Introduction

During the late 20th century when the world was relatively stable and the international financial institutions were in place and working well, economic groupings began to emerge. The idea behind this was to have comparative advantage with respect to other groupings, better bargaining power at the negotiating table. Some of such groupings were the European Economic Union, APEC, NAFTA, ASEAN etc. India did not find a place in any such groupings.

During the 1990s the Asian economies and the Latin American economies were doing roaring business and were growing at a rapid pace. The Asian economies came to be known as the Tiger Economies, again India missed out. It was widely talked about in India that India is not a tiger but more of an elephant, which would take its time coming, but certainly make its presence felt. The slow but steady rate at which India has been growing over the years has now come to be known as the "Hindu growth rate".

It did start to happen in the late 1990s, when the tiger economies had seen a meltdown and the South American economies too were facing crisis. India began to emerge as a powerful player in the world stage with the onset of IT. Today most IT firms have significant presence in India, doing research, design, development, operating call-centres, doing back-office operations etc.

This assignment will explore the past performance of the Indian economy, examine and analyse ways to increase its growth rate and debate the pros and cons of such measures. It will look at different theories like PPF and look at factors like inflation, interest rates, and deficit, GDP etc.

India being a large country (refer annexure 1) with over a billion people is not easy to manage for a finance minister. The size and diversity of the country makes his job more comparable to that of finance minister for the EU. India has all the resources it can ask for, like minerals for mining, coal and fuel, technology, lots of people, a good education system producing English-speaking highly-educated workforce etc. All it has to do is just utilize it properly.

Factors Governing Growth of a Country

Several factors govern the growth of a country. None of them should be ignored in order to get the correct picture, as each one of them if ignored has the power to derail the economy. The major factors are divided into six categories in short called as the PESTLE factors, but the focus should be on the economic factors in the end.

Political Factors

This is the most important factor that affects any country's economics. The problem with India in this regard is that India is the largest democracy in the world with a population of over a billion people. Most of the citizens of India are ignorant of good economics and consequently demand from the political leaders decisions and policies that are detrimental to the health of the countries economic health. The political bosses in the meanwhile are more than happy to oblige with populist policies as they fetch them votes thereby letting them remain in power for the next term too.

On the other hand countries like China and many other countries that either are dictatorships or are communist countries have an inherent advantage in this regard as they can take tough decisions as advised by the economic gurus and thus achieve higher growth rates for their economies.

Socio-Cultural Factors

The socio-cultural factors existing in any country has a great deal of impact on the growth of any country. In India's case, the problem is that corruption is so deep-rooted that it has become a part of the way of doing business dealings. This affects the economy a great deal negatively. There are lots of factors within socio-cultural factors which effect economic growth. Trade- unionism, work-culture, education levels, work- ethics etc. are some of them.

Technological Factors

How advanced a country is technologically also has a great deal of impact on its economic growth. It affects a country's productivity and also the quality and consistency of quality of its output.

In case of India, it is rapidly adapting to the latest technologies and in some cases is even ahead of most other advanced countries in putting new technologies in place. E-governance is one of the areas where India has taken huge strides. The population too in general is fast becoming computer literate, Internet savvy, and extremely willing to learn the latest. This is attracting some of the biggest names in the world to put up shop in India thus creating jobs and wealth for the country.

Legal Factors

This is one of the biggest areas of concern for most Indians. The legal system in India does deliver good judgements, most people feel that justice is done in the end but it just takes too long, and the process so cumbersome. India does need to reform the legal set-up in order to deliver speedy justice, as "justice delayed is justice denied".

For most companies involved in research in India, and also most foreign investors one of the other major areas of concern is the patent and copyright law, which do not meet the WTO standards. India has to bring in new laws by 2005 according to the negotiated agreement it has for entry to WTO. The enforcement of the laws would then become an area of concern after the laws are in place.

Environmental Factors

India is blessed with snow-peaked mountains, desserts, rain-forests, lush-green valleys, gigantic rivers etc. Due to mismanagement of its natural resources, faces drought in many parts, while at the same time, faces swollen rivers and floods in others. Dams and other infrastructures have been built without much regard to the environment thus wrecking havoc and creating hardships for the people.

Many countries do not do certain kinds of trade with India as they think that India is not taking adequate protection for its environment during production of such goods.

Economic Factors

In order to find reasons how India can achieve a higher growth rate, we must begin by first having an in depth look at the past performance of India in the last few years and then determine how India can improve its performance over the next few years.

Every country, firm, person or any other entity has a Production Possibility Frontier. India has to shift the PPF curve towards the right in order to achieve further economic growth. In order to do so India has to be able to exploit its human, natural, scientific resources etc. Each of the following factors will be analysed for what Indian Govt should or should no do in order to shift the PPF towards the right.

Analysis of Past Performance

India's economic performance over the last few years has drawn a lot of admiration. It is said that we are among the fastest developing economies in the world. Unfortunately this admiration comes only from the optimists. The others continue to believe that India's growth performance has been way below par i.e. instead of growing by 8% to 10%; we seem to be struggling at 6%.

A look at India's income statement over the last nine years brings out some of the reasons why we continue to under perform. Take the composition of expenditure for example. In FY94, interest expenditure accounted for 49% of all revenues of the government!!! At the end of the decade this ratio was put at 50%!!! With half of the resources diverted to servicing debt, little has been left to spend on infrastructure and social services, both of which are essential for strong long-term growth. The corresponding ratio for subsidies was put at 17% and 14% respectively. And if one were to factor in the expenditure on administration, all (or more than) the government's revenues would have been accounted for! As evident, this scenario has remained the same over the last 9 years, and as proposed in the budget for FY03, will persist in the coming year, and may even be the case for some time to come.

Expenditure

Despite the fact that the government continues to spend more than it earns, there seems to be some ray of hope in the expenditure numbers. The growth in plan expenditure, which can loosely be associated with capital spending (infrastructure etc) has been growing consistently. The government seems to be making a conscious attempt to pursue its plan expenditure even as it takes measures to cut down on the non plan expenditure - which includes spending on defence, subsidies, administration and debt servicing (interest). If this trend persists, it would surely result in the quality of government spending improving dramatically.

Financing the CG deficit

The government continues to rely on market borrowings as a primary source of deficit financing. This has resulted in high demand for funds, which in turn has caused stickiness in interest rates at higher levels.

The government's large debt programme has probably led to a crowding out of investment in recent years, as the high borrowing requirements put upward pressure on interest rates. Higher rates, which lead to a higher cost of capital, can adversely affect the viability of a project. The RBI (Central Bank) has however been absorbing a large part of government paper and releasing it in markets at favourable times to insure against a rise in interest rates. This has reduced pressure in money markets and helped lower interest rates in recent months.

Balance of payment

During the past few years, there was a clear trend in the current account- rising exports and declining imports. This led to an improvement in the current account position of the country. In the Capital account, FDI continued to grow even as FII flows were volatile. The issue of IMD bonds in the international markets boosted loans.

India's external position continues to improve steadily. The fact that a sharp spurt in oil prices, due to the war on Iraq, failed to trigger crises, like during the first Gulf war, only underscores this fact. A part of this resilience has come from the software sector, which has continued to growth at a fast pace. However, in FY02 there has been a slowdown in the software sector. Whether in such a scenario, India's external position continues to remain comfortable needs to be seen.

India also needs to increase its own internal Aggregate Demand and Aggregate Supply. It can do so by spending more, which can be done by including more people in the tax brackets, which will create more employment and consequently give more people more money to spend, thereby boosting consumer demand. Aggregate Demand internally for India can therefore be achieved and must be achieved as being a country with over a billion people, it must not solely rely on exports. Aggregate Supply can also be increased as the consumers demand more and are willing to pay more, leading to producers producing more, thereby shifting the position on the curve upwards.

Bank Deposits

Deposits in the banking system continue to grow at a steady pace. However, what is noted is that the growth is coming from time deposits even as demand deposits decline or record a very marginal growth. Another factor to note is that bank's continue to deploy their funds in investments rather than as credit. This is largely due to the absence of lending opportunities in the market. RBI's most recent cut will probably trigger much needed investment activity

Interest Rates

With the Reserve Bank of India affecting a cut in the CRR and the Bank rate, interest rates have markedly reduced. This should be good for the economy in the medium to long term as the reduced cost of money encourages investment and consumption activity.

Inflation/ Index Numbers of Wholesale Prices

Inflation has come off from the highs it touched early this year. Two sub components of the index have witnessed a decline in growth in prices. The most pronounced decline is in the case of the fuel group.

It is imperative that inflation in India remains at a low level. This is largely because higher levels of inflation limit the ability of the central bank to cut interest rates, even when required in response to a sluggish economic climate. In September, the Reserve Bank of India announced an unprecedented cut in CRR and Bank Rate. The move was triggered off by the sluggish growth in economic activity and the threat of a global recession affecting India. One of the main reasons why RBI could embark on such a course was the fact that inflation was relatively subdued.

Inflation rates in India have reduced dramatically to just 3.6% (YoY-FY02). This is largely due to the slow growth in prices of manufactured products and the decline in crude prices. Primary articles too registered modest inflation.

Social Indicators

Ultimately, the objective of economic growth is to provide better living standards for all the inhabitants of the country. It can be a good indicator of how the country is faring and what needs attention. A look at the statistics reveals a huge 35% of people below the poverty line i.e. living on less than a dollar a day. Just 28% of its people live in urban areas while ¾ of its population live in rural areas. Life expectancy is just 64 years of age, which is low even by the standards of other developing countries in the region. Infant Mortality too is very high at 71 per 1000 births while Sri Lanka has it at 14 and Malaysia at 11!

All these are because Expenditure on health as a percentage of GDP is just 1% while on Education is at just 3% that requires urgent attention. Increase on expenses on these areas will not dramatically but surely and steadily improve the quality of life for everyone in the country and reduce the unemployment levels indirectly.

Increased expenses on these areas would also increase the Aggregate Demand in the Economy.

Employment/ Unemployment

With over a billion people and a huge 60% of its population in the age group of 15-59, India has a formidable work force. Only about 20% of its population is under 15 and just 10% over 60 as the life expectancy is just at 64.

According to the table in the following page, 60.7% of the population in rural India and 47.8% in urban India are classified as workers. It classifies the complete picture of people who call themselves as working in India according to their education levels as well as segregated in to rural and urban India. It also gives a gender wise segregation.

India: Percent of usually employed youth (15-24)
and workers aged 15 and over, reporting themselves
as not fully engaged according to usual principal status, by education, 1997-98

Age Group/ Sector/ Gender	Education					Worker Population Ratio
	Not Literate	Literate up to Middle	Secondary	Graduate and Above	All	
Young Workers						
Rural India Males Females Both Sexes	17.7 12.4 15.3	15.0 11.8 14.4	13.5 12.2 13.4	13.2 1.2 11.8	16.1 12.2 14.8	66.4 32.7 49.7
Urban India Males Females Both Sexes	13.1 24.4 16.6	13.4 19.9 14.3	8.8 11.5 9.1	3.4 8.0 4.6	12.1 20.1 13.6	47.7 12.4 31.0
15 and Over						
Rural India Males Females Both Sexes	14.9 9.5 12.6	12.3 8.9 11.9	7.3 5.1 7.1	4.0 2.0 3.9	13.1 9.3 11.9	83.9 37.7 60.7
Urban India Males Females Both Sexes	13.0 18.7 15.1	9.3 16.6 10.0	3.6 4.6 3.7	1.7 3.5 2.0	8.0 15.1 9.2	75.4 17.5 47.8

Source:
Sarvekshana, Special Number, September 2000sults of the Fourth Quinquennial Survey on Employment and Unemployment; National Sample Survey Organisation, Government of India. pp-s-363-368.
Note: Data relate only to the Youth who were classified as employed according to principal usual status. Those employed only in terms of usual subsidiary status were not fully engaged in work by definition..

India: Incidence of unemployment according to alternative concepts
by gender and rural urban residence
NSS Data for 1972-73 to 1993-94

Concept/ Year	India			Rural India			Urban India		
	P	M	F	P	M	F	P	M	F
Usual Status									
1972-73	1.6	1.9	1.0	0.9	1.2	0.5	5.1	4.8	6.0
1977-78	2.6	2.2	3.3	1.5	1.3	2.0	7.1	5.4	12.4
1983	1.9	2.3	1.2	1.1	1.4	0.7	5.0	5.1	4.9
1987-88	2.7	2.6	2.9	2.0	1.8	2.4	5.4	5.2	6.2
1993-94	1.9	2.2	1.4	1.1	1.4	0.8	4.4	4.0	6.2
Weekly Status									
1972-73	4.3	3.7	5.9	3.9	3.0	5.5	6.6	6.0	9.2
1977-78	4.5	4.4	5.0	3.7	3.6	4.0	7.8	7.1	10.9
1983	4.5	4.4	4.8	3.9	3.7	4.3	6.8	6.7	7.5
1987-88	4.8	4.8	5.0	4.2	4.2	4.3	7.0	6.6	9.2
1993-94	3.6	3.5	3.8	3.0	3.0	3.0	5.8	5.2	8.4
Daily Status									
1972-73	8.3	7.0	11.5	8.2	6.8	11.2	9.0	8.0	13.7
1977-78	8.2	7.6	10.0	7.7	7.1	9.2	10.3	9.4	14.5
1983	8.3	8.0	9.3	7.9	7.5	9.0	9.6	9.2	11.0
1987-88	6.1	5.6	7.5	5.2	4.6	6.7	9.4	8.8	12.0
1993-94	6.0	5.9	6.3	5.6	5.6	5.6	7.4	6.7	10.5

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Conclusion

In conclusion, apart from economics, issues like international politics, labour laws, international trade, government policies, governing philosophies like socialism/capitalism etc. as they too have a great deal of impact on the economic growth. Other factors like unemployment, literacy, education, health etc too matter, though were not covered in detail.

The taming of inflation has given the RBI room to cut interest rates. Going forward, the threat of global recession and a bumper domestic harvest should help keep prices at bay. However, any flare up in crude prices could distort this benign inflation climate. Theoretically, according to the Phillips curve, lower inflation could lead to higher unemployment, but lately this theory has been controversial as Sherman, M. a radical American economist has suggested that the relationship is the other way round.

Either way, the government must do a lot more to increase the tax collection by increasing not the tax rate but the income brackets it covers, as too few people fall in the tax brackets right now. These are politically tough decisions but some government someday must take. They can then increase the spending on the infrastructure sector thereby shifting the PPF outwards or towards the right.

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