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POLICY REGIME AND THE PATTERN OF GROWTH IN INDIA

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ABSTRACT

Every Country of the world faces some basic problems like poverty, unemployment, inequalities in income, wealth and Consumption, Low standard of living, economic backwardness and poor infrastructural facilities, to overcome of these problems, every Country choose the path of economic growth or development. Economic Growth means increase in real income and per capita income and thereby raising the standard of living and increase in social and economic welfare. Economic growth at current prices is known as nominal growth rate while at constant prices it is called real Growth rate. During the last few decades, there has been significant improvement in the GDP Growth rate in India. Over the period of time, occupational patterns in India have changed significantly. The share of primary sector in GDP has declined, while the share of Tertiary sector increased especially after the post-reform period. The share of secondary sector increases but at a slow rate. Before reforms period, secondary sector contributes more in GDP than tertiary sectors. But after new economic reforms, Tertiary sector share is higher than the secondary sector. Consumption expenditure, investment expenditure, government spending and net exports are the main components of GDP growth rate in India. Although the share of these components in GDP has declined still, they remain the main contributors in GDP Growth rates. The main obstacles in the path of economic Growth in India are unemployment, unskilled human resource, regional inequalities, Lack of infrastructure, Low rate of capital formation, high inflation and interest rate and Less participation of women in labour force in India.

Key Words: *Policy, Growth Rate, Gross Domestic Product, India, Inflation*

INTRODUCTION

Growth is a necessary but not sufficient condition for development as it cannot guarantee development. Economic development means increase in real output of goods and services that is sustained over a period of time, which is measured in terms of value added. It is a multi- dimensional process involving major changes in economic structures. Economic development refers to quantitative and qualitative improvement in the development variables, and requires a degree of political stability, involving mixture of public and private initiatives to increase economic potential. The main factors affecting economic development are levels of Infrastructure, Education, rate of capital formation, political stability, macroeconomic stability, labour mobility, foreign aid, natural resources and regional effects. The process of economic development requires structural change in an economy in terms of changing the sector wise share in GDP. Rapid growth of GDP is an essential requirement for achieving the objective of development as broad-based improvement in the quality of life of peoples. GDP is important to achieve the objectives of inclusiveness. If the growth process is sufficiently inclusive, it will directly helpful to raise the standard of living of people, Rapid growth generates revenues which help to finance critical programs of inclusiveness. India is on track of the fastest growing economy in the world. Nonetheless, the country is facing a global growth slowdown in an increasingly fragmented world. Policy priorities should focus on accelerating inclusive growth through comprehensive structural reforms.

CHALLENGES AND OPPORTUNITIES

Global economic uncertainties and unpredictable weather patterns, unemployment instability in growth rate pose challenges to Indian economic growth. Managing inflation and interest rates remains crucial for sustaining economic growth. Attracting investments and creating jobs will be vital for driving economic growth in India. Overall, Indian economy has demonstrated strength and resilience in the face of pandemic crises. With the right policies and Initiatives, the country is well-positioned for sustained growth.

OBJECTIVE AND METHODOLOGY

The main objective of the paper is to analyze the pattern of economic growth of India since 1950. The paper is based on secondary study which includes mainly books economic survey, government documents and reports.

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STRUCTURE OF INDIAN ECONOMY

The structure of the Indian economy undergone significant changes overtimes. India's growth experience has been characterized by a decline in the share of primary sector in GDP and increased share of Tertiary sector, while the share of secondary sector also increases but at a very slow rate.

Table: - Sectoral composition of GDP in India

Sector	years			
	1950-1951	1990-91	2012-13	2023-24
Primary Sector	53.1 %	29.6 %	13.9 %	17.7 %
Secondary sector	16.6 %	27.7 %	27.3 %	27.6 %
Territory sector	30.3 %	42.7 %	58.8 %	54.7 %

Source: - Calculated from CSO data Economic survey various issues

Over the period of time, the contribution of Tertiary sector significantly increases from 30.3 percent in 1950-51 to 54.7 percent in 2023-24. While the share of primary sector declined from 53.1 percent in 1950-51 to 17.7 percent in 2023-24. The share of secondary sector increase but at a very slow rate from 16.6 percent in 1950-51 to 27.6 percent in 2023-2024. Secondary sector has not expanded much to absorb growing labor force. Although the manufacturing has grown at a fast pace but contribute less to GDP over a long period of time. The unskilled rural masses have continued to struggle in the primary sector. The pattern of growth underlines the link between the growing poverty and unemployment and the inadequate growth of manufacturing and building activity in the country. During the pre-reform period, the secondary sector registered a higher growth rate than the tertiary sector. But in the post-reforms period, the tertiary sector grows rapidly due to expansion in banking, Insurance and communication services. In the post reforms period, the mining and quarrying sector witnessed continuous decline in GDP share for severed years indicating its inability to cater to requirement of high growth in the absence of comprehensive reforms. The cross-country data on shares in GDP suggest two stages of development. In the first, both industry and services shares increases as countries move from low income to lower middle-income status, while in the second stage, the share of industry declines and that of services Increases as the economy moves to upper middle- and higher-income levels.

PATTERN OF ECONOMIC GROWTH

Since 1951, the pattern of economic growth in India, Passes through different phases according to policy regime.

(1) 1951-52 to 1966-67: Evaluation of Agriculture and Industrial Development strategy:

After Independence, government, focus was on the development of agriculture and industries, irrigation, and Infrastructure. The development strategy of second plan was based on the Mahalanobis model, emphases on heavy, basic industries, and public sector dominance. Import substitution Industrialization strategy was pursued, as against a background of export pessimism". The foreign exchange crisis in 1957 prompted re-imposition of exchange Controls.

During the third plan, Annual average growth rate was 2.8 percent. The devaluation-cum liberalization episode proved unsuccessful in 1966. Entry barriers in the form of industrial Investment licensing policy come in the way of domestic competition, and as a result, efficiency gains from competition could not be reaped.

In the second phase 1961-80: (inward orientation and industrial stagnation) with the strengthening of Import substitution strategy and imposition of various government controls such as nationalization of banks and Insurance in 1969-70, Small scale industries reservations, foreign exchange Regulation Act, Monopoly and Restrictive Trade Practices (MRTP), the policy environment became increasing by statist. During this phase industrial growth decelerated to around 4.1 percent per annum from 6.3 percent attained in the first phase, leading to inefficiency of the system of detailed control on industry, trade and payments (Acharya et al 2006).

The Third Phase 1981-1990: (De-regulation and acceleration of growth), witnessed a substantial acceleration of overall GDP growth from 3.8 percent per annum to 5.6 percent. Industries GDP growth

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increased by 3 percentage points from 4.1 to 7.1 percent. Efforts at industrial liberalization during 1980's and better agricultural performance as a result of green revolution, and increasingly expansionist fiscal policy seemed to be the factors behind the vastly improved growth performance in this phase. However, at the end of the period witnessed a severe balance of payment crisis in the wake of the 1990's Gulf crisis and oil price hike.

As a policy response to the crisis at the beginning of the 1990s, (economic reforms and service led growth) wide ranging reforms in Industrial deregulation, foreign trade policy, exchange rate and payment regime, capital market and the banking sectors, fiscal Consolidation were Introduced. These major reforms of 1991-94 resulted in acceleration of GDP growth to above 7 Percent per annum and industrial sector growth to above 9 percent. However, the pace of reforms slacked in mid 1990's and fiscal balances worsened thereafter, investment and exports lost momentum and growth slowed after 1997. Agriculture experienced significant slowdown and year to year fluctuations. Industrial growth too decelerated and displayed milder fluctuations (Ahluwalia et al 2012).

During 2001-02 to 2010-11, (growth resurgence and global crises) industrial growth accelerated to 7.8 percent per annum services growth to about 9.4 percent and GDP growth to 7.9 percent per annum, Per capita GDP growth accelerated by 2.5 percentage, points to 6.2 percent. The best phase in growth was witnessed during 2003- 2008 when the annual average growth stood at about 8.5 percent. According to Nagaraj (2013), from 2003, the Indian economy enjoyed a boom in growth for five years. The economy grew at a rate of 8.7 percent in GDP and 10.3 percent in Industry. Output expansion underpinned by a sharp rise in the Investment rate peering at 38 percent of GDP in 2007-08, with rising domestic saving financing of this investment. Meanwhile population growth rate stabilized at around 1.1 percent. However, as Consequences of the global economic Crisis, GDP growth rate in 2008-09 dropped to 6.7 percent, which results in fall in inflow of Foreign Direct investment and rise in outflow. On account of portfolio disinvestment, decline in exports results is fall in Consumption, Investment and employment. The slowdown affects all sectors of the economy.

Since 2011-12, Indian economy has been under the influence of slowing cycle of growth. The fixed investment rate has started declining sharply and subsequently platitude from 2016-17 onwards. The drop in fixed investment by households from 14.3 percent to 10.5 percent explains most of the decline in overall fixed Investment between 2009-14 to 2014-19. Fixed Investment in the public sector marginally decreased from 7.2 percent of GDP to 7.1 percent during the same periods. However, the stagnation corporate investment at approximately 11.5 percent of GDP between 2011-12 to 2017-19 has a critical role to play in explaining the slowing cycle of growth and in particular, the recent deceleration of GDP and Consumption.

During the period from 2014-15 to 2018-19, Indian economy registered an average GDP growth rate of 7.5 percent. To spur growth, include Recognition, resolution, Recapitalization and Reforms to strengthen banks and foster clean and responsible banking simplification of the labour laws, relaxing Foreign direct Investment rules, Introduction of GST, Demonetization to curb black money and opened gates for cashless economy.

India's GDP growth moderated to 5 percent in 2019-20 amidst a week environment for global manufacturing, trade and demand; the economic state of Indian economy from 2019 onward may be identified as pause phase. During the pause phase the cloud over India's economic performance and prospectus are getting bigger and darker, India's economic growth has slowed, aggregate investment has slackened and worsted. On the supply side, the deceleration in GDP growth has been contributed by all sectors, such as agriculture and Allied activities, public administration, Defense, and other services. On the demand side, the deceleration In GDP growth was caused by a decline in the growth of real fixed investment in 2019-20. In 2022-23, India's real GDP expanded by 7.7 on the back of robust growth in domestic demand primarily bolstered by the strong investment activities and buoyant private consumption. Net exports, however, were a drag on growth amid slowing global growth.

OVERALL SECTORAL PATTERN

The employment content of growth has declined overtime; although it has varied across the sectors, the primary sector has witnessed least employment growth. The tertiary sector has witnessed faster growth of employment. However, the manufacturing sector, which has significant multiplier effect with other sectors, has not registered high growth of employment during the recent period due to primarily low growth of output. The quality of employment generation in manufacturing sector is better than agriculture and construction. Although construction has witnessed high growth rate of employment but quality of employment is poor. For the first time, there is an indication of a structural shift in employment from agriculture to other sectors which is a positive trend. The employment by sectors and by categories shows shift in employment to secondary and tertiary sectors from the primary sector.

GROWTH IN EMPLOYMENT, GDP AND EMPLOYMENT ELASTICITY

Over the period of about four decades, although long term employment growth in India has been around 2 percent per annum, but it has seen a declining trend from one decade to another it was 2.4 percent during 1972-73 to 1983, 2 percent between 1983-1993, and 1.8 percent during 1993-2004-05. There has been a sharp deceleration in employment growth between 2004-05 and 2011-12 due to a sharp decline in the women workforce participation rate particularly in rural areas (NSSO). The long-term trend of decline in the rate of employment growth has been accompanied by acceleration in the rate of economic growth.

When GDP grew at 4.7 percent per annum during 1972-73 to 1983, employment growth was 2.4 percent, during 1983-1993-94; when GDP growth increased to 5 percent, employment growth declined to 2.0 percent. During 1993-94/2004-05, GDP growth accelerated to 6.3 percent, employment growth further declined to 1.8 percent; and during the period 2004-05/2011-12, when GDP growth was 8.5 percent, employment grew at an insignificant rate of 0.5 percent. The ratio of employment growth to growth in value added declined from 0.52 in 1972-73/1983 to 0.29 during 1993-94/2004-05, during 2004-05/2011-12 it declined to almost zero.

SECTORAL SHARE OF EMPLOYMENT

There have been significant changes in the sectoral pattern of employment. The proportion of the work force engaged in the primary sector declined by 44.6 percent from 2009 to 2018. In the secondary sector, the share of employment increased from 21 percent in 2009-10 to 24.14 percent in 2017-18. However, the territory sector has performed in a better way in employment as its share increased from 25 percent in 2009-10 to 31 percent in 2017-18. This marks an important phase of structural transformation for the Indian economy, in which the share of and number of workers in agriculture has been declining with corresponding rise in employment in non-farm sectors.

SHARE OF ORGANIZED AND UNORGANIZED SECTOR IN OUTPUT AND EMPLOYMENT:

To identify the total number of formal and informal workers employed in the organized and unorganized sector. It was observed that the proportion of workers in organized sector increased from 13 percent to 19 percent in 2004-05 to 19.2 percent in 2017-18. This was mainly due to the increase in formal employment on the other hand, the proportion of workers in unorganized sector decreased from 86.3 percent to 80.7 percent in the same period. During the past last few decades, organized sector has been growing faster than the unorganized sector. This trend has been facilitated by the policies like reduction excise duties and tariffs. This indicates growing modernization in the organizational pattern of the economy.

✓SHARE OF RURAL AND URBAN SECTORS IN OUTPUT AND EMPLOYMENT.

During the last two decades, the rural economy in India has grown much faster (7.5 percent per annum) as compared to urban (5.6%) on the back of strong growth in the rural non-farm sector. As a result, whereas in 1980-81, the rural sector accounted for 41 Percent of the GDP, in 2010-11, this proportion has been estimated at 51 percent. The rural sector is estimated to have overtaken the urban sector. Growth in per capita income in rural economy has been almost double as compared to urban economy. Though on a much lower base. It indicates that the fruits of economic reforms are finally benefited the rural areas.

SHARE OF CONSUMPTION, GOVERNMENT SPENDING, INVESTMENT AND NET EXPORTS IN GDP

As per 'India Development Update' report released by the World Bank in 2018 the share of consumption in GDP has been consistently declining, particularly the Private Consumption, while the share of Investment and

Exports has increased. While private consumption accounted for nearly four-fifth of GDP in the early 1970s, this share declined to about three-fifth in 2017. Despite its declining share, consumption growth has been a key driver of aggregate GDP growth, contributing on an average 3.76 percentage points to growth annually between 1971 and 2017. After a small increase over recent decades, government expenditure has stabilized at nearly 12 per cent of GDP. Equally salient is the steady increase in the rate of investment. The period 2004-2008 witnessed an investment boom with the Gross Fixed Capital Formation (GFCF) to GDP increasing from 30.7 per cent to 34.7 per cent in 2008. Post the global financial crisis, this ratio moderated to 31 per cent in 2013. The moderation in the GFCF to GDP ratio continued in the period from 2014-17. The ratio declined from 30.1 per cent in 2014 to 28.6 per cent in 2017. The ratio picked up to 29.4 per cent in 2018. Moderation in GFCF, a measure of fixed asset creation raises concerns about growth of output in the economy. India has also become more integrated into the global economy, with its trade ratio-the ratio of exports and imports to GDP-adding up to about 40 per cent of GDP in 2017, five times the ratio of 7.6 per cent in 1971, yet lower than the peak ratio of 57 per cent in 2014. Exports as a per cent of GDP tripled from 7.3 per cent in 1991 to 22 per cent in 2007, and were 25.5 per cent of GDP in 2014. The contribution of net exports to growth has been muted, with import growth exceeding export growth in a majority of years.

SHARE OF THE PUBLIC AND THE PRIVATE SECTOR IN GDP

As per 'India Development Update' report released by the World Bank in 2018-historically, public and private investment contributed approximately equally to total investment, but the role of public investment in growth has diminished over time. After peaking at 12.7 per cent of GDP in 1986-87, public and private investment started to diverge, with public investment accounting for only approximately 7 per cent of GDP in more recent years, compared to private investment exceeding 20 per cent of GDP. In 2022-2023 the private sectors share of India’s GDP was 11.9 percent while the public sector share was 4.1 percent.

CONCLUSION AND SUGGESTIONS

India is on the track of the fastest growing major economies in the world. Nonetheless, the country is facing a global growth slowdown in an increasingly fragmented world. Policy priorities should focus on replenishing fiscal buffers, securing price stability, maintaining financial stability and accelerating inclusive growth through comprehensive structural reforms while preserving debt sustainability, structural policy should focus on promoting high quality Job- rich growth, underpinned by comprehensive reforms in the areas of education, heath, land, agricultural, labour market, including measures to boost female labour force participation, continuing investment in infrastructure, strengthening governance and enhancing a sound business environment are crucial and removing trade restrictions would support growth in India.

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