

# A Study of how Indian Economy played out in last two decades

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**Abstract -** Indian economy though it was making way to go upward but global headwinds and unusual action by the government when timings were not appropriate for them to be taken has caused hurdles in the economic growth. Since banking sector is in dire strait it won't be easy to kick start the investment cycle. First companies have to function on full capacity utilization which at present is working on an average of 65% for which the consumption is not up to the mark. High rate of interest and poor demand from the rural sector are the two factors which has impeded the consumption. Since inflation which was low for two years is likely to go up with the sizeable spending on election and also oil prices spiking up. Any further revenue expenditure can disturb the inflation mathematics.

**Keywords:** Banking, Expenditure, Inflation, Rate of interest, Revenue, Rural sector.

## I. OBJECTIVES

The main objectives of the paper is:

- To study the India's consistent growth
- To study the contribution of private and secondary sector
- To study the various sectors of the economy

## II. ROLE OF INDIAN ECONOMY SINCE 1999

No comparison is needed to be made between Indian economy before liberalization and post liberalization because substantial structural changes had to be done at the dawn of liberalization in 1991. No doubt in every election season economics issues are hotly debated but still people view the outcome from their own perspective. It is also a fact that year after year macro-economic challenges are dealt with so that people at least can live with little inflation and enjoy the employment. It is a wrong belief that poverty can be overcome with universal basic income particularly in India where the revenue deficit is already high. The period 2009-2014 was marked with few mega scams which had dented the Indian economy. However, back in 2014, the government which took over was decisive in creating employment and overcoming the farmer's distress. Issue of black money was also a priority for the government. Basically, it was a calm period during which oil and commodities prices were very low and therefore it was easy to control the current account deficit and it was indeed done. However, the government was committed to bring down the fiscal deficit and it was brought closer to 3% which is prescribed in FRBM. Inflation by the turn of 2017 came under control and it was

below 4%. Suspecting the black money in the system is causing lot of problems i.e. high housing prices, inflation and parallel economy, terrorist funding, fake currency and so on the government had to resort to demonetization. It is out of context that full arrangement to take in the cash and then repay it was made or not but the fact of matter is that barring few crores of rupees the remaining has come back to the RBI. Therefore, substantial amount was not retained or destroyed by the public for the fear of prosecution. The Banks could not detect the hoarders of black money because the past record even if it is available cannot help in assessing that the excess cash was kept because it was not paid for income tax. Since it took 3-4 months to achieve normalcy, it appears that small borrowers had to go through severe hardships because they depend of cash for purchase and sale. It included small farmers as well. Before people had come out of this severe blow, within little over one year, GST a unified tax was imposed on the business. There were several administrative problems and it took significant time to adjust to new system. First 5 slabs were kept and subsequently there were revisions and exemption limit were altered. In both these cases informal sector was hurt very badly. Before, this was planned, the government of its own embarked on the program of financial inclusion which had benefitted crores of people. There is no statistics which could reveal that accounts are being updated or even lying dead. But it is a fact that GDP which is a proxy for national income also has fallen down by almost 2% which means the earning across the spectrum has dwindled. Since informal sector can hardly be captured in accounting for GDP but unemployment data can easily detect as to how much is the loss of employment. According CMIE reports that unemployment

at 7.1% is the highest in forty five years. While the government spending is good to account for GDP the performance of private sector in raising the level of GDP appears to be muted. Since for the larger period of 2014-2019 the oil and commodities prices were rather lower than the previous regime the government has made huge money by way of excise duties because the full benefit of low prices was not passed on to the consumers and finally it is spent on infrastructure. The government does not deserve to be given the pat on its back for low prices. Two years in the block of 2014-2019 had seen back to back droughts and inflation for the first two years was just around 9%, which started coming down because of the soft pricing regime in the abroad as well as change in the pattern of production in the country. By the end of 2019 the inflation is around 3%. What it tell in nutshell that farmers are not getting justified price for their produce. No doubt MSP prices are raised but given the fact that government does not procure many produce, the markets pays the price according to demand and supply condition. Some of the farmers had suffered losses and incidents of suicides have increased phenomenally in this period. In 2013 itself RBI governor wanted banks to come up clean on the NPAs so that balance sheet is transparent. Roughly 15 lacs crores were the NPAs at that point in time which over the period of time have been brought down to 10 lacs crores. The global headwinds had profound impact on the exports but given the fact that import measured in dollars was also not coercive, somehow the CAD was under control for some time. The internal consumption of commodities depend on the construction activities, interest rates, rural income and all of these were not favorable, there is a substantial non-utilization of capacity. It is the employment and income which drives the consumption and then the investment, private investment is muted for long time. IIP is very weak and GDP figures are also down revised. Though India is a fastest growing economy but whether 7% growth is enough to make it matching with China in 2030 when it would be second largest economy. India's potential growth rate could be double digit but it is continuing at around 7% for very serious reasons attributed to it. First of all, all the successive governments are to be blames those who did not visualized that how much education should pay in increasing the GDP. Secondly, the health sector continued to play spoilsport when it is seen that how many poor affected with the illness and their performance is not up to the mark and they cannot make their livelihood. The inclusive growth reduce the poverty as well and it is astonishing that poverty level decreased by 10% in first decade of this century and thereafter not even one percent could be lifted out of poverty. There is a serious flaw the way reforms were undertaken. Any person with little knowledge of economics knows that GDP is dependent on the four factors of production which are primary in nature. While it is known that informal sector is backbone of the economy

and it is that which makes formal sector strong for one reason and for the second reason it is the small scale sector which can be involved in the value chain and production of value added goods. Probably it missed the attention of the reformers because every small scale units demand a piece of land, arrangement of capital, skilled labor if its wants to be excelled and entrepreneurship. It was difficult for the government to secure capital for them because at the time of liberalization banks were failing utterly due to their abysmal rate of recovery. Therefore if one goes back to previous years the merger of the banks was on the anvil or capital infused was required. Therefore, the State Governments had not taken any pain barring few States who had provided land to small scale sector in a mission mode. Once the land is provided with proper registration in authorized area or developed by the government, the promoter gets a chance to procure technology for which the loan is granted by the banks. Otherwise operation in the formal sector and informal sector are entirely different. The former can have good machines and latter has to operate with less capital intensive environment because interest rates other than banks for which they are eligible is sometimes 3-4 times and it is the reason that informal sector cannot afford to retain skilled labor because wages will affect the profitability. Therefore the survival of the informal sector which is out of compulsion is based on the land pieces outside the city or crowded lanes in urban areas, poor labor exposure and old machines. As the economy continued to be expanded which was largely due to corporate sector and MNCs, the employment was not a problem because each type of labor was available for the formal and informal sector. Unlimited number of private institutions was allowed to come in to provide supply of technical and managerial graduates and hence the employment was easy and by chance it was very high in the service sector which expanded at faster pace after liberalization. The export of services was also significant which helped in keeping CAD under check. The expansion of the capital market could also be seen in the backdrop of liberalization which attracted huge FII and it also contributed in keeping CAD under check. However coming back to manufacturing sector which has expanded in value terms and employment creation significantly had to depend on the skilled and unskilled labor. The large corporate sector as by their own nature are capital intensive do not need labor in significant manner but when it comes to enterprising units, they could not do well on the demand and supply side issues. On the supply side these needs capital and land which could not be ensured to an extent needed by the government and banks but India continued to miss the supply side issue of labor also. Whether it was not properly conceived that how school pass-out would be accommodated as the economy has been pushed with proper reforms at least with an objective of higher growth rate. If it was appropriately perceived then definitely proper vocationalisation and screening of

school pass out was expected to be done. Since the education system began to deteriorate after liberalization after mushrooming of private schools and discrimination between poor and rich in terms of their affordability which forced the poor to go to public schools and medium and rich in private schools. Unless the government had screened the students irrespective of their school they attended and allocated them to vocationalisation every one rushed to general education again with difference in quality. It is the irony that almost all the State government went on allotting the land to private schools and no thought was given to land for vocational courses. Whether government could not afford to run the vocational courses without the creation of small scale sector which was expected to be planned in their domain? At the time of reforms, all the States were not found fit to increase the base of informal sector because of the issues of logistics and sale of goods on competitive basis. Secondly power supply in some of the States continued to be improved with the passage of time. But since school drop-out and school-pass out continued to increase, it is where the employment creation continued to become the issue. Since vast track of land has been occupied for mining and large corporate sector and nurtured well with power supply, inside roads and some living arrangement of workers by the end of 2009 many projects came to be kept pending for want of land. Practically expansion of the corporate sector came to be closed by 2009 when NPAs reached at alarming level and capacity utilization to be curtailed because of the weakening of the demand. Therefore, Gujarat, TN and Maharashtra leading in the creation of formal sector (small) and large both are justified given the fact that they were consciously building infrastructure for long time. No doubt many corporate sector had come in Orissa but the land was not an issue. At present there is no State where informal sector (manufacturing) is not existing. But the point is that when every State has its own industrial development corporation why significant effort has not been made to train the people to be employed in the industries created on the land provided by them. In this regard Rajasthan deserves to be given credit that it had created was network of the formal sector (small) and correspondingly the education standard has improved which is directly linked to vocationalization. The problem became serious when low performers and high performers entered in the same stream of general education and at the end there is little for their employment. Basically there is no organization which decides the demand and supply of each type of manpower which has its layered. But due to the oversight of the government and farsightedness neither the education system is maintaining good standard nor vocationalization was possible and therefore informal sector increased and started running parallel to formal sector. But the attention was paid to labor up gradation in 2008 when National Skill Development Corporation was created and it was taken forward by the present

government. Since formal system of vocationalization continued to be missing and the way training has been conducted in the last five years it is more as a earning for non-deserving for NGOs and less as skill acquisition. It was a lip service and was done with a view to show it to the people that government is serious about skill up-gradation. To be good in the skill proper vocationalization is must. It is the saga of the informal sector which was attacked during demonetization and implementation of GST in haste. The problem is likely to persist for few years rather days to come would be too thorny in terms of employment and revenue. One more thing which has been captured in this paper is that States are burdened with unnecessary losses of electricity boards, roadways etc, and sufficient revenue is not available for payment to schools and college teachers. The fiscal deficit continues to be above limit with the States. Teachers are working on ad hoc basis. Even ITIs are not getting full attention because their timely up-gradation of facilities and payment to teachers which has to come out of revenue is already difficult. Therefore poverty created shortfall in revenue in not overemphasized. Coming to the problems of farmers the government spending on the agriculture is bare minimum and it is the large farmers who can afford to maintain their farms in profitable manner. As the commercialization of cost of living had been taking place for long time the small, marginal and landless workers are left with little to maintain their livelihood. All the previous governments after liberalization were fast in construction activities where the scope of employment was well entrenched. For the last ten years the construction has taken the beating. It was MNREGA which had to be legislated so that rural workers could get suitable employment but the situation for small and marginal farmers has even worsened as they could neither go for secured wages nor take care of the farms to full extent. Once they are aware that they can get food for themselves they adhere to the farms and downgrading the work is not considered good by them. No amount of effort in this direction could do good to the farmers. But had the effort been made in early days to consolidate the land records and land tenancy act implemented in letter and spirit to some extent woes could have been reduced. But now the economy has come to such a pass where any structural reforms by way of GST and agriculture are becoming terribly difficult. It is not that Government had not paid any heed to economic growth but the global down turn now extended to 11<sup>th</sup> year and structural reforms are backfired. Since the land acquisition and labor reform are at the top of the agenda how would be these carried out depends upon how avenues are created in small scale sector. Now the government is paying its attention to entrepreneurship development which is very important before land, capital and labor are devoted to the industries. Meanwhile, the States should endeavor to ensure the quality education in the schools by fixing responsibilities

on the concerned bureaucrats and also the educationist down the lines. Once the standard of education is fixed the things would be much easier to streamline the economic growth along with proper employment generation. Govt. has much to do with the private educational institutions and the criteria for regulating them have to be made more stringent. Adhocism in recruiting the teachers in school and colleges had to go away. Because it is singularly spoiling the standard of education. Till the problem of NPAs is solved which may take few more years, any further investment has to be borne with capital infusion by the government. The way revenue growth is slipping down, it is difficult that the government may be in a position to infuse more capital. For the time being consumption has gone down drastically and it cannot be improved with reduction in taxes but with broad basing the tax structure. The land acquisition is possible when the government can ensure the owners that one of their kin would be absorbed in the remunerative job which is not so easy. But in the long run when small scale sector is given a fillip the job creation would be meaningful. Meanwhile the capital flow as the economy turns upward will continue to fluctuate and since the oil prices once again are moving up the problem of inflation an exchange rate remain to be tackled carefully. If somehow government could privatize the public sector and give up the control on 20% of banking sector, the problem to some extent could be resolved. FDI during the last five years is not significant and the figure which is being seen is due to plough back by the existing companies. Therefore there is a dire need to improve the education and health sector which may not need high investment but discipline is to be brought in. States need to be more watchful in recovering the dues of electricity and local taxes. All out efforts are to be made to check the revenue leakages.

### III. CONCLUSION

Indian economy would have to exert internally and correct the functioning of the States. Educational and health reforms are utmost needed.

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