govt. of India, Table 16(a).

TABLE–A5: POPULATION GROWTH (1951-2001)

Census Years	Population (in million)	Decadal Growth (per cent)	Average Annual Growth (per cent)	Density (Per sq. km.)	Sex Ratio (females per 1000 males)
1951	361.09	13.31	1.25	117	946
1961	439.23	21.64	1.96	142	941
1971	548.16	24.80	2.20	177	930
1981	683.33	24.66	2.22	216	934
1991	846.39	23.86	2.14	267	927
2001	1027.02	21.34	1.93	324	933

Source: *Economic Survey 2001-2002,* Government of India, Table-10.14.

TABLE–A6: ESTIMATES OF POVERTY

Year	All India Number (Million)	Poverty Ratio (per cent)	Rural Number (Million)	Poverty Ratio (per cent)	Urban Number (Million)	Poverty Ratio (per cent)
1973-74	321	54.9	261	56.4	60	49.0
1977-78	329	51.3	264	53.1	65	45.2
1983	323	44.5	252	45.7	71	40.8
1987-88	307	38.9	232	39.1	75	38.2
1993-94	320	36.0	244	37.3	76	32.4
1999-2000	260*	26.1	193	27.1	67	23.6

Source: *Economic Survey 2001-2002*, Government of India, Table-10.4.
***** Because the methodology used for the poverty estimate in 1999-2000 is different from that used in the earlier estimates, they are not strictly comparable (*Economic Survey 2000-2001*, Government of India, p. 194).

TABLE–A7: RATE OF GROWTH OF POPULATION, LABOUR FORCE & EMPLOYMENT

Period	Rate of Growth of population (per cent per annum)	Rate of Growth of Labour Force (UPSS)* (per cent per annum)	Rate of Growth of Employment (UPSS)* (organised & unorganised) (per cent per annum)
1972-73 to 1977-78	2.27	2.94	2.73
1977-78 to 1983	2.19	2.04	2.17
1983 to 1987-88	2.14	1.74	1.54
1987-88 to 1993-94	2.10	2.29	2.43
1993-94 to 1999-2000	1.93	1.03	0.98
*Usual Principal and Subsidiary Status			

Source: *Economic Survey 2001-2002*, Government of India, Table-10.6.

TABLE–A8: TOTAL EMPLOYMENT & ORGANISED SECTOR EMPLOYMENT

Sector	Employment (Million)				Growth Rate (per cent per annum)	
	1983	**1988**	**1994**	**1999-2000**	**1983-94**	**1994-2000**
Total Population	718.21	790.00	895.05	1004.10	2.12	1.93
Total Labour Force	308.64	333.49	381.94	406.05	2.05	1.03
Total Employment	302.75	324.29	374.45	397.00	2.04	0.98
Org. Sector Employment	24.01	25.71	27.37	28.11	1.20	0.53
Public Sector	16.46	18.32	19.44	19.41	1.52	-0.03
Private sector	7.55	7.39	7.93	8.70	0.45	1.87

Note:
1. The total employment figures are on Usual Status (UPSS) basis.
2. The Organised sector employment figures are as reported in the Employment Market Information System of Ministry of Labour and pertain to 1st March of 1983, 1988, 1994 and 1999.
3. The rate of growth of total employment and organized sector employment are compound rates of growth.

Source: *Economic Survey 2001-2002*, Government of India, Table-10.7.

TABLE–A9: GROWTH OF EMPLOYMENT BY SECTORS (UPSS)

Industry	Employed Workers* (Million)			Annual Growth Rate (Per cent)	
	1983	**1993-94**	**1999-2000**	**1983-94**	**1994-2000**
Agriculture	207.23	242.46	237.56	1.51	-0.34
Mining & Quarrying	1.76	2.70	2.27	4.16	-2.85
Manufacturing	34.03	42.50	48.01	2.14	2.05
Electricity, Gas & WS	0.85	1.35	1.28	4.50	-0.88
Construction	6.78	11.68	17.62	5.32	7.09
Trade	19.22	27.78	37.32	3.57	5.04
Transport, Storage & Commn	7.39	10.33	14.69	3.24	6.04
Financial Services	1.70	3.52	5.05	7.18	6.20
Community Social & Pers. Services	23.80	35.13	33.20	2.90	0.55
Total Employment	302.76	374.45	397	2.04	0.98

*The NSS gives the percentage distribution across industries of each of the four categories of workers. This distribution is applied to the absolute numbers of workers of each category for each year and add up the four categories in each industry to derive estimates of total workers in each industry.

Source: *Economic Survey 2001-2002*, Government of India, Table-10.9.

ENDNOTES:

[1]Waters (1995, p. 2).

[2]Two phases of globalisation are often compared in the literature: the first one is during the last quarter of the nineteenth century that culminates until the beginning of the First World War and the second one is during the last quarter of the twentieth century. For details one can see Hoogvelt (1997) and Nayyar (1997).

[3]Concept of *social security* in the context of developing countries (especially, with huge *unorganised* segment) needs to be broader than the one applied to the developed countries. Many rightly argue that economic security and social security are intimately connected in these societies. 'There is,' as Jhabvala (1998, p. L8) puts forward, 'a general recognition that social security must be expanded to include not only new elements such as food provision, housing and sanitation; but also income and employment.'

[4]The main thrust of the conclusion is based on Dutta (1998).

[5]The declaration of a State of Emergency by Mrs. Gandhi on 26 June 1975 and later on its lifting for elections in March 1977 are believed to have paved the way for the Janata government— the first non-Congress government at the Centre. Morarji Desai was its Prime Minister until he resigned on 15 July 1979. Afterwards, Janata(S) , formed by Raj Narain in early July 1979 and claimed to be a secular party, formed the government with Charan Singh as its Prime Minister sworn in on 28 July 1979.

[6]Of the Direct Measures for Poverty Eradications, the major programmes that had been launched during the Sixth Plan area: the Integrated Rural Development Programme (IRDP), National Rural Employment Programme (NREP), and Rural Landless Employment Gurantee Programme (RLEGP).

[7]Quoted from the Statement on Industrial Policy made in the Parliament by the Minister of State for Industry on 23 July 1980.

[8]After the assassination of Mrs. Gandhi on 31 October 1984, Rajiv Gandhi assumed power as Prime Minister in December 1984 and ruled until almost the end of 1989.

[9]*Economic Survey* (1988-89, pp. 46-48).

[10]The MRTP companies had to face, following the Monopolies Restrictive Trade Practices Act of 1969, some additional control measures that could curtail the concentration of economic power in the large industrial houses in one hand, and could generate economic growth on the other hand.

[11]The facility of *broad banding* is presumed to enable manufacturing enterprises to adjust their product mix in line with changing market conditions and also to facilitate better capacity utilisation.

[12]The major examples of such developments include institutions including the Stock Holding Corporation of India, Credit Rating Information Services of India Ltd., Securities and Exchange Board of India, new mutual funds subsidiaries of nationalised banks, new venture capital companies, venture capital funds, etc.

[13]Of the two non-Congress governments, the first one was the National Front government (December 1989 - November 1990) of the Prime Minister V.P. Singh and the second one was the Janata Dal (Samajwadi) government (November 1990 - June 1991) of the Prime Minister Chandra Shekhar.

[14]Two main reasons responsible for this foreign exchange crisis were the surge in non-bulk imports as a result of the relaxation of import controls in mid-eighties and India's loss of foreign exchange earnings as a result of return of large number of Indian nationals from Kuwait and Iraq during the Gulf War of 1991.

[15]A summary of the major reform measures adopted under the New Economic Policy is given in Dutta (1993).

[16]The government of the Hindu nationalist Bharatiya Janata Party (BJP) with Atal Behari Vajpayee as its Prime Minister was in power only for two weeks from 15-31 May 1996. Then, on 1 June 1996, comes the 13 partties United Front coalition government with H.D. Deve Gowda as its Prime Minister, which stays in power for about ten months. Finally, the 16 parties United Front coalition government with I.K. Gujral as its Prime Minister was sworn in on 21 April 1997.

[17]In fact, Atal Behari Vajpayee's BJP government collapsed on 17 April 1999, but it continued as a caretaker government until Vajpayee's 23-party coalition government was voted back to power on 13 October 1999.

[18]Since its 1998-99 issue, Government of India's annual publication, *Economic Survey*, has been including in its first chapter a BOX 1.1 listing all the major economic reforms undertaken in the corresponding financial year.

[19]Out of these 715 items, 342 are textile products, 147 are agricultural products including alcoholic bevearages and 226 are other manufactured products including automobiles (*Economic Survey:2001-2002*, Section-1.99).

[20]These mechanisms include shifting of imports of certain products under the state trading category, making imports subject to various existing domestic regulations on health and hygiene and environment, and need for bio-security and sanitary & phyto-sanitary permit for imports of primary products of plant and animal origin. The policy has also established a monitoring mechanism to monitor imports of 300 sensitive items on a regular basis (*Ibid*.).
[21]*Economic Survey: 2001-2002*, Section-1.82.
[22]World Bank Country Study on India (1995, p. 36).
[23]The National Renewal Fund (NRF) has two windows: (i) the National Renewal Grant Fund which finances the voluntary retirement schemes (VRSs) for workers in public sector enterprises (PSEs), and compensation of the affected workers in the closed or restructured public and private companies under BIFR; and (ii) the Employment Generation Fund (EGF) for retraining and counseling for the affected workers. According to the Word Bank report (*ibid.*) , implementation has fallen far short of expectation and so far only VRSs have been implemented to a lesser extent.
[24]*Economic Survey:1994-95*, pp. 108-110.
[25]See Kurien (1996, p. 54).
[26]*The Economist*, 28 June 1997, pp. 75-76.
[27]The chosen nine gems are: Indian Oil Corporation (IOC), Hindustan Petroleum Corp. Ltd. (HPCL), Bharat Petroleum Corp. Ltd. (BPCL), Steel Authority of India Ltd. (SAIL), Oil and Natural Gas Corporation (ONGC), National Thermal Power Corp. Ltd. (NTPC), Bharat Heavy Electricals Ltd. (BHEL), Videsh Sanchar Nigam Ltd. (VSNL) and Indian Petroleum Corp. Ltd. (IPCL).
[28]Two more public sector enterprises, Gas Authority of India Ltd. (GAIL) and (Mahanagar Telephone Nigam Ltd. (MTNL), had also been given the same *navaratna* status (*Economic Survey: 1997-98,* p. 102).
[29]*Ibid.*
[30]*Ibid.*
[31]*Economic Survey: 1999-2000*, p. 119.
[32]*anon.* (2000a).
[33]*Economic Survey: 2001-2002*, Section-7.15.
[34]As a result of the disinvestment decision of 51% of Government held equity in BALCO on March 2, 2001 in favour of Sterlite Industries (India) Limited for Rs. 551.50 crore, three writ petitions were filed against this decision in the Delhi & Chhattisgarh High Courts. These petitions were subsequently transferred to the Supreme Court, which in its order dated December 10, 2001, validated BALCO disinvestment and dismissed the petitions.
[35]*anon.* (2002a).
[36]India's electronic industry has achieved a growth of 20% in production during 1997-98, while it is expected to register a growth of 40% per annum during the Ninth Plan period (1997-2002) (*Economic Survey: 1998-99*, p. 109).
[37]*Economic Survey: 2000-2001*, p. 142.
[38]The average annual population growth rate during 1951-2001 is calculated as simple average of the five average annual growth rates in 1961, 1971, 1981, 1991 and 2001 obtained from Table–A5.
[39]According to the new series of GDP (at 1993-94 prices) released by the Central Statistical Organisation (CSO), there was a significant deceleration of GDP growth to 5.0% in 1997-98 compared to 7.8% in 1996-97. The deterioration of the GDP growth rate in 1997-98 was perhaps even worse, if one takes into account the fact that fully one percentage point of growth is attributed to the 20% increase in real value added in the 'public administration and defence' sub-sector arising chiefly from pay increases to government servants (*Economic Survey: 1998-99*, p. 1).
[40]Poverty at the national level is estimated as the weighted average of state-wise poverty levels. The latest poverty ratio, on a 30 day recall basis, has been estimated from the state-specific poverty lines and the distribution of persons by expenditure groups obtained from the latest large sample 55th Round Survey (July 1999-June 2000) conducted by the National Sample Survey Organisation (NSSO).
[41]See Table 10.5 in *Economic Survey: 2000-2001*, Government of India.
[42]Chadha and Sahu (2002, pp. 2020-02).
[43]Venu (4 January, 2000).
[44]*Economic Survey: 2000-2001*, Government of India, Section 10.11.
[45]*Reserve Bank of India* (1999a).
[46]A recent analysis of India's registered manufacturing sector by Chaudhuri (2002, p. 160) suggests that labour productivity increased steadily between 1990-91 and 1995-96, but has stagnated since then. Capital productivity increased marginally till 1995-96 followed by a decline. He also notes that both

labour and capital productivity increased in only 70 product groups, accounting for about 37% of the value added.
[47]*anon.* (1999a).
[48]*anon.* (1999b).
[49]World Bank Country Study on India (1996, p. vii).
[50]After the fiscal deficit was reduced from 8.3% of GDP in 1990-91 to 6% in 1991-92, the Central Government has relaxed its fiscal deficit targets. For example, this figure in recent periods not only had been well above the target of 3%, but also has been increasing. For example, fiscal deficit has increased from 4.1 in 1996-97, to 4.8 in 1997-98, and further to 5.4 in 1999-2000. Some of the reasons are: relatively high fiscal cost of several structural reforms such as import tariffs reduction, retaining of some important subsidies such as the fertilizer due to political and social considerations, much slower progress in reforming public sector enterprises, absence of fiscal adjustment by the provincial state governments.
[51]Release of preliminary National Sample Survey (NSS) data for 1993-94 has produced a spate of articles that forcefully argued that the poor had been hurt at least in the initial reform period (Papanek, 1996, p. 1). Although it is debatable (see Gupta, 1995), both the official source (*Economic Survey: 1995-96*, p. 13) and the World Bank Country Study on India (1996, p. 28) suggest that economic reforms have begun to help the poor.
[52]Although economic liberalisation has accelerated industrial development, but benefits have not been evenly distributed across states. Ghuman (1997, p.13) notes that Gujarat, Maharashtra and Tamil Nadu have gained the most from liberalised policy initiatives; other beneficiaries are West Bengal, Karnataka and Orissa; the remaining states have either gained moderately or have suffered losses.
[53]Kurien (o*p. cit*., p. 67).
[54]*Ibid*.
[55]Mahanti (2000).
[56]Deaton and Dreze (2002, p. 3742) note, for example, of localised impoverishment in the poorer districts of Orissa, deep recession in powerloom sector, serious crisis in edible oil industry as a result of slashing import tariffs, periodic waves of bankruptcy among cotton growers, displacement of traditional fishing sector by commercial shrimps farms, and a number of sectoral crises associated with the abrupt lifting of quantitative restrictions on imports in mid-2001.
[57]*Ninth Five Year Plan* (section 2.1.3).
[58]The real spirit of Panchayati Raj Institutions (PRI) is devolution of power from Central and State governments to a third tier of self-government at village, intermediate and district levels. The PRI, therefore, constitutes the grassroot organisation of the people. The 73rd amendment to the Constitution of India and the necessary changes in the provincial Panchayati Raj Acts had all been enacted in 1993 and 1994 respectively. In regard to the gram sabha, the Panchayats (Extension to Scheduled Areas) Act, 1996, passed by parliament in pursuance of section 4(b) of Article 243M, sets out the functions of the gram sabha in an exemplary manner. State legislature is supposed to take these provisions as a model to effectively empower gram sabhas in non-scheduled areas as well and so define the role that the gram sabhas are expected to play (Aiyer, 2002, p. 3294).
[59]*Ibid.* (p. 3296).
[60]*anon.* (2002b).