



## Mains Practice Question

**Q.** India's aspiration to become a \$5 trillion economy depends critically on strengthening the invisible hand of markets together with the hand of trust that can support markets. What do you understand by the 'invisible hand'? How can it be strengthened in Indian economy? (250 words)

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### Approach:

- Briefly define the Invisible hand/market-based economy.
- Highlight the advantages of such a model in the Indian Context.
- List out measures/policies to further strengthen the market-based economy.
- Conclude with the need for also enhancing the hand of trust.

### Introduction

- Invisible Hand refers to a free market based economic model. Under such a model, there is minimal government intervention in the market allowing private players freedom to operate and in turn market forces of demand and supply decide the price of a product.

### Body

India has embraced such a model, reflected in LPG reforms of the early 1990s leading to the rapid growth of its economy as witnessed historically in some of the advanced economies like Japan, USA, for example:

- Increase in domestic credit to GDP since the entry of private banks in the mid-1990s.
- Almost double CAGR in cargo volumes from minor ports which are dominated by the private sector, as compared to major ports that are publicly owned.
- Exponential growth in freight and passenger traffic in the roadways sector which is open as compared to stagnation in the closed railways sector.

Such a model can help achieve the target of \$ 5 trillion Indian economy by further deepening and corrections in the current setup:

- Following pro-business policies over pro-crony leading to fair competition, equal opportunities for new entrants in entrepreneurship.
- Lowering government interventions in the market functioning like price regulation in the pharmaceutical industry.
- Efficient Resource allocation, for example, integrating programmes like Assemble in India with Make in India, export policy, foreign policy and skill reforms in the labour market.
- Ease of Doing Business by improving upon parameters as highlighted in the Doing Business Report of World Bank.
- Other measures: enhancing efficiency of the economy like reforms in the banking sector, Privatization of loss-making PSUs like Air India.

### Conclusion

Such an invisible hand can only be strengthened by enhancing trust in the market forces by means of lowering corruption, lower NPAs and loan defaults, enhance audit quality and reducing information asymmetry.

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