INDIAN ECONOMIC DEVELOPMENT: ISSUES AND PERSPECTIVES
BECE-002

Programme Code: BDP
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Maximum Marks: 100

Answer all the questions

I. Long Answer Questions (word limit-500 words) **2x20=40 marks**

1) Discuss the various debates on the different 'Models of Development Planning'.

2) On what grounds did the classical economists consider trade as the 'engine of growth'?

   What counter-view was advanced on this view? Explain

B. Medium Answer Questions (word limit-250 words) **4X12=48 marks**

1) In what way does the ancient Indian thoughts on development contrasts with the modern notions of development? Outline.

2) What is meant by 'Venture Capital'? Do you think 'venture capital' can play an important role in economic development? Explain.

3) What are the major factors influencing the foreign investment flows to a country? Discuss.

4) Are there any risks with 'high fiscal deficit'? Outline briefly.

C. Short Answer Questions (word limit 100 words) **2x6=12 marks**

1) Write a note on the limitations of WTO.

2) What do you understand by the term 'labour flexibility'? Are there different forms of this?

SOLVED ASSIGNMENT (20-21)

BECE-002

Indian Economic Development: Issues and Perspective

I. Long Answer Questions (word limit-500 words)

Q1) Discuss the various debates on the different 'Models of Development Planning'.

Ans. Given the large rural population depending on agriculture it is fair to think that agricultural sector reforms, of one kind or the other, to improve the lot of large poor agricultural labourers and farmers would be advocated by thinkers. Even here, to think of a mixed model which derives mutually from both the agriculture and industry, the latter suitable to the village model like the Khadi and Village Industry (KVI), is in keeping with the demands of the large agrarian base of a less developed economy like India as it was five to six decades back. But developmental planning in India has also derived from the contribution of thinkers who foresaw the need for heavy industries to provide a strong base of higher productivity avenues not only to the labour displaced from the traditional agriculture but also the huge urban educated youth force. They could foresee that besides the KVIs, modern industries would have to be promoted by laying a strong base with state supported investment. The present section discusses the approach of four such leading philosopher-statesmen/economists coming under this genre.

1) **Jawaharlal Nehru and P.C. Mahalanobis: 'Mahalanobis Model':** The Mahalanobis model is a model of economic development, created by Indian statistician Prasanta Chandra Mahalanobis in 1953. Mahalanobis became essentially the key economist of India's Second Five Year Plan, becoming subject to much of India's most dramatic economic debates.

2) **C.N. Vakil and P.R. Brahmananda: Wage-Goods Model:** Wage-goods refer to the consumption necessities required for subsistence and performance of work. C.N Vakil was a doyen of Indian economics. He was the founder Director of Bombay School of Economics. He was known for his contributions to the contemporary problems of the Indian economy like the economic consequences of divided India and productivity in Indian economy. P. R. Brahmananda, who was a student of C.N. Vakil, rose to become one of the eminent economists of India. Even though Brahmananda's contributions enriched almost all areas of economics, monetary economics remained his forte.

Q2) On what grounds did the classical economists consider trade as the 'engine of growth'? What counter-view was advanced on this view? Explain

Ans. Early thinking on development tended to equate 'industrialisation' as development and then focused on the role of trade in industrialisation. Trade, often, was referred as the 'engine of growth'. This was largely based on classical Ricardian inspiration that free trade served as the engine of the industrial revolution in England. There are two leading ideas. Firstly, international trade overcomes the narrowness of the home market and provides an outlet for the surplus product above domestic requirements. Secondly, by widening the market, international trade improves the division of labour and raises the general level of productivity within the country. But in underdeveloped countries which exports raw materials and import manufactured goods, international trade has been unfavourable to these countries.

Export-Oriented Approach

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Export-Oriented Approach is a trade and economic policy aiming to speed up the industrialisation process of a country by exporting goods for which the nation has a comparative advantage. Export-led growth implies opening domestic markets to foreign competition in exchange for market access in other countries.

The earlier version of export-oriented (outward-oriented) strategy of trade for development emphasised that developing countries' comparative advantage lay in highly specialised primary commodities. An open trade regime would result in each developing country's continued specialisation in a few primary commodities. The demand for these commodities is likely to be both price and income elastic. Increased export earnings and growing domestic demand would bring in investment and growth of domestic industry and the economy. It is argued that outward oriented economies are better to gain from trade because of specialisation that leads to the benefits of economies of scale, cost reduction by increased competition, etc. Further, increased competition because of open-trade breaks monopolies. Free trade also promotes flow of more direct foreign investment.

B. Medium Answer Questions (word limit-250 words)

Q1) In what way does the ancient Indian thoughts on development contrasts with the modern notions of development? Outline.

Ans. It is often believed, rather, erroneously that the ancient Indian literature, mostly written in Sanskrit, is a treatise on philosophy and metaphysical dimensions of life. However, this vast literature contains many basic thoughts on economic development and human welfare. Most of the basic thoughts of this literature have had significant influence on the thinking of nationalist and socialist thinkers, both of pre-independence and post-independence vintage. This model is referred to as Ancient Indian Paradigm of Development (AIPD).The AIPD can be compared and contrasted with the Modern Economic Science of Western Vintage (MES). AIPD conceives Man in a holistic framework as a blend of materialism and normative values. As against this, MES conceives Man as a Rational Economic man and formulates the goals of economics activities, in terms of material self-interests. The approach of maximisation of profits, National Income, Foreign Exchange earnings, Consumption, etc. determines the contours of economic activities. AIPD advocates restraint on consumerism and conceives that expansion of capital formation and growth should be realised in a framework of values, such as, equity and optimum social welfare. The goals of all activities are conceived in terms of an integrated framework of what are called as Dharma (Value), Artha (Capital Formation), Kaama (Basic needs Consumption), and Moksha (i.e. Highest Efficiency). AIPD gives to social equity, highest priority and advocates that concerns of social welfare should precede the urges for material self-interests. In AIPD, Gross Welfare Product is the sum of Gross Domestic Product and Moral Values of Life. The AIPD detests the approach of realising high growth of GDP without the commitment to Values and Morality in human lives.

Q2) What is meant by 'Venture Capital'? Do you think 'venture capital' can play an important role in economic development? Explain.

Ans. Venture capital (VC) is financial capital provided to early-stage, high-potential, high risk, growth startup companies. The venture capital fund makes money by owning equity in the companies it invests in, which usually have a novel technology or business model in high technology industries, such as biotechnology, IT, software, etc.

The typical venture capital investment occurs after the seed funding round as growth funding round in the interest of generating a return through an eventual realisation event, such as an IPO or trade sale of the company. Venture capital is a subset of private equity. Therefore, all venture capital is private equity, but not all private equity is venture capital.

Q3) What are the major factors influencing the foreign investment flows to a country? Discuss.

Ans. Factors influencing foreign investment can be discussed under two heads:

Factor favouring FI

- Strong Economic Growth: The Indian economy has grown by more than 7 per cent for a number of years in the last decade. This has contributed to making India the fourth largest economy in the world in purchasing power parity terms.

- Huge Labour Force and High Educated Workforce: With a huge labour force of close to 430 million, India has one of the largest labour forces in the world. With significant facilities for education, particularly higher education, India also has the third largest number of students in higher education in the world.

Factors discouraging FI inflow

- Poor Infrastructure: The poor condition of India's infrastructure, in respect of insufficient power, poor roads, antiquated ports, and an overburdened rail system make it difficult for many firms to produce and deliver goods and services in a timely and efficient manner.

- Rigidity in the Labour Market: Despite India's strong economic growth in recent years, the increase in employment in the organised sector of the economy has not kept pace with the growth of the labour force.

Q4) Are there any risks with 'high fiscal deficit'? Outline briefly.

Ans. Fiscal deficit is a wider concept. It is over and above budgetary deficit, i.e., if borrowings and other liabilities are added to the budgetary deficit, we obtain fiscal deficit. It measures addition to liabilities of the Government of India. It is calculated as:

1st Method: Fiscal Deficit = Budgetary Deficit + Borrowing and other Liabilities

2nd Method: Fiscal Deficit = Total Expenditure – (Revenue Receipts + Recoveries + Sale of Public Assets)

There are several risks with high fiscal deficits. These are:

- Fiscal deficits, spilled over, could lead to macro-economic instability particularly if the government resorts to deficit financing (i.e. Borrowing beyond a limit and the printing of new currency);

- High fiscal deficits imperil national saving rates, thereby reducing overall aggregate investment. This further jeopardises the sustainability of growth. Low levels of public investment renders poor physical infrastructure incompatible with a large increase in the national domestic product.

C. **Short Answer Questions (word limit 100 words)**

Q1) Write a note on the limitations of WTO.

Ans. The WTO, however, has still to make any progress or become more sensitive on the following issues:

- The trade reform process is incomplete in many countries. For instance, some high tariff still remain on which negotiations are still proceeding at various levels, notably in the areas of basic telecommunications and financial services;

- There appears to have been at least some reversals in the overall liberalisation process in some developing countries. Examples are of increasing anti-dumping measures, selective tariff increases and investment related measures;

- The WTO has also not been sensitive enough to the development of non-tariff barriers to imports from the UDCs, such as anti-dumping duties;

Q2) What do you understand by the term 'labour flexibility'? Are there different forms of this?

Ans. Labour market flexibility refers to the speed with which labour markets adapt to fluctuations and changes in society, the economy or production. The concept of labour market flexibility has assumed great importance in the context of new and emerging technologies, and the challenges of highly competitive market structure resulting from economic liberalisation and globalisation.

The most famous distinction of labour market flexibility is given by Atkinson. Based on the strategies companies use, he notes that there can be four types of flexibility.

- **External numerical flexibility:** External numerical flexibility refers to the adjustment of the labour intake, or the number of workers from the external market.

- **Internal numerical flexibility:** Internal numerical flexibility is sometimes also known as working time flexibility or temporal flexibility.