International Journal of Trade & Commerce-IIARTC
July-December 2017, Volume 6, No. 2 pp. 530-537

UGC Approved Journal in Social Science Category; Journal No. 48636
COSMOS (Germany) JIF: 4.242; ISRA JIF: 3.957; NAAS Rating 3.55; ISI JIF: 3.721

Indian Vision of Political Economy

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Abstract

The development of Indian economy was based on socialist-inspired policies after independence which has rapidly changed with the liberalization of economy in the 1990s. Liberalization has been the same irrespective of which party headed the government. This was affected by changes of government and by growing uncertainty over what role planning could usefully perform in a more liberal economy. This story of the Indian economy casts light on the gradual process of economic change in a democratic polity. Politics in a democracy produce a shift from a high degree of state control directed towards self-reliant industrial development, to a policy paradigm that emphasized the economical growth.

It is this shift that has accelerated economic growth in India. Democratic participation in India could be playing a silent role in making the growth story more inclusive. Make in India is an initiative launched by the Government of India to encourage national, as well as multi-national companies to manufacture their products in India that results growth in Indian economy.

With the change in democratic pattern of the Indian economy, the research paper throws light on the vision of India's political economy. It is a notion that all was not good before the 'reforms' and all began to change thereafter. For a fitting study, the research paper discusses the Indian economy through the perspective of political trends.

Keywords: *political economy, economic development, economic reforms, growth.*

PAPER/ARTICLE INFO
RECEIVED ON: 14/07/2017
ACCEPTED ON: 27/08/2017

Reference to this paper should be made as follows:

Rachna Balyan (2017), "Indian Vision of Political Economy", *Int. J. of Trade and Commerce-IIARTC*, Vol. 6, No. 2, pp. 530-537

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1. THE EMANATION OF POLITICAL ECONOMY

According to Collinson (ed.) (2003): 'Political economy analysis is concerned with the interaction of political and economic processes within a society: the distribution of power and wealth between different groups and individuals, and the processes that create, sustain and transform these relationships over time.'

The word economy, drawn from two Greek words, house and law, which together signify the management or arrangement of the material part of household or domestic affairs, means in its most common sense the avoidance of waste. We economize money or time or strength or material when we so arrange as to accomplish a result with the smallest expenditure. In a wider sense its meaning is that of a system or arrangement or adaptation of means to ends or of parts to a whole. Thus, we speak it as the economy of the heavens; the economy of the solar systems; the economy of the vegetable or animal kingdoms: the economy of the human body; or, in short, of the economy of anything which involves or suggests the adaptation of means to ends, the coordination of parts in a whole. The word political means, relating to the body of citizens or state, the body politic; to things coming within the scope and action of the commonwealth or government; to public policy.

Political economy, therefore, is a particular kind of economy. In the literal meaning of the words it is that kind of economy which has relation to the community or state; to the social whole rather than to individuals. Political economy is concerned with how political forces influence the economy and economic outcomes. However, the interactions run both ways and political economy is interested in both. Thus, it is economic activity that generates the resources that are required to sustain political activity, for example, election campaign expenses. Moreover, whilst policy might lead to a certain economic activity prospering, this success in itself can generate a political constituency with an interest in maintaining the economic activity, because a sizeable number of people now benefit from it.

Political economy refers to the distribution of political and economic power in a given society and how that influences the directions of development and policies that bear on them. In India where the vast masses of the people are poor and often socially disadvantaged, a relatively small minority holds much of the power, although in recent years democratic expansion has started to loosen the grip of elite control

2. POLITICAL ECONOMY OF INDIA

India is primarily an agrarian based economy. India is the world's most populous democracy. India has a legacy of colonial stagnation and economic backwardness but in 1947 when India gained independence, the aim of the leaders was not only to do away with the vagaries of poverty but also to turn India into a vibrant, self-reliant global economy. Since the beginning of the economic reforms of 1991, India has seen a systematic transition from being a closed door economy to an open economy. These reforms have had a far-reaching impact and have helped India unleash its enormous growth potential. Today the Indian Economy is characterized by a liberalized foreign investment and trade policy. India has now developed into a trillion dollar economy with a largely self-sufficient agricultural sector, a diversified industrial base and a stable financial and service sector.

India is on the path to becoming the next world leader. The turbulence being faced by the economies across the world including India, has called for a new wave of reforms to reverse the worsening economic climate of the country. This paper is aimed at analyzing and assessing the current scenario of the political economy, mapping trends and estimating future prospects of India's political economy, propelling India to become the next super power.

The British colonization in India had a deeper picture to it which was tactically hidden from the masses. The connection of rail routes, textile and steel plants overshadowed the negligence and regional disparities created. Thus, India's first and initial reforms post independence were launched in the backdrop of a crisis situation. The grim truth of the British misrule was felt in this period where two in every three people in India lived in absolute poverty and India was facing of a major loss of the jute industry of East Pakistan and the port of Karachi. The then Prime Minister, Pandit Jawaharlal Nehru looked at a developmental model for modernization, which was lauded by many. This approach was based on deferred gratification. It believed in boosting the Indian small scale industries and then giving a plethora of options of cheap chemicals, power etc to the efficient Indian-run companies. This policy did not go well with a country which had 75% of its population still living in rural areas and agriculture contributing to 58% of the total GDP. It made little sense to plug in resources to the development of industries which could be used for improvement and modernization of the agrarian economy. The advent of emergency and an exposed agricultural failure, led to the fall of Indira Gandhi, which caused a dynamic change in India's political economy. It was a phase that created opposition parties and saw deinstitutionalization the Congress party. This changed the political landscape of the Indian economy. The average GDP growth in the 1980s was 2.9% which was barely in terms of per capita income. The major aim of these policies was to shift the pattern of capital formation.

3. TRENDS OF INDIA'S POLITICAL ECONOMY

The development of India's economy was based on socialist-inspired policies after independence. It included state-ownership of various sectors, regulation and red tape which was known as 'Licence Raj' and protection from the world markets. The Political Economy of India has rapidly changed with the liberalization of the economy in the 1990s. It has now moved towards a market-based system and is the world's second fastest growing major economy after China. According to IMF World Economic Outlook (April-2016), **GDP** growth rate of India in 2015 is 7.336% and India is 9th fastest growing nation of the world. In 2014, India was 14th fastest growing nation of the world with GDP growth rate of 7.244%.

The growth rate has reached 7.5% in the late 2000s. The country is the world's twelfth-largest economy by (PPP) purchasing power parity adjusted exchange rates. It is ranked 118th by PPP and 128th on per capital basis in the world. The most important priorities for India according to the World Bank are public sector reform, agricultural, removal of labor regulations, infrastructure, rural development and reforms in backward states.

The liberalization of India's economy was initiated by Prime Minister Rajiv Gandhi in the 1980's. In 1991, the International Monetary Fund (IMF) bailed out India through a $1.8 billion loan when it faced a crisis on defaulting on its loans. During this time, Prime Minister P. V. Narasimha Rao and his finance minister Manmohan Singh initiated new reforms.

The new reforms led to easier international trade and investment, privatization, deregulation, inflation-controlling measures and tax reforms. Liberalization has been the same irrespective of which party headed the government. But no party has yet thought of reforming labor laws and reducing agricultural subsidies which may anger powerful lobbies like trade unions and farmers.

Pre-liberalization: From independence, economic policies included import substitution, protectionism, industrialization, business regulation, intervention of the state in labor and financial markets. There were Five-Year Plans similar to the central planning in the Soviet Union. In the mid-1950s, industries such as telecommunications, machine tools, steel, insurance, electrical plants were nationalized. Between 1947 and 1990, licenses, regulations which were accompanied with red tapism were required for setting up businesses. This was referred to as the License Raj.

The impact of these was that from 1950s to 1980s the economy of India stagnated around 3.5% and there was low annual growth rate. Industries like communications, steel and power were given only four or five licenses. Therefore, license owners made a huge business. There was a large public sector and losses were incurred by state-owned enterprises. Because of public sector monopoly there was poor infrastructure investment. With the License Raj system, there was wide spread corruption.

Rajiv Gandhi government (1984-1989) Prime Minister Rajiv Gandhi initiated lighter reforms by reducing the License Raj and promoting the growth of software and telecommunications industries.

4. NEED OF ECONOMIC REFORMS

With the assassination of Prime Minister Indira Gandhi in 1984 and her son Rajiv Gandhi in 1991, confidence for international investment in the economy was crushed. Since 1985, there was a balance of payments problem and by late 1990s the country faced a serious economic crisis. During 1990-91, India had to face various economic problems. The massive deficiency in foreign trade balance was expanding further. Since 1987-88 till 1990-91 it was increasing in such a rapid scale that by the end of 1990-91 the amount of this deficit balance became 10,644 crores of rupees.

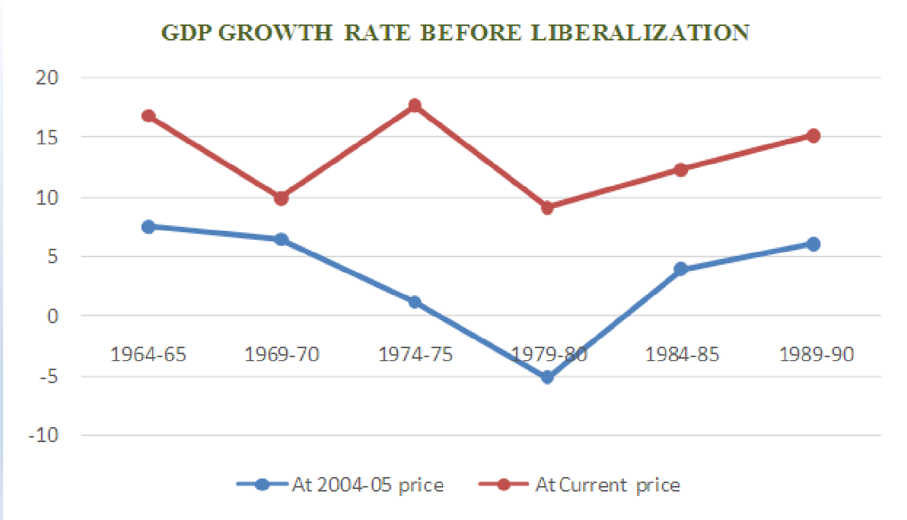
At the same time the foreign exchange stock was also decreasing. In 1990 and 1991 the government of India had to take huge amount of loan from the IMF as compensatory financial facility. Even by mortgaging 46 tons of gold it had taken short-term foreign loan from the Bank of England.

At the same time, India was also suffering from inflation, the rate of which was 12% by 1991. The reasons of that inflation were the increase in the procurement price of the agricultural products for distribution, the increase in the amount of monetized deficit in the budget, increase of import cost and decrease in the rate of currency exchange and Administered price like. Thus, the country was facing trade deficit as well as Fiscal Deficit.

Table 1: GDP Growth Rate before Liberalization at Base Year's Price & Current Price

Year	GDP Growth Rate (In %)	
	At 2004-05 Price	At Current Price
1964-65	7.58	16.83
1969-70	6.52	9.97
1974-75	1.16	17.71
1979-80	-5.20	9.12
1984-85	3.96	12.30
1989-90	6.13	15.20

Source: Central Statistical Office: GDP Growth in India (1964-1990) at (2004-05) price



Source: Based on foresaid data shown in Table 1

Post-Liberalization

Narasimha Rao government (1991-1996) The Narasimha Rao government started the liberalization process by abolishing the Licence Raj system which ended various monopolies, reforming capital markets, inviting foreign investment, reforming the trade regime and capital markets. Its goal was to reduce the fiscal deficit, privatize the public sector, and increase infrastructure investment. To open up foreign trade, there were trade reforms and foreign direct investment regulation.

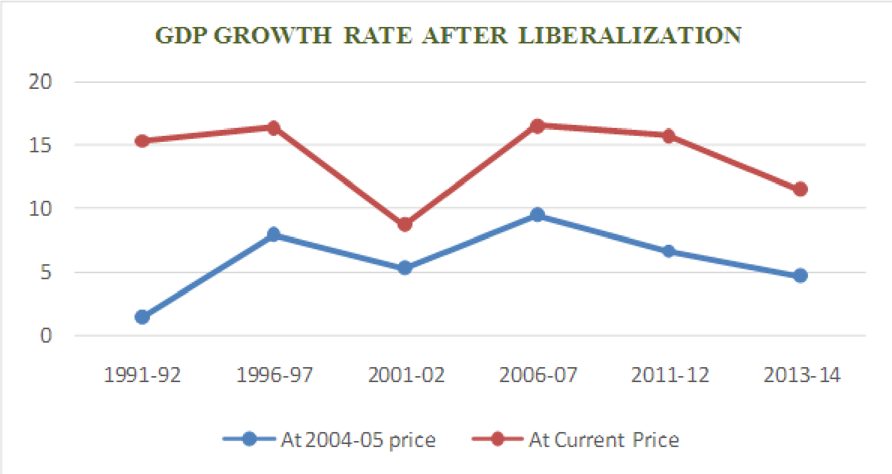
There was reduction in industrial licensing and only 18 industries needed licensing. There was rationalized of industrial regulation. The Controller of Capital Issues was abolished in 1992 which regulated the number and prices of shares a company can issue. The Security Laws (Amendment) and SEBI Act of 1992 were introduced. The National Stock Exchange was started as a computer-based trading system from 1994 and by 1996 it became the largest exchange in the country. Tariffs were reduced, the rupee was made convertible, foreign direct investment was encouraged in priority sectors, India's equity markets were opened up in 1992 for foreign institutional investors. Inefficient loss-inducing government corporations were also privatized.

The political economy of India also included other later reforms such as forming Special Economic Zones, initiating the Golden Quadrilateral project for constructing a network of highways, enacting the Right to Information Act (2005), Right to Education Bill (2008) and Indo-US civilian nuclear agreement (2008).

Table 2: GDP Growth Rate after Liberalization at Base Price & Current Price

Year	GDP Growth Rate (In %)	
	At 2004-05 Price	At Current Price
1991-92	1.43	15.37
1996-97	7.97	16.38
2001-02	5.39	8.72
2006-07	9.57	16.60
2011-12	6.69	15.77
2013-14	4.74	11.54

Source: Central Statistics Office: GDP Growth in India (1991-2014) at 2004-05 price.



Source: Based on aforesaid data given in Table no 2.

5. PRESENT SITUATION OF INDIAN ECONOMY

The 1991 economic reforms were focused primarily on the formal sector, and as a result, we have seen significant boom in those areas that were liberalized. Sectors such as telecom and civil aviation have benefitted greatly from deregulation and subsequent reforms. However, liberalisation and economic reforms still have a long way to go, especially for the informal sector—including the urban poor who hold jobs as street vendors or rickshaw pullers, the agricultural sector, Micro, Small and Medium Enterprises (MSMEs) and tribals. The slow growth and stagnation in these sectors which have not seen any reform further highlights the significant role of the 1991 reforms in helping India's economy become what it is today.

The **economy of India** is a developing mixed economy. It is the world's sixth-largest economy by nominal GDP and the third-largest by purchasing power parity (PPP). The country ranks 141st in per capita GDP (nominal) with $1723 and 123rd in per capita GDP (PPP) with $6,616 as of 2016. After 1991 economic liberalisation, India achieved 6-7% average GDP growth annually. In FY

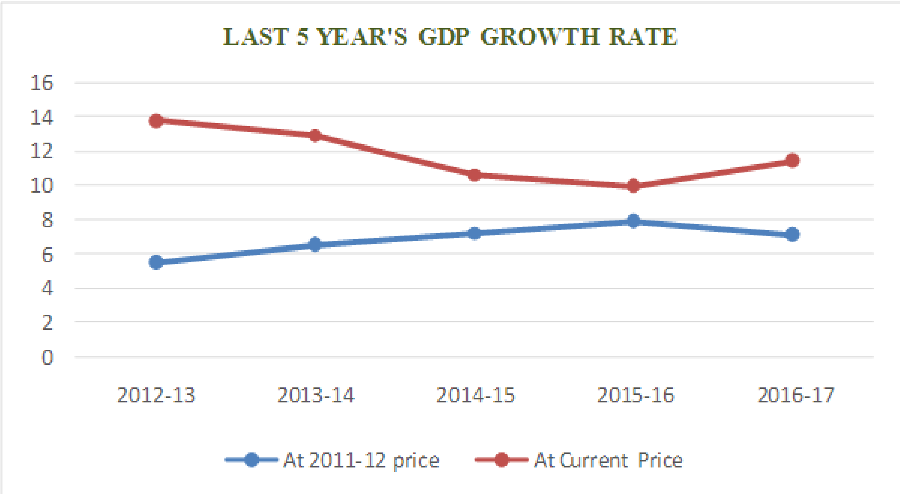
2015 and 2017 India's economy became the world's fastest growing major economy surpassing China.

The long-term growth prospective of the Indian economy is positive due to its young population, corresponding low dependency ratio, healthy savings and investment rates, and increasing integration into the global economy. India topped the World Bank's growth outlook for the first time in fiscal year 2015–16, during which the economy grew 7.6%.Growth is expected to have declined slightly to 7.1% for the 2016–17 fiscal year. According to the IMF, India's growth is expected to rebound to 7.2% in the 2017–18 fiscal and 7.7% in 2018–19.

Table 3: Last 5 Year's GDP Growth Rate at 2011-12 Base Year Price & Current Price

Year	GDP Growth Rate (In %)	
	At 2011-12 Price	At Current Price
2012-13	5.48	13.86
2013-14	6.54	12.97
2014-15	7.18	10.65
2015-16	7.93	9.99
2016-17	7.11	11.52

Source: Central Statistics Office: GDP Growth in India (2012-2017) at 2011-12 Price



Source: Based on the Data given in Table no 3.

6. CONCLUSION

India has seen various colourful years of ups and down through the phases. India has come a long way in moving towards development from the British colonization era. The main challenges India faces are implementation and enforcement, bridging the gap between the rich and the poor and spreading and distribution of benefits to all parts of the society. The Indian economy which was predominantly known as an agricultural economy saw an increasing shift in the trend of contribution to the GDP. Over the plan periods the share of agriculture has declined from the developmental point of view and an increased contribution of the industries and service sector has been witnessed, thus, showing signs of becoming a developing economy. A key reform involved reducing restrictions on foreign direct investment in a subset of industries. Specifically, according to the Industrial Policy Resolution of 1991, automatic approval was granted or foreign direct investment up to 51% in 46 out of 96 three-digit industrial categories. India had a dream run of five years during 2003-08 as the GDP growth averaged nearly 9 per cent annually for five years. The economy began to slow down from the middle of 2007-08. A 9 per cent growth apparently could not be sustained. A spell of global financial turbulence caused capital outflows and pressure on the exchange rate, but strong policy measures stabilized the currency, rebuilt reserves, and narrowed the excessive current account deficit. Weaknesses remain, however, these weaknesses include persistent inflation, fiscal imbalances, bottlenecks to investment, and inefficiencies that require structural reforms. As a result of poor growth, inflation and fiscal management, the nation finds itself burdened with high interest rates, high operating costs and low consumer and business confidence. The only silver lining to this cloud remains the consumption growth registered by India's rural economy. After analyzing, it is evident that India has a strong policy framework and policies. What India needs is its impacts to reach to the lowest strata of society. The traditional policies need to be amended with changing times. As in the 21st century no country can live in isolation and, thus, is more vulnerable to external and global conditions. Dealing with global interactions and maintaining economic stability are of utmost importance in the constantly changing business and socio-political environment. The political stability influences economic growth. It is called "politicization of the economic growth". Institutional framework for economic growth can be facilitated by the social capability, social infrastructure, good governance and rules and regulations. The growth of any country depends upon its political stabilities because development takes place when single party's rules over the country. Many ruling parties are object to development in their states. If we want to see the development in our country it's totally depend upon the political situation of that country.

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