UNIT 53 – UPSC - Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment

Indian economy:

The phrase 'Economy' is associated with the economic system of an area. Economic system consists of production, distribution and consumption of good and services between two representatives.

Historically, in prehistoric period, till 1707 AD, the history of India started with the dawn of Indus Valley civilization which thrived between 3500 BC to 1800 BC. The economy of Indus civilization appears to have depended considerably on trade, which was enabled by technical developments in transport. Its inhabitants practiced agriculture, domesticated animals, made sharp tools and weapons from copper, bronze and tin and traded in terracotta pots, beads, gold and silver, coloured gem stones such as turquoise and lapis lazuli, metals, flints, seashells and pearls. They used to ship to reach Mesopotamia to do business of gold, copper and jewellery. Around 600 BC, the Mahajanapadas imprinted punch-marked silver coins. The period was noticeable by rigorous trade activity and urban growth.

By 300 B.C., when Middle East was under the Greek Seleucid and Ptolemaic empires the Maurya Empire (c. 321 -185 BC) united most of the Indian subcontinent. The political harmony and military security permitted for a common economic system and improved trade and commerce, with increased agricultural efficiency. The kingdom spent substantial resources for building roads and maintaining them throughout India. The improved infrastructure joined with increased security, greater consistency in measurements, and increasing tradition of coins as currency to boost trade. In another 1500 years, India produced its classical peoples which generated wealth in vast amount. Between 1st and 17th centuries AD, India was projected to have had the biggest economy of the ancient and medieval world, controlling between one third and one fourth of the world's prosperity.

In the realm of the Mughal period (1526–1858 AD), India experienced unparalleled wealth in history. The gross domestic product of India in the 16th century was estimated at about 25.1% of the world economy. An evaluation of India's pre-colonial economy puts the annual revenue of Emperor Akbar's treasury in 1600 AD at £17.5 million (in contrast to the entire treasury of Great Britain two hundred years later in 1800 AD, which totalled £16 million). The gross domestic product of Mughal India in 1600 AD was assessed at about 24.3% of the world economy which was the second largest in the world. During this period, Mughal Empire had extended to include almost 90 per cent of South Asia, and imposed a uniform customs and tax-administration system.

British rule:

The British East India Company established and expanded its political power gradually in India from 1757. They used huge revenue generated by the provinces under its rule for buying Indian raw materials, spices and goods. Thus the continuous inflow of bullion that used to come into India on account of foreign trade stopped overall. The Colonial government used land income for conducting wars in India and Europe and there was less money for development of India. In short period of 80 years (1780-1860 AD) under Colonial rule, India's economy changed from an exporter of processed goods for which it received payment in bullion, to being an exporter of raw materials and a buyer of manufactured goods. More precisely, in the 1750s, generally fine cotton and silk was exported from India to markets in Europe, Asia, and Africa; by 1850s, raw materials, which primarily consisted of raw cotton, opium, and indigo, accounted for most of India's exports. The cruel exploitation under British colonial rule totally destroyed economy of India. At that time, populace of India became poor and they had to suffer from food scarcity, pervasive malnutrition and was largely uneducated.

Indian economy after independence:

In the period of 1950-1979, when India got independence from colonial rule, the process of transformation of the economy started. India went for centralized planning. The Five Year Plans which effectively changed. First five year plan for the development of Indian economy was implemented in 1952. India as an agricultural economy, investments were made to develop irrigation facilities, construction of dams and laying infrastructure. Policy makers put more emphasis in the establishment of modern industries, modern scientific and technological institutes, development of space and nuclear programmes. Though extreme efforts were made to enhance economy after independence, the country did not develop at rapid rate because there were lack of capital formation, cold war politics, defence expenditure, and increase in population and insufficient infrastructure. In the period of 1951 to 1979, the economy grew at an average rate of about 3.1 percent a year in constant prices, or at an annual rate of 1.0 percent per capita. During this period, industry growth was at an average rate of 4.5 percent a year, compared with an annual average of 3.0 percent for agriculture.

During 1980 to 1990, the rate of economic growth enhanced. From financial year 1980 to financial year 1989, the economy improved at an annual rate of 5.5 percent, or 3.3 percent on a per capita basis. Industry grew at an annual rate of 6.6 percent and agriculture at a rate of 3.6 percent. Major factor for development of economy was high rate of investment. Investment went from about 19 percent of GDP in the early 1970s to nearly 25 percent in the beginning of 1980s. Private savings had financed most of India's investment, but by the mid-1980s further growth in private savings was tough because they were already at quite a high level. Consequently, in the end of 1980s India relied gradually on borrowing from foreign sources. This trend led to a balance of payments crisis in 1990. In order to receive new loans, the government had no choice but to agree to further measures of economic liberalization. This promise to economic improvement was confirmed by the government that came to power in June 1991.

India has made significant growth in services sector and contributed for magnificent development in various spheres of science and technology over the years and currently it has strong network of S&T institutions, trained manpower and an innovative knowledge base. India has already become centre for manufacturing of small cars and engineering goods. India is one of the promising markets for food and agricultural products in the world. India is the world's third largest producer of food. Agriculture accounts for about 16.1% of India"s GDP. India has developed as the major milk producing country, with annual milk production of over 100 million tonnes.

It can be appraised that the Indian government has made significant effort in last 50 years to develop the scientific and technical infrastructure of the country. In educational field, there are more than 250 universities, 1,500 research institutions and 10,428 higher education institutes. In India huge number of engineering graduates and another technical graduates trained in specific field have contributed a lot for enhancement of economy of India. The combination of state-of-the-art infrastructure and highly qualified manpower guarantees that India is poised to be the next Global R&D hub. This is gradually being observed in Industry as large multinational corporations including GE, Microsoft, and Bell Labs have opened there R&D Centres in India. More than 100 multinational companies, including Delphi, Eli Lilly, Hewlett-Packard, Heinz, Honeywell and Daimler Chrysler, have established (R&D) facilities in India in the past few years. This makes India second only to USA and ahead of other more established hubs, such as Japan, Israel and Western Europe, and China.

It is observed in present scenario that the Indian economy is rapidly growing economies in the world. The increasing income and savings levels, investment opportunities, huge domestic consumption and younger population will ensure growth for future. The main drivers of Indian economy are sectors like Information Technology, Telecommunications, ITES, Pharmaceuticals, Banking, Insurance, Light Engineering Goods, Auto Components, Textiles & Apparels, Steel, Machine Tools and Gems & Jewellery are sectors which are expected to grow at rapid pace world over creating demand for Indian products and services.

Planning:

Planning is the procedure of thinking about and organizing the actions required to realise a desired goal. Planning involves the formation and maintenance of a plan. Economic Planning is to make decision with respect to the use of resources. Economic Planning is a concept that is related to the long term plans of government to co-ordinate and develop the economy. Economic planning in India was stared in 1950. It is necessary for economic development of country.

Need for Planning in an Economy:

There is an immense need for economic planning as resources in a country are limited whether natural resources or human resources. The shortage of resources compels the need for proper management at production, distribution and consumption ends.

Objectives of economic planning:

- Economic Growth
- Reduction of Economic Inequalities
- Balanced Regional Development
- Modernization
- Reduction of Unemployment

Issues relating to planning, mobilization of resources, growth, development and employment:

In order for huge growth of any nation, it is imperative that there must be proper mobilization and utilization of resources. Resources of nation include natural resources and human resources. For proper mobilization of resources, prior planning is of great help for a holistic approach.

Issues with planning:

1. Planning is central. Decentralized planning is still in promising stages.
2. Planning commission is not a constitutional body. It has hijacked the role of finance commission.
3. Often planning commission fails to comprehend ground realities. For example Unrealistic data on poverty line.
4. Centralized planning may not extend in the peripheral areas.
5. Alliance politics affects planning.
6. Planning for 125 crore diverse population is not easy.
7. Limited resources and funds available.
8. Lack of visionary leadership and technological expertise.
9. Lack of proper monetary mechanism to check the implementation of the plan.

Issues to be addressed in planning:

Besides, principal objective of growth and optimum resource utilization, these areas should be addressed in an appropriate plan.

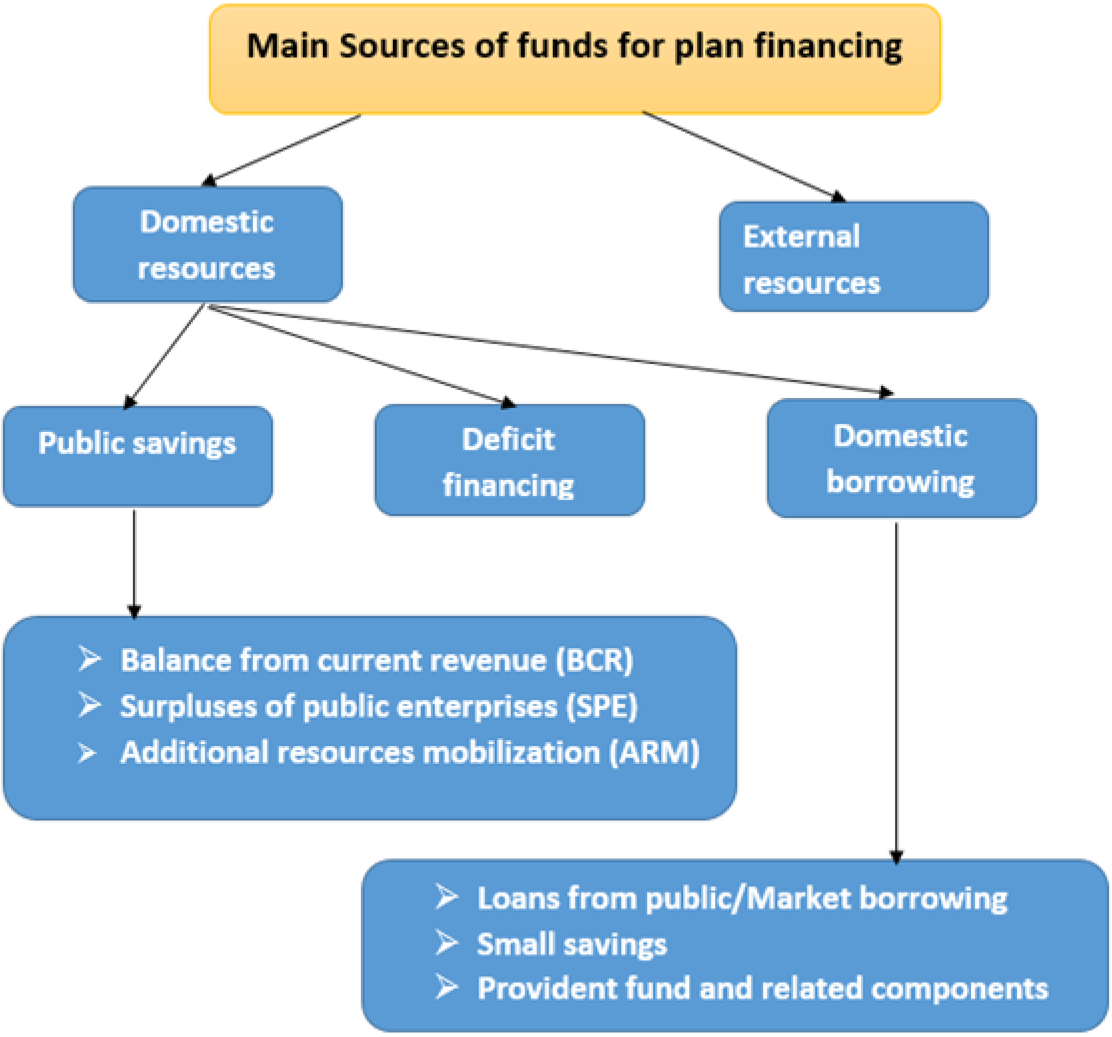
1. Population growth.
2. Food production.
3. Health.
4. Vulnerable sections of the population.
5. Transport, communication and energy self-sufficiency.
6. Water conservation and air quality.
7. Trade and investment.

8. Peace, security and governance.

It is appraised that Economic planning assist in mobilizing and assigning the resources in desired manner. Major goal of planning is to reduce disparity, economic development, balanced regional growth, reconstruction. Each five year plan is intended to accomplish certain target. Five year plan constitute the steps toward the fulfilment of objectives of economic planning.

Mobilization of resources:

Mobilizing is the method of assembling and organizing things to use immediately or for a achieving a collective goal. The concept of mobilization of resources should be seen in the same perspective. Mobilization of resources means to release locked resources. Every country has economic resources within its territory known as domestic resources. But often they might not be available for collective use. The percentage of resources used when compared to the potential is often very low. For the development of nation, identification and mobilization of its resources is essential. It should be available for easy use and for central and state level planning.



So initial step is identification of resources. Types of Resources of India: There are several resources available in India.

1. Natural Resources such as Coal, Petroleum, Natural Gas, Water, Spectrum.
2. Human Resources like the labour force and intellectual ability of a nation.

3. Best utilization of these resources lead to generation of economic resources such as savings, investment capital, and tax. While mobilisation of resources is considered, the mobilisation of economic resources should also be studied.

Mobilization of Natural Resources:

India has sufficient reserves but due to policy bottlenecks, it is importing coal and iron. This is increasing our Current Account Deficit.

Mobilization of Human Resources: Human capital is deciding factor in the economic development. Indian economy is plagued with poor human resources. While the average population is traditional and lacks scientific knowledge, 33% of population is still illiterate. It retards economic progress in country (Gupta, 2008). Organizing human potential for ready use is essential for growth of India. In-fact, as country of 125 crore people, India now is observing more on its human resource potential. The demographic dividend is also in favour of India.

Mobilization of human resources emphasizes the need to empower human resources. Weaker sections such as women, children, SC, ST, OBC etc. should be brought into mainstream. There should be correct employment opportunities for human resources, and when there is lack of skill the job demands, there should be skill development programs. It is suggested to utilize the demographic dividend. India is currently forcing on its technologists, engineers, doctors and scientists. Government is making efforts to divert school dropouts to technical or vocational training program. The scheme has been formulated through private public partnership under which short term training modules will be conducted (Gupta, 2008).

Economist stressed that if nation needs to grow, more goods and services should be produced. The production can be done by government sector, private sector or in PPP mode. But for that, the economic resources of a country should be organised. In India, despite having good savings rate, domestic investment is less. Indians are investing in less productive assets like gold and consumer durable. For good economic development, India needs to invest in agriculture, manufacturing or services. In India, tax collected is very less. The tax base has to be broadened.

Four factor of production such as land, labour, capital and organization should come together. There should be an atmosphere for growth and investment. It can be said that organizations do not “suddenly emerge” but require the mobilization of resources.

In contemporary capitalistic society, these resources are more “free flowing” and are easier to mobilize than in more traditional societies. Many factors impact the development of the organization.

Initial Resource Mix: There are various resource needs in a starting organization (technology, labour, capital, organizational structure, societal support, legitimacy). But the accurate mix of resources are not always available. The most important resource of an organization is its people. More savings and more productive investment.

Taxation: India has organized tax structure with clearly defined authority between Central and State Governments and local bodies. Central Government levies taxes on income (except tax on agricultural income, which the State Governments can levy), customs duties, central excise and service tax. Value Added Tax (VAT), stamp duty, state excise, land revenue and profession tax are imposed by the State Governments. Local bodies are empowered to levy tax on properties and for utilities like water supply, drainage.

Indian taxation system undergone revolutionary reforms during the last decade. The tax rates have been rationalized and tax laws have been simplified resulting in better compliance, ease of tax payment and better enforcement. The procedure of rationalization of tax administration is continuing in India. Public revenue generation is for investment in social services and infrastructure. The private sector mobilizes the savings of households and firms through financial intermediaries, which allocate these resources for investment in productive activities.

Issues with mobilisation of resources:

Issues in mobilisation of resources include all those issues and problems underlined in mobilization of natural resources, human resources and financial resources. Low-income countries confronting prevalent poverty therefore mobilizing domestic resources is particularly challenging, which has led developing countries to rely on foreign aid, foreign direct investment, export earnings and other external resources. Nonetheless, there are compelling reasons to give much more emphasis to DRM. Greater reliance on DRM is important to raise economic growth, reduce poverty and underpinning sustained development. High-growth economies typically save 20-30 per cent or more of their income in order to finance public and private investment.

DRM is potentially more consistent with domestic ownership than external resources.
Foreign aid consistently carries restrictions and conditionality.
FDI is mainly oriented to the commercial objectives of the investor, not the principal development priorities of the host country.
DRM is more foreseeable and less volatile than aid, export earnings, or FDI.

Indian Economy: Growth, Development and Employment:

In Indian economy where huge labour force is available, importance of an employment oriented growth is observable. Growth in economic terms relates to the increase in GDP (national income). GDP is the money value of goods and services produced in an economy.

Economic growth in India has generally unsuccessful to maintain balance between growth of productivity and occupation. During the first thirty years after embarking on the planned economic development, the economy grew at a comparatively low rate averaging about 3.5 per cent per annum. The problem basically lay in low rate of growth, only a higher rate of growth of GDP could have afforded sensibly high increase both in productivity and employment.

Economic growth has been increased after1980, and 1990 period. But it has been considered by the other kind of inequity. Most of it has been derived from increase in productivity and only a little from increase in employment. During 1980's, of the 5.5 per cent annual growth in GDP, 2 per cent was accounted for by growth of employment, and 3.5 per cent by growth of productivity. In 1990's, the 6 per cent growth achieved, contribution of employment was only 1.8 per cent with that of productivity rising to 4.2 per cent. When the national income escalates, perfectly it should result in development (qualitative feature such as health, education, employment).

Employment growth in India: Economists stated that economic growth of country create more opportunities for employment and employment generates further development. Generally, employment relates to the qualitative aspect of growth. If a country is on the growth path, it will create more employment opportunities and while there is no growth, people may lose jobs.

It is considered that employment has always highlighted as an element of development policy in India. The priority and attention have received changes in development plans from time to time and so have the approaches and strategies as well as policies and programmes for employment generation. During the past four decades since 1972-73, employment has grown at an average annual rate of two per cent in India when comprehensive information on employment and unemployment started, according to survey of the NSSO. This could be regarded as a significant record, as such an employment growth has not been recorded by many countries historically or in recent periods. In fact, most countries in general and developed countries in particular, have had very low employment growth currently. ILO data signified that most of them saw an increase of less than one per cent per annum in their employment during the 1990s.

According to financial analysts, India's significant record on employment growth has not been satisfactory in view of a faster growth of labour force. Additionally, there are a few disturbing features of employment growth in recent years. First, employment growth has slowed. Second, employment content of growth has shown a decline. Third, sectors with higher employment potential have registered comparatively slower progress. Fourth, agriculture, despite a sharp decline in its importance in gross domestic product, continues to be the biggest employer as the non-agricultural sectors have not generated enough employment to affect a shift of workforce. Fifth, most of the employment growth has been contributed by the unorganised, informal sector which is characterised by poor incomes and conditions of work. Lastly, employment growth in the organised sector which seems to have picked up in recent years has been mostly in the types of casual and contract labour. Employment growth in the secondary sector include mining, manufacturing, electricity, water and gas, and construction, has been comparatively high during 1972-73 to 2009-10. It has dropped over the longer period with some fluctuations over the shorter periods, but has revealed a noteworthy increase during 1994-2005. Even during 2004-05/2009-10, when overall employment has virtually deteriorated, it has grown at around 3.5 per cent in the secondary sector. Employment growth in the tertiary or services sector has also been comparatively high but has constantly declined over the three periods of 10 years each since 1972-73. Growth of employment in the primary sector has been the lowest and showed decrement. Slow and declining growth of employment in agriculture is due to both of slow and declining rate of GDP growth and a drop in employment elasticity. In the secondary sector, a high employment growth despite moderate rates of GDP growth has been possible due to relatively high and rising employment elasticity. But in the tertiary sector, even a high GDP growth has not been able to maintain a high growth in employment due to a sharp decline in employment resistance.

It has been documented that employment performance of the rural areas has been better as compared to the urban areas in so far as the non-agricultural activities are concerned. Data revealed that employment in all non-agricultural activities together grew at 4.58 per cent per annum in rural areas and 4.08 per cent per annum in urban areas during 1972-73/1983. Growth rates for rural and urban areas were similar at 3.65 during 1994-2005. Only during 1983/93-94 urban growth rate was higher at 3.5 as compared to 3.2 for rural areas. During 2005-10, rural areas performed better than the urban areas in growth of non-agricultural employment. Generally, the pattern of employment growth in terms of rates of employment growth in different activities is found to be similar in rural and urban areas. Construction registered the fastest growth and the growth rate has increased over the years in both rural and urban areas. In the period of 1993-94/2004-05, employment growth in construction has been much higher at 8.3 per cent per annum in rural than in urban areas at 5.6 per cent. Growth in transport sector was in second position and trade third in employment growth in rural areas. In urban areas, trade has done better than transport, but both have registered high employment growth. The non-farm employment showed fast growth in employment in rural areas, even faster than in urban areas.

On average, growth rate of employment in the organised sector has been continuously declined during 1972-73 to 2004-05. It has stimulated characterization of growth in organised sector, particularly, in manufacturing, during the period 1981-82 to 2004-05 as 'jobless' (Kannan and Raveendran, 2009). Drop in employment during 2000-2005 has been faster in public sector than in the organised private sector.

Rate of employment growth in manufacturing sector as a whole including both organised and organised segments, has been reasonably high over the long period. Reports indicated that employment in manufacturing grew at 4.3 per cent per annum during 1972. The services sector is now the dominant part of the Indian economy accounting for about 59 per cent of Gross National Product. Its performance in employment generation has not been as remarkable as in its contribution to GDP. Employment in this sector has grown at an average of about 3.5 per cent per annum over a longer period of about 40 years, thus raising its share in total employment from around 15 per cent in 1972-73 to 26 per cent in 2009-10. During 2000-2010, employment in the services sector grew at a rate of 3.6 per cent per annum, as against the aggregate employment growth of 1.5 per cent. All activities in the sector, trade, transport and finance except community social and personal services, recorded over 2.5 per cent growth rate of employment.

Two service activities such as Information Technology (IT) and Tourism registered greater employment opportunities and these sectors have attracted special attention of policy makers. Information Technology Sector includes two main segments: information technology services (ITS) known as the software services and information technology enabled services (ITeS) also often referred to as business process outsourcing (BPO). It is witnessed that employment in IT sector has been growing speedily. It is also established that the progress has been particularly fast in the export segment of IT and within that in the information technology enabled services (ITeS), often denoted to as BPO.

Studies have shown that tourism sectors have large potential for growth and also with high employment potential. Income and employment generated by tourism are accounted for in such different activities as hotels and other accommodation units, restaurants, travel agents and tour operators, transport services, tourist resorts and complexes, entertainment facilities, shopping facilities including sales outlets for curios, handicrafts, souvenirs., conference and convention facilities, adventure and recreational sports facilities and guide services, which feature as sectors and subsectors in National Accounts Statistics.

Issues in India's growth, development and employment: Following are major issues in growth development and employment in India:

1. India's growth is decreasing.

2. India's growth is principally backed by service sector. There is sluggishness in the manufacturing sector.
3. Indian agriculture sector is still dependent on monsoon. Nearly 50 % of population dependent on agriculture which contributes only 14% of GDP.
4. In India there is a big issue related to investment. It is stated that for high growth of any nation, there should be investment in productive areas. There should also be supporting infrastructure. But India is lacking in these areas.
5. Due to external and internal factors, there is drop in foreign investment. This is broadening Current Account Deficit.
6. For providing welfare schemes, subsidies and defence expenditure, India is borrowing. The Fiscal Deficit of India is widening.
7. India's export sector is not developing with respect to the demands of import goods.
8. Growth is not entirely inclusive. There are still a significant portion of people below poverty line.

Challenges of employment:

Unemployment is matter of sizeable debate in the academic and policy research. It is well recognized that every country wants to attain full employment for its growing population. However, unemployment rates are still worrying in developing countries. Unemployment is the major macroeconomic variable and it is directly related to the GDP of the country. Unemployment leads to inflation and retarded growth. The major factors that augment unemployment are economic crisis. There are many issues with employment. The average salary and per-capita income of Indians are very low. In the Indian job market, middle to senior level specialists are in great demand in industries, with employers seeking strong management skills and some international exposure. The problem of unemployment in developing countries differ from industrialized countries. The issue of unemployment in developed country is just social problem where as in developing countries like India it arise from shortage of capital formation. Major aspect of employment in India is low return of work. Indian government has introduced many programs to counter problem of unemployment but magnitude of problem could not be reduced (Purna Nand Pande, 1998).

To summarise, India has been a significant part of world economy. It took initiative in the early 1990s towards economic liberalization which altered the nature of integration with world and shaped global perception of India. Today, international communities are enthusiastic to work with India and develop relationship of mutual benefit and interdependence. IMF report noted that Indian economy is continuing to reap the rewards of more than 15 years reform. There are numerous issues related to Indian economic planning population explosion, low level technology or low standard of living (Gupta, 2008). There is a need to mobilize country's natural and human resources to enhance economic development. It is documented in studies that despite of effective planning since many decades, India continues to exhibit underdeveloped economy. Though it had progressed in many areas but country has to make efforts to reach the standard of developed countries.