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NATURE OF INDIAN ECONOMY

Economic & Social Issues (ESI) Notes



FOR RBI GR. B & NABARD GR. A EXAMS

Nature of Indian Economy

ESI Notes for NABARD Gr. A & RBI Gr. B Exam

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Introduction

Indian economy is an underdeveloped economy in which Agriculture is the backbone of Indian economy, 60% of India's population are on the below poverty line, Countries which are on the part of progress, and which have their potential for development are called developing economic, So India is termed as developing economic by modern views.

Basic Important Features

❖ Low per capita income:

An underdeveloped economy is characterized by low per capita income. India per capita income is very low as compared to the advanced countries.

❖ Heavy Population Pressure:

The Indian economy is facing the problem of population explosion, It is the second-highest populated country China being the first. The failure to sustain the living standard makes the poor and underdeveloped countries poor and underdeveloped.

❖ Pre-dominance of Agriculture:

The occupational distribution of the population in India clearly reflects the backwardness of the economy. One of the basic characteristics of an underdeveloped economy is that agriculture contributes a very large portion of the national income, and a very high proportion of the working population is engaged in agriculture.

❖ Unemployment:

There is larger unemployed, and underemployment is another important feature of the Indian economy, in underdeveloped countries, labour is an abundant factor, Lack of job opportunities disguised as unemployed is created in the agriculture fields.

❖ Low Rate of Capital Formation:

In backward economics like India, the rate of capital formation is also low, capital formation mainly depends on the ability and willingness of the people to save since the per capita income is low and there is mal distribution of income and wealth the ability of the people to save is very low in underdeveloped countries for which capital formation is very low.

❖ Poor Technology:

The lever of technology is a common factor in underdeveloped economies. India economy also suffers from this typical feature of technological backwardness. The techniques applied in agriculture industries milling and other economic fields are primitive in nature.

❖ Backward Institutional and social framework:

The social and institutional framework in underdeveloped countries like India is hopelessly backward, which is a strong obstacle to any change in the form of production. Moreover, religious institutions such as the caste system, joint family universal marriage affect the economic life of the people.

❖ Underutilization of Resources:

India is a poor land. So, our people remain economically backwards for the lack of utilization of resources of the country.

❖ Price instability:

Price instability is also a basic feature of the Indian economy. In almost all the underdeveloped countries like India, there is continuous price instability. Shortage of essential commodities and gap between consumption and productions increase the price persistently. The rising trend of price creates a problem to maintain the standard of living of the common people.

Structural and Institutional Features

❖ Mixed economy:

- It is a mixture of private and public enterprises.

- An economic system in which both the private enterprise and a degree of state monopoly (usually in public services, defence, infrastructure, and basic industries) coexist.
- All modern economies are mixed where the means of production are shared between the private and public sectors.
- Also called dual economy.
- Indian Economy is a unique blend of the public and private sectors which is the main feature of a mixed economy.

❖ **Dual economy:**

- There is traditional agriculture and modern industries.
- Earlier it was the Agrarian economy: prominence of agriculture in the economy both as a contributor to the GDP as well as to the generation of employment but now contribution to GDP is just 13.7 per cent.

Economic Underdevelopment

Economic underdevelopment is a condition where for a set of the reason an economy is not able to reach its full potential of growth and existing relations hinders change towards a state of economic development.

Underdevelopment Features

❖ **Economic Delay**

- Countries that have not reached a maximum or adequate productive level.
- Activities such as agriculture, livestock, fishing, mining, and other activities belonging to the primary sector predominate.
- Unfavourable foreign trade system, an exchange is carried out with other countries from dependency or inferiority positions.
- Underutilization of the country's resources, which contributes to the inefficiency of the productive system.
- Disruption of the productive system, apart from the concentration of the primary sector and there is a total disconnection between this and the other productive sectors.

❖ Political Delay

- Lack of strong democratic institutions.
- The existence of weak democracies, due to institutional lack, anarchy, corruption, impunity, and social failures of organized coexistence.
- Existence of corrupt regimes.
- Excessive military dependence on other countries, considered foreign powers.

❖ Social Delay

- Alarming poverty index.
- High unemployment and underemployment rates.
- Little access of the general population to education.
- Difficulty enjoying basic services, health, and food.
- Bad distribution of wealth among the inhabitants, with a very rich part of the population and another with extreme poverty.
- Causes of economic underdevelopment.
- When trying to find the causes of underdevelopment There have been many theses, most have been unsatisfactory in trying to explain the problem.

Economic Reforms in India

The LPG

- The process of reforms in India has to be completed via three other processes namely, liberalization, privatization, and globalization, known popularly by their short form, the LPG.
- These three processes specify the characteristics of the reform process India initiated.
- Privatization shows the path of reform and globalization shows the ultimate goal of the reform.

❖ Liberalization

- The ideology was the product of the breakdown of feudalism and the growth of a market or capitalist society in its place, which became popular in economics via the writings of Adam Smith and got identified as a principle of laissez-faire.
- Pro-market or pro-capitalistic inclination in the economic policies of an economy is the process of liberalization.
- The most suitable example of this process could be China of the mid-1980s when it announced its 'open-door policy'.
- The process of decreasing traits of a state economy and increasing traits of a market economy is liberalization.
- In the Indian case, the term liberalisation is used to show the direction of the economic reforms—with decreasing influence of the state or the planned or the command economy and increasing influence of free-market or the capitalistic economy.
- It is a move towards capitalism. India is attempting to strike its own balance of the 'state-market mix'.
- It means, even if the economic reforms have the direction towards the market economy it can never be branded a blind run to capitalism.

❖ Privatization

- The policies through which the 'roll back' of the state was done included deregulation, privatization, and introduction of market reforms in public services.
- Privatization was used as a process under which the state assets were transferred to the private sector.
- The root of the term privatization goes to this period which got more and more currency around the world once the East European nations and later the developing democratic nations went for it.
- But during the period several connotations and meanings of the term 'privatization' have developed.

❖ Globalisation

Globalization is the free movement of goods, services, and people across the world in a seamless and integrated manner.

- Globalization can be thought of to be the result of the opening up of the global economy and the concomitant increase in trade between nations

- In other words, when countries that were hitherto closed to trade and foreign investment open up their economies and go global, the result is increasing interconnectedness and integration of the economies of the world.
- Globalization can also mean that countries liberalize their import protocols and welcome foreign investment into sectors that are the mainstays of their economy.


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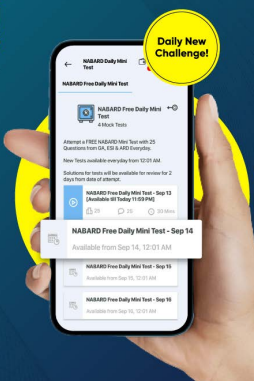

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