Underdevelopment and Growth: Features, Causes and Concepts

Introduction

A detailed study of Indian Economics has great importantance to the students of ecomomic in India because of its objectives, viz., analysis of the facts and causes of India's poverty and providing a workable solution to remove the poverty and misery of the million, and laying down the right policies for a rapid and planned economic development. The objectives would require a careful study of the many aspects of the Indian economy and the multifarious problems of development with which we could be concerned in this book.

The second half of 20th century was a period of mass awakening, politically and economically, in all countries. There had been a growing interest in economic development on the part of welfare states. Writers on economic development of nations generally classify the countries of the world into two categories; namely, (i) developed countries, and (ii) underdeveloped countries or backward economies. For the latter, we use the term 'developing economies' to dispense with the odium attached to the term 'backward' and underdeveloped'. Of late, a new term 'Third world' is being used for under developed or developing countries. However, we shall be using these terms, 'underdevelopment', less developed', 'backward', 'developing', etc., interchangeably in our discussion.

Criteria of underdevelopment

It is very difficult to give a precise definition of the term 'under development' as it connotes a variety of features and criteria.

The U.N experts have defined an under developed country as one "in which per capita real income is low when compared with the per capitareal incomes of the U.S.A., Canada, Australia and Western Europe". This definition, though indicates one of the important features of under development, viz., poverty, is not wholly correct and adequate. The low per capita income is only one aspect of the complex problem of underdevelopment and the comparison with the per capita income of other countries is only a relative measurement and this criterion is bound to be arbitrary.

The Indian planning Commission defined underdevelopment as one "which is characterized by the co-existence, in greater or less degree, of unutilized and under-utilized man power, on the one hand, and of unexploited natural resources on the other. "This definition too cannot be accepted as wholly correct, as the emphasis is only on the existence of idle resources causing under development, and this is not the only feature. The definition does not indicate the causes of the existence of idle resources. Further, even in 'developed countries' resources may remain idle and under utilised in times of depression. On that score, we do not classify such countries as 'underdeveloped'. The existence of idle resources in the economy is mainly due to two major causes in the backward economy.

(i) Inadequate capital resources or low capital formation; and

(ii) Lack of skill and technology

Eugene Staley defines underdevelopment as follows: "A country characterized by mass poverty which is chronic and not the result of some temporary misfortune, and by obsolete methods of production and social organization, 'which means that the poverty is not entirely due to the poor natural resources and hence could presumably be lessened by methods already proved in other countries."

Explanation of the term 'under development' should be viewed in its three dimensional aspects, namely, (i) *incidence* of poverty, ignorance and disease; (ii) *maldistribution* of national income; and (iii) political and administrative *incompetence combined with social disorganization.*

The so called criteria of under development enumerated below are either incorrect or partly true. Let us discuss them:

1. Ratio of population to land in the country: This is supposed to be the first criterion of underdevelopment, but really, we cannot correctly assess whether a high or low ratio of population to land area is an indicator of underdevelopment. There are many underdeveloped countries in Africa and Latin America, where the ratio of population to land also exhibit signs of underdevelopment. So, this criterion is vague, as countries with low as well as high ratio of population to land show signs of backwardness.

2. Ratio of Industrial output to total output: According to this criterion, countries with low ratio of industrial output to total output are considered under developed. In other words, the degree of industrialisation is taken as the criterion. It should be understood that the degree of industrialization is often a consequence rather than a cause of economic prosperity in the country. Further, in countries where agriculture is well developed, the disposable agricultural surplus income will be generally used to subsidize uneconomic urban industries. As a result, the overall per capita income would tend to be lower. Thus, this criterion is not a valid indicator of underdevelopment.

3. Low ratio of capital to per head of population: Ragnar Nurkse stated that 'underdeveloped' countries are those which "compared with the advanced countries, are under-equipped with capital in relation to their population and natural resources." This concept that the dearth of capital as the criterion of underdevelopment is not satisfactory. Abundance of capital does not mean economic development and prosperity. It is a process depending on various factors and it has much to do with human endowments, political conditions, social attitudes and historical accidents, as Nurkse himself points out.

4. Low per capita income: The most commonly accepted criterion of underdevelopment is the low per capita income of underdeveloped countries as compared with the advanced countries. Strictly speaking this is also not satisfactory. The data on per capita income of the country are inaccurate, unreliable and often misleading, due to many conceptual and computational difficulties. Further, international comparisons of national income and per capita income are meaningless. Finally, the concept of 'Standard of living" varies from nation to nation; from race to race and from region to region. However, the per capita income is the most widely used indicator of underdevelopment.

From this, we find that it is very difficult to define and explain the concept of 'underdevelopment'. In order to understand the purport to the term better, we have to spell out the various characteristics of the underdeveloped economy.

Characteristics of underdevelopment

Harvey Leibenstein has classified the characteristics of underdevelopment under four major heads, namely (1) Economic; (2) Demographic; (3) Cultural and Political; and (4) Technological and Miscellaneous. The underdevelopment chart given in Figure 1.1 illustrates the various features of underdevelopment under each head.

Almost all features of underdevelopment, exhibited in the chart, are present in India, which stands as a typical example of an underdeveloped country that is on the way of development. Let us discuss in detail the features of underdevelopment.

1. Preponderance of Agriculture: An underdeveloped country is exclusively a primary producing economy. It will mainly depend on the production of agricultural material and minerals and the industries will be mainly agro-based. The share of the primary sector is larger in the national income of the underdeveloped country. But the corollary may not be true. There are some notable examples which are exceptions. Advanced countries like Denmark, Belgium, the Netherlands and New Zealand are mainly agricultural countries with fairly primitive activity.

India is predominantly an agricultural country where more than 70 per cent of the people are engaged in agriculture or in allied occupations. The pressure of population on agriculture is very high. Nearly 40 per cent of the national income is derived from agriculture. In spite of the fact that in India industrialization started long ago, hardly 10 per cent of the population is engaged in industry and most of the industries are only agro-based industries like sugar, cotton, jute, textiles, etc.

2. *Population pressure and Unemployment:* Another feature of underdeveloped countries is that they are invariability over-populated. The size of the population in these countries is increasing at a faster rate than in advanced countries. The economic development in these countries in not capable of keeping pace with the increase in population.

In India, the population is growing at an alarming rate with a birth-rate of about 40 per thousand. During the decade 1961-71, the increase was 24.6 per cent, which was nothing but a population explosion. Alarming increase in population, excessive pressure on land and poor industrial development have created unemployment problems which could not be solved successfully, inspite of planning several decades. The number of job seekers in India is raising day after day and the problem of unemployment is taking serious proportions. The problems of unemployment has resulted in underemployment or 'disguised unemployment'. People are prepared to work, but they are unable to find work throughout the year due to lack of complementary factors. This is more so in agriculture. Due to population pressure, more persons are working on land than what is actually required and this is called disguised unemployment. The excess population does not contribute to the productivity of land.

3. Poor Income and poor Savings: Another important feature of underdevelopment is the low per capita income of the people and the consequent little or no savings in the economy. According to the world Development Report, 1981, 52.5 per cent of the population of the world in 1979 had GNP per capita of 230 dollars, In contrast to this, 15.6 per cent of the world population living in the industrialised countries had GNP per capita of 9,440 doallars. The oil exporting countries of West Asia with only 0.6 per cent of the world population had GNP per capita of 5,470 dollars. These figure show that underdeveloped countries are poverty-ridden.

Judging from international angles, India is definitely and underdeveloped country. It has been estimated that per capita income of India is only 1/40 of that of U.S.A., 1/25 of Canada, 1/14 of Japan and 1/12 Russia. According to the International Financial Statistics, India is one of the poorest countries of the world, if not the poorest. A natural outcome of poor income is little saving or no savings in the economy. The savings of an economy play a vital role in economic growth, as savings of an economy play a vital role in economic growth, as savings and investments are the two crucial determinants of economic growth. Savings as percentage of national income in India was only 5.7 per cent in 1950-51. After four decades of planning, it had reached around 20 per cent. But this is very small when compared to advanced countries of the world.

4. Under-Utilization of Resources: The natural resources of the undeveloped economy are either unutilized or under-utilized. Generally, underdeveloped countries may not be deficient in natural resources like land, water, minerals, etc. The main problem would be that these resources are poorly harnessed or improperly used. Poor and improper utilization may be due to various reasons, like inaccessibility, lack of technical knowledge, shortage of capital and limited markets. Many of the African countries have good potential for development, but they remain backward due to under-utilization of resources.

India is a country of vast natural resources. Lofty mountains, perennial rivers, dense forests, abundant plains and minerals of various types, etc., offer large scope of utilization and development. But these have not been fully utilized. It has still about 9 crore acres of cultivable wasteland. The water power potential of the country has been harnessed only upto 10 per cent. The large forest wealth remains untuilized and the natural mineral wealth of the country has not yet been explored fully.

5. Capital Deficiency: Capital occupies a strategic role in production and economic development of a nation. Underdeveloped countries would suffer from capital deficiency. Not only the stock of capital will be small, but also the rate at which it is being formed will be low. In the case of India, the process of capital formation is far from satisfactory. Already we have seen that the savings in India, as percentage of national income, is very poor. So, for purpose of investment for capital formation, India has to depend on foreign countries for capital inflow. It should be remembered that in foreign countries like U.S.A., Canada, and Western Europe, more than 20 per cent of the national income will be channelized for investment.

The basic defect of the backward economies would be lack of inducement to invest and the low propensity and capacity to save. Adding to this, there will be lack of dynamic entrepreneurship. According to Nurkse, in backward economies, even if the level of income is increased with capital inflow from abroad, it does not mean that the rate of savings would increase, because of the tendency of the people to emulate the higher levels of consumption prevailing in the advanced countries. This tendency is called the 'Demonstration Effect'.

6. *Low Level of Technology:* In backward economies, there will be a terrible dearth of skilled personnel and as such the methods of production will be carried on under primitive methods. Consequently, the productivity either in agriculture or in industries will be very low. Lack of technical, know-how and poor scientific advancement and obsolete technique, combined with poor entrepreneurship would result in poor quality products. Though in India some advanced techniques can be seen in some industries, when compared with the modern standards of production, ours is decidedly inferior. Higher quality education and better technical training are necessary to absorb the new technology. It is also a problem of high expenses.

7. *Foreign trade Orientation:* Most of the underdeveloped countries depend upon the export of a few traditional commodities, consisting mainly of raw materials and minerals. They will be importing consumer goods and machinery. The ratio of export production to total output will be normally high. Though these countries can be called 'export economies', the excessive dependence on export has very harmful effect in an underdeveloped country. The production system of the country will be geared only to the requirements of the export sector, and the other sectors will be comparatively neglected. The economy, thereby will become unstable due to frequently changes in foreign exchange earnings caused by fluctuations in the international prices of the export materials. Any drastic change in the foreign demand for the products of poor economies will result in dislocation in the economy. Any reduction in foreign demand would depress the home market which would ultimately reduce the income and employment level.

8. *Poor Economic Organization:* Well developed economic institutions are vital factors of economic development. In backward economies, the economic institutions would be either ill-developed or completely absent. Closely knit economic organizations and financial institutions would enable the country to absorb the outlay for development very easily and institutional reforms could be also carried out with ease. But in underdeveloped economies, absence of these institutions would create problems of development and growth.

9. *Lack of Suitable socio-Economic set up:* In underdeveloped countries, the prevailing socio-economic set up would be the greatest impediment to development. Mass poverty and illiteracy combined with caste systems, religious

beliefs, etc., would adversely affect the course of economic development. The Industrial Revolution in England is an excellent example to prove the importance of socio-economic set up of British people who were able to bring about remarkable economic changes. Within the frame work of religion, the British people were able to bring about remarkable economic changes. The Christian religion regarded the supreme duty of man is the glorification of God by good works on earth. The religious and social set up was receptive and amenable to the mighty revolutionary changes on the economic front through industrialization. In India, the caste system proved detrimental to economic progress, as it impeded the movement of capital and labour and dampened the spirit of enterprise. The society was more or less divided into not-competing groups. Hence, occupational mobility has little meaning. Though the old caste system has disappeared, it has taken a new shape of Casteism in the hands of selfish politicians who want to preserve and enlarge the casteism by statutory methods. Further, it has emerged in the form of regionalism, parochialism, etc., preventing mobility and display of entrepreneurial skill and development.

10. A Dualistic Economy: Another important feature of underdevelopment is 'Dualism'. What do we mean by 'Dualism'? It is the presence of dualistic nature of economic activities and this is one of the important characteristic features of any backward economy on the way of development. There will be market economy on one side, where marketing system would have developed exceedingly well, catering to the needs of rich and wealthy class of people, supplying them many amenities of modern life, like radio, T.V.,. Motor car, telephone, picture houses, tall and multistoried buildings and beauty parlours. There will be excellent transport facilities like tram cars, electric trains, diesel locomotives, speed boats and aeroplanes, offering comfortable and also luxurious travel to the different parts of the country and also overseas. In short, there will be market towns and cities with factories, banks, business houses, swimming pools, colleges and five-star hotels. On the other hand, there will be subsistence economy with agriculture oriented activities in rural areas which will be very backward. The standard of living of the people in the rural sector will be far below the standard of living of the people in the urban sector. The rural people will not have even proper roads and they may have to depend on country-carts for their transport. Basic facilities like drinking water, electricity, transport system and medical-care will be lacking in villages. In many places, the rural sector will be a demonetized one and barter system will be prevailing. The use of money and banking benefits would be far from the reach of rural poor, who would form the majority of the population. Thus dualism connotes the existence of opposite things in the economy, namely, well-developed marketing system and barter system; affluent economy and subsistence economy; super-fast trains and country-carts, etc.

Indian economy exhibits this dualistic features in full, as it is not fully developed. We have fast-moving electric trains and also slow-moving country-carts. We have capital markets and stock exchanges with many communication facilities like STD, ISD and Fax system in cities; while we have no proper roads in the rural areas and many villages are unconnected with the railway system. The barter system is still prevailing in many villages. This type of dualistic feature is not condusive to economic development.

This dualism is almost an ubiquitous feature of all the underdeveloped economies in the process of development. The co-existence of a traditional indigenous economy and a relatively modern money economy is due to the partial exposure of the influence of modernization, while the dominant segment belongs to the backward indigenous economy. The co-existence of such contrasting economic and social organizations is indeed a puzzling aspect of the growth process of the underdeveloped countries. Hence any planning or strategy for development must take full cognisance of this dualistic character and analyse the basic features, causes and consequences of dualism.

Prof. J.H. Boeke, a Dutch economist calls this 'Social Dualism' on the basis of his studies of Indonesian development experience. According to him, dualism "is the clashing of an imported social system with an indigenous social system of another style. Most frequently, the imported social system is high capitalism. But it may be socialism or communism just as well or a blending of them." According to Boeke's concept, the advanced western social system is imported and planted in the soil of indigenous precapitalist agricultural system. In this attempt, the western of the east, which is precapitalist in nature and agrarian in character. Boeke's contention is that the dualism is the product of the clash between East and West. He fully agrees with Rudyard Kipling "East is East and West is West and never the twain shall meet."

11. Mass poverty, Misery and Low-standard of Living: Most of the people in underdeveloped countries are economically very backward, poor and leading a miserable life without any norms of standard of living. The backwardness, poverty and poor standard would result in low labour productivity, factor immobility, lack of entrepreneurship and poor specialization. Instead of conquering the physical and social environments, people would surrender to them. The underdeveloped countries of the world are considered as 'slums' of the world.

Applying the above tests of underdevelopment, India must be treated as a major underdeveloped country of the world. Indian economy exhibits all signs of underdevelopment enumerated above. The poverty of Indians is not due to poor resources, but because the economy could not 'grow'.

Stages of Economic Development

Many economists have contributed a lot towards the concept to development and philosophy of growth. In their study of economic development and growth, some economists have adopted the historical approach describing the various stages through which the country has to pass before reaching the final goal of full economic development.

Adam smith, the father of classical economics believed in the doctrine of 'natural law' in economic affairs and asserted that the individual is guided by self-interest and also by an 'invisible hand'. He said "It is not to the benevolence of the baker but to his self-interest that we owe our bread". If every one is left free, the individuals will maximise aggregate wealth of the society by maximising individual's wealth. Thus, Adam smit advocated laissez-faire doctrine in economic affairs to maximise national wealth. According to him, the sequence of development was from hunting stage to pastoral stage; and then to agricultural, and finally to commercial and manufacturing stages.

Hildebrand has taken the stages of development on the basis of exchange relationship in the economy. First was the barter economy; and then money economy and finally credit economy.

Bucher has considered development based on the area of transactions. First was the self-sufficient domestic economy without any exchange; and then to town economy and finally national economy.

Some British economists have used the sequence of house hold system first and then to guild system and then to domestic system and finally factory system.

Karl Marx who revolutionised economic thinking has developed the concept of growth through materialistic interpretation of history. According to him, the stages were feudalism, bourgeosis capitalism, socialism and finally communism.

But, the most widely accepted and also most popular sequence of economic development was given by Prof. Rostow, a specialist in economic development and growth. Let us study the philosophy and stage of economic development of Rostow in detail.

ROSTOW'S STAGE OF ECONOMIC GROWTH

Prof. W.W. Rostow has divided the economic development and growth into five different and distinct stages and explained them on the basis of an analogy of an aeroplane. The five stages envisaged by this economist are (i) The Traditional Society; (ii) The Pre-conditions for take-off; (iii) The Take-off; (iv) Drive to Maturity; and (v) The age of High Mass consumption. He has expounded the concept of self-sustained Growth or self-generating economy as the ultimate goal.

(i) The Traditional Society functions with limited production due to inaccessibility to modern techniques. The output per head is limited, though the area under cultivation can be increased. The traditional societies have to divert a very high proportion of their resources to agriculture and this excessive dependence on agriculture creates a social structure which is usually backward and unproductive. Political power is mainly confined to those who own the land. The traditional society should not be construed as static society. It can increase the level of output and also make adhoc innovation in agriculture and industry. But there will be ceiling on the output due to other factors like population, localised market, absence of medium of exchange, lack of development of other sectors, etc. A cruel Malthusian equilibrium prevailing would set the people feel about the impossibility of economic progress.

(ii) The Pre-condition for take-off is the second stage in which the outlook of the people changes due to spread of education and technical knowledge. People start feeling about the possibility of economic progress. Modern science is applied in production. Enterprising persons prepare to mobilise savings and undertake risks for the scope for internal and external trade widens, due to breaking of the barriers with more investment in transport. Thus modernization makes its appearance. But development moves at a very low speed.

(iii) The take-off: The take-off is a stage in which the obstacles and resistance for growth are almost overcome and forces of economic progress start moving at a reasonable speed. It is a period in which investment and per capita output rise enough to change production techniques so that the upward trend in per capita output is perpetuated. In other words, growth becomes a normal condition for society. The quick emergence of political, social and institutional framework exploits the impulses to growth in modern sectors and keep the effects of growth a recurring and perpetual phenomenon. The analogy in this age is to that of an aeroplane which should overcome the friction by maintaining good speed and take-off from the ground and fly only maintaining the critical speed.

For take-off, it is essential to mobilise internal capital. The savings side of capital formation is very difficult in an underdeveloped economy as the propensity to consume in such a economy is very high and the propensity to save is very low. The major task lies in extracting more savings out of the national income for investment purposes. What should be the percentage of national income to be saved for investment? According to Rostow, the take-off stage is characterised by a high rate of saving and investment; not less that 10 per cent of national income. According to UN experts, capital formation at the rate of 15 per cent of the national income may be necessary even to maintain the existing gap in living standards between the East and the West. According to the Indian Planning Commission, it should be 20 per cent of the national income in view of rapidly growing population. These figures indicate the importance of voluntary savings. But in a country where the propensity to save is very low at the lower level, and conspicuous consumption at a higher level, it may be necessary to resort to compulsion in mobilising savings. The state may even enter into the picture and effect savings on behalf of the community through revenue surpluses; the deficits in the revenue budgets. The profits of public enterprises should be ploughed back into investment.

For take-off it is of utmost importance to mobilise domestic savings. Some take-offs have occurred with foreign capital, whereas some without any capital import, British and Japan are the examples of having effected take-off without import of capital.

Concepts akin to "take-off" have been put forward with a different terminology. They are *"break through"*, *"getting started"*, *"critical minimum effort"* and *"great leap forward"*. Of course the oldest term for these is *"Industrial Revolution"*. Some economists like to use the terms *"the spurt"*, *"the big push"*, etc., Rostow himself dates the various take-offs in history:

Great Britain	..	1783	– 1802
France	..	1830	– 1860
U.S.A.	..	1843	– 1860
Belgium	..	1833	– 1860
Germany	..	1850	– 1873
Japan	..	1878	– 1900
Russia	..	1890	– 1914
Canada	..	1896	– 1914
Argentina	..	1935	
Turkey	..	1937	
China	..	1952	
India	..	1952	

Economists are doubtful about the take-off dates indicated by prof. Rostow. The dates also vary from publication to publication.

(iv) Drive to maturity: Drive to maturity is the resultant of take-off and in this stage the new leading sectors gather momentum. This leads to an increased output surpassing the increase in population. The economy finds its position in the international economy. Goods which were imported earlier are produced in the country and "the make up of the economy changes increasingly as technique improves". Older industries level off and the new industries accelerate. In this stage, the economy can produce anything it likes and this is the characteristic of self generating economy. Self generating economy does not mean self-sufficient economy.

(v) The age of high mass consumption: The age of high mass consumption is the final stage in which the per capita real income is increasing. The masses get the fruits of economy. The economy demonstrates its technological and entrepreneurial superiority.

It is the age of automobiles, durable consumer goods and electronic gadgets. Except the very low-income strata, almost all citizens would be having enough unto spare and the society becomes "affluent". Poverty and hunger are something that could be read only in books. There would be continued stage of full employment and everyone would have increased financial security. In some countries which had reached this stage would also record higher birth rates. This stage is the last stage denoting the attainment of ultimate goal.

Only U.S.A and U.K and some of the western countries have reached this stage of high mass consumption. United States was the first country to reach this stage in 1920 followed by Great Britain.

Reform of the Banking Sector (1991-1996)

The Government of India accepted almost all the major recommendations of Narasimhan Committee on Banking sector and started implementing them. The banking reform measures have been briefed hereunder:

1. Statutory Liquidity Ratio (SLR) on incremental net demand and time liabilities (DTL) has been reduced from 38.5 per cent to 25 per cent SLR on outstanding net domestic in 1993-94 and finally 28.2 per cent by March 1996. The programme of reducing SLR to 25 per cent in 1996-97, as part of financial reform has been implemented. Currenly the SLR is 20.5 as on Janary, 2017.

2. Cash Reserve Ratio (CRR): CRR was brought down to 14 per cent in May 1993 from the statutory 15 per cent. However, between June and August 1994, it was increased to again 15 per cent. In December 1995, this was reduced to 14 per cent. In October 1996, it was further to 10%. Several times CRR was changed. In March, 2007, it stood at 6.5 per cent. By January, 2017, it is 4%.

3. The prime lending rate of SBI an most other banks on general advances has been reduced to 16.5 per cent, i.e., reduction of 2.5 per cent points, on advance above Rs. 2 lakhs. The interest, rates on deposits and on advances of all co-operative banks (except Urban Co-operative Banks) have been deregulated subject to a minimum lending rate of 13 per cent from 12 per cent. By January, 2017 PLR is ranging between 9.3 % and 9.7%.

Interest rate on domestic term deposits has been decontrolled. The purpose of deregulation of interest rate on the high slab of bank advances was to stimulate healthy competition among the banks and encourage their operational efficiency.

4. Several prudential norms have been prescribed by Reserve Bank of India, as part of the reformative process. These were introduced in order to ensure effective supversion of banks. According to these prudential norms, the banks are required to make 100 per cent provision for all loss assets or non-performing assets (NPAs). As funding to the extent of Rs. 14,000 crores was required for making this provision, it was phased over two years. banks had to make at least 30 per cent provision agfainst doubtful and bad debts during 1992-93 and the balance 70 per cent in 1993-94.

5. Capital adequacy norms were fixed by RBI in April 1992 and the banks had to comply with them over a three year period. By end of March, 1995, 13 public sector banks had attaind capital to risk weighted assets ratio of 8 per cent. The full norms of 8 per cent has been attained by foreign banks in India and by some

Indian banks. All banks were expected to attain the 8 per cent capital adequacy norm by the end of March 1996.

Since banks have to make larger provisions for bad and doubtful debts and also for capital adequacy, the Union Government sought to strengthen financial viability of he banking system by a capital contribution of Rs. 5,700 crores in the budget for 1993-94 and another Rs. 5,600 crores in the budget of 1994-95 for capitalisation of the less profitable nationalised banks. The recipient banks were required to draw up plans to become viable over period of two or three years. The new capital framework has been introduced for the Indian schduled commercial bank based on Basle committee recommendations. This Committee presents two tiers of capital for banks: (i) Tier I called the Core Capital which is considered the most permanent and readily available support against unexpected losses. This includes paid-up capital, statutory reserves, fully paid-up cumulative perpetual preferenc shares, revaluation reserves, general provisions and loss reserve etc. It also prescribed that Tier II Capital should not be more than 100 per cent of Tier I capital.

Further, the Government of India amended the Banking Companies (Acquisition and Transfer of Undertakings) Act to enable the nationalised banks to have access to Capital market through Public Issues, subject to the provision that the holding of the Central Government will not be raise through public issue over Rs. 1,400 crores as equity and Rs. 1000 crores as bonds. The Orietal bank of Commerce also raised Rs. 360 crores throuh Public Issue in 1994-95. Other nationalised banks also are doing like this.

6. *Operational Freedom:* Scheduled Commercial banks after complying with the capital adequacy norms and prudential accounting standards are given full freedom to open new branches, upgrade extension counters, close non-viable branches (other than in rural areas) and also freedom in lending.

7. *Special Tribunals for rococery of debts:* The government of India has pased 'Recovery of Debt due to Banks and Financial Institutions Act 1993' to facilitate the recovery of debts speedily. Five special recovery Tribunals have been set up to facilitate quicker recoveries of loan arrears within six months. An Appellate Tribunal has also been set up in Bombay.

8. *Supervision of Commercial Banks:* In order to tighten the supervision of commercial banks by the Reserve Bank of India, a separate Board of Financial Supervision has been set up with an Advisory Council under the Chairmanship of Governor. This has been done to strengthen the Surveillance of banking system and financial institutions. Further, RBI has also established in December 1993 a new Department known as Department of Supervision s independent unit for supervision of commercial banks and also to assist the Board of Financial Supervision.