10/Aug/2020

Indian Economy CLASS-07

Topics – Economic Growth, Economic Development

Sustainable Development

Sustainable Development is the development that ~~needs~~ meets the needs at the present without compromising the ability of future generation to meet their own needs. This concept was formaly proposed at united Nation's world conference on Environment & Development. In 1987 under the Bruindtland Report "Our Common future".

The issue of sustainable development was later taken up under Agenda 21 action plan by the united Nation conference on Environment and development in 1992 at Rio De Jenerio in Brazil.

The Environment issue today is one of the most important issue because the economic development in many country had a high cost related to environment.

Sustainable Development implies three things

1. To stay within the Bio fiscal carrying capacity of planet.
2. To provide an adequate standard of living for all

3. To provide the system of governance that respects the basic needs of all and promotes the values by which people want to live. It ensures the inter-generational equity and coexistence of economic, social and environmental system with appropriate policy bagged by good governance.

According to Herman Daly the leading Environmental Economist following must be done to achieve sustainable development –

1. Limiting human population to a level within the carrying capacity of planet.
2. Technological progress must be input efficient and not input consuming.
3. The renewable sources must be extracted on sustainable basis.
4. For non-renewable resources the rate of depletion should not be more than rate of creation of their renewable substitute.
5. Inefficiency arising from pollution should be corrected.

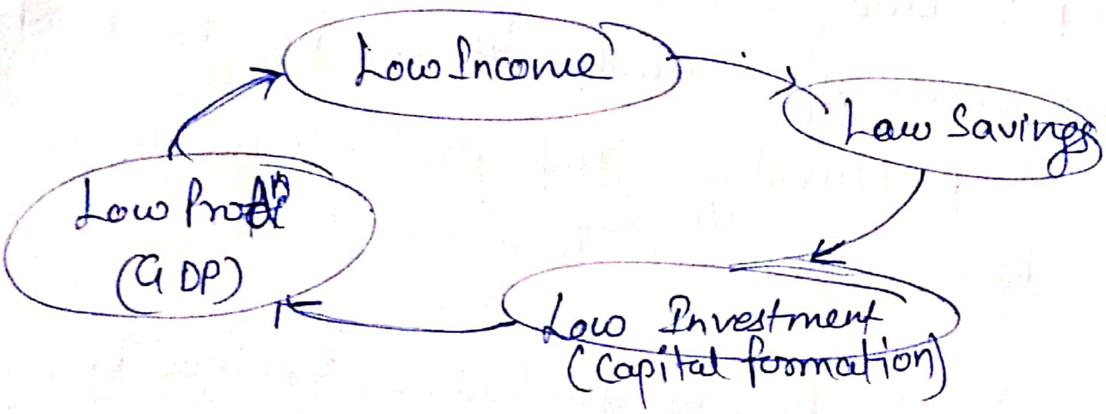
In year 2012 UN conference on sustainable development in its document "The future we want" set 17's SDG's with 169 Targets which were accepted by 191 countries to be achieved by 2030.

Development Models

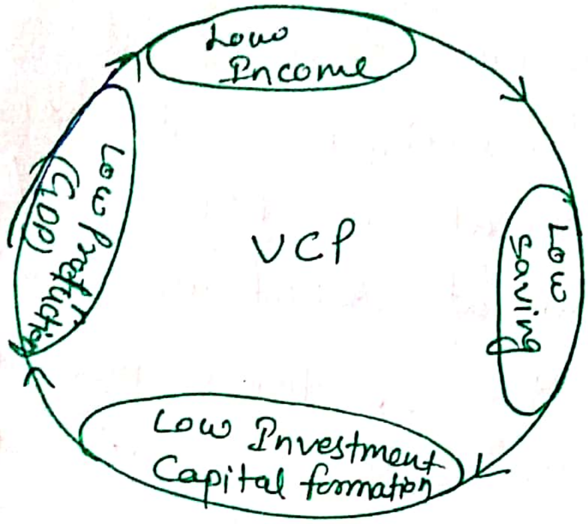
The Problems of economic development are very complex and multidimensional and hence have resulted in development of number of theories explanation and arguments which are collectively called development Models. These models aim at achieving the economic goal and thus assuring economic growth and development.

Some important Terms

1. VCP – Vicious Circle of Poverty
(Prof. Ragnar Nurkse)



VCP implies a circular constellation of forces tending to act and react with oneanother in such a way as to keep poor country in state of poverty. According to the main reason behind is lack of capital formation.



2. Virtuous Circle of Growth

According to Keldar direct relation between industrial growth and economic growth brings big push to production and ~~growth.~~ exports and leads to economic development. It can not be broken by a virtuous circle of Growth except by entrepreneurship and protectionism which are possible only for few countries.

Protectionism The Practice of protecting country's own economy by putting restrictions on import through taxes (tariffs), Quota, subsidies etc. Its aim at promoting domestic producer which may not be as efficient and cost effective as foreign firms. The benefits are increased of GDP, Job opportunity and foreign reserves. However there some disadvantages as well like increase of cost of product, decrease in variety or quality and economic isolation.

Washington Consensus

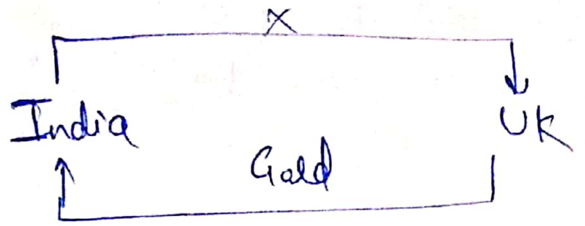
refers at set of 10 principle that support the idea of free trade and supported by several organisations like IMF and world Bank headquarter at Washington D.C. The Ideas of Liberalisation, privatisation, de-regulation etc. were suggested to the developing countries however some economists Argue that free trade is not always in best interest of all developing countries.

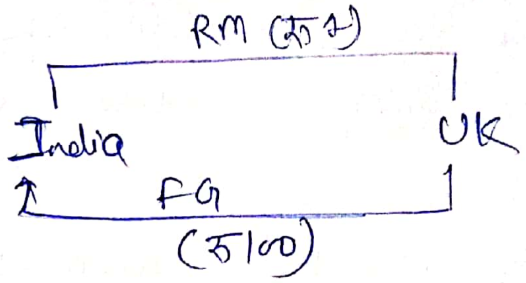
Mercantilism

It is an economic policy of increasing exports and minimizing imports, so as to create a current account surplus which can be received in terms of Gold and other precious items

Imperialism

is a political system in which rich powerful country controls the other country which is poor and not so powerful. Such poor countries or colony provide raw materials to the rich country for their industries and also market for their finished product.





The classical Development Models

In 1950s and 60s the process of development was seen as a series of successive stages through which all country must pass based on the availabilty of saving, investments and other factors. These models were called linear stages of growth models.

According to W.W Rostow there are five stages of economic growth through which every country must pass.

1. The Traditional Society
2. The Preconditions for takeoff
3. Take off
4. Drive to Maturity
5. Age of mass consumption.

Harrod-Domar Model

Capital formation is most important factor for increasing the level of production. Growth rate in any economy is directly proportional to the rate of saving (investment) and inversely to the capital - output ratio, (which is a measures of inefficiency).

H.W

Q. Explain the low income high saving paradox.

$$g = \frac{S}{V} = \frac{28\%}{4} = 7\%$$

g = growth rate

S = saving rate

$V = \frac{\text{Capital}}{\text{output}}$ ratio (measures inefficiency)

$$= \left(\frac{\$12t}{\$3t}\right) = 4$$

Structural Change Model

In 1960 and early 70's development was described as a process of structural change by which re-allocation of Labour from the low productivity sector like agriculture to the high productivity sector like Industry is the key factor of growth. This structural change is more important than accelerated capital formation. The Lewis Two Sector theory of development is applicable to many countries that have developed through such structural change.

P ⟶ S ⟶ T

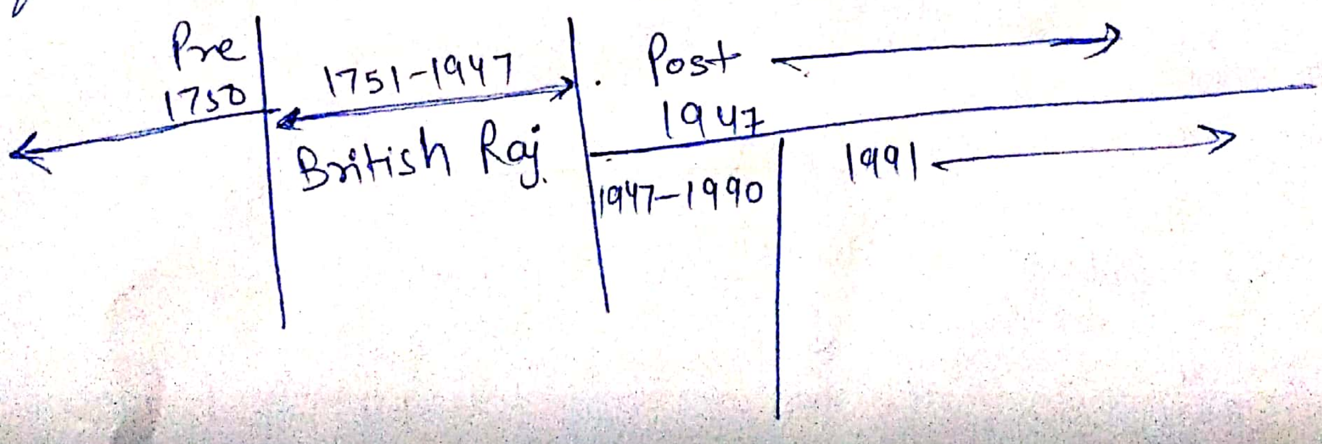
Agri. Sector ⟶ Industry ⟶ Tertiary

↓ Low Income | ↓ Higher | ↓ Highest

8

International Dependency Model

In 1970 and early 1980s some economist argued that underdevelopment exist because of dominance of developed countries and multinational corporations MNCs over the developing countries. The poor country remain dependent upon rich country for the shake of Technology, Goods, Services, capital etc. free trade is a convinient vehicle in the hands of developed country for the exploitation of under developing countries. Developing countries should therefore end the dependancy by breaking up their relationship with the rich countries. The best course for the developing country is the policy of Autarky which means self Rule. There are several examples in the past of such countries like India under Britain, Peru under spain, west africa under france where we find underdevelopment mainly caused by the foreign rule. Such country grew fasters when they became independent.



Neo-Classicals Model

Some countries including India and China that followed the Autarky policy did not register~~ed~~ a faster growth rate as compare to other economy like South Korea, Taiwan, Singapur etc. that shows tremendous success after 1960. as a result of opening their economies for their trade with the developed economies. The Neo-classicals or the Counter revolution model is the new version of the classical model of Adam Smith which favours the free market approach.

The Neo classicals economist Jagdish Bhagwati suggests that corruption, inefficieny, lack of freedom and incentives are the main causes of underdevelopment. Economy should be left to the market forces of demand and supply as invisible hand is strong enough. To ensure economic prosperity and growth. Privatisation, liberalisation, foreign, Investment, Competition, disinvestment, free trade and de-regulation can increase~~d~~ economic efficiency and bring economic growth.

India's Growth Strategy

During 1950 and 60s India followed the unbalanced growth
strategy under the prime ministership of Pandit, Jawahar
-lal Nehru and the guidance of Professor P.C. Mahalanobis.
Huge investment were made in the public sector Undertaking
on the government sector under the socialistic principles
expecting that it will have a Trickle-Down effect
on all the sector of economy in future. This top
down approach created big enterprises in India under
different sectors like railways, Telecome, Steel,
Electricity most of which suffered from inefficiency
and ~~curruption~~ corruption. The private sector was complaining
against too much of government regulations and
called these are Inspector Raj, Quota Raj and
Licence Raj.

These conditions continue till 1990s and thereafter
govt. of India decided for economic reforms of
liberalisation, privatisation and Globalisation (LPG).
reform. This became popular as Rao-Manmohan
development and resultantly Indian economy grew
at a much faster rate than it grew under the
Nehru-Mahalanobis Model. Clearly India has
moved for being more socialistic to more Capatilistic.

Role of private sector is extremely important for the development of any economy. Even China, has grown faster, after allowing private sector under the market Socialism. In recent time the Idea of 'Public Private Partnership (PPP) model has been utilised by many countries for the structural change and economic development. Many states in India have used this model for improving their infrastructure and the overall state of economy. for eg. Gujarat state has recorded tremendous growth in last 25 years after huge investment were allowed to be made under the PPP model and also by the private sector. The Gujarat Govt. ensure good governance ease of doing business, transparancy, single window clearance, invester friendly environment, taxation benefits etc. and As a result with just 5% of Indian population and 6% of land Gujarat contributes more than 20% to the Indian exports. Gujarat is known for several industries including petrochemical, pharmaceuticals, textile, Jewellary and so on. Although just three decades back it was a backward state with very pure infrastructure. There is a learning of state for the Gujarat development.

On the other extreme we have a Kerala model of development which is a style that has achieved massive improvement is social indicators, including infant mortality rate, literacy, life expentancy, low population growth. Thanks to the investments made by the government of Kerala on the social sector particularly health and education, we see highest literacy and the HDI throughout India.
What India is trying is actually a combination of the Kerala and Gujarat Model.

Gujarat ⟷ Kerala

Gujarat ↓
- EG ↑
- Infrastructure
- Exports
- GSDP

Kerala ↓
- Health
- Education