Indian Economic Development: Issues and Perspectives

Kshyama Sagar Meher

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CONTENTS

S.No. *Page*

Sample Preview
of
The Chapter

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INDIAN ECONOMIC DEVELOPMENT: ISSUES AND PERSPECTIVES

APPROACHES TO DEVELOPMENT

Alternative Paradigms of Development

1

INTRODUCTION

Approach to development is an interesting subject because it interests not only students of economics and other social sciences but also politicians and policymakers. This topic could also be frustrating since there is no consensus over its boundaries. In this chapter, we will discuss different approaches to development such as market-based approach, mixed economy approach, import-substitution approach and export-oriented approach. We will also study about various areas of development like social and sustainable development. Besides, we will deliberate on some concerns and challenges of development including poverty, inequality, unemployment and regional disparities.

CHAPTER AT A GLANCE

DISTINCTION BETWEEN GROWTH AND DEVELOPMENT

The terms "growth" and "development" are synonymous. They are usually indicated in terms of per capita Gross Domestic Products (GDP) or per capita income. A growth in the per capita GDP should lead to a rise in the standard of living of the people.

However, in strict sense growth and development have several differences.

(i) Growth means rise in per capita GDP, whereas development is rise in per capita income. Per capita GDP is measured annually and is a short-term phenomenon. Per capita income is a long-term aspect.

(ii) Growth is a narrow concept, whereas development refers to a broader one. Growth refers to the end product of the economic activity–the per capita GDP, but development includes the rise in per capita income as well as the structural changes.

(iii) Growth is an average measure calculated by dividing the total national income by the total population. There may be growth in national per capita income if there is a fall in population. Such numbers are not development. Development takes into account the distribution of income resulting from growth.

(iv) Growth is based on market valuation, which may not include non-market activities. Development on the other hand includes non-market factors.

(v) Growth does not show what people get out of it, but development shows the improvement in people's capabilities.

(vi) Growth may have negative developments such as pollution of environment and depletion of non-renewable resources, whereas sustainable development should not bring negative effects.

Therefore, the UNDP Human Development Report of 1990s suggested that we should avoid the following five types of growth: *(a)* Growth which does not create any job, *(b)* Growth which increases inequalities in the society, *(c)* Growth which is non-sustainable, *(d)* Growth which does not empower the deprived section, and *(e)* Growth which destroys the culture and traditions.

APPROACHES TO DEVELOPMENT

There are several approaches to attain economic development. Some of them are discussed below:

Market-Based Approach

Perfectly competitive markets without any interventions are considered as a strategy for growth and faster accumulation. In such markets, resources are used optimally by maximizing profits and minimizing the costs. Profits are considered as incentives for investment for gaining faster growth. In the post-World War-II, many colonies became independent and started the process of development. These underdeveloped countries however, faced serious gaps in the markets as they did not have markets. They had a pressing public need. Most of these countries thus became dependent on the state for fulfilling the requirements of the development process.

Role of State and Planning

The state has to play a major role in development process in underdeveloped countries with weak industrialization, poor infrastructure, subsistence agriculture, vast underemployment and low income. The private sector in such countries has no incentives or abilities to undertake the investment role. In such case, the state has to intervene in planned investment in industry and infrastructure sectors as well as in farm sector for higher productivity. In India, for example, the state played a major role since independence until 1991 to provide accelerated growth in key sectors of the economy such as railways, power, telecom, roads and shipping. The state also invested moderately in social sectors such as education and health.

The exponents of state intervention are pessimistic about the market's ability to provide the desired results in core sectors. They argue that only state can bring the changes through planned mobilization and allocation of resources to the public sector.

In recent years, the public sector has lost the grace in policy because of red-tapism, losses, corruption and inefficiency. However, the state should not minimise its role in sectors such as health, education and infrastructure.

Mixed Economy Approach

In mixed economy, both the state and the market operate in the development process. It combines the socialism and capitalism. The private enterprises operate with self-interest and profit motive, whereas the public sector functions with larger social interest and not with profit motive. India is a good example of mixed economy. Until 1990, the public sector was accorded the primary role in planned development and the private sector supplemented the efforts of the public sectors.

With the introduction of reforms in 1991, the private enterprises have started playing dominant role in most of the sectors of the economy. Thus, India's mixed economic approach has moved from state-dominant economy to market-driven one.

Inclusive Growth

Inclusive growth is a process of development which benefits all the sections including the poor and marginal. Indian included the strategy of inclusive growth for the first time in the "Approach Paper" of the Eleventh Five Year Plan. However, "growth with justice" and "growth with equity" have remained part of the country's economic policy. The fundamental premise of the "growth is justice" is that in an economy with gross disparities in wealth and assets, growth of national product without state's intervention would lead to perpetuation of inequalities. Thus, the state has to play a role in the regulation of production and distribution to ensure equitable distribution of the gains of growth.

Market-driven economy may put more emphasis on growth and less on social equity. Thus, with the introduction of economic reforms, the government called for "structural adjustment with human face" to give importance to equity and increased empowerment. The economic reforms in India have shown relatively high growth performance, but it has failed to be sufficiently inclusive.

ROLE OF TRADE AND STRATEGIES OF TRADE

Earlier industrialisation was equated as development and later on focus shifted to the role of trade in industrialisation. Trade was also referred to as the engine of growth. The basis of this argument was the classical Ricardian theory which argued that free trade pushed the industrial revolution in England. There are two ideas over the concept of trade: *(i)* International trade overcomes the narrowness of the domestic market and offers an outlet for the surplus product above home requirements, *(ii)* International trade improves the division of labour raising the general level of productivity within the country. Protectionist school argues that this is not the case in underdeveloped countries which import manufactured goods and export raw-materials.

Export-Oriented Approach

In export-oriented approach, countries make specialisation in a few primary commodities. The demand for these commodities is likely to be both price and income elastic. Increased export earnings and growing domestic demand bring in investment and growth of domestic industry and the economy. In export or outward-oriented economies, specialisation results in the benefits of economies of scale and reduction in the cost of production. Increased competition due to open trade breaks monopolies. Free trade also promotes flow of more direct foreign investment. Export-oriented economies which have been successful were the East Asian countries during the 1960s and 1990s.

Import Substituting Industrialisation

In import substituting industrialisation, or ISI, the government makes policy to intervene to protect domestic industrial production to replace imports. The infant-industry argument is an important rationale for this policy. The core of the argument is that nascent industries often do not have the economies of scale that their older competitors from other countries may have, and thus need to be protected until they can attain similar economies of scale. Countries adopting ISI ban imports or impose high tariffs on imports.

On the basis of trade data, the structuralist school headed by Raul Prebisch of Latin America in 1960s argued that in a free trade regime, developing countries were exporting primary commodities and importing manufactured goods. The relative prices or the terms of trade of primary products deteriorated over the long run because of inherent increase in the elasticity of demand for manufactured goods and falling elasticity of demand for primary products. The developing countries' backwardness would continue until they develop their manufacturing sector. Thus, the policy of import substituting industrialisation is necessary for the development.

SELECT CONCERNS OF DEVELOPMENT

Certain issues like poverty, inequality, unemployment and regional disparities require special attention in the designing of appropriate strategies in developing countries.

Poverty

When people are unable to meet even their basic necessities of life, they are said to be afflicted with poverty. Many developing countries in the 1960s and 1970s had high levels of poverty even as they adopted development strategy with significant focus on growth of GDP and per capita income. Since 1970s, the developing countries started focusing on eradication of poverty along with high growth rates of GDP.

Poverty in developed countries is seen in relative terms, but developing countries use monetary income or consumption to identify and measure "absolute poverty". In India, Dadabhai Naoroji launched the debate on poverty issue through his Drain Theory in later nineteenth century. His theory argued that common Indian is left with very low per capita income since most of the resources of the nation are drained away by the colonial power, Britain, for the benefit of the British.

Many Indian nationalist thinkers including M.G. Ranade, Gopal Krishna Gokhle and Mahatma Gandhi propounded some alternative paradigms of development keeping in view social, cultural and economic conditions of the country. India however adopted a mix of several conflicting paradigms of development, which are perhaps led to large scale poverty and inequality.

Developing countries measure poverty on the basis of income and expenditure. They have fixed "poverty line", "poverty gap" and headcount measure of poverty.

Inequality

In the development process, the issue of inequality has been of considerable concern in developing countries. One argument which has received much attention is as the development process proceeds, income inequality first rises and then falls with development. Advocating this view, Simon Kuznets gave a graphical representation of this argument. In the graph, rise in per capita income on the 'X' axis showing economic development and a measure of inequality on the 'Y' axis. It shows a curve in the shape of an inverted "U". This has been called "Kuznets Curve" or inverted-"U" hypothesis of the relationship between growth of income and inequality. The Kuznets curve implies that as a nation undergoes industrialization, the centre of the nation's economy will shift to the cities. As capitalism causes a significant rural-urban inequality gap, rural populations are expected to decrease as urban population increase, due to people migrating to cities in search of income. Inequality is then expected to fall when a certain level of average income is reached and the processes of industrialisation allow for the trickle-down of the benefits from rapid growth, and increase the per capita income. This was Kuznets' belief that inequality would follow an inverted "U" shape as it rises and then falls again with the increase of per capita income.

The rapid economic growth of East Asian countries such as South Korea, Hong Kong, Taiwan and Singapore was contrary to the Kuznets curve theory. Many studies have been done to identify how the EAM was able to ensure that the benefits of rapid economic growth were distributed broadly among the population, because Kuznets' theory stated that rapid capital accumulation would lead to an initial increase in inequality. Thus, it is argued that reducing inequality is necessary for greater economic prosperity in the long-term.

In India, there is evidence of growing inequalities in consumption levels between rural and urban areas and between different states. In 1983, the rural monthly per capita income was 66 per cent of urban monthly per capita income. It fell to 61 per cent in 1993-94 and to 56 per cent in 2004-05. Since the 1990s, there has been high level growth, but it did not have adequate Impact on the rate of reduction in poverty due to increasing inequality in income distribution.

Employment and Unemployment

Employment generation is one of the main objectives in the development strategies. In most of the developing countries, underemployment, thin employment and low productivity employment are common features.

Unemployment in India: In India, unemployment is calculated on the basis of three types of status:

(i) Usual Principal Status (UPS), *(ii)* Current Weekly Status (CWS), and *(iii)* Current Daily Status (CDS). US unemployment refers to the position of a person who did not find employment for substantial part of the year and still seeking employment. CWC unemployment refers to people who did not get even an hour of work in a day in the week of survey. In CDS unemployment, the employment or not employed at least for one hour in each of the reference week is taken into account. As per the CDS estimates, employment rose from 239.49 million in 1983 to 313.93 million in 1993-94, 338.19 million in 1999-00, and 384.91 million in 2004-05. During the period, the number of unemployed increased from 20.27 million in 1993-94 (6.06%) to 34.74 million in 2004-05 (8.28%).

Nature of Employment in India

In terms of working status, employment in India can be divided into three categories. They are: *(a)* regular salaried, *(b)* self-employment, and *(c)* casual employment. Regular salaried employment is stable and secure employment with assured regular income. Self-employment is often fraught with uncertain or meagre income. Self-employed are highly vulnerable and unstable. Casual employment means no regular job, adverse working conditions and uncertain wages.

Development process should bring majority of workers from casual employment to self-employment and increasingly towards regular and salaried employment. The following table shows during 1980s to 2000s, there has been decline in self-employment and increase in casual employment. There is hardly any increase in regular employment.

Table 1:1 Status of Employment in India

Year	Self-employment	Salaried	Casual
1977-78	58.9	13.9	27.2
1983	57.4	13.9	28.7
1987-88	56.0	14.4	29.6
1993-94	54.8	13.2	32.0
1999-00	52.9	13.9	33.2

Organised and Unorganised Workers

Organised workers are those working in legally incorporated entities with regular salaries with better working condition and social security. Unorganised workers consist of people employed in unorganised enterprises without any employment security and social security. According to the National Commission for Employment in Unorganised Sector (NCEUS), the percentage of unorganised workers has increased to 92.4% in 2004-05 from 91.2% in 1999-00. The organised workers account for only 7.6% of total employment in 2004-05, a decline from 8.8% in 1999-00. The following table shows the proportion of organised and unorganized workers during 1999-00 to 2004-05.

Table 1.2: Organised and Unorganised workers as per NCEUS Report

Sector	Unorganised Workers		Organised Worker		Total	
	1999-00	2004-05	1999-00	2004-05	1999-00	2004-05
Unorganised sector	341.3 (99.6)	393.5 (99.6)	1.4 (0.4)	1.4 (0.4)	342.6 (100)	394.9 (100)
Organised	20.5	29.1	33.7	33.4	54.1	62.6
workers	(37.8)	(46.6)	(62.2)	(53.4)	(100)	(100)
Total	361.7 (91.2)	422.6 (92.4)	35.0 (8.8)	34.9 (7.6)	396.8 (100)	457.5 (100)

Millennium Development Goals

The United Nations Millennium Development Goals (MDGs) are eight goals that all 191 UN member states agreed to try to achieve by 2015. The United Nations Millennium Declaration, signed in September 2000, commits world leaders to combat poverty, hunger, disease, illiteracy, environmental degradation, and discrimination against women. The MDGs have eighteen targets and forty-eight indicators. Each country including India has set regional level targets under each goal. Given below are eight goals.

(1) To Eradicate extreme Poverty and Hunger

(a) To bring down by half the proportion of people living on less than a dollar a day.

(b) To bring down by half the proportion of people who suffer from hunger.

India's performance in reducing hunger is not satisfactory. In 2008, about 60% of the regions in India are off the track in reducing hunger. There are 1.2 billion people globally still live on less than $1 a day.

(2) To Attain Universal Primary Education

(a) To ensure that all boys and girls complete full course of primary education.

In India, 90% of children are in school. There are 113 million children still do not attend school globally.

(3) To Promote Gender Equality and Empower Women

(a) Eliminate gender disparity in primary and secondary education by 2005 and at all levels by 2015.