

Characteristics of the Indian Economy

The following points highlight the top thirteen characteristics of the Indian economy. Some of the characteristics are: 1. Low per capita income 2. Excessive dependence of agriculture and primary producing 3. High rate of population growth 4. Existence of chronic unemployment and under-employment 5. Poor rate of capital formation and Others.

(1) Low per capita income:

In India, the national income and per capita income is very low and it is considered as one of the basic features of underdevelopment. As per World Bank estimates, the per capita income of India stood at only \$ 720 in 2005. Keeping aside a very few countries, this per capita income figure of India is the lowest in the world and it is even lower than China and Pakistan.

In 2005, the per capita income figure in Switzerland was nearly 76 times, in U.S.A. about 61 times, in Germany about 48 times and in Japan about 54 times the per capita income figure in India. Thus the standard of living of Indian people remained all along very low in comparison to that of developed countries of the world.

This disparity in the per capita income of India and other developed countries has registered a manifold increase during the last four decades (1960-2005).

Although the per capita income at official exchange rates exaggerated this disparity but after making necessary correction through purchasing power parity figures, the per capita GNP of U.S.A. was 12.0 times that of India in 2005 as against 68.0 times that of India at official exchange rates.

Even after making necessary adjustment, the per capita income differences, although narrowed down, yet remain quite significant and huge. Table 1.3 will clarify the position.

TABLE 1.3. Per Capita GNP at Market Prices*(in US dollars)*

| <i>Country</i> | <i>2005 Exchange Rate Basis</i> | <i>2005 Purchasing Parity Basis</i> | <i>Average Annual Growth Rate (1985-2005) Exchange Rate Basis</i> |
|----------------|---|---|---|
| Switzerland | 54,930 | 37,080 | 0.5 |
| U.S.A. | 43,740 | 41,950 | 1.3 |
| Japan | 38,980 | 31,410 | 3.2 |
| Germany | 34,580 | 29,210 | — |
| UK | 37,600 | 32,690 | 1.3 |
| India | 720 | 3,460 | 2.9 |
| China | 1,740 | 6,600 | 7.8 |

In order to convert national currency figures to the US dollars, the utilisation of official exchange rates does not allow to measure the relative domestic purchasing power of currencies. In this connection, work of LB. Kravis and others titled “**International Comparison of Real Product and Purchasing Power**” (1978) has provided some relief.

Following the aforesaid work, the United Nations International Comparison Programme (ICP) has introduced measures of real GDP on an internationally comparable scale using the system of purchasing power parities (PPPs) instead of exchange rates as factors for conversion..

(2) Excessive dependence of agriculture and primary producing:

Indian economy is characterised by too much dependence on agriculture and thus it is primary producing. Out of the total working population of our country, a very high proportion of it is engaged in agriculture and allied activities, which contributed a large share in the national income of our country.

In 2004, nearly 58 per cent of the total working population of our country was engaged in agriculture and allied activities and was contributing about 21.0 per cent of the total national income.

In most of the countries of Asia, Middle East and Africa, from two-thirds to four- fifths of their total population are solely dependent on agriculture. In most of the developed countries like U.K., U.S.A. and Japan, the percentage of active population engaged in agriculture ranges between 1 to 5 per cent. Table 1.4 will clarify this position.

TABLE 1.4. Percentage of Active Population engaged in agriculture and Industrial Origin of GDP in 2004

| <i>Country</i> | <i>Active Population engaged in Agriculture*</i> | <i>Industrial origin of GDP Percentage Distribution</i> | | |
|----------------|--|---|-----------------|-----------------|
| | | <i>Agriculture</i> | <i>Industry</i> | <i>Services</i> |
| U.K. | 1 | 1 | 26 | 73 |
| U.S.A. | 4 | 1 | 22 | 77 |
| Japan | 5 | 1 | 31 | 68 |
| Thailand | 45 | 10 | 44 | 46 |
| Pakistan | 52 | 22 | 25 | 53 |
| China | 47 | 13 | 46 | 41 |
| India | 58 | 21 | 27 | 52 |

Table 1.4 reveals that in India 58 per cent of its active population is engaged in agriculture but agriculture contributes only about 21 per cent of the national income of our country. Moreover, low agricultural productivity, lack of modernisation and lack of diversification in its output are some of the basic problems from which our agricultural sector is suffering.

Thus our agricultural sector is overburdened as the majority of our active population is depending on agriculture.

(3) High rate of population growth:

India is maintaining a very high rate of growth of population since 1950. Thus the pressure of population in our country is very heavy. This has resulted from a very high level of birth rates coupled with a falling level of death rates prevailing in our country.

In India, the rate of growth of population has been gradually increasing from 1.31 per cent annually during 1941-50 to 2.5 per cent annually during 1971-81 to 2.11 per cent annually during 1981-91 and then finally to 1.77 per cent during 2001-2011.

The prime cause behind this rapid growth of population is the steep fall in its death rate from 49 per thousand during 1911-20 to 7.1 per thousand in 2011. On the other hand, compared to its death rate, the birth rate of our population has gradually declined from 49 per thousand during 1911-20 to 21.8 per thousand in 2011.

Thus whatever development that has been achieved in the country, it is being swallowed up by the increased population. Moreover, this high rate of growth of population necessitates a higher rate of economic growth just for maintaining the same standard of living.

This imposes a greater economic burden on the economy of our country as to maintain such a rapidly growing population we require food, clothing, housing, schooling, health facilities etc. in greater magnitude. Besides, this fast rate of growth of population is also responsible for rapid increase in the labour force in our country.

(4) Existence of chronic unemployment and under-employment:

Rapid growth of population coupled with inadequate growth of secondary and tertiary occupations are responsible for the occurrence of chronic unemployment and under-employment problem in our country. In India, unemployment is structural one, unlike in developed countries, which is of cyclical type.

Here unemployment in India is the result of deficiency of capital. Indian industries are not getting adequate amount of capital for its necessary expansion so as to absorb the entire surplus labour force into it.

Moreover, larger number of labour force is engaged in the agricultural sector of the Indian economy than what is really needed. This has reduced the marginal product of agricultural labourer either to a negligible amount or to zero or even to a negative amount.

There exists disguised unemployment in Indian agricultural sector which has resulted from too much dependence of population on land and absence of alternative occupations in the rural areas.

Moreover, in the urban areas of our country, the problem of educated unemployment has also taken a serious turn. Thus both the rural and urban area of our country has been suffering from the serious problem of unemployment and under-employment to a large extent.

Thus the Third Five Year Plan mentioned, “**Urban and Rural unemployment in fact constitute an indivisible problem.**” On the basis of NSS data, the planning commission has estimated that the total backlog of unemployed at the end of Seventh Plan, i.e., in 1990 would be around 28 million.

During the 5 year period of 1990-95, new entrants to the labour force are estimated to be around 37 million. To put it in another way we can guess that total burden of unemployment during this Eighth Plan would be around 65 million which is a matter of serious concern for the economy of our country.

The incidence of unemployment on CDS basis increased from 7.31 per cent of labour force in 1999-2000 to 8.28 per cent of labour force in 2004-05.

(5) Poor rate of capital formation:

Capital deficiency is one of the characteristic features of the Indian economy. Both the amount of capital available per head and the present rate of capital formation in India is very low. Consumption of crude steel and energy are the two important indicators of low capital per head in the under-developed countries like India.

In 1987, the per capita consumption of steel in India was only 20 kg as against 582 kg for Japan, 417 kg for U.S.A., 259 kg for U.K. and 64 kg for China. Similarly, the per capita consumption of electricity in 2003 was only 594 for India as against 14,057 for U.S.A., 5,943 for U.K., 8,212 for Japan and 1,440 for China.

Moreover, this low level of capital formation in India is also due to weakness of the inducement of invest and also due to low propensity and capacity to save. As per Colin Clark's estimate, in order to maintain the same standard of living, India requires at least 14 per cent level of gross capital formation.

To achieve a higher rate of economic growth and to improve the standard of living, a still higher rate of capital formation is very much required in India. In India the rate of saving as per cent of GDP has gradually increased from 14.2 per cent in 1965-66 to 30.6 per cent in 2013-14 which is moderately high in comparison to that of 30 per cent in Japan, 23 per cent in Germany, 15 per cent in U.K. and 17 per cent in USA.

But considering the heavy population pressure and the need for self sustained growth, the present rate of saving is inadequate and thus the enhancement of the rate of capital formation is badly needed.

(6) Inequality in the distribution of wealth:

Another important characteristic of the Indian economy is the mal-distribution of wealth: The report of the Reserve Bank of India reveals that nearly 20 per cent of the households owing less than Rs 1000 worth of assets possess only 0.7 per cent of the total assets.

Moreover, 51 per cent of the households owing less than Rs 5000 worth of assets possessed barely 8 per cent of the total assets. Lastly, the top four per cent households possessing assets worth more than Rs 50,000 held more than 31 per cent of the total assets.

Maldistribution in income is the result of inequality in the distribution of assets in the rural areas. On the other hand, in respect of industrial front there occurs a high degree of concentration of assets in the hands of very few big business houses. This shows high degree of assets concentration in the hands of very few powerful business houses of our country.

(7) Low level of technology:

Prevalence of low level of technology is one of the important characteristics of an underdeveloped economy like India. The economy of our country is thus suffering from technological backwardness. Obsolete techniques of production are largely being applied in both the agricultural and industrial sectors of our country.

Sophisticated modern technology is being applied in productive units at a very limited scale as it is very much expensive. Moreover, it is very much difficult to adopt modern technology in Indian productive system with its untrained, illiterate and unskilled labour.

Thus due to the application of poor technology and lower skills, the productivity- in both the agricultural and industrial sectors of our country is very low. This has resulted in inefficient and insufficient production leading towards general poverty in our economy.

(8) Under-utilisation of natural resources:

In respect of natural endowments India is considered as a very rich country. Various types of natural resources, viz., land, water, minerals, forest and power resources are available in sufficient quantity in the various parts of the country.

But due to its various inherent problems like inaccessible region, primitive techniques, shortage of capital and small extent of the market such huge resources remained largely under-utilised. A huge quantity of mineral and forest resources of India still remains largely unexplored. Until recently, India was not in position to develop even 5 per cent of total hydropower potential of the country.

(9) Lack of infrastructure:

Lack of infrastructural facilities is one of the serious problems from which the Indian economy has been suffering till today. These infrastructural facilities include transportation and communication facilities, electricity generation and distribution, banking and credit facilities, economic organisation, health and educational institutes etc.

The two most vital sectors, i.e. agriculture and industry could not make much headway in the absence of proper infrastructural facilities in the country. Moreover, due to the absence of proper infrastructural facilities, development potential of different regions of the country largely remains under-utilised.

(10) Low level of living:

The standard of living of Indian people in general is considered as very low. Nearly 25 to 40 per cent of the population in India suffers from malnutrition. The average protein content in the Indian diet is about 49 grams only per day in comparison to that of more than double the level in the developed countries of the world.

Moreover, the low calorie intake in Indian diet is another characteristic of low level of living. In 1996 the daily average calorie intake of food in India was only 2,415 in comparison to that of 3,400 calories per day

in various developed countries of the world. The present calorie level in India is just above the minimum caloric level required for sustaining life which is estimated at 2100 calories.

Moreover, a small percentage of Indian populations have access to safe drinking water and proper housing facilities. As per the estimate of National Building Organisation (NBO), in total there was a shortage of 31 million housing units at the end of March, 1991 and by the turn of the century, total backlog of housing shortage in the country is around 41 million units.

(11) Poor quality of human capital:

Indian economy is suffering from its poor quality of human capital. Mass illiteracy is the root of this problem and illiteracy at the same time is retarding the process of economic growth of our country. As per 2001 census, 65.3 per cent of the total population of India is literate and the rest 34.7 per cent still remains illiterate.

In most of the developed countries like U.S.A., U.K., Canada, Australia etc. the level of illiteracy is even below 3 per cent. Moreover, the problem of illiteracy in India makes way for conservatism and this is going against the economy of the country.

Besides, low level of living is also responsible for poor health condition of the general masses. All these have resulted the problem of poor quality of human capital in the country.

(12) Demographic characteristics:

The demographic characteristics of India are not at all satisfactory rather these are associated with high density of population, a smaller proportion of the population in working age group of 15-60 years and a comparatively larger proportion of population in the minor age group of 0-15 years, As per 2011 census, the density of population in India was 382 per sq km. as compared with world density of population of 41 per sq km.

Even in China, the density is nearly 123 per sq km. Again, as per 2001 census, 35.6 per cent of the total population is in the age group of 0-14 years, 58.2 per cent is in the working age group of 15-60 years and about 6.3 per cent in the age group of 60 and above. All these shows that the dependency burden of our population is very high.

Moreover, lower income level, low level of living including absence of balanced diet and proper housing and medical facilities are responsible for low life expectancy of 63.9 years in India in comparison to that of 75 years in most of the developed countries of the world and high rate of infant mortality in India, i.e., about 53 per 1000 children as against only 5 to 7 per 1000 in developed countries,

(13) Inadequate development of economic organisation:

Poor economic organisation is another important characteristic of the Indian economy. For attaining economic development at a satisfactory rate certain institutions are very much essential. As for example, for mobilisation of savings and to meet other financial needs, more particularly in the rural (areas, development of certain financial institutions are very much essential.

In India the development of financial institutions is .still inadequate in the rural areas. There is the urgent need to develop certain credit agencies for advancing loan to small farmers on easy terms as well as to provide long term and medium term loan to industries.

For protecting poor tenants from the clutches of landlords, proper enforcement of tenancy legislation is very much necessary. All these require maintenance of honest and efficient administrative machinery which India is lacking very much.

Thus from the foregoing analysis it has been revealed that the Indian economy largely remains underdeveloped as the economy still exhibits the basic features of an underdeveloped economy. But considering its developmental strategy followed during last six decades of its planning and the progress attained in certain areas there upon, Indian economy can be safely considered as a developing economy.