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INDIAN ECONOMY - I

(UPSC MAINS)



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INDIAN ECONOMY - I

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Growth and Development

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Chapter

Growth

Growth in simple terms may refer to a progression from simpler to more advanced forms. It is a gradual change in size and/or maturity, often over a given span of time. Although growth is seen as an incremental phenomenon, however, in terms of economy negative growth can also be registered. The most important aspect of growth is its quantifiability, that is, one can measure it in absolute terms.

There are various aspects of growth that occur across various scales, *viz.*, Economic Growth, Social Growth, Cultural Growth, Human Growth, and National Growth.

Development

Development means “improvement in a country’s economic and social conditions”. More specifically, it refers to improvements in the way of managing an area’s natural and human resources in order to create wealth and improve people’s lives. Therefore, development is a multidimensional process involving changes in social structures, popular attitudes, and national institutions as well as the acceleration of economic growth, the reduction of inequality and the eradication of poverty. Development is both a physical reality and a state of mind for attaining a better life. Three basic core values pave the way as a practical guideline for understanding development. These are:

- **Sustenance:** The purpose of development is to create an environment in which everyone can expand their capabilities and opportunities, in a manner such that it benefits both the present as well as future generations.
- **Self-esteem:** It has a sense of worth and self-respect, of not being used as a tool by others for their own ends. Development is legitimized as a goal because it is indispensable in the way to gain esteem.
- **Freedom to be able to choose from servitude:** Freedom must be understood in the sense of emancipation from alienating material conditions of life, and from social servitude to nature, ignorance, other people, misery, institutions and dogmatic beliefs.

Objectives of Development

The three objectives of development are:

- To increase the availability and widen the distribution of basic life sustaining goods such as food, shelter, health and protection.
- To raise the standards of living, including higher incomes, the provision of more jobs, better education and greater attention to cultural and humanistic values, all of which will serve not only to enhance material well-being, but also to generate greater individual and national self-esteem.



- To expand the range of economic and social choices available to individuals and nations by freeing them from servitude and dependence, not only in relation to other people and nation states but also to the forces of ignorance and human misery.

Challenges in the Way of Development

- Corruption
- Over exploitation of natural resources
- Dependence on primary products as raw materials
- Misuse of foreign assistance
- Misguided priorities
- Cultural restrains

Various Aspects of Development

There are various aspects that root out from development. Some of them are discussed here.

Social Development

Social development is about putting people at the centre of development. This means a commitment that development processes need to benefit people. The way people interact in groups and society, and the norms that facilitate such interaction, shape development processes. Social development, thus implies the change in social institutions.

Formal institutional reform – for example, the provision of legally enshrined rights, better law enforcement, or more participatory governance – are part of the process by which institutional change is achieved. The indices of social development focus on measuring the informal social institutions, how they compare across countries, and how these change over time. They are:

- Civic activism
- Interpersonal safety and trust
- Clubs and associations
- Gender equality
- Inter-group cohesion

The World Bank supports social development by listening to the poor people and promoting their voices in the development process; understanding and addressing their needs, priorities and aspirations, and building formal and informal institutions.

Economic Development

Economic development is the process whereby simple, low-income national economies are transformed into modern industrial economies. Economic Development creates the conditions for economic growth and improved quality of life by expanding the capacity of individuals, firms, and communities to maximize the use of their talents and skills to support innovation, lower transaction costs, and responsibly produce and trade valuable goods and services.

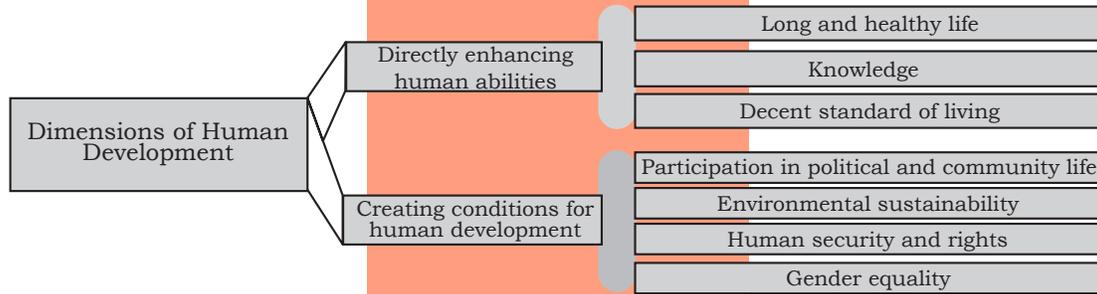
Human Development

The human development approach, developed by the economist Mahbub ul Haq, is anchored in Amartya Sen’s work on human capabilities, often framed in terms of whether people are able to “be” and “do” desirable things in life. Examples include:

- **Beings:** Well fed, sheltered, healthy

- **Doings:** Work, education, voting, participating in community life.
- **Freedom of Choice is Central:** Someone choosing to be hungry (during a religious fast say) is quite different to someone who is hungry because they cannot afford to buy food.

These ideas helped pave the way for the human development approach, which is about expanding the richness of human life, rather than simply the richness of the economy in which human beings live. It is an approach that is focused on creating fair opportunities and choices for all people.



Three foundations of human development are:

- To live a healthy and creative life,
- To be knowledgeable,
- To have access to the resources needed for a decent standard of living.

Measuring Development

Human Development Index (HDI)

- In 1990, two economists – Prof. Mehbub Al Haque of Pakistan and Prof. Amartya Sen of India introduced the concept of Human Development Index (HDI). Since 1993, it has been used by the United Nations Development Programme (UNDP) each year to calculate the Human Development Index (HDI), and publish it as a report which is known as Human Development Report (HDR).
- The first report was published in 1990. Its goal was to place people at the centre of the development process in terms of economic debate, policy and advocacy. “People are the real wealth of a nation,” was the opening line of the first report in 1990. This report ranks countries on the basis of the Human Development Index.
- The rationale behind the development of Human Development Index (HDI) was to do away with the inherent weakness of the use of GDP as a measure of development.
- The HDI is the geometric mean of normalized indices for each of the three dimensions such as long and healthy life, knowledge and a decent standard of living.
- The health dimension is assessed by life expectancy at birth, the education dimension is measured by means of years of schooling for adults aged 25 years and more, and expected years of schooling for children of school entering age. The standard of living dimension is measured by gross national income per capita.
- The above mentioned dimensions are measured by the following indicators:
 - **Life Expectancy Index (LEI):** Calculated from Life expectancy at birth.
 - **Education Index (EI):** Calculated from Mean years of schooling and Expected years of schooling
 - **Income Index (II):** Calculated from GNI per capita (PPP US\$)



- Countries fall into four broad human development categories based on HDI index:
 - Very High Human Development,
 - High Human Development,
 - Medium Human Development, and
 - Low Human Development.

Low HDI	Medium HDI	High HDI	Very HDI
An index of 0-0.549 means low development. For example, index of Niger was 0.354 with rank 189 (lowest) in the 2018 HDR.	An index of 0.55-0.699 means medium development. For example, index of India was 0.640 with 130th rank in the 2018 HDR.	An index of 0.7-0.799 means high development. For example, Iran topped this category with an index of 0.798 and rank 60 in the 2018 HDR.	An index of 0.8 and above means very high development viz., Norway topped the Human Development Index with index value 0.953 in the 2018 HDR.

Inequality-adjusted HDI (IHDI)

- The Inequality-adjusted HDI adjusts the Human Development Index (HDI) for inequality in the distribution of each dimension across the population. The IHDI accounts for inequalities in HDI dimensions by “discounting” each dimension’s average value according to its level of inequality.
- If there is no inequality across people, HDI is equal to IHDI. However, in the case of inequalities, the value of IHDI is always less than HDI.
- This implies that the IHDI is the actual level of human development (accounting for this inequality), while the HDI can be viewed as an index of “potential” human development (or the maximum level of HDI) that could be achieved if there was no inequality.
- The “loss” in potential human development due to inequality is given by the difference between the HDI and the IHDI and can be expressed as a percentage.
- Thus, the IHDI is distribution-sensitive average level of Human Development.
- Two countries with different distributions of achievements can have the same average HDI value.
- Under perfect equality the IHDI is equal to the HDI, but falls below the HDI when inequality rises.
- For example, India’s HDI value in the 2018 report is 0.640 but when inequality is taken into account the IHDI value of India comes down to 0.468.

Gender Development Index (GDI)

- Introduced in Human Development Report 1995, Gender related Development Index or the GDI measures gender gaps in human development achievements by accounting for disparities between women and men in the same dimensions and using the same indicators as the HDI.
- Simply put, it is the ratio of the HDIs calculated separately for females and males using the same methodology as in the HDI.
- It is a direct measure of gender gap showing the female HDI as a percentage of the male HDI.



- It is simply the HDI adjusted downward for gender inequality. The greater the gender disparity in basic human development, the lower is a country's GDI relative to its HDI.
- The Gender related Development Index (GDI) measures gender inequalities in achievement in three basic dimensions of human development as follows:
 - Health, which is measured by female and male life expectancy at birth;
 - Education, which is measured by female and male expected years of schooling;
 - Command over economic resources, measured by female and male estimated earned income.
- The GDI value ranges from ranges from 0, which indicates that women and men fare equally, to 1, which indicates that women fare as poorly in comparison to their male counterparts as possible in all measured dimensions.
- For example GDI value for India in the 2018 report is 0.841, indicating gaps between females and males.

In order to address shortcomings of the GDI, a new index Gender Inequality Index (GII) was proposed. This index measures three dimensions viz., Reproductive Health, Empowerment, and Labour Market Participation.

Gender Inequality Index (GII)

- The GII is an inequality index.
- It measures gender inequalities in three important aspects of human development:
 - Reproductive Health, measured by the maternal mortality ratio and adolescent birth rates;
 - Empowerment, measured by proportion of parliamentary seats occupied by females and proportion of Indian Economy adult females and males aged 25 years and older with at least some secondary education; and
 - Economic Status expressed as labour market participation and measured by the labour force participation rate of female and male populations aged 15 years and older.
- The higher the GII value more the disparities between females and males and the more loss to human development.
- India ranks 127 out of 160 countries in Gender Inequality Index with GII value of 0.524 whereas Switzerland being on top with a GII value of 0.039.

Global Happiness Index

- Happiness Index is brought by World Happiness Report. It is a measure of happiness published by the United Nations Sustainable Development Solutions Network.
- In July 2011, the UN General Assembly adopted a resolution **“Happiness: Towards a Holistic Definition of Development”**, which ultimately led to the first World Happiness Report was released on April 1, 2012. The World Happiness Report aims to draw global attention around the need to create sound policy for what matters most to people – their well-being.
- It maps happiness on the parameters of GDP per capita, social support, and healthy life expectancy, freedom to make life choices, generosity and perceptions of corruption.
- In 2018 Global Happiness Index (GHI), India was ranked on the 133rd spot, down from 122nd in the 2017 report.

- Nations such as China (86), Pakistan (75), Nepal (101), Bangladesh (115), Bhutan (97) and Sri Lanka (116) fared better than India on the ranking.
- Top ten in order were Finland, Norway, Denmark, Iceland, Switzerland, the Netherlands, Canada, New Zealand, Sweden, and Australia.
- The main focus of the 2018 report, in addition to its usual ranking of the levels and changes in happiness around the world, was on migration within and between countries.
- All the top countries tend to have high values for all six of the key variables that have been found to support well-being: income, healthy life expectancy, social support, freedom, trust and generosity.

Multidimensional Poverty Index

- The Multidimensional Poverty Index (MPI), published for the first time in the 2010 Report, complements monetary measures of poverty by considering overlapping deprivations suffered by individuals at the same time.
- The index identifies deprivations across the same three dimensions as the HDI and shows the number of people who are multidimensionally poor (suffering deprivations in 33% or more of the weighted indicators) and the number of weighted deprivations with which poor households typically contend with.

Growth vs. Development

The terms Growth and Development are often used interchangeably in various aspects of life. However, there are several significant differences between the two. Following are some of the few key differences:

- Growth simply refers to ‘expansion’ or ‘getting bigger’, whereas development is ‘improvement’.
- Growth is termed as a physical change, whereas development is said to be physical as well as social and psychological change.
- While growth is related to quantitative improvement, development is related to quantitative as well as qualitative improvement.
- Growth can be perceived and can be measured accurately, whereas development cannot necessarily be perceived on average and cannot be measured accurately.
- Economic Growth can be measured by an increase in a country’s GDP. The most accurate method of measuring development is the Human Development Index, which takes into account the literacy rates, life expectancy and per capita income.

Conclusion

Though people often use the words ‘growth’ and ‘development’ interchangeably, but it is not the case. As you can see from the discussion above, growth and development have different meanings in different contexts. In general, though, it can be said that whilst growth is about a simple positive increase in size, development is a more complex and multi-stage process.



Economic Growth vs. Economic Development

Economic Growth refers to the rise in the value of everything produced in the economy. It implies the yearly increase in the country's GDP or GNP, in percentage terms. It alludes to a considerable rise in per-capita national product, over a period.

Economic Growth is often contrasted with Economic Development, which is defined as the increase in the economic wealth of a country or a particular area, for the welfare of its residents. Economic growth is an essential, but not the only condition for economic development.

Basis for Comparison	Economic Growth	Economic Development
Meaning	Economic Growth is the positive change in the real output of the country in a particular span of time.	Economic Development involves rise in the level of production in an economy along with the advancement of technology, improvement in living standards and so on.
Concept	Narrow	Broad
Scope	Increase in the indicators like GDP, per capita income, etc.	Improvement in life expectancy rate, infant mortality rate, literacy rate and poverty rates.
Term	Short term process	Long term process
Applicable to	Developed Economies	Developing Economies
How it can be measured?	Upward movement in national income.	Upward movement in real national income.
Which kind of changes is expected?	Quantitative changes	Qualitative and quantitative changes
Type of Process	Automatic	Manual
When it Arises?	In a certain period of time.	Continuous process.

Sustainable Development

Sustainable development has been defined in many ways, but the most frequently quoted definition is from ***Our Common Future, also known as the Brundtland Report***:

“Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

It contains within it two key concepts:

- **The concept of needs**, in particular the essential needs of the world's poor, to which overriding priority should be given; and
- **The idea of limitations** imposed by the state of technology and social organization on the environment's ability to meet present and future needs.

The concept of sustainable development integrates social, economic, and environmental policy. It considers both development (a traditional economic and political goal), and sustainability (an ecological goal). Several United Nations texts refer to the “interdependent and mutually reinforcing pillars” of sustainable development as economic development, social development, and environmental protection.