

## **HOW INDIAN ECONOMY STARTED CHANGING (2011- 2014)**

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### **ABSTRACT**

India's economic freedom score is 55.2, making its economy the 119th freest in the 2013 Index. Its score is 0.6 point higher than last year, with improvements in the management of public finance and monetary freedom offsetting a continuing decline in freedom from corruption. India is ranked 23rd out of 41 countries in the Asia-Pacific region, and its overall score is below the world average. India's institutional shortcomings continue to undermine the foundations for long-term economic development. In the absence of a well-functioning legal and regulatory framework, corruption throughout the economy is becoming a more serious drag on the emergence of a more dynamic private sector. The state's presence in the economy remains extensive through state-owned enterprises and wasteful subsidy programs that result in chronically high budget deficits. Progress in structural reform has been uneven and often stalled. Plans to open up key service sectors have been reversed, and no significant reforms have been implemented effectively in recent years. Efforts continue, however. Reform measures aiming at reducing government subsidies and encouraging foreign direct investment were announced in 2012.

### **Keywords:**

- 1) **Agriculture:** The science, art, or occupation concerned with cultivating land, raising crops, and feeding, breeding, and raising livestock; farming
- 2) **Agriculture Credit:** Any of several credit vehicles used to finance agricultural transactions, including loans, notes, bills of exchange and banker's acceptances.
- 3) **Cropping:** Cultivated plants or agricultural produce, such as grain, vegetables, or fruit, considered as a group.
- 4) **Financial Crisis:** A loss of confidence in a country's currency or other financial assets causing international investors to withdraw their funds from the country.

- 5) **Industrialization:** The process in which a society or country (or world) transforms itself from a primarily agricultural society into one based on the manufacturing of goods and services.
- 6) **Production:** The action of making or manufacturing from components or raw materials, or the process of being so manufactured.
- 7) **Productivity:** Productivity is the ratio of output to inputs in production.

## **OBJECTIVES**

After studying this unit, you will be able to:

- Discuss the basic characteristics of Indian economy
- Describe the major issues of development in India
- Understand how bad can things get in India
- Evaluate the nature of Indian economy

## **INTRODUCTION**

The Indian economy is estimated to have recorded a growth rate of 5.0 per cent in 2012–13 in terms of gross domestic product at factor cost at constant 2004–05 prices, following a growth of 6.2 per cent in 2011–12. Growth in 2011–12 and 2012–13 is on the lower side, with respect to the decadal average of 7.9 per cent during 2003–04 to 2012–13. This is attributable mainly to weakening industrial growth in the context of tight monetary policy followed by the Reserve Bank of India (RBI) through most of 2011–12, and continued uncertainty in the global economy. With some moderation in headline WPI inflation, there has been a reduction in the repo rate by the RBI by 50 basis points in April, 2012 and by 25 basis points in January 2013. The impact of tight monetary policy has been reflected in the quarterly growth rates of GDP. Quarterly GDP growth declined in each of the successive quarters between the fourth quarter of 2010–11, and the fourth quarter of 2011–12. The slowdown in the economy, specifically in the industry sector has entailed a lower than budgeted growth in government revenues. However, measures undertaken as part of mid-course correction have helped in improving the expenditure outcome in 2012–13. You must understand that the measures including the increase in the price of diesel by ₹5 per litre, allowing Oil Marketing Companies (OMCs) to raise diesel prices by small amounts regularly, and a cap on the number of subsidised LPG cylinders are expected to rein in the fiscal deficit. Growth of exports for most of the current year remained in negative territory, and with imports picking up in recent months, the trade deficit increased to US\$ 147 billion during

### **1.1 Basic Characteristics of Indian Economy**

In this section, you will learn about the basic characteristics of Indian economy. It is an under developed economy in which Agriculture is the back bone of Indian economic. 60% of India's population are on the below poverty line. Mineral resources are not fully utilised. We are selling iron ore by trucks and getting blades by packets. Majority of the people of India are leading a poverty line. Indian economic is affected by it. Countries which are on the part of progress and which have their potential for development are called developing economic. So India is termed as developing economy by modern views.

You need to remember that the important features of Indian Economy are as follows:

1. **Low Per Capita Income:** Under developed economy is characterised by low per capital income. India per capital income is very low as compared to the advanced countries. For example, the capital income of India was 460 dollar, in 2000. Whereas their capita income of U.S.A in 2000 was 83 times than India. This trend of difference of per capita income between under developed and advanced countries is gradually increasing in present times. India not only the per capita income is low but also the income is unequally distributed. This mal-distribution of income and wealth makes the problem of poverty in ore critical and acute and stands an obstacle in the process of economic progress.

2. **Heavy Population Pressure:** You must note that the Indian economy is facing the problem population explosion. It is clearly evident from the total population of India which was 102.67 cores in 2001 census. It is the second highest populated country China being the first. India's population has reached 110 cores. All the under developed countries are characterised by high birth rate which stimulates the growth of population; the fast rate of growth of population necessitates a higher rate of economic growth to maintain the same standard of living. The failure to sustain the living standard makes the poor and under developed countries poor and under developed.

3. **Pre-dominance of Agriculture:** It is important for you to note that the occupational distribution of population in India clearly reflects the backwardness of the economy. One of the basis characteristics of an under developed economy is that agriculture contributes a very large portion in the national income and a very high proportion of working population is engaged in agriculture.

4. **Unemployment:** There is larger unemployed and under employment is another important feature of Indian economy. In under developed countries, labour is an abundant factor. It is not possible to provide gainful employment the entire population. Lack of job opportunities disguised unemployed is created in the agriculture fields. There deficiency of capital formation.

5. **Low Rate of Capital Formation:** In backward economics like India, the rate of capital formation is also low. Capital formation mainly depends on the ability and willingness Of the people save since the per capita income is low and there is mal-distribution of income and wealth the ability of the people to save is very low in under developed countries for which capital formation is very low.

6. **Poor Technology:** The lever of technology is a common factor in under developed economy. India economy also suffers from this typical feature of technological backwardness. The techniques applied in agriculture industries milling and other economic fields are primitive in nature.

7. **Backward Institutional and Social Framework:** The social and institutional framework in under developed countries like India is hopelessly backward, which is a strong obstacle to any change in the form of production. Moreover religious institutions such as caste system, joint family universal marriage affects the economic life of the people.

8. **Underutilization of Resources:** India is a poor land. So our people remain economically backwards for the lack of utilization of resources of the country.

9. **Price Instability:** Price instability is also a basis feature of Indian economy. In almost all the underdeveloped countries like India there is continuous price instability. Shortage of essential commodities and gap between consumption and productions increase the price persistently. Rising trend of price creates a problem to maintain standard of living of the common people.

## **1.2 Major Issues of Development in India**

In this section, you will learn about the issues that arise during the development of an economy. The major issues of development of India are the problems faced by Indian economy:

1. **Inflation:** Fuelled by rising wages, property prices and food prices inflation in India is an increasing problem. Inflation is currently between 6–7%. A record 98% of Indian firms report operating close to full capacity. With economic growth of 9.2% per annum inflationary pressures are likely to increase, especially with supply side constraints such as infrastructure. The wholesale-price index (WPI) rose to an annualised 6.6% in January 2007.

2. **Poor educational standards:** Although India has benefited from a high percentage of English speakers (important for call centre industry). Whereas, there is still high levels of illiteracy amongst the population. It is worse in rural areas and amongst women. Over 50% of Indian women are illiterate.

3. Poor infrastructure: Many Indians lack basic amenities like access to running water. Indian public services are creaking under the strain of bureaucracy and inefficiency. Over 40% of Indian fruit rots before it reach the market; this is one example of the supply constraints and inefficiency's facing the Indian economy.

4. Balance of payments deterioration: Although India has built up large amounts of foreign currency reserves the current account deficit has deteriorated in recent months. This deterioration is a result of the overheating of the economy. The aggregate supply of the economy is not able to meet aggregate demand so consumers are sucking in imports. Excluding workers remittances India's current account deficit is approaching 5% of GDP.

5. High levels of debt: Buoyed by a property boom the amount of lending in India has grown by 30% in the past year. However, there are concerns about the risk of such loans. If they are dependent on rising property prices it could be problematic. Furthermore, if inflation increases further, it may force the RBI to increase interest rates. If interest rates rise, substantially, it will leave those indebted facing rising interest payments and potentially reducing consumer spending in the future.

6. Inequality has risen rather than decreased: It is hoped that economic growth would help drag the Indian poor above the poverty line. However, so far economic growth has been highly uneven benefiting the skilled and wealthy disproportionately. Many of India's rural poor are yet to receive any tangible benefit from the India's economic growth. More than 78 million homes do not have electricity. 33% (268 million) of the population live on less than \$1 per day. Furthermore, with the spread of television in Indian villages the poor are increasingly aware of the disparity between rich and poor.

7. Large budget deficit: India has one of the largest budget deficits in the developing world. Excluding subsidies it amounts to nearly 8% of GDP. Although it is fallen a little in the past year. It still allows little scope for increasing investment in public services like health and education.

8. Rigid labour laws: As an example Firms employing more than 100 people cannot fire workers without government permission. The effect of this is to discourage firms from expanding to over 100 people. It also discourages foreign investment. Trades Unions have an important political power base and governments often shy away from tackling potentially politically sensitive labour laws.

### **1.3 India — How Bad can Things get in India?**

Experts say a full-blown financial crisis like the one that devastated the so-called “Asian tigers” in 1997 is unlikely.

But some of India Inc’s marquee names are in big trouble.

“You don’t have the kind of [foreign] debts you had during the Asian Financial Crisis,” Franklin Templeton’s Mark Mobius told GlobalPost. “The balance of payments [problem in India] may be similar, but it’s a different scenario. It’s a matter of losing an opportunity rather than being hit by incredible debt that you can’t pay.”

During the Asian financial crisis of 1997, Thailand’s short-term foreign debt eclipsed its foreign reserves by nearly \$10 billion, before it went to the International Monetary Fund for a bailout. Indonesia’s forex reserves were only enough to cover about half of its short-term foreign debt. South Korea’s cache of dollars dwindled to a measly 25 per cent of its \$100 billion in short-term borrowings – enough to cover just two weeks of imports.

Prime Minister Manmohan Singh sought to reassure the nation that India is not facing a similar situation, in the lead up to the release of official growth figures for the quarter ended in June and the fiscal deficit figures for July later in the day.

“Foreign exchange markets have a notorious history of overshooting. Unfortunately this is what is happening not only in relation to the rupee but also other currencies,” Singh said in a speech before the parliament.

The signs are indeed grim, despite those intentions. Later Friday, India’s July deficit numbers revealed the government has already fallen two-thirds of the way toward its deficit target for 2013-14 in the first four months of the fiscal year, according to Reuters.

India’s growth has slowed to 4-5 per cent, while inflation remains in double digits. The rupee has plummeted nearly 20 per cent since the beginning of the year. The stock market has dropped 10 per cent over the past three months, with foreign institutional investors dumping nearly \$1 billion worth of Indian stocks over the past eight trading sessions, according to India’s Mail Today.

But there’s a ways to go before it hits crisis levels, experts say.

India and Indonesia will face a rocky road in the coming months because their current account deficits — meaning the balance of funds flowing out versus in — are high. But “we don’t think this is the Asian crisis all over again,” Standard & Poor’s chief economist for Asia Pacific said in a recent report.

After rebounding 3.5 per cent to 66.6 against the dollar Thursday – its largest gain since January 1998 – on Friday the rupee was down slightly before Singh’s speech, but was trading at 66.3 shortly before closing. The Bombay Stock Exchange’s benchmark Sensex gained another 1.19 per cent on Friday after closing up 2.25 per cent the day before, while the National Stock Exchange’s Nifty added 1.16 per cent after closing up 2.35 per cent Thursday.

Does that mean the worst is over? Maybe, and maybe not.

With short-term debt of around \$172 billion and forex reserves of around \$280 billion, India is in much better shape than the victims of the Asian financial crisis. Moreover, the rupee’s free fall indicates that India’s central bank is not making the same mistakes made by the Asian tigers in the 1990s, when Thailand, Indonesia and South Korea burned up their foreign exchange reserves in a doomed effort to defend their currencies.

“The external positions for the emerging Asian economies are much stronger [than in 1997]. The central banks are also not defending their exchange rates,” S&P’s Paul Gruenwald said in a report titled “South and Southeast Asian Economies Grapple with Growth and External Financing Risks.”

The rocks in the road could be pretty big for some of India’s most respected companies, however. “The fact of the matter is that 25 per cent of corporate India today technically does not have adequate money to make its interest payments, and 15 per cent of corporate India has negative cash flows,” Morgan Stanley’s Ruchir Sharma told GlobalPost.

“When you look at that kind of territory you know that the corporate system is under a lot of stress.”

The numbers may be even worse than that.

A third of India’s big corporations are already busted or on the brink of insolvency, according to India’s Business Standard newspaper. And every point the rupee plunges makes their dollar debts that much more difficult to repay.

Citing data from the Capitaline database of Indian corporations, the paper reports that companies like Tata Steel, Hindalco Industries, Tata Power, Larsen & Toubro, Jaypee Associates, Adani Power, GMR Infra, GVK Power, JSW Steel, Reliance Infra, Indian Oil, HPCL, Shri Renuka Sugars, Bajaj Hindusthan and Suzlon face dollar debts amounting to as much as double their market capitalization.

That means some of India’s biggest blue chips are deep in the hole, and there’s no way for them to tap the equity markets to raise money to finance projects or make their interest payments.

“Looking at valuations at that point doesn’t really matter,” said Morgan Stanley’s Sharma. “If companies are making losses or don’t have adequate money to cover their debts, it’s just too bad.”

#### **1.4 Nature of Indian Economy**

Now, let us discuss about the nature of the Indian economy. You must take note that the nature of Indian economy is mixed, but its goal is socialist. The privatisation we see today was not a deliberate choice but we were left with no other option. Public enterprises failed to deliver and the government needed money to support its welfare programs so the only way out was privatisation. In 1990s, when economic liberalisation happened, most of the reforms came because IMF required them as a condition for loaning money to India in order to overcome the economic crisis that the country was facing then; not because of some ideological shift.

Even today, governments talk about ‘inclusive growth’ and people approve it; which is nothing but an alternate phrase for ‘re-distribution of wealth,’ which in turn is a core principle of ‘socialism’. Yes, we haven’t seen the bloodshed that the communism is capable of, but that doesn’t mean we don’t have socialist leanings. We are in that grey zone, neither here, nor there— which is even worse than a purely communist state: a communist state will go down quickly. It gives an opportunity to build from the ruins, a capitalist state will rise up quickly, where as a mixed economy goes nowhere; it is just stagnant.

When people say, “The money that the productive parts pay as taxes is being mutualised by politicians,” the major flaw in that is not ‘misutilisation,’ but productive parts having to pay taxes. Why do they need to pay? For producing? Worse, the more you produce the more you are penalised. Isn’t it violating individual and property rights? Misutilisation is a subjective term. If the government spends on housing, a shelter less guy may appreciate it, but I, as a tax payer, who wants to see it spent on education will feel robbed. The government shouldn’t be handling all this. All the problems arise when the government tries to intervene and control what should happen voluntarily.

When people say, “There is no political accountability,” the question is, accountability to whom? The Public? The Public is nothing but a sum of groups and individuals with varied interests, intellects and standards so it is not possible to be accountable to each one. Hence, the Government choose groups which are majority in number (in India it is always the poor and unproductive) and feed them (thereby institutionalising poverty) so that they can win the next election (as democracy is merely about numbers and not reason or logic).

The US declaration of independence has these lines.



“Men are endowed by their Creator with certain unalienable Rights that among these are Life, Liberty and the pursuit of Happiness. That to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed.”

The Government's only purpose is to protect individual rights and every individual will be happy to pay to that extent. Nothing more nothing less.

That morality which teaches you to live for others. And that which considers living for oneself is a sin. That which glorifies sacrifice and reprimands any act of self-interest. That which identifies only 'we' and turns a blind eye to 'I'. That which sees 'giving' as a value and 'earning' as an evil. When they say 'tax the rich' it is this morality that works. Philanthropy is praised, productivity/ creativity is penalized. Which says that man has no right to exist for his own sake that service to others is the only justification of his existence, and that self-sacrifice is his highest moral duty. From family to businesses to governments, every system is plagued by this altruistic/collectivist morality. Not an ocean of tears nor all the guns in the world can let a man create something except freedom of the mind.

Source: Business Environment, Dr Vivek Mittal

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