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Indian Economy on the Road Leading from a Developing to a Developed One

Ms. Suruchi, Assistant Professor, Starex University, Gurugram

Dr. DR Agarwal, Professor Emeritus (R), North Cap University, Gurgraon

Abstract

Indian Economy being the 3rd largest economy of the Asia and 5th largest economy of the world is still being judged as a developing economy on the basis of GNI per capita criterion. It lies in the range of ($ 1086 – $ 4255) and the exact value is $ 2730 (nominal terms) as per IMF's projections. According to Deputy MD IMF Gita Gopinath, "India will need a highly skilled and educated workforce to transition to a developed economy along with an increase in investment to wipe out gaps in critical infrastructure".[1] A developed economy is one where per capita income is high that is above $ 4255 along with well blended monetary and fiscal policies. It has got a net work of high ranking educational institutions and also medical and health care facilities, an even distribution of income and health, better standard of living of the people, access to sanitation, housing facilities, balanced and nutritious diet, well planned fine infrastructure, clean drinking water, natural resources without any sort of environment degradation, internal and external security, expansion of country's manufacturing and service sectors, rising tax collection in order to meet the demand for development welfare and social justice etc. It should also be reflected on the basis of different indicators like HDI, Gross Domestic Happiness, Global Hunger Index, MMR, IMR, Life expectancy, PMI of Sectors , Multi Dimensional Poverty Indices, Women Equality and their active participation in decision making process, lesser dependency of population, care of old age as well as physically and mentally challenged population, better information technology, job opportunities to the persons, who are of working age qualified to work, willing to work and able to work at current wage rate, a fine net work of transport and communication system, empowerment and awareness with the new developments in technology and readiness to adapt digitalisation, research and development with the continued use of research output along with its linkage with different economic activities. Developed economies act as a role model for less developed countries and they provide all necessary guidance and help in the process of development. International development agencies work as a monitoring and coordinating institutions to provide necessary resources along with expertise in different fields for development and economic stabilisation. Peace is necessary but may not be sufficient condition.

Key Words: Skilled Workforce for Employability, Simplified Tax Code, GDP, Moderate Debt to GDP ratio, Developing Economy, Developed Economy, Capitalism, Unemployment.

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Introduction

The Indian economy grew at a slower rate than an anticipated in Q_1 of 2024-25. It was just 6.7% and below expectations compared to stellar growth of 7.8% in 2023-24. It was the slowest in five quarters (four quarters of 2023-24 and Q_1 of 2024-25). Different rating agencies make the forecast of growth rate on the basis of their own parameters including the Monetary Policy Committee of RBI.

Moody's forecast for India – 7.2% in 2024-25 revised to 6.8% and 6.6% in 2025-26 (revised to lower to 6.4%).

IMF 2024-25 – 7% in July 2024

RBI 2024-25 – 7.2% (MPC Meeting)

GDP = Total monetary value of all final goods and services (at current prices or constant prices as the case may be) produced by the normal residents within the domestic territory of the economy in an accounting year.

GDP Growth Rate = $\left(\frac{Y_t - Y_{t-1}}{Y_t}\right) \times 100$

Where Y_t = Current GDP and Y_{t-1} = GDP of Preceding Years

GDP = Total Private Consumption Expenditure + Govt. Purchase of Goods and Services + Gross Fixed Domestic Capital Formation + Net Export

Hence GDP growth depends in one or more than one components of the above (subject to the condition that increase in one component may not be offset with the decrease in other component/ components). For example if one component is increase by 10% and other three in combination decreases by 10% or more, rate of growth would be zero or negative. The impact of covid pandemic was the negative rate of growth in India as well as in rest of the world. Production means addition in value, which depends upon two factors – 1) an increase in quantity of factor and 2) an increase in the productivity of that factor that is quantity as well as quality of the factor. If we assume other factors being constant, output mainly depends on two factors labour (physical and mental) and capital (both physical and human including entrepreneurship).

Mathematically,

Y = f (L, K)

$$\frac{\Delta Y}{\Delta t} = \frac{\partial f}{\partial L} \times \frac{dL}{dt} + \frac{\partial f}{\partial K} \times \frac{dK}{dt}$$

$\frac{dY}{dt}$ = Rate of Growth depends on the increase in factor units x Marginal Productivity of Factor

Rate of Increase in Output = MP of L x Increase in Labour Units + MP of K x Increase in Capital units.

$\frac{dY}{dt}$ = Change in GDP in an year = Growth Rate

Literature Review

For becoming a developed economy, we had to make sure that its policies are not favouring automation inadvertently through tax incentives. Technologies like robotics and artificial intelligence preparedness and skilling are also vital. Investment in the development of public and digital infrastructure is the need of the hour (particularly in view of the increasing demand for robust institutions and efficacy of judicial system). For faster development, India needs labour market flexibility, land reforms and keeping trade open (a crucial requirement). What is impacting the job creation is the growing share of capital to GDP as compared to that of labour that is why capital intensity of grower has been higher. There is a skill mismatch (what we need for demand and what we have – there is gap between two). For more jobs, a set of stalled legislation aimed at reforming labour laws are required. Our tax- net is increasing and not the tax ratio, that is why the financial resources at the disposal of govt. are increasing for example the World Bank on 03-09-2024 revised its 2024-25 growth forecast to7% up from the previous estimate of 6.6%. The upgrade reflects the India's govt. continued capital expenditure on infrastructure, a rise in household investments in real estate better than expected monsoon and agriculture output and an increase in private consumption. The Washington based multilateral development remains optimistic about India's medium term prospects citing robust revenue growth and further fiscal consolidation despite economic challenges.[2]

Research Gap

RBI has not changed its policy rates since Feb. 2023 and continues to keep its monetary policy tight in order to keep the rate of inflation within tolerance limit that is between (2 to 6%). A moderate price rise is always concomitant to economic growth, otherwise inflation acts as an open robbery (because it snatches the purchasing power in the hands of lower and middle class of the society- which builds a fund of saving by sheerdint of their hard work and sacrifices in spending). It has been found that monetary tightening has perhaps generated larger than anticipated headwinds for growth. Monetary policy committee of RBI projected a growth rate of 7.2% in 2024-25 but now it has been revised to the range between (6.5% to 7%).

AD = Private Consumption + Govt. Purchase of Goods and Services + Gross Fixed Domestic capital formation + Net Export

GDP = f (AD) = f (C, I, G, NX)

There is direct and positive correlation between GDP and these four components subject to the condition an increase in one component may not be neutralised with the decrease in other component.

Objectives

The main objectives of this paper are:

1. To highlight the latest growth pattern in Indian economy.
2. To find out the situation when new capitalism was knocking on our doors.
3. To examine the situation of unemployment in general and in Haryana in particular.

Research Methodology

Indian economy has not achieved the target of $ 5 trillion economy which was to be obtained by the accounting 2024-25. The country was poor in 60s and 70s in nominal terms because it could not witness a high GDP growth. Growth momentum could only be started in the year 1991, when the country launched a series of economic reforms (a new era of liberalisation, privatisation started rather than the era of regulations and controls). The results were that Indian economy become $ 1T economy in 2007-08, $ 2T, economy in 2014-15 and $ 3Teconomy in 2011-12 (that is after an interval of every 7 years we were adding $ 1T to our GDP. But now we are expecting our GDP to grow non-linearly as reflected by our current GDP nearly touching $ 4T. This Paper is based mainly on secondary data drawn from reliable and authentic sources in general and the blue prints produced by the govt in particular. Simple statistical techniques have been applied for interpretation of facts.

Objective 1

GDP growth rate in an economy sets the situation of achieving the target of a $ 5T economy that is by which year we will achieve this goal. Our objective is to make India a developed economy by the year 2047 when we will celebrate 100 years of our independence. For this the country not only needs double digit growth in order to raise our per capita income (on the basis of which decision is taken for the category of a developed economy. This is almost impossible without an inclusive India, where every citizen gets opportunities to develop to their fullest capability). India is young and it is likely to remain young in the coming years, hence we have to secure the demographic dividend through better human capital through the means of qualitative education and better skilling. But presently, India fails to ensure quality universal delivery of public goods like education, health, nutrition, clean environment and urban living spaces. This is a major concern for the fall out for productivity and wages. Wages are the main determinant for leading to lives of dignity.

Indian Economy grew at a slower rate than an anticipated 6.7% in the first quarter of 2024-25- this is the slowest rate of expansion the last five quarters. This is the situation when there is strong investment growth, a sharp recovery in private consumption and a steady GVA growth. The slight slowdown in GDP growth could be anticipated because of the Model Code of conduct due to Lok Sabha general election in May 2024and a decline in govt. purchase of goods and services.

Table 1 – Trends in Growth Rate

Year 2022-23	Rate of Growth (%)	Year 2023-24	Rate of Growth (%)	Year 2024-25	Rate of Growth (%)
2022-23		2023-24	8.20		
Q1	12.81	Q1	8.24	Q1	6.65
Q2	5.46	Q2	8.08		
Q3	4.26	Q3	8.57		
Q4	6.18	Q4	7.75		

(Source – Daily HT Aug 31, 2024, Pg. 1)

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Table 2 – Projection of MPC

Year	Projection of MPC
2024-25	**7.2%**
Q2	**7.2%**
Q3	**7.3%**
Q4	**7.2%**

(Source – Daily HT Aug 31, 2024, Pg. 1)

In fact developed India needs civil governance reforms. The Washington based multilateral development remains optimistic about India's medium term prospects citing robust revenue growth and further fiscal consolidation despite a number of economic challenges. Debt/ GDP is expected to decline from 83.9% (2023-24) to 82% by 2026-27, while the current account deficit is anticipated remain between 1% to 16%. Of GDP until 2026-27.[4]

Objective 2

(1991-2019) these 28 years are perhaps the best in human history. In this period Soviet Union was broken into constituent countries, Czechoslovakia broke up in two parts the Czech Republic and Solvakia. In India public sector gained momentum due to an era of regulations and controls. Devaluation of Indian rupee on June 6th 1966, Nationalisation of Commercial Banks in July 1969, a net work of public sector enterprises without their economic expediency and accountability etc. led to an atmosphere of closed business environment. A number of other factors like a hike in crude oil prices and also the general prices were also responsible resulting an acute foreign exchange crisis. As a result, new capitalism was knocking on our doors and doors were open for liberalisation, privatisation and globalisation in the year 1991 when India moved to economic reforms- an era with least control and regulations. In the duration 1991-2020, India was able to stamp out the course of extreme poverty. A billion souls were lifted from the below the poverty line along the globe. India's resources (indirect taxes and increase in tax net) are continuously increasing and now India will have to create jobs and that too about 140 million jobs. New capitalism opened the door for prosperity and lower middle class changed its status to upper middle class. This made a revolutionary change in the society.

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Indian economy is on a sustained high growth-path with its robust economic fundamentals and all concerted efforts are being taken by the government not only to achieve top position but also to remain there on the commitment to make India a developed nation by 2047. Generally growth comes inequality but opposite is happening in Bharat, where 25 cr. People have been lifted out of poverty. Our moto "Reform, Perform and Transform" can be fulfilled with bold policy changes a strong commitments to jobs and skills (for reaping demographic dividend), modern infrastructure, a focus on sustainable growth and innovation, quality of life and the continued efforts on rapid growth, exchange of latest research outputs and ideas on a host of issues. Gini coefficient rural India declined from 0.283 to 0.266 and urban areas from 0.363 to 0.314 (during the last 10 years) as per inaugural address of our Prime Minister (3rd edition of Kautilya Economic Concave held on October 4th, 2024).

Objective 3

According to the Periodic Labour Force Survey weekly status approach, a person is considered unemployed in a week if they did not work for an on any day during the reference week but sought or was available for work at least for an hour on any day during that period. PLFS conducted between July 2022 and June 2023 (released in the month of October 2023) shows the key trends in labour force:

1. Total labour force is rising.[5]

Table 3 – Total Labour Force (In Millions) (Bracket – Percentage)

Year	Urban	Rural
2017-18	**141 (36.4)**	**343 (37.04)**
2018-19	**149 (37)**	**348 (38)**
2019-20	**147 (36)**	**380 (41)**
2020-21	**152 (39)**	**411 (43)**
2021-22	**150 (39)**	**415 (42)**
2022-23	**145 (39.6)**	**440 (41)**

(Source – Daily HT, April 02, 2024, Pg. 10)

2. Working age population is continued to grow.
3. Participation in labour force which was 52% in 2017-18 has gone up to 62% in 2022-23.

According to PLFS data released on Aug. 16, 2024, the unemployment rate in people aged (15-29) for women in urban areas increased to 17.2% in Q 1 (2024-25) in comparison to (2023-24) as 13.9%. The unemployment rate for all age groups in urban areas increased from 4.1% in Q4 (2023-24) to 4.7% in Q 1 (2024-25)[6]. Seeing the grave situation of unemployment, in this Union Budget (2024-25) Prime Minister's 5 schemes have been proposed as a job package with an outlay of Rs.2 lakh crores to be spent in a period of 5 years. The following flow diagram explains the full scheme-

Target – 41 Million Youngsters
Time Span – 5 years
Outlay Rs. 2 Lakh Crore

	Schemes				
	Scheme A	Scheme B	Scheme C	Scheme D	Scheme E
Scheme	A month's salary upto Rs. 15,000 to be given in three instalments to those registered in EPFO	Job creation in manufacturing incentive to be given to both employee and employer as per their EPFO contribution	Support to Employers- Re-imbursement of upto Rs. 3000/- per month for 2 years towards EPFO – contribution of employers for each additional employee.	Internship programme in two phases	Up gradation of ITIs
Outlay	Rs. 23,000 Core (First Times)	Rs. 52,000 crore (First 4 years of employment)	Rs. 32,000 Crore	Phase 1 – Rs. 19,000 Crore Phase 2- Rs. 44,000 Crore	Rs. 30,000 Crore
Coverage	21 million	3 million	5 million	Phase 1 – 3 million Phase 2- 7 million	2 million

In Haryana (economy is much ahead of Punjab), the situation of employment stress can be imagined with the incongruity of 46,000 graduates and post graduates applying the contractual sanitation worker job because youth in the state have historically turned to agriculture and govt. employment for their livelihood. With uncertainty over returns from agriculture for the past several years, the rush for govt. jobs has likely intensified. Problems of over qualified applicants are unique in Haryana. Many states have reported such surges – even featuring P.hD holders in recruitment drives at different times over the past couple of decades. It is the barometer reading of the employment stress in the overall economy. Sanitation workers get a monthly salary of Rs. 15000/ per month.[8]

Similarly students are facing examination pressure, bullying, stress, relationship issues and after passing out the proper placement that is why social and economical factors are leading to suicide deaths in India. Our youth are facing career pressures. There are very few supportive system to check these suicides. That is why we need a National Mental Health Programme to a larger public health approach and counsellors. Significant concerns in education are lack of aspirations, lack of exposure, absence of quality education, lack of autonomy, advocacy and right awareness.

Conclusion

The dream of Viksit Bharat by 2047 is impossible without an inclusive India, where every person gets opportunities to develop to their fullest capability. Life expectancy has gone up but the retirement age has not been changed accordingly. The retired persons are very much fit to contribute to GDP but a pool of talent is being wasted. On one hand everybody is demanding social security and these persons can be motivated for performing economic activities. Through better human capital (a skilled and educated workforce), we could secure demographic dividend and could also ensure double digit growth in order to raise our per capita income (a true index of development) because denominator part is constantly increasing, hence our focus should be on numerator.

Suggestions

1. To ensure quality universal delivery of public goods (education, skills, health, nutrition, clean environment, proper living, spaces, food and clothing etc). A scientific temperament for the adoption of new changes in technology, digitisation, logical thinking process, sanitation etc.
2. To achieve the sustainable development goals framework, this can become a metric for desired governance outcome.

3. To make a long tenures for development functionaries in rural and urban local bodies.
4. To give emphasis on evidence based selection of beneficiaries of govt. welfare schemes (transparent identification and updating of beneficiaries)
5. To stop throwing of hard earned money on our social functions. There has been a non-sensical correlation between the amount spent on such functions and social and economic status in the society. To adopt the idea of Planned Parenthood religiously irrespective of any cast, religion etc.

Limitations

1. There are certain political compulsions because in democracy things are decided on the basis of numbers. That is why every political party is coming with a number of such schemes without caring about the state exchequer.
2. The beneficiaries of economic reforms (1991) are now retiring after 30-40 years and they are watching their kids take over the story of next 30 years (Next Gen has seen a lifestyle unimaginable 30 years ago). Overall fertility rate has gone down to 1.6. [9]
3. Since life expectancy has gone up globally China has raised the retirement age of men and women by 3 years (From 60 to 63 years in case of men and from 55 to 58 years in case of women). India could also face similar challenges and pension pains in the next coming years.[10]
4. It means that enough jobs will have to be created for the youngest of the working age of cohort with the extension of the retention to the oldest.

Recommendation

According to UNDP report released on 17-10-2024, India has 234million people living in extreme poverty. In India women contribute about 18% of India's GDP against the global average of 37%. Therefore, it is recommended that by achieving gender equality, India could boost its GDP, it means there is a vast potential for growth if gender gaps in employment are addressed.

End Notes

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