

Indian Economy: Growth after Independence

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Abstract – India, home to very nearly a 6th of the global populace is one of the quickest developing rising economies today. Having long deserted the days when we attempted to bring home the bacon in financing our imports and in creating enough to bolster our populace, our advancement endeavors today face hindrances in handling poverty within the sight of high expansion. This essay attempts to survey India's growth story and advancement issues with significant spotlight on poverty.

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I. INTRODUCTION

Since 1951, India has developed as an arranged economy. The initial couple of plans concentrated on growth with fortifying of the assembling area underscoring substantial ventures to shape the foundation of the economy. Other chief regions of arranging were agriculture and social improvement for example lodging and poverty mitigation. Throughout the years India saw a changing creation of its financial structure: agriculture which at first contained 60% of the GDP presently involves around 26% and administrations include a monstrous 75% of the GDP developing from 30% during the 50s. Milestone changes in 1991 were realized under strain from IMF and World Bank when India was left with remote trades to scarcely bolster two weeks imports. The new period saw delicensing, monstrous levy decreases, FDI top relaxations and slow convertibility of the present record pursued by the capital record. The progression procedure began in the mid nineties has seen huge growth particularly in the administrations area. India has reliably developed at over 6% in the course of the most recent five years and regarding sheer GDP PPP as of now remains at rank 4 on the planet as indicated by most recent World Bank gauges. Nonetheless, when we take a gander at GDP for each capita by PPP we rank at 153 as per the World Bank. A gauge of India's growth story can be produced using Chart 1 which plots the growth rate of the economy throughout the years. Advancement has helped India develop reliably and support up its forex saves through huge inflows of remote subsidizes both through FDI and FII building up India among the world's best three most favored venture goals.

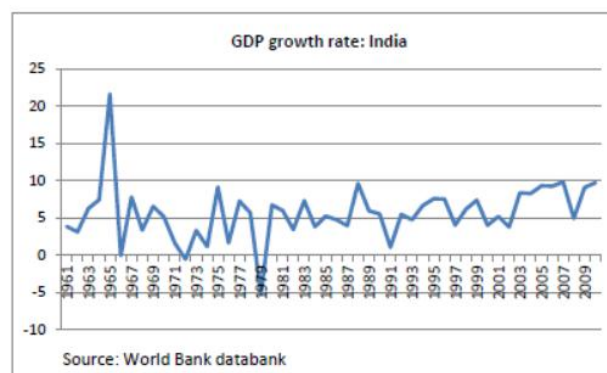


Chart 1 India GDP growth rate

II. AMPLE FOREIGN EXCHANGE RESERVES: STRENGTH OR WEAKNESS?

Although at first glance one may believe the huge forex reserves are strength of our country and we can use it to boost infrastructure or poverty alleviation one may be mistaken. India's foreign exchange reserves have been built through mostly FII inflows as opposed to China's who have had more FDIs than FIIs. In fact closer observation of the data shows that this has been the trend for most years post liberalisation and only recently in the aftermath of the global slowdown in 2008 do we find more FDIs than FIIs into India (Chart 2). FIIs being investment in the capital markets remain a more volatile source of foreign exchange where the investor can easily sell the stocks purchased. The RBI has maintained the exchange rate preventing it from appreciation through open market operations. The managed float⁴ of the exchange rate maintains competitiveness of our exports. Thus our forex reserves are not our "earnings" and are not for us to keep. Additionally, as (Rakshit M. , 2003) points out the aftermath of the east Asian financial crisis have taught central banks of developing countries to be wary of volatilities of capital flows and speculative attack on their currencies which thus push them to maintain foreign exchange reserves. The foreign

exchange reserves thus built remains in the coffers of the bank invested in low interest yielding foreign government bonds. Being able to use it for infrastructure development or poverty alleviation would leave us in the danger of a crisis should the foreign investors choose to withdraw funds in response to market slowdown or a sudden panic in the international financial markets like the East Asian financial crisis in 1997. This would destabilise our economy wreaking havoc on the exchange rate spoiling investor confidence and hence any such move remains untenable. An excellent exposition of the dynamics of FIIs and the implications of capital account convertibility is offered in (Sen P. , 2005). The question remains how best to use the huge stock of foreign reserves for our benefit? Indeed maintaining high levels of reserves impose costs on the economy as well. (Chakraborty & Dasgupta, 2010) suggest that NABARD has lost out due to the sterilisation policy of the RBI which has over the years increased the proportion of foreign assets in its balance sheet relative to domestic assets lowering incidence of loans to NABARD due to lower earnings given the changes composition of bank assets. On capital account convertibility, (Sen P. , 2006), (Rakshit M. , 2006) point out the flaws in analysis of the export group which advocated higher convertibility and point out the dangers of alienating the real sector from the financial sector.

- (i) the poverty line (identification)
- (ii) the poverty gap Index (depth)
- (iii) the squared poverty gap index (inequality among poor)

The terms in the brackets indicate the aspect of poverty the measures address. Of these the poverty line is of paramount importance and traditionally the planning commission has set the poverty line as a per capita income required to afford a subsistence level calorie intake (set at 2400cal for urban areas and 2100cal for rural areas by the task force set up in 1977). According to this the traditional head count index (percentage of population below poverty line) is obtained. It was estimated that 301.7 million or 28% of the Indian population were below the poverty line as of 2004-05 which marked significant decreases in the poverty levels which were pegged at around 54% in June 1974.

More recently, the Tendulkar and Saxena committee reports (2009) have successively reported the inadequacy of the poverty estimates. While new methods of identification of poor are still being debated about, the estimates of poverty as per the Tendulkar and Saxena committees stand at 41.8% and at least 50% respectively. The Tendulkar committee embraces the mixed recall period instead of the uniform recall period and uses the same poverty line basket (PLB) for both the rural and urban population. The Saxena committee was set up by the ministry of rural development to draft a new method for the BPL census and they suggest the score based ranking(SBR) system which lists 11 characteristics based on which points are given and the higher the points the more poor the household. A comparable approach has been suggested by (Dreze & Khera, 2010) . Sharan, (2011) compares the two approaches to reveal that (Dreze & Khera, 2010) are more transparent and include more deserving households than the Saxena Committee approach. However the best way to identify the poor still remains a question hard to answer as criticisms for each approach only lead us to a better approach but the best is yet to be achieved.

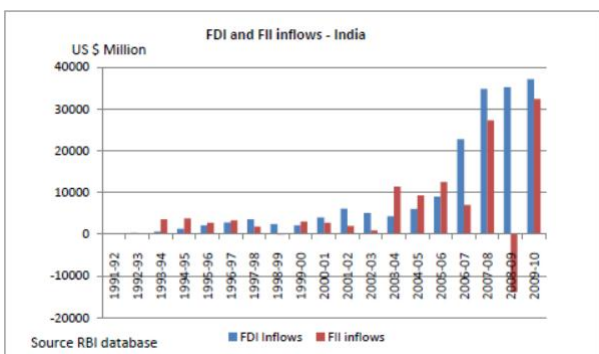


Chart 2 FDI and FII inflows in India

III. POVERTY: A CHRONIC PROBLEM?

Problems related to Poverty are not unknown in India and can be traced back to any point in history one wishes to get back to. However in the post-independence era constructive efforts have been made by the Government of India (GOI hereafter) to lower the incidence of poverty in various forms and in the present day we find multiple anti-poverty programs which we shall look into later in the essay. In order to tackle poverty we need answers to two big questions, namely: Who are the poor? And, how poor are the poor? In other words we have to solve problems of identification and then the depth of poverty.

Talking of poverty in India primarily three measures are in use—

Coming to the question of poverty alleviation, scholars across the world have grappled for solutions to poverty and have offered various schemes of transfer. However, as rightly noted by scholars, poverty is not only associated with income deprivation but a lot more in terms of “entitlement failure”, “exchange entitlement failure”, “functionings”, “capabilities”, “opportunities” and most importantly “freedom”. However for the purpose of this essay we do not delve deeper into treatment of these aspects of poverty although we come up with recommendations on how to address these. In terms of addressing the income poverty angle scholastic works have suggested many ways.

Sachs, (2005) being a proponent of aid believed poverty is like a trap (figure 1). A big push is required to get a family out of poverty. From figure 1, Y_2 is the poverty line income that an individual needs to achieve to be out of poverty. However as long as his income is below Y_1 , he is left behind in a trap and can only move towards the origin i.e. zero income and hence is perpetually in poverty. Thus a lump sum transfer (aid) which helps the individual to go beyond Y_1 helps him accumulate wealth and finally come out of poverty.⁷ As opposed to this there is the no intervention approach of (Easterly, 2006) who does not believe in aid. Most economists believe that there is no trap as such and with limited accumulations of income one can make it out of the poverty trap. Here piece meal efforts suffice poverty alleviation as shown in figure 2.

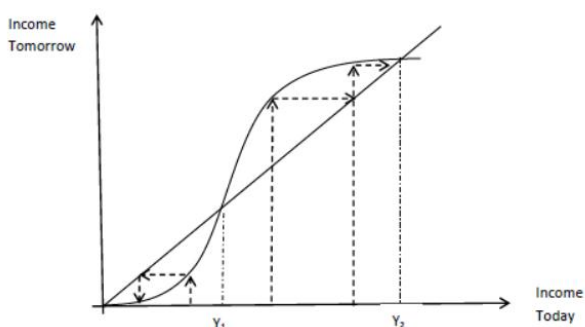


Figure 1

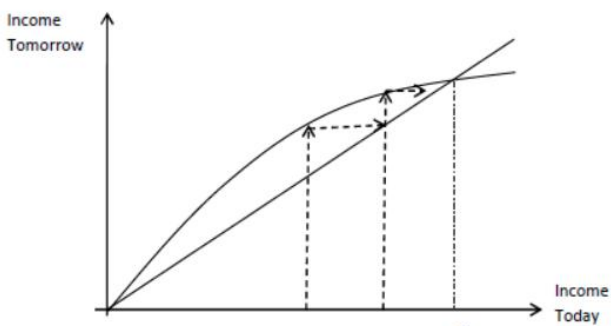


Figure 2

GOI has been implementing policies for poverty alleviation since independence. Yesudian, (2007) divided these into five broad heads:

- (1) Self-employment programs
- (2) Wage employment programs
- (3) Food security programs
- (4) Social security programs
- (5) Urban poverty alleviation programs

The most important poverty treatment programs thus far are: The public distribution system(PDS) from almost the start of independence (more so after the

formation of Food corporation of India,1964) and later in 1997 the targeted public distribution system(TPDS), Sampoorna Grameen Rozgar Yojana(SGRY) (2002), Swarnjayanti Gram Swarozgar Yojana (SGSY) (1999), Integrated Rural Housing Programme(Indira Awas Yojna) (1999-2000), Pradhan Mantri Gramodaya Yojana - Rural Shelter (2000-01), Prime Minister's Rozgar Yojana (1993), Innovative Stream for Rural Housing and Habitant Development, Free supply of tools scheme, National Food for Work Programme (2004), Rural Employment Generation Programme (REGP) (1995) , Pradhan Mantri Gram Sadak Yojana (PMGSY) (2000), Integrated Wastelands Development Programme (IWDP) (2004), Antyodaya Anna Yojana (AAY) (2000), Swarna Jayanti Shahari Rozgar Yojana (SJSRY) (1997), Valmiki Ambedkar Awas Yojana (VAMBAY) (2001) and most lately, the National Rural employment guarantee ACT (NREGA), 2006 which has also brought in some of the previously started schemes under its umbrella.

The number of poverty alleviation programs suggests the importance the government has always felt towards reducing the menace in order to build a developed society. However the latest estimates (going by the Tendulkar and Saxena Committee reports) suggest that the poverty situation in India is at best as it was a decade or two ago. One can't help but ask the question if we are doing enough to resolve the problem or do we have enough to solve the problem.

IV. ABUNDANT FOOD STOCKS: WHOM TO FEED?

Coming to the issue of food availability India has also managed to tackle its problems of adequate food production post green revolution. A need for a centralised agency to protect the farmers against swings of agricultural prices and fluctuations in harvest were felt at an early stage. This coupled with the need to provide food to the poor at affordable prices led to the formation of the Food Corporation of India and the public distribution system which procured food grains at a pre-determined price from the farmers and made them available to the market through ration/fair price shops. In addition to this the government also built buffer stocks of food to bail out the nation on the event of a catastrophe. A year on year breakup of the food grains available in the central stock pool. The food stocks in government granaries have grown overtime and around 2001-02 the procurement policies of the government were changed along with implementation of various food for work programs to bring down the stocks over the next few years but standing today we again have a huge stock of foodgrains as easily read off. Can we simply dole out the excess food to the poor to help them? Deaton & Dreze, (2009) find a decline in per capita food consumption in India across all income groups. Banerjee & Duflo, (2011) suggest that too

many goods compete with food in economies like India and Mexico and thus increasing food supplies may not be the way forward.

V. PATH TO DEVELOPMENT

The above three sections lead us to a dilemma if at all poverty could be challenged with the abundance of forex and foodgrains we have. My personal opinion based on the literature cited is that the healthy foreign exchange reserves is better used to command international confidence as an investment destination. In the last few years we have seen FDIs overtaking FIIIs. This is good news and would lead us to have a healthier current account and finally through creation of higher employment bring down the incidence of educated unemployed. Linkage effects would help bring up employment in low skilled jobs. RBI already holds the forex reserves as a combination of diversified assets and this is beneficial for us. Investment in assets like gold would do us good given the store of value that gold has in unparalleled.

In terms of poverty reduction the stock of food grains has much greater value and this is in terms of tackling problems of mal nutrition and indirectly, income poverty. It has been recognised in the works of Banerjee & Duflo (2011) that lending money to the poor may not imply they spend it on food. The fact that they are accustomed to being hungry leads them to use the money on luxuries like shampoos!! Although hard to believe this is reality. Hence food for work programs need to be pushed especially through programs like NREGA and the urban area versions of the same that are due to come up soon.

One problem that I have not talked about at length but is one of the most important ones facing the poor is that of financial inclusion. Credit availability has remained a problem for the poor. Informal credit mechanisms charging unbelievably high interest rates have been observed and incidence of farmer deaths and huge expenses by the poor on social events leading them to perpetual indebtedness and bonded labour are not unknown. There is a need to push the agenda of bringing down unnecessary expenses in social functions like the government has done for literacy or AIDS prevention. Unfortunately availability of credit finds little mention in the new poverty identification (Social economic and Caste census 2011). In fact the new criteria are plagued by other practical drawbacks which need attention if we are serious about tackling poverty. A land line phone may be used only to receive calls by a family which can only afford the rental and can still be poor. Giving BPL cards to all identified persons which is only usable in the vicinity of the address may not be very helpful to the poor when many of them are migrant workers and have to travel away from home to earn daily wages. Making the card usable across the nation and tracking it against duplication using the

latest advances of IT would be advantageous to the poor.

Finally, Yesudian (2007) recognises that too much government intervention into poverty alleviation programs is actually an impediment. However, we note that the government is far better placed to implement a nation-wide program than any other entity. As noted by Banerjee & Duflo, (2011) its not only big changes that will do the trick we need some treatments specific to some areas and villages. Taking private help here is an option. In the post liberalisation era economic inequality has increased (Pal & Ghosh, 2007) making the poor poorer and large corporates richer. India today is home to global corporate giants and huge taxes revenues that are often given up in SEZs or tax holidays could be bargained for adoption of backward villages by these private companies to develop these areas. An example would be the adoption of Maan School by Infosys⁸. Similarly other corporate giants should be convinced to invest actively in development of rural areas in the vicinity of which they often set up factories taking advantages of lower costs and resources. This would enable the corporates too in the longer run to hire local talent bred under their own umbrella. Hence a step by step approach along with periodic big push efforts by the government could be adopted to move towards a developed society.

VI. CONCLUSION

This essay has tried to analyse India's growth and current position in terms of foreign exchange assets, food grains and poverty. Poverty reduction a must for development has been stressed and in recognition of the government's efforts through various schemes the importance of rural credit institutions, public private partnership in developing India through piecemeal efforts of corporate India in conjunction with large scale efforts of the government has been suggested. It may be noted that abundant food stocks and huge foreign exchange reserves may find best use to establish India as a preferred investment destination and to foster India's diplomatic and political ties with other nations going forward. However poverty is not a problem of food availability alone and needs tackling by greater inclusion into society greater "freedom" towards which greater access to credit, education, health services etc. are indispensable and it is here that the public private partnership would work best.

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