



Be Mains Ready

Economic decision-making and planning in India depend less on government and more on market forces. Critically examine its consequences on the Indian economy. (250 words)

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Approach / Explanation / Answer

Approach

- Write about the change in India's economic decision making from 'centrally planned economy' to 'open-market economy' in the introduction.
- Mention how economic decision making happens currently.
- Give positive and negative impacts of the current model.
- Conclude by giving India's vision to achieve economic superiority in the globalized world.

Introduction

India adopted a model of planned economic development since 1951, where state and public sector played a dominant role in economic decision making. However, due to poor implementation, the model failed in fulfilling the objectives of poverty alleviation and satisfaction of basic needs. This led India to adopt a mixed model based on open market forces with limited government intervention.

Body

Currently institutions like NITI Ayog, Cabinet Committee on Economic Affairs, Finance and Commerce Ministries do play a major role in economic decision making. But the decisions are mainly dependent on market forces to promote healthy competition and innovation among private players. Some of the major impacts of adopting the current model are:

Positive impacts

- **Free flow of capital:** Open market attracts foreign and domestic investments to undertake lucrative projects, despite risks and long gestation periods, leading to higher growth rates.
- **Stock market performance:** Increase in trading in corporate securities due to a favourable environment with an assurance of stable markets. For ex: exponential growth in mutual funds and insurance sector in India.
- **Political Risks reduced:** Investor confidence increases with government's intent to create a strong legal foundation to settle disputes and have fair and enforceable laws to increase 'Ease of Doing Business'.

- **Improved technology:** Open and competitive markets promote competition and supports innovation. This helps in faster technology adaptation. For ex: role of private players like Paytm, Phonepe in digital transactions, success story of India's telecom sector, etc.

Negative impacts

- **Against socialistic principles:** Market forces work to increase profits of capitalist class. Still millions live in poverty, debilitating inclusive growth.
 - For ex: WTO norms poses compulsions and restrictions on the government's food distribution and poverty alleviation programmes. Tonnes of foodgrains may rot in warehouses but can't be distributed to the poor.
- **Risks of global financial crisis:** In a hyper-globalized world, global markets shocks destabilize Indian economy. For ex: inability of government to control fuel prices due to unstable crude oil markets.
- **Threat to domestic manufacturing:** Excessive competition against MNCs with superior technology and large capital base is detrimental to India's MSME sector which employs the second largest number of people after agriculture. Hence, people's livelihood is directly affected by such models.
- **Inequality and unemployment:** With newer and faster technology, poor unskilled people in India which are slow to adapt to them face negative consequences. For ex: advent of gig-economy models in transportation sector like Ola and Uber not only posed a challenge to Indian traditional cab drivers but also hit the automobile manufacturing sector.

Conclusion

With a motto of '**Minimum Government Maximum Governance**', government should remain as an enabler and a facilitator rather than a regulator of sorts for unhindered growth and competition. The aim of \$5 trillion economy by 2024 can only be achieved by sustained economic growth where industries flourish in a supportive environment.

However, excessive dependence on market forces may be detrimental to India's socialistic credentials. Hence government needs to intervene whenever need arises. For example : New e-Commerce rules to support domestic traders and retailers, cap on prices of medical equipment like heart stents and knee caps, Corporate Social Responsibility norms to indulge private players in social activities, etc are all steps in the right direction.

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