Knowledge is Power

ACHIEVERS IAS ACADEMY

GETTING THE ECONOMY BACK ON TRACK

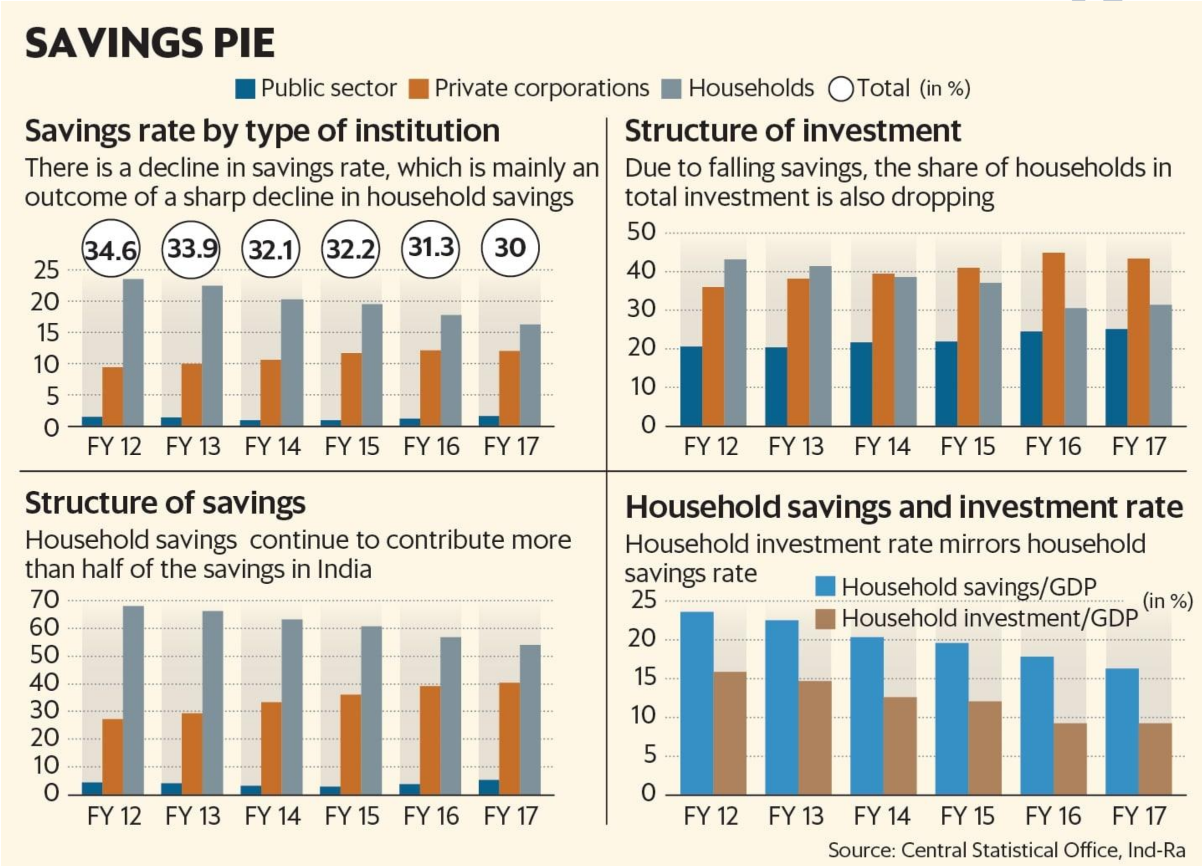
GS 3, MAINS: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

CURRENT STATUS OF THE INDIAN ECONOMY

- It is true then that the Indian economy is headed for a serious crisis. However, it is a myth that any or every crisis necessarily means an imminent collapse of the economy. The Indian economy is not near a collapse yet.
- The situation today in the Indian economy is therefore still retrievable and a turnaround can be commenced within three months if the government initiates "real" economic policy changes, as was done in 1991-96.
- Hence, no amount of quoting foreign agencies such as the International Monetary Fund, or international events in explanations will help address the crisis that is looming unless we initiate major economic reforms that are credible and incentive-driven for the people. We therefore need a reality check today.
- We can no more be satisfied with 7-9% growth rate if we want to become an economically developed country by 2040. The Indian economy needs to grow at 10%-plus per year for the next 10 years to achieve full employment and for India's GDP to overtake China's GDP and pave the way to form a global economic triumvirate with the U.S. and China.

FACTS CONCERNING THE SITUATION OF INDIAN ECONOMY:

- The growth rate of the economy with proper index number-based GDP has declined over the last two financial years.
- Household savings, which are the bulk of India's national investment, dropped from a high of 34% of GDP to about 24% of GDP in 2017. Non-household savings are about 5% of GDP. This decline happened even before demonetisation and the decline continues because of intrusive and sometime obnoxious tax measures.



- Non-performing assets of the public sector banks (PSBs) have also risen sharply, in fact at a rate of growth much higher than the rate of new advances of these banks, making many large PSBs financially unviable and likely to collapse. This could cause financial contagion in 2019 in all sectors.
- The Ministry of Finance has brutally cut allocations of the investments in infrastructure despite the urgent need for such infrastructure. The economy needs about $1 trillion investment in infrastructure to render "Make in India" a reality, but the actual investment in sanctioned projects is valued even less in real terms than the amount invested in the pre-2014 years.

- The manufacturing sector, especially MSMEs (micro, small and medium enterprises) which provide the bulk of the employment for the skilled and semi-skilled in the labour force, has been growing at abysmally low rates of between 2% and 5%.
- India's agricultural products are among the cheapest in the world, and despite a low yield per hectare, we are not able to increase the yield to its potential maximum and at least double the production and export the agricultural products abroad commensurately. Consequently, agriculture, as the sector that is the largest employer of India's manpower, is grossly under-performing.
- When crude oil prices had steeply fallen over the four years since 2014, and despite the dollar value of the rupee till mid-2018 having been steady at around Rs.65 per dollar, nevertheless both exports and imports simultaneously declined over 2014-17.

REFORMS REQUIRED:

- The government needs to give an alternative ideological thrust to economic policy rather than trying to improve on the failed economic policies, as is currently being done.
- The individual has to be persuaded by the government by incentives and not by coercion, such as harsh levies and taxes. Of course, the state should make no promise to the people without specifying the sacrifice required to be made by them to make it happen.
- India can make rapid economic progress to become a developed country only through a globally competitive economy, which requires assured access to the markets and technological innovations of the U.S. and some of its allies such as Israel. This has concomitant political obligations which must be accepted as essential.
- The decline in the level of household savings had caused a sharp decline in the GDP growth rate. It is imperative therefore that to accelerate the GDP growth rate, government policy should be to incentivise the saving habit to increase the savings rate to 35% of the GDP.
- It is necessary to implement a new menu of measures such as (a) dramatic incentives for the household expectation and sentiment to save; and (b) lowering the cost of capital via reducing the prime lending interest rates of banks to 9%, by shifting to a fixed exchange rate regime of Rs.50 per dollar for the financial year 2019 and then gradually lowering the exchange rate for subsequent years.

(Q) Keeping in view the problems facing the Indian economy, examine the urgency of reforms in the economic scene.

PREVIOUS YEARS UPSC MAINS QUESTIONS:

- Among several factors for India's potential growth, savings rate is the most effective one. Do you agree? What are the other factors available for growth potential? (2017)
- "Industrial growth rate has lagged-behind in the overall growth of Gross-Domestic-product (GDP) in the post-reform period." Give reasons. How far the recent changes in Industrial-policy are capable of increasing the industrial growth rate? (2017)
- Justify the need for FDI for the development of the Indian economy. Why there is gap between MOUs signed and actual FDIs? Suggest remedial steps to be taken for increasing actual FDIs in India. (2016)
- The nature of economic growth in India in recent times is often described as a jobless growth. Do you agree with this view? Give arguments in favour of your answer. (2015)