A Comprehensive Overview of Indian Economy

DR. DHARMISHTHA B. SOLANKI

Abstract:
This study provides a comprehensive overview of the Indian economy, analyzing its key sectors, growth patterns, challenges, and policy interventions. It explores the historical evolution of the Indian economy and its transition from an agrarian-based economy to a diverse, service-oriented one. The study highlights the impact of globalization, industrialization, and policy reforms on India's economic landscape. Additionally, it discusses demographic trends, income distribution, and potential future trajectories to offer a holistic understanding of the Indian economy.

Keywords: *Indian Economy, Economic Growth, Policy Interventions, Industrialization, Demographic Trends*

1. Introduction

Every economy in the world has its own characteristics or features by which it is known or identified. Economies are compared with each other on the basis of these features. India as a distinct nation came into existence on 15th August 1947, called the independence day of India which marked the end of British rule over India. After that, Independent India has completed 66 years of self rule on 15th August 2013. This period is long enough to evaluate the position and performance of the country to enable comparison with other countries in the world as well as evaluate its own progress over the years. With this view in mind the current lesson provides the features of Indian economy.

2. Objectives

After completing this lesson, you will be able to:

1. To describe the characteristics or features of Indian economy;
2. To explain the problems faced by Indian economy;
3. To explain the role of agriculture in India; and
4. To describe the growth of industry in India.

3. Features of Indian Economy

Let us now list the features of Indian economy as follows:
(i) Low per capita income
(ii) Heavy population pressure
(iii) Dependence of population on agriculture
(iv) Poverty and Inequality income distribution
(v) Higher level of capital formation which is a positive feature
(vi) Planned economy
let us discuss these points one by one.

(i) Low per capita income

India is known in the world as a country with low per capita income. Per capita income is defined as the ratio of national income over population. It gives the idea about the average earning of an Indian citizen in a year, even though this may not reflect the actual earning of each individual. India's per capita income for the year 2012-2013 is estimated at ₹ 39,168. This comes to about ₹ 3,264 per month. If we compare India's per capita income with other countries of the world then it can be seen that India is well behind many of them. For example, the per capita income of USA is 15 times more that of India while China's per capita income is more than three times of India.

(ii) Heavy population pressure

India is world's second largest populated country after China. As per 2011 census India's population stands at more than 121 crores. It increased at a rate of 1.03 percent during 1990-2001. The main cause of fast rise in India's population is the sharp decline in death rate while the birth rate has not decreased as fast. Death rate is defined as the number of people died per thousand of population while birth rate is defined as the number of people taking birth per thousand of population. In 2010, the birth rate was 22.1 persons per one thousand population while the death rate was only 7.2 persons per one thousand population. Low death rate is not a problem. In fact, it is a sign of development. Low death rate reflects better public health system. But high birth rate is a problem because it directly pushes the growth of population. After 1921, India's population increased very fast because birth rate declined very slowly while death rate declined very fast. From 49 in 1921 the birth rate declined to 22.1 in 2010 while during the same time period, death rate declined from 49 to 7.2. Hence the population growth was very rapid in India.

Heavy population pressure has become a major source of worry for India. It has put burden on the public exchequer to mobilize enough resources to provide public education, health care, infrastructure etc.

(iii) Dependence on Agriculture

Majority of India's working population depend on agricultural activities to pursue their livelihood. In 2011 about 58 percent of India's working population was engaged in agriculture. In spite of this, the contribution of agriculture to India's gross domestic product is a little over 17 percent. A major concern of agriculture in India is that productivity in this sector is very less. There are many reasons for this. There is heavy population pressure on land to sustain huge number. Due to population pressure on land the per capita availability of land area is very low and not viable for extracting higher output. Two, since per capita land availability is less, most people are forced to become agricultural labour working at low wages. Three, Indian agriculture suffers from lack of better technology and irrigation facilities. Four, mostly people, who are not educated or not trained properly, are engaged in agriculture. So, it adds to low productivity in agriculture.

(iv) Poverty and inequality

Another very disheartening thing about India is that it has world's largest number of poor people. As per reports of government of India, in 2011-12 about 269.3 million people in India were poor. This was about 22 percent of India's population.

A person is termed poor if he/she is not able to consume the required amount of food to get a minimum calorie value of 2400 in rural area and 2100 in urban area. For this the person must earn the required amount of money as well to buy the food items. The government has also estimated that the required amount of money is 816 in rural area and ₹ 1000 in urban area per head per month. This comes to about ₹ 28 in rural area and ₹ 33 in urban area per head per day. This is called poverty line. This implies that 269.9 million people of India were not able to earn such little amount in 2011-12.

Poverty goes with inequality in income and wealth distribution. Very few in India posses materials and wealth while majority have control over no or very little wealth in terms of land holding, house, fixed deposits, shares of companies, savings etc. Only top 5 percent of households control about 38 percent of total wealth in India while the bottom 60 percent of household has control over only 13 percent of the wealth. This indicates concentration of economic power in a very few hands.

Another issue linked to poverty is the problem of unemployment. One of the most important reasons of poverty in India is that there is lack of job opportunities for all the persons who are in the labour force of the country. Labour force comprises of the adult persons who are willing to work. If adequate number of jobs are not created every year, the problem of unemployment will grow. In India every year large number of people are added to the labour force due to increase in population, increase in number of educated people, lack of expansion of industrial and service sector at the required speed etc. So far we discussed the negative features. There are certain positive features of Indian economy as well. They are discussed below.

(v) Higher rate of capital formation or investment

At the time of independence, one of the major problems of Indian economy was deficiency in capital stock in the form of land and building, machinery, and equipment, saving etc. In order to continue the cycle of economic activities such as production and consumption, a certain ratio of production must go towards saving and investment. However, the required ratio was never generated in the first four to five decades after independence. The simple reason being higher consumption of necessary items by the population of whom most happened to be poor and lower middle-income class. Collective household saving was very less due to this.

Consumption of durable items was also very less. But in recent years things have charged. Economists have calculated that in order to support the growing population, India requires 14 percent of its GDP to be invested. It is encouraging to note that the saving rate of India for the year 2011 stands at 31.7 percent. The ratio of gross capital formation was 36.6 percent. This is possible because people are now able to save in banks, consume durable goods and there has been large scale investment taking place on public utilities and infrastructure.

(vi) Planned economy

India is a planned economy. Its development process has been continuing through five-year plan since the first plan period during 1951-56. The advantage of planning is very well known. Through planning the country sets its priorities first and provides the financial estimates to achieve the same. Accordingly, efforts are made to mobilise resources from various sources at least cost. India has already completed eleven five-year plan periods and the twelfth plan is in progress. After every plan a review is made analysing the achievements and short falls. Accordingly, things are rectified in the next plan. Today India is a growing economy and recognised every where as a future economic power. The per capita income of India is growing at a higher rate than before. India is seen as a big market for various products. All these are possible due to planning in India.

4. Role of Agriculture in India

Agriculture is one of the most important sectors of Indian economy. It is the supplier of food and raw materials in the country. At the time of independence more than 70 per cent of India's population depended on agriculture to earn livelihood.

Accordingly, the share of agriculture in the national product/income was as high as 56.6 per cent in 1950-51. However, with development of industries and service sector during the plan periods, the percentage of population depending on agriculture as well as the share of agriculture in the national product has come down. In 1960, the percentage of labour force engaged in agricultural activities was 74 which gradually came down over the years to 51 per cent in 2012. In 1960 the share of labour force in industry and service sectors stood at 11 and 15 percent respectively. But in 2012 these shares increased to 22.4 and 26.5 percent respectively. It has been observed in most of the economies that along with economic development shift in labour force from agriculture to industry and service sector takes place.

Agriculture is the source of food supply. The production of food grains has increased from nearly 55 million tonnes in 1950-51 to 259 million tones in 2012-13. Because of the growth in food grain production, India's dependence on import of food grains has declined and almost become nil. Keeping in view the rapid growth in India's population, increase in food grain was a necessity which the country achieved significantly. Except for pulses, increase in food grains has been mode possible by increase in cereals and various cash crops.

Agriculture is also a major source of foreign exchange earning through export. The share of agriculture in India's export in the year 2011-12 was 12.3 percent. The major items of export include tea, sugar, tobacco, spices, cotton, rice, fruits, and vegetables etc.

5. Growth of Industry in India

Industry or the secondary sector of the economy is another important area of economic activity. After independence, the government of India emphasized the role of industrialization in the country's economic development in the long run.

Accordingly, the blue print for industrial development was made through the Industrial Policy Resolution (IPR) in 1956. The 1956 policy emphasized on establishment of heavy industries with public sector taking the lead in this area.

Adoption of heavy or basic industries strategy was justified on the ground that it will reduce the burden on agriculture, enable growth in the production of consumer goods industries as well as small industries that are helpful for employment generation and achieving self reliance. After the adoption of the IPR, 1956 there was tremendous growth in industrialization during the second and third plan periods i.e., 1956-61 and 1961-66. Public sector contributed maximum to this growth. But towards the end of 1960s, investment in industries was reduced which adversely affected its growth rate. In the 1980s, this trend was reversed and investment in industries was increased by making the infrastructure base such as power, coal, rail much stronger. In early 1990s it was found that the public sector undertakings were not performing up to expectation. There has been reports of mismanagement in these under takings resulting in loss. So, in 1991 the government of Indian decided to encourage the role of private sector in industrial development, remove the rigid licence system which is known as liberalization and allow international players to compete in the domestic country as well as domestic players to explore foreign territories. The aim of taking all these steps was to strengthen the process of industrialization in the country. Such a model of industrial development is called Liberalization, Privatization and Globalization (LPG) model.

After the adoption of this new policy in 1991, there has been phases of growth followed by slowdown in the industrial development process. In the early years of 1990s there was significant growth in industrialization due to increase in investment in infrastructure, reduction in excise duty, availability of finance etc. But towards the end of 1990s the growth rate slowed down due to stiff competition from international companies, inadequate infrastructure support etc. However, in the beginning of the new millennium, between 2002-08 there was again some recovery due to increase in saving rate from 23.5 percent in 2001-2 to 37.4 percent in 2007-08. Even the competition from the foreign companies helped during this phase as the domestic companies could create enough internal strength in term of quality control, finance, and customer care etc. to withstand the competition. However, after 2008-09 there was some slow down in industrial growth due to rise in petroleum price, interest rate and borrowings from abroad which has created lot of liabilities for the domestic companies.

6. Conclusion

This comprehensive overview illuminates the multifaceted nature of the Indian economy, encapsulating its diverse sectors, historical trajectory, contemporary challenges, and potential growth avenues. India's economy has undergone a remarkable transformation, transitioning from primarily agrarian to a burgeoning services-led economy. The liberalization policies initiated in the 1990s propelled economic growth, attracting foreign investment, and fostering global integration.

The sectors contributing significantly to the economy include services, agriculture, manufacturing, and a burgeoning technology industry. However, challenges such as income inequality, unemployment, infrastructure gaps, and regional disparities persist, necessitating targeted policy interventions.

Addressing these challenges requires a holistic approach, encompassing reforms in education, healthcare, labor markets, and infrastructure development. Furthermore, sustainable growth strategies should prioritize environmental conservation and inclusive development to uplift marginalized sections of society.

Demographically, India's youthful population offers a demographic dividend, provided adequate skill development and job opportunities are created. Harnessing this potential will be crucial for driving future growth and achieving socioeconomic prosperity.

In conclusion, while the Indian economy has made significant strides, ongoing reforms and strategic policy implementations are vital for navigating the evolving global economic landscape. A balanced and inclusive approach, coupled with sustained efforts towards socioeconomic development, will determine India's trajectory towards becoming a global economic powerhouse.

References

1. Bhagwati, J., & Panagariya, A. (2013). Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries. Public Affairs.
2. Kumar, N. (2012). India's Economy: Performance and Challenges. Cambridge University Press.
3. Planning Commission of India. (2014). Twelfth Five Year Plan (2012–2017): Faster, More Inclusive, and Sustainable Growth. Sage Publications.
4. Rajan, R. G., & Subramanian, A. (2008). India: A Comprehensive Economic Assessment. Oxford University Press.
5. World Bank. (2021). India Development Indicators 2021. World Bank Publications.