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# INDIAN ECONOMY- THE GROWTH TRAJECTORY

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**Abstract:**-Economic growth can be defined as continuous and consistent growth in the National income of the country. The earlier literature does not differentiate much about Growth and development. In the early 1950s, conventional thinking identified development with growth in national income or income per capita. Early 1970s witnessed the emergence of literature that suggested other indicator of development such as a reduction in poverty, inequality and unemployment, which would capture changes in the quality of life. Development, it was argued must bring about an improvement in the living conditions of people. It should therefore ensure the provision of basic human needs for all; not just food and clothing but shelter, health care and education. In the late 1990's Amartya sen, provided broadest conception of development as freedom, A process of expanding real freedom that people enjoy for their economic well being, social opportunities and political rights. It is essential to make distinctions between means and ends. Obviously economic growth and economic efficiency or industrialization is absolutely essential as means but should not be considered as end of development process. It is development which is an end. Thus growth and efficiency should be combined with employment, poverty eradication reduced inequality, human development and sustainable environment to attain development.

**Keywords:**economic , health care , education , literature.

## INTRODUCTION:

In case of Indian economy we find that India is certainly doing well in terms of economic growth but its distributional impact is poor. After six decades of independence from colonial rule, India is unable to meet basic needs of hundreds of millions of citizen. It is estimated that at least 260 million people and possibly 330 million people, live in absolute poverty. The poor do not even have food, clothing, shelter, healthcare and education. In fact there are more poor people in India now than the total population, at the time of independence.

## 3.2 INDIA'S GROWTH/DEVELOPMENT STRATEGY AFTER INDEPENDENCE.

India's strategy in for development in post colonial era was similar with that of other developing nations. Firstly there was a conscious attempt to limit the degree of openness. India has less intension to integrate with world economy. Secondly the state was assigned a strategic role in development because market was considered inefficient to meet aspirations of people. Thirdly industrialization was seen as an imperative process.

The first five year plan (1951-56) was a indicative plan. Based on one sector Harrod – Domar Growth Model it focused on fiscal policy for raising domestic savings.

The second plan was conceived around Feldman – Mahalnobis two sector closed economy growth model, the two sectors referring to capital goods and consumer goods.

Third and fourth plan also followed similar strategy. Public sector was assigned a dominant role. Import substitution was regarded as an integral part of strategy for self reliance.

The decade of the late 1970's was a period of increasing protections in besides quantitative restriction foreign competition from imports for Indian industry was also restricted by policies of high and rising tariff. A major weakness of the trade policy regime in the 1960s and the 1970s was complete disregard of the infant industry argument for protection the neglect of domestic vs foreign relative costs in planning for import substitution. High tariffs and quantitative restrictions resulted in "inefficient" import substitution. It was the sixth plan (1980-85) which made the reference of "efficient" import substitution.

As such the decades of 1980's was a turning point in the history of policy making in India. Poor and declining productivity of manufacturing sector and severe infrastructure constraints were the domain features of Indian economy in

1980. Realizing the failures of previous plans, a number of policy initiatives were taken in the beginning of 1980's. This included deli censing of a number of industries and giving greater flexibility to firms. Import of foreign technology for the purposes of modernization and up gradation of quality was made easier during this period. Large enterprises were allowed to exploit economies of scale and the list of industries opened to than were also expanded. As a result 1980's observed a high growth rate. GDP growth rose from average of below 4 percent to 5.6 percent. Industrial growth increased from 4.1 percent in 1967-80 to 7.1 percent in 1980's. Growth of services rose to 6.8 percent as compare to average 4.3 percent in 1960's and 1970s. Growth in per capita GDP rose to more than double from 1.5 percent to 3.4 percent. Hence the policy changes were brought with the sole intention to create a favorable climate for rapid growth and modernization of the economy. These reforms were actually known as FIRST PHASE ECONOMIC REFORMS, but these reforms failed to yield the expected results in most of the fronts.

In order to restore both internal and external confidence Narsimha Rao government initiated second phase economic reforms which is also called LPG model of development. This model emphasis a bigger role for private sector. It envisages a much larger quantum of foreign direct investment to supplement our growth process. It aims at a strategy of export led growth as against import substitution. Economic reforms favored more liberal and market driven pattern of development. But these economic reforms had seeds of some fundamental weaknesses which cannot be overlooked for it affects the welfare of masses. The reforms largely concentrate on the corporate sector which account for only 10% of GDP. This model also bypassed agriculture and its allied sector. By permitting MNC in consumer goods sector it swapped away the benefits of small and medium sector yet another drawback which require concern is that, the model being capital intensive in nature had very less employment potential which led to increase in unemployment.

### 3.3 INDIA'S GROWTH/DEVELOPMENT EXPERIENCE STRATEGY AFTER INDEPENDENCE.

Assessing India's economic policies for development, it is essential to dissect India's economic and social performance in last 60 years of independence.

To study India's development experience after attaining independence it is necessary to divide in into certain phases on the basis of several criteria, Following per iodization is based on criteria's like

(1)Growth Performance; which means a clear cut discontinuity or break in the trajectory of growth.
(2)Policy Regime; which means similar policy in one period, and identifiable changes among periods.
(3)Political and Natural Disturbances; (Both internal and external) – it includes war, oil shock, major drought. financial crises.
(4)Major Structural Shift; it includes change in the structure of political and economic system.
On the basis of above criteria an arbitrary periodization is done to study macroeconomic performance of Indian economy.

**(1) FIRST PHASE (1951 – 1980)**

The first period is period of early efforts where India opted for nearly closed economy. This period can further subdivide into two.

**(i)1951-1967-** Early years of planning arrived at purposeful development, speed up investment and accelerate growth with social justice.

**(ii)1967-1980-** This period was stressed by twin shocks of successive drought and two short border was, the policy structure was inward looking import, substitution development policy.

**(2) SECOND PHASE (1980-90) :** The phase when partial liberalization was introduced in India.

**(3) THIRD PHASE (BEYOND 1991)**

INDIA banged with crisis and simultaneously introduced wide range of reforms in exchange rates and payments regime, industrial deregulation foreign trade policy, capital market, and banking sector.

To understand India's Economic growth, we will analyze the economic and social performance of Indian economy in the above sub periods. Though the attempt has been made to follow the periodisation pattern but there may be certain variation in periods due to non availability of data of particular periods.

### 3.4 ECONOMIC PERFORMANCE OF INDIAN ECONOMY.

Economic Performance of Indian economy will showcase to us the achievements in respect to Gross Domestic Product, Gross Domestic Savings, Gross Domestic Investment, Foreign Exchange Reserve, Total Factor Productivity, External debt, Foreign direct investment etc. These indicators will certainly reflect quantitative aspect of growth.

Looking at the Growth averages of last fifty year period 1950-51 to 2000-01 divided into four sub periods based on official national income data, it is apparent that growth rate was seriously slow in the years 1951-52 to 1966-67 then in 1980s and 1990s.

**Table 1**
**Annual Average Growth Rate of GDP**

| Year | GDP | Per Capita GDP |
|---|---|---|
| 1951 to 1966-67 | 3.4 | 1.4 |
| 1967-68 to 1980-81 | 3.8 | 1.5 |
| 1981-82 to 1990-91 | 5.6 | 3.4 |
| 1991-92 to 2000-2001 | 5.6 | 3.5 |
| 2000-2001 to 2007-08 | 7.3 | - |

Source: Central Statistical Organization (2001)

The GDP growth rate is 3.4% in 1951-52 to 1966-67 and 3.8% in 1966-67 to 1980-81 but it has accelerated after 1980's. 1980's and 1990's do not show any difference. The per capita income growth was increase in 1950-80. It has increased above 3 percent only after 1980.The economy has moved decisively to a higher growth phase after 1991. It has come out of the bondage of 3.5 to 4% growth rate.Analysis of the recent data of GDP and per capita will certainly provide a better indicator for the growth and relative size of the economy.

GDP at current market price is projected at Rs 46,93,602 crores in 2007-08 by CSO in its advance estimates of GDP. Thus, the size of Indian economy at market exchange rate will cross US $ 1 trillion. At the nominal exchange rate GDP is projected to be US $ 1.16 trillion in 2007-08. Per capita income at nominal exchange rate is estimated at US $ 1,021. According to world Bank system of classification of countries as low income, middle income, and high income, India is still in the low income countries. (Economic Survey 2007-08)

Looking at the Growth rate of GDP and GDP per capita we find that there is constant rise in both except a mild deceleration in 2004-05, but in year 2007-08 there is a obvious deceleration in GDP as well as GDP per capita. The reasons attributed for the slackening of growth rate is low growth of agricultural sector (particularly rabi; crop) deceleration in manufacturing and construction. There was also a deceleration in the growth of revenue earning freight traffic by railways, passengers handled at airports, and bank credit in April- Nov. 2007-08.

Now if we analyse the india's gowth rate in GDP in current years at 2004-05 prices we find that after 2010-11 the growth rate is continuously falling.

| YEAR | GROWTH RATE OF GDP AT 2004 -05 PRICES |
|---|---|
| 2007-08 | 9.32 |
| 2008-09 | 6.72 |
| 2009-10 | 8.59 |
| 2010-11 | 9.32 |
| 2011-12 | 6.21 |
| 2012-13 | 4.96 |
| 2013-14 (PROJ) | 5.3 |

SOURCE: Planning commission of india

Growth rate is 9.32% in 2010-11 but has reduced to 6.21% in 2011-12 and has drastically fall to 4.96%.

**3.4.1 SECTORAL SHARE IN GDP:**

The growth of GDP according to sectoral share overtime shows the India has observed major changes in sectoral growth.

**Table 3**
**Annual Average Growth Rates of GDP by major sectors**

| Year | Agriculture & Allied | Industry | Service |
|---|---|---|---|
| 1951-52 to 1966-67 | 1.8 | 6.3 | 4.8 |
| 1967-68 to 1980-81 | 3.3 | 4.1 | 4.3 |
| 1981-82 to 1990-91 | 3.5 | 7.1 | 6.8 |
| 1991-92 to 2000-01 | 2.7 | 5.7 | 7.6 |
| 2000-01 to 2007-08 | 2.9 | 7.1 | 9.0 |

Source: Central Statistical Organization (2001)

The growth rate of agriculture has remained slow almost in all periods, but highest growth was recorded in 1981-82 to 1990-91 and after reforms a massive decline of 0.8 percentage pole can be seen. Industrial sector also faced low growth rate in the decade of 1990-91 to 2000-01, whereas the service sector shows a rise in its growth rate during the same period.

Sectoral growth of recent years also claims that Growth of recent years is broadly service led growth.

**Table 4**
**India's Sectoral Growth Rate 2000-2009 (%)**

| Sector | 2000 -01 to 2007 -08 (average) | 2005 -06 | 2006 -07 | 2007 -08 | 2008 -09 Revised estimates* |
|---|---|---|---|---|---|
| 1. Agriculture and Allied Activities | 2.9 | 5.9 | 3.8 | 4.5 | 1.6 |
| 2. Industry | 7.1 | 8.0 | 10.6 | 8.1 | 3.9 |
| 2.1 Mining and Quarrying | 4.9 | 4.9 | 5.7 | 4.7 | 3.6 |
| 2.2 Manufacturing | 7.8 | 9.0 | 12.0 | 8.8 | 2.4 |
| 2.3 Electricity, Gas and Water supply | 4.8 | 4.7 | 6.0 | 6.3 | 3.4 |
| 3 Services | 9.0 | 11.0 | 11.2 | 10.7 | 9.7 |
| 3.1 Trade, Hotels, Restaurants, Transport, Storage and communication | 10.3 | 11.5 | 11.8 | 12.0 | 9.0 |
| 3.2 Financing, Insurance, Real estate and Bus. Services | 8.8 | 11.4 | 13.9 | 11.8 | 7.8 |
| 3.3 Community, social and personal services | 5.8 | 7.2 | 6.9 | 7.3 | 13.1 |
| 3.4 Construction | 10.6 | 16.2 | 11.8 | 10.1 | 7.2 |
| Real GDP at factor cost | 7.3 | 9.4 | 9.6 | 9.0 | 6.7 |

Source: RBI* and Ministry of Finance, Government of India

It can be observed that Agricultural growth dependent as it is on monsoon continued to fluctuate from 200-01 to 2008-09. The co efficient of variation for the tenth five year plan however is higher than 60 year average. (Economic Survey 2007-08). The overall growth rate of is as low as 2.9 percent in the period 2000-01 to 2007-08 and significantly low at 1.6% in 2008-09.
In Industry we find its all sub sectors (Mining , Manufacturing,electricity) have shown an improved growth rate. Till 2007-08 and has reduced in 2008-09 may be because of global recessionary impact.The growth of service sector is highest throughout the period (2000-01-2008-09). In the year 2007-08. Trade, Hotels, Restaurant, construction shows 12% growth rate followed by financing and real estate 11.8%. Sub sector of services also show a grim situation in 2008-09.

Now we can analyse the sectoral growth rate in GDP for current years which shows that still growth rate is shabby in agriculture and industrial sector.

**SECTORAL GROWTH RATE (at 2004-05 Prices)**

| YEAR | AGRICULTURE | INDUSTRY | SERVICES |
|---|---|---|---|
| 2007-08 | 6.34 | 9.67 | 10.27 |
| 2008-09 | -0.27 | 4.44 | 9.98 |
| 2009-10 | 0.41 | 9.16 | 10.50 |
| 2010-11 | 8.81 | 9.16 | 9.75 |
| 2011-12 | 3.90 | 3.49 | 8.20 |
| 2012-13 | 1.90 | 2.10 | 7.10 |
| 2013-14 | 3.0 | 2.7 | 6.6 |

**SOURCE:** Planning commission of india

The table shows that agriculture sector is suffering from poor performance ;it is as as low as -0.27% in the year 2008-09 and 0.41% in 2009-10, it has gradually improved to 1.90% in 2012-13.

Growth of industrial sector is also exhibiting poor performance and growth rate is continuously declining from the year 2010-11.It is reduced to 2.10% in 2012-13 and is projected to 2.7% in 2013-14.

It is shocking that service sector which is otherwise better than other sector but showing declining trend after 2010-11.

To evaluate the growth of Indian economy there are various parameters but present paper cannot include all the parameters. From the above explanation and tables it is clear that india's growth is lopsided and extra priority is given to service sector.