

Indian Economy: Reality and Expectation

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Abstract: *India's development has, for the first time been an issue in elections, or so it seems. The economy has seen the worst of times over the past 200 years. Poverty-alleviation has been sluggish. The world has been increasingly critical of India's economic policies. Liberalisation brought a wave of development that seems to fade away at this point in time. The growth rate for the economy has been abysmal. Key sectors like agriculture in many parts still suffer from inefficiency and lack of technology. The paper aims to elucidate upon, in a simple tone as to what the economic structure and what is expected out of it. The paper is heavily inspired from Japanese, Italian and primarily Korean economic miracle and Bimal Jalan, ex-RBI Governor's book, "The Indian Economy: The Problem and Prospects"*

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1. Introduction

1.1 Indian Economy: Reality and Expectation

India, the third largest economy in terms of PPP is widely touted as the second biggest economic revolution after China. Along with China, many find India set to lift 800 million people out of poverty in coming years and economically empowering a total of 1.2 billion people, a size bigger than the continent Africa. Such a size, an economically empowered one seems to put India along with China as the twin super-powers of the future.

While no doubt, India's a great power and may be on road to become a giant military power; its economic success has always been hindered by blundering policies framed in the name of idealism and anti-imperialism. Nehru, our first Prime Minister launched an anti-imperial economic crusade but paradoxically failed to implement the same in the government framework where we till date have bureaucracy trained to serve its masters and not its people. (1)

Not deviating from the topic, I switch back to the matter stressing as to how weak our economic policies were before 1991; the worrying part is many of those policies still exist after two decades of liberalisation. An example would be our labour laws; over 200 labour laws exist at centre and state-level; one of them prohibits firing employees even they sleep during office hours.

1.2 Indian Economy: A brief history

Prior to the industrial revolution, the prime occupation of the world was agriculture. China and India were respectively the largest and second-largest economies of the world owing to their fertile lands and huge populations. However, then came the Industrial Revolution that in its own strange way, coupled with weak political structure of India post Aurangzeb jettisoned the Indian economy downwards. In 1947, India freed itself and as it began its quest for a prosperity, it was widely touted to be economic miracle of the 20th century; that, we all know didn't happen. (2)

India started on a promising note, building steel plants, opening universities, etc but however, the dislike for the word "Profit" and more concentration on employee over-satisfactions soon gave way to the system's exploitation by

the employees, which resulted in inefficiency resulting further in import (an exception for the then economic model); although it began as an exception, the exception became a daily ritual; however, the policy towards exports remained undeterred; the result was Balance of payment crisis of 1991 when we were not left with enough foreign reserves to pay for three weeks' supply of oil. (3)

Atal Bihari Vajpayee, in his interview to Tavleen Singh, stated how misdirected the nation's economic policies were under the Soviet influence. (4)

The economic policy was simple; finance the losses of inefficient PSUs via the taxpayer's money; the same money that could have gone into infrastructural development, the basic framework of any developed economy. (5)

1.3 Subsidies: A welfare scheme or a drain on resources

Another key feature of our budget that has continually run sizeable deficits is "dysfunctional subsidies". A lot many countries employ subsidies but for infrastructure development, job creation, things that shall pay off later and while the economy runs deficit in development al phase, it counters it when the development pays off as created jobs contribute to taxes, directly or indirectly (the spending power allows them to buy goods and services, thereby enabling them to pay indirect taxes). Indian subsidies have mainly been vote-garnering schemes such as distributing subsidised grains (the object of which has been realised to an extremely limited extent)

The key to a steady employment generation is always the creation of enterprises, and that too the ones making profits (of course through legal means). However, opposition to Foreign Investment, private enterprises left much of consumer needs unattended and prevented creation of many jobs. (6)

The License Raj had policies that were paradoxical in ideology. It aimed for self-dependence but failed to address the issue of imports as sanctions on exports, direct and indirect were huge. Oil, was always a crucial import but there were no export-oriented enterprises in India then.

Economies that did not have a domestic market like Japan, South Korea, Taiwan, had export-oriented growth; the

money through exports then raised living standards and gradually a domestic market was established. The same policy has been adopted by China. (7)

It has also been seen that upon being economically empowered, people tend to have less children, more awareness on health-care and are more aware of the world they live in. It has been observed in Korea, Japan, Italy, surprisingly, even Iran. (8)

2. Current Situation

The country is yet to reform its labour laws which were a subject of criticism by the World Bank. (9) Any enterprise having more than 100 labours requires government permission to fire people. In the face of expansion, such enterprises face issues and many a times this hinders employment creation. Our labour laws do ensure job security after being appointed on the job but the framework renders job a rare luxury.

Vocational courses are in vogue and that shall enable workers to find employment. However, job-creation is not yet what should to feed 700 million youth as the government still has anti-privatisation sentiment. India is one of the toughest places to do business. (10)

India ranks poorly in transparency in business transactions. The lack of transparency and appointment of several departments for a single objective tends to induce corruption into the system. For example, to set up a business, the number of clearances required from different departments renders the process cumbersome and corruption then sparks in. This act of bribery and all further act as a detriment to growth.

3. Crony Capitalism

Crony Capitalism is a term that holds a huge significance in Philippines, Russia and even China where nepotism aids setting up and success of the business. However, in India, granted that unethical dealings abound in private enterprise, we can't call it Crony Capitalism. Overall, Indian business houses fight a bribe-seeking political framework to have their businesses going. Also, such dealings were rampant in case of Govt. led enterprises as well, more so in that case.

Despite, 2G scam and Coalgate, the fact is that privatisation and political re-structuring need to get going; the losses caused by these scams would likely seem petty to the ones accrued by repetitive financing of inefficient Govt. enterprises.

4. Conclusion

India needs job-creation as the prime means to uplift people. Charity programs should be abandoned for a more concrete form of self-dependence. Focus has to laid on infrastructure development, privatisation, and expunging illegal mafia that plunder the nation's resources.

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