

INDIAN Economy SINCE INDEPENDENCE

→ Objective of India's dev. strategy

↳ establish a socialistic pattern of society through economic growth with self-reliance, social justice & alleviation of poverty

↳ Achieve it within a democratic framework using a mixed economy where public & private sectors co-exist.

→ Planning ~~Commission~~ Commission → First five-year plan (1951-56)

→ help economy recorrect from colonial rule.

→ ↑ domestic savings for growth.

→ Second Five Year plan (Nehru-Mahalanabis

Plan):

- industrialization strategy by Professor Mahalanabis
- development of heavy industries
- Played a main role for the public sector of the economy.

- Objectives →
 - ↑ growth rate
 - national self-reliance.
 - encourage small-scale industries
 - ↓ of income inequalities
 - ↓ foreign dominance.

→ industrial policy.

From the plans \rightarrow Once the growth process gets established, the institutional changes would ensure that benefits of growth trickle down the poor \rightarrow trickle-down approach. \rightarrow ability of banish poverty \downarrow as plans use not strong enough to create adequate surplus to \uparrow capital accumulation & \downarrow inequalities.
First 3 plans \rightarrow time \rightarrow \uparrow popⁿ growth.

Fifth Plan (1974-79):

\rightarrow Initiate a program to \uparrow growth with redistribution.

\rightarrow 3 committees

Narsimham Committee \rightarrow
physical \rightarrow fiscal controls shift

Sengupta Committee \rightarrow
public sector

Hussain Committee \rightarrow
trade policy.

\rightarrow 2 delicensing activities

32 grps of industries
delicensed without
any investment limit

1988 \rightarrow industries
exempted from
licensing except
26 industries.

\rightarrow Entry into industrial sector \rightarrow cap.
 \rightarrow Exit from " " \rightarrow closed & sealed.

Failure of the five year plans:

→ Planning period → growth rate = 4% per annum in India while in other countries (Sub-Saharan Africa → 52% per annum growth rate).

→ All the plans → assumption → generation of public savings but public sector became a consumer of community's savings.

→ Public sector deficits ↑ → to finance public sector deficits & to meet its own revenue expenditure → Govt. started borrowing!
increased over years.

→ Reasons for the deterioration of the public sector:

during the planning period.

• Public servants working for the public sector → go on strike for ↑ wages, ↑ bonuses etc., ⇒ no accountability to perform their public duties.

• Authority of Govts (State & Central) → pass orders to relocation of unauthorized industrial units but the relocation can be delayed ⇒ implementation of Govt. orders delayed

• Procedures for conducting a business in Govt. & public service organizations → non-functional, as administrative rules focus on process than results.

- ↓ decentralization of decision-making powers \Rightarrow Local Govt.'s financial authority is limited.

↳ Jagdish Bhagwati & Amartya Sen: (Indian economists)

- India needs an egalitarian development path.
- Planning failed as India focused more on \uparrow growth instead of \downarrow poverty. \rightarrow Bhagwati
- Both of them \rightarrow equally on growth, poverty, health & social issues.
- Sen \rightarrow \odot for growth & markets.

Pt of divergence:

\rightarrow Bhagwati:

↳ development \rightarrow 2 stages:

① Growth accelerated strategy $\Rightarrow \uparrow$ investments
 $\Rightarrow \uparrow$ growth rate.

~~Focus~~ Focus on public sector savings. Equipments for technical change \rightarrow social marginal product $>$ cost of importing it \Rightarrow surplus \Rightarrow income gain for the economy.

② Literacy & education \Rightarrow productivity of imported equipments \uparrow if \rightarrow many have 2^o education \Rightarrow Workforce \uparrow demand for educated workforce. \Rightarrow Education \odot for development of economy.

→ Sen:

Are political/social freedoms, basic education opportunities constituents of development?

Indirectly to GNP / formation of industrialisation

Arrow-Debreu equilibrium → A competitive economic system can achieve a certain type of efficiency which a centralised system cannot achieve due to incentives & info problems.

Sen → culmination outcome → only final outcomes are considered.

↓ &
comprehensive outcome → considering processes through which the outcomes
Bhagwati only this. ✓

→ Poverty and social dimensions can be taken care in the 2nd stage of development.

considering this only → early
1980s → Japan, China, Korea →
↑ growth rate. ← Both

easier economic participation in East Asia → growth

Sen
→ Social opportunity is a constitutive element of developmental process.

agree on this. like basic education → ↑ Japan's growth.

→ ↑ educn, basic health care & land reforms → focus

Sen \rightarrow India $\downarrow \rightarrow$ as social opportunity $\downarrow \Rightarrow$ barrier to eco. growth. Sen \rightarrow prefers a state of Kerala/Sri-lanka $\rightarrow \uparrow$ life-expectancy, \downarrow fertility, \uparrow literacy \Rightarrow Not much high eco. growth.

Reforms of Manmohan Singh: (when he was the Finance Minister)

\rightarrow objectives:

- ① Reorientation of the economy from a centrally directed & highly controlled economy to a market-friendly economy.
- ② Macro-economic stabilisation $\rightarrow \downarrow$ fiscal deficits & Govt.'s draft on society's savings.

\rightarrow Results: (in 1990s)

- ① IR \downarrow , growth rate \uparrow and poverty \downarrow
- ② Since early 1990s, India's external debts \downarrow
- ③ Though \uparrow oil price, foreign exchange reserves at a record level.
- ④ \uparrow BOP. ⑤ \downarrow in infant mortality rates.

+ve. -ve: growth rates w.r.t. < 1980s.
Agriculture & industries \rightarrow growth due to service sector (IT & electronics).

\rightarrow Central Govt. expenditure towards social services & rural dev. \uparrow in 1990s. Central + state social expenditure \rightarrow const. over years as a % of GDP.

-ve: (a0s)

→ ↑ interstate economic inequalities.

→ ↑ in rural-urban disparities.

Results ⇒ ① achieving ↑ eco. growth (aggregate) is only 1 element of an effective strategy for poverty ↓ in India.

② Sectoral & geographic composition of growth (★) to ↓ inequalities in HRD & b/w rural & urban areas.

Antd. +ve: (1901) to (2010-11)
→ ↑ in GDP from 14% to 35.6%.

→ Gulf War (1991) → 1st ⇒ India → BOP ⇒ enabled the nation to undertake major eco. reforms.

→ By 2005 → Indian eco. growth → ~ 9.5% per annum.

→ India → thus → engine of global growth → rapid eco. growth over the yrs ⇒ participates in G20, World Bank etc.,

Industrialised only if it maintains this growth momentum for another 30 years.
nation should be politically stable.

Cause for eco. growth \rightarrow Infrastructural investment

12th five-year plan \rightarrow Govt. \rightarrow 1 trillion investment.
(2012-17)
Govt. guarantees investor invest. Sometimes, reckless govt. fail to pay interest. So, Govts have been asked not to give guarantees to investors esp. for private-sector purposes. As Govts give \uparrow guarantee to \uparrow pay \uparrow , future cost to the Govt. \downarrow

Govts \odot give guarantee only if the claim is empirically valid.

\rightarrow Food inflation \rightarrow should not be $> 10\%$ mark as prices of BPL ppl does not \uparrow with inflation \Rightarrow some ppl's food needs unmet.
 $\rightarrow > 20\%$ mark \rightarrow critical.

\rightarrow Exchange rate policy in India \rightarrow due to 1991's financial crisis.

RBI \rightarrow exchange rate \rightarrow stable.

\rightarrow Corruption Control violation \rightarrow reason \rightarrow policeman/shopkeeper \rightarrow violate rules when they feel it's profitable to them by doing so.

Solⁿ: Social & political ethos of the society \rightarrow human morals.