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Features and Major Issues of Indian Economy

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Abstract

Theodore Roosevelt remarked, "A peep in the past prepares you better for the future". Thus, for understanding the present state of the Indian economy and its future prospects a brief comment on its past will be appropriate. The Indian economy, before the British came around the middle of the nineteenth century, was quite sound. According to an estimate, the Gross Domestic Product (GDP) of India in the sixteenth century was about 25% of the world economy, the second largest in the world. However, after the arrival of the colonial rule the Indian economy faced disaster; from being an exporter of processed goods it changed to being an exporter of raw materials and a buyer of manufactured goods. As per British economist, Angus Maddison, India's share of the world income went from 27% in 1700 A.D. (compared to Europe share of 23%) to 3% in 1950. After India got independence in 1947, the process of rebuilding the economy started. However, it was mostly centralized and the period from 1947 to 1991 was termed as the licence raj, because the successive governments followed protectionist economic policies. This trend led to a balance of payments crisis in the year 1990. The year 1991 turned out to be watershed in the Indian economy when the government of India in June 1991 announced major liberalization policies in Indian economy. The emergence of India as a major economic power in the world happens to be one such idea. Since then, Indian economy has progressed immensely with GDP progressing at the rate of 6 to 8% per annum and is expected to be one of the top three economic powers in the world over the next 10-15 years. India is also backed by its robust democracy and strong partnerships. India has finally arrived in the category of fast emerging economies. It is fast entering the league of high growth nations. The future seems to have much more in store. But a lot depends on how the grey areas are tackled. We have finally been able to unshackle ourselves from the stigma of being a low growth economy and have infused dynamism into our economic system. Not only is India achieving higher growth rates year after year, the rate at which it is moving towards higher growth targets is also higher. In this research paper discuss the features of Indian economy and major issues of Indian economy.

Keywords: emerging economy, liberalization, privatization, globalization, poverty and unemployment

1. India: An Emerging Economy

India's economy over the last three decades is a success story; after a major economic crisis in 1991, followed by Economic reforms, the economy has experienced a high and sustainable economic growth rate, attracted large amount foreign investment, and a boom in the information technology sector and pharma sector. These characteristics are good enough to classify India as an emerging economy. Since the start of the 21st century, annual average GDP growth 6% to 7% and from 2013-2018 India was the world's fastest growing major economy. It was the robustness of Indian economy that unlike US and Europe India was not affected by global financial crisis in the year 2008.

India's key growth factors are a young and rapidly growing working-age population, rising education and engineering skill levels, accentuating growth in the manufacturing sector, a rapidly growing middle-class, implementing a sustained growth of the consumer market.

Among all the emerging markets, it is India's robust growth in manufacturing, business friendly reforms, infrastructural development and political stability that makes the country the most prominent emerging market to invest in for investors. According to the IMF World Economic Outlook, April 2016, India ranks fourth among the list of the world's fastest growing economies with a growth projection of 7.2 percent for the fiscal year 2017 and 7.7 percent for the fiscal year 2018, surpassing China.

2. India in Transition

Emerging or 'frontier' markets are economies which are in a transition phase, Indian economy is an emerging economy and currently India is in transition. It is characterised as emerging because financial and regulatory infrastructure are less mature compared to developed economies. Though characterized by low per capita income, Indian Economy is growing at an unprecedented rate.

• Economic reforms that began 25 years ago have transformed India. What used to be a poor, slow growing country now has the third largest gross domestic product (GDP) in the world with regard to purchasing power parity and is projected to be the fastest growing major economy in the world in 2016 (with 7.6 percent growth in GDP). The Indian GDP rose from $266 billion in 1991 (inflation adjusted) to $3 trillion in 2019 (1100% increase) while its purchasing power parity rose from $1 trillion in 1991 to $12 trillion in 2019 (1100% increase).

• The growth in India's economy has fostered the emergence of a sizeable middle class after Economic Reforms. It was pointed out that much of the market potential in India lies in its consumer market, which is seen to have immense potential. It is accepted that India's middle class will determine the consumer potential for India. At this stage of Indian development, the middle class is predominantly rural, and it is argued that this market potential has scarcely been tapped. It was suggested that although consumption of some trade items has increased rapidly, a large gap exists between actual and potential consumption. Statistics reveal a high level of aspiration, a fast-changing pattern of consumption, and a higher level of penetration at these lower income levels than would be expected. India is currently in the throes of a boom for consumer products. It is leading to the emergence of new values in consumption and in new aspirations.

• The external sector of Indian Economy is also performing well under the new economic policy. Exports, which had been treated as a residual category before economic reforms have now received a place of prominence in our economic strategy. Various promotional steps have been taken to increase the rate of growth of our exports which has been around 10% in the entire post-liberalisation period. Imports, on the other hand, were deliberately compressed in 1991-92, but have been growing since then owing to the renewal of economic activity. But during the entire period, between 1990-91 and 1995-96, the rate of growth of imports has been lower than that of exports and this has led to an improvement in our balance of trade. But, since 1993-94, the high saving-investment gap has led to an increase in the trade and current account deficit.

• The high rate of capital inflows since 1991 have been another positive feature of our balance of payments situation. Furthermore, these inflows have been preponderantly of the non-debt creating variety, with net foreign borrowings constituting only about 20% of the total capital inflows during 1993-95. Capital inflows are mainly taking the form of foreign investment which has grown by around 85% from 1990-91 to 1995-96.

3. Institutional Changes

In 1991, India embarked on major reforms to liberalize its economy after three decades of socialism and a fourth of creeping liberalization. Beginning with mid-1991, the govt. has made some radical changes in its policies related to foreign trade, Foreign direct investment, exchange rate, industry, fiscal discipline etc. These were major elements of New Economic Policy. The New Economic Policy has been towards creating a more competitive environment in the economy as a means to improving the productivity and efficiency of the system. This was to be achieved by removing the barriers to entry and the restrictions on the growth of firms. The measures adopted in the new economic policy can be grouped in the three categories, namely Liberalization, Privatization and Globalization.

4. Liberalization

Liberalization of economy was a key component of the New Economic Policy (NEP). Prior to 1991, there were several types of controls on private business enterprises imposed by the government. Some of these controls were: seeking licensing from the government, price control, import license, foreign exchange control, monopoly restrictions, etc. As a result of these controls there were several hindrances in the economic growth. These included corruption, delays, inefficiency. In the NEP the emphasis was placed on market forces, namely supply and demand. Liberalization steps can be broadly grouped into two categories: industrial sector reforms and financial sector reforms.

Industrial Sector Reforms: These reforms included the following:

(i) Abolition of industrial licensing and registration except for the following five industries namely.

a) defence equipment

b) Industrial explosives

c) Cigarette

d) Alcoholic drinks

e) Dangerous chemicals

(ii) Diminished role of the public sector and establishment of disinvestment ministry to withdraw from the public sector enterprises. It has been explained later under privatisation.

(iii) De–reservation of production areas — Many production areas hitherto reserved for small scale industries were de-reserved.

(iv) Abolition of Monopolies and Restrictive Trade Practices (MRTP) Act 1969.

All those companies having assets worth Rs. 100 crore or more were called MRTP firms and were subjected to several restrictions. Now these firms have not to obtain prior approval of the Govt. for taking investment decision. Now MRTP Act is replaced by the competition Act.

(v) Freedom to import capital goods — The industries were given freedom to import capital goods and new technology.

Financial Sector Reforms

It includes:

(i) Banking and non-banking financial institutions.

(ii) Stock exchange market — The companies were given more freedom to sell and purchase equity shares in the stock market.

(iii) Foreign exchange market i.e., FDIs. The companies were allowed to accept FDIs.

(iv) The role of Reserve Bank of India was changed from "a regulator" to a facilitator. It allowed foreign institutional investors to invest in Indian financial markets such as mutual funds and pension funds. **Fiscal Reforms** Tax reforms constitute as the principle component of fiscal reforms. Some of the examples of fiscal reforms are GST (Goods and Services Tax). Prior to this, tax structure was quite complex and evasive.

(i) **Increase in the investment limit for the Small Scale Industries (SSIs):** The role of small and medium enterprises (SME) sector was recognized as an important contributor to the Indian economy. It was for the first time defined in terms of a separate act, governing, promotion and development of Micro, Small and Medium Enterprises (MSME) Act, 2006. SME's not only play important role in providing employment opportunities at comparatively lower capital cost but also usher in industrialization of the rural areas. This sector consists of about 36 million units, as of now, and provides to employment to over 80 million persons. Some of the advantages of SME's include low investment requirements, operational flexibility, low intensive imports, appreciable export earnings, development of domestic technology, etc. For upgrading machinery and improve their efficiency in SMIs, Investment limit of the small-scale industries was raised to Rs. 1 crore in 1991.

(ii) **Freedom for expansion and production to Industries:** Industries are free to diversify their production capacities and reduce the cost of production. Earlier government used to fix the maximum limit of production capacity. No industry could produce beyond that limit. Now the industries are free to decide their production by their own on the basis of the requirement of the markets.

5. Privatization

Privatization is the process of involving the private sector-in the ownership of Public Sector Units (PSU's). The main reason for privatization was in currency of PSU's are running in losses due to political interference. The managers cannot work independently. Production capacity remained under-utilized. To increase competition and efficiency privatization of PSUs was inevitable. The following steps were taken for privatization:

(i) Sale of shares of PSUs: Indian Government started selling shares of PSU's to public and financial institution e.g. Government sold shares of Maruti Udyog Ltd. Now the private sector will acquire ownership of these PSU's. The share of private sector has increased from 45% to 55%.

(ii) Disinvestment in PSU's: The Government has started the process of disinvestment in those PSU's which had been running into loss. It means that Government has been selling out these industries to private sector.

(iii) Minimization of Public Sector: Previously Public sector was given the importance with a view to help in industrialization and removal of poverty. But these PSU's could not able to achieve this objective and policy of contraction of PSU's was followed under new economic reforms. Number of industries reserved for public sector was reduced from 17 to 2.

6. Globalization

Globalization means the interaction of the domestic economy with the rest of the world with regard to foreign investment, trade, production and financial matters.

Following steps are taken for Globalization:

(i) Reduction in tariffs: Custom duties and tariffs imposed on imports and exports are reduced gradually just to make India economy attractive to the global investors.

(ii) Long term Trade Policy:

- Liberal policy

- All controls on foreign trade have been removed

- Open competition has been encouraged

- Partial Convertibility of Indian currency:

Partial convertibility can be defined as to convert Indian currency (up to specific extent) in the currency of other countries. So that the flow of foreign investment in terms of Foreign Institutional Investment (FII) and foreign Direct Investment (FDI).

This convertibility stood valid for following transaction:

(a) Remittances to meet family expenses.

(b) Payment of interest.

(c) Import and export of goods and services.

(d) Increase in Equity Limit of Foreign Investment:

Equity limit of foreign capital investment has been raised from 40% to 100%. In 47 high priority industries foreign direct investment (FDI) to the extent of 100% will be allowed without any restriction. In this regard Foreign Exchange Management Act (FEMA) will be enforced. If the Indian economy is shining at the world map currently, its sole attribution goes to the implementation of the New Economic Policy in 1991.

7. Structural Changes

The 1991 balance of payments crisis led to India's plunge into structural reforms. The strategy of reforms introduced in India in July 1991 presented a mixture of macroeconomic stabilization and structural adjustment. It was guided by short term and long-term objectives. Besides this, structural reforms were initiated in the field of trade, industry and the public sector. The purpose of economic development is not only to increase the output, but also to change the composition of output. As the community's needs are satisfied, new wants inevitably appear, and these have to be met through supplies of new types of products. Moreover, while some new demands are met through higher imports, some new supplies get diverted towards exports. Thus, structural change in an economy consists of change in the composition of output and there are four sources of the same. They are:

(viii) Change in Final Demand

(ix) Change in Exports

(x) Change in Import Structure

(xi) Change in Technology

During reforms structural adjustment programs and loans were arranged through the

International Monetary Fund (IMF) and the World Bank. The Indian Government was to review its trade policies to allow more foreign investment and reduce trade restrictions so that India's economy could be restored to its former level. Import tariffs underwent significant reductions and import/export licensing system procedures were simplified. The opening up of capital markets to include more foreign participation has allowed multinationals companies entrance into otherwise untapped markets.

The Indian economy has responded vigorously to a program of stabilisation and reform measures started in 1992. The Indian Government took drastic action including devaluation, the imposition of higher interest rates, fiscal and monetary restraint and import compression. In succeeding budgets long term measures were introduced which removed the protection for Indian industry and commerce from international competition.

8. Major Issues and Challenges of Indian Economy

8.1 Poverty

Although there is no unanimity about the definition of poverty, it can be defined in terms of the "deprivation of certain basic necessities of life", but beyond that, there is no unanimity as to what constitutes poverty. Poverty should be conceived in terms of human needs which are considered essential by the society and are capable of being measured objectively. A person may then be regarded as poor if he is not in a position to meet out these needs. The concept of poverty which implies non-fulfillment of the needs, considered essential for human beings, is known as absolute poverty. In measurement, it involves stipulation of a minimum level of per capita consumer expenditure which is adequate for purchasing the goods and services needed for the purpose. People having viewed as poor. For instance, poverty level may be fixed at half the median point of the distribution, or it may be measured in terms of full dispersion between the highest and lowest standards. In this connection it was pointed out by Prof. Peter Townsend, "Poverty must be regarded as a general form of relative deprivation due to the misdistribution of resources". Through this definition of relative poverty, the inequality in the distribution of income and assets can be measured. Further, the problem of poverty can be linked "to the problem of unemployment, disguised unemployment, under-employment, etc." Many of our marginal farmers, landless labourers and rural artisans are below the poverty line even though they are reported as employed. Therefore, it can be said that provision of employment is not a sufficient condition for the removal of poverty.

Niti Aayog constituted a Task Force in March 2015. Following were the broad issues before the Task Force:

- To measure poverty in India
- To assess the need of an official poverty line
- Combating poverty
- Employment-intensive sustained rapid growth
- Making social programmes more effective and
- New approaches.

In 2005, the Government of India appointed the Tendulkar committee to take a fresh look at the poverty lines. Reporting in 2009, the Tendulkar Committee revised upward the rural poverty line. After the criticism of the Tendulkar committee report, another committee, Rangarajan Committee was constituted in 2012 which submitted its report in June 2014. The committee recommended raising further both the rural and urban poverty lines. The percent population below poverty line (2011-2012) according to the Tendulkar and Rangarajan reports are shown in Figure 1.

Precent Population below Poverty Line (2011-12) at Tendulkar and Rangarajan Lines.

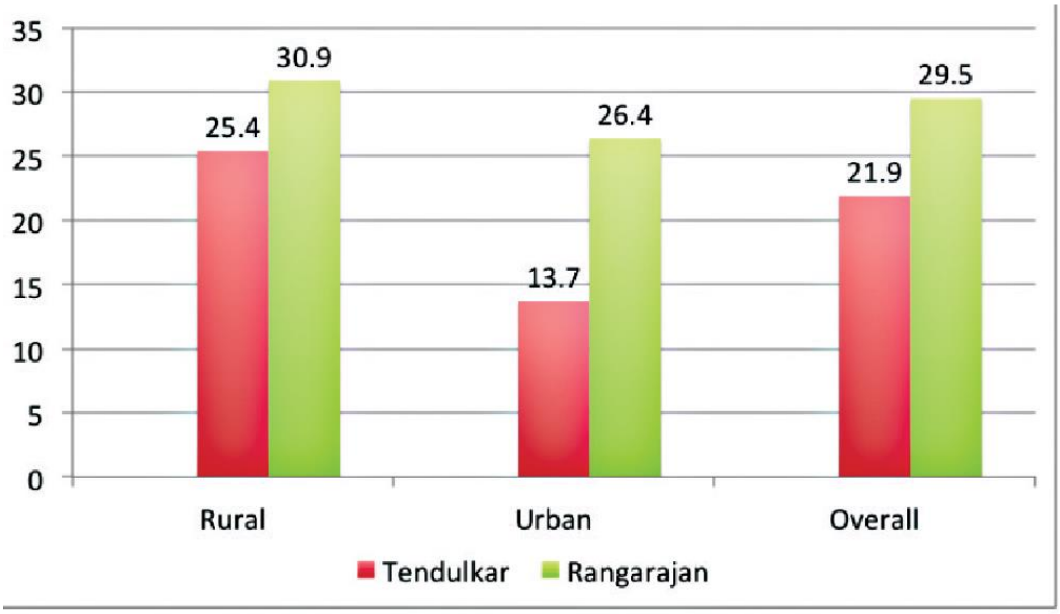

Figure 1. Percent population below poverty line

The percent population below poverty line for the years 1993-94, 2004-05 and 2011-12 according to the Tendulkar methodology are shown in Figure 2.

Poverty: Rural and Urban (93-94 to 11-12) (As per Tendulkar Methodology)

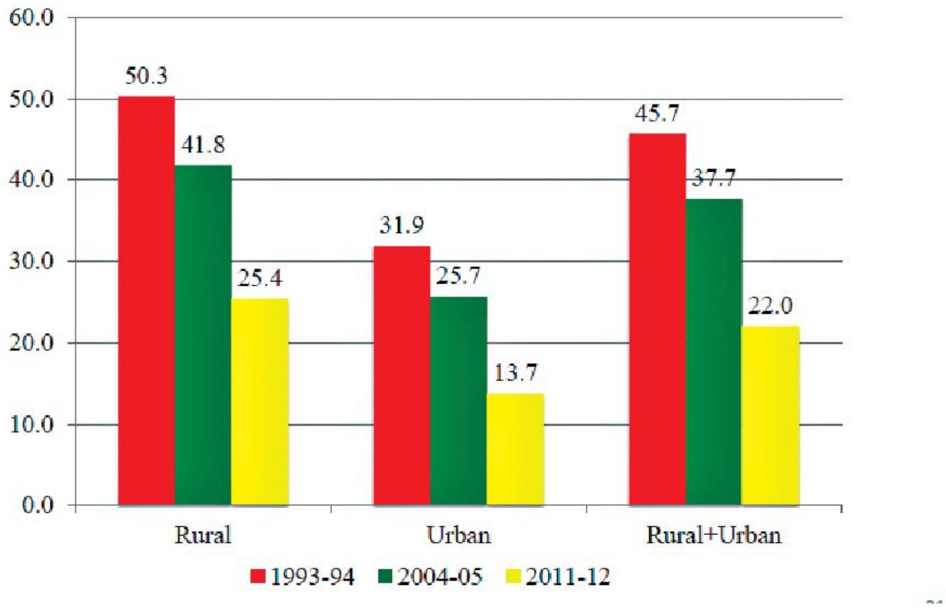

Figure 2. Rural and urban poverty percentages for the years 1993-94, 2004-05 and 2011-12

The percentage of the poverty personnel according to the social groups are shown in Figure 3.

Poverty by Social Groups (93-94 to 11-12) (As per Tendulkar Methodology)

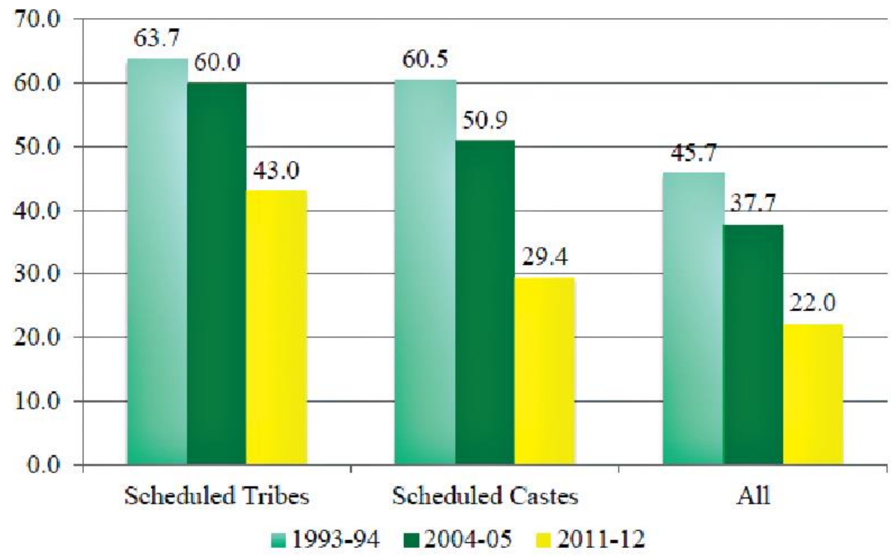

Figure 3. Poverty by social groups for the years 1993-94, 2004-05 and 2011-12

For combating poverty, it was realised that two-pronged strategy will have to be followed:

1) Modernize agriculture and accelerate agricultural growth.

2) Create job opportunities in industry and services.

8.2 Unemployment

Indian economy is a developing economy, and the problem of unemployment is very grave in India. But here the nature of unemployment differs from most of the developed western countries. In western countries, unemployment is due to shortfall in demand. More or less, it is a form of cyclical unemployment. It implies that in such economies, machines become ideal and demand for labour falls because the demand for the products of industry is no longer there. Thus, most of Keynesian remedies concentrated on measures to keep the level of effective demand sufficiently high so that the economic machine does not slacken the production of goods and services.

But more serious than cyclical unemployment or frictional unemployment in an undeveloped economy like India, is the existence of chronic under-employment mainly in the rural sector and the existence of educated unemployment in the urban areas. There is disguised unemployment by which a situation we mean where the productivity of workers is almost zero or near zero. This contention of zero productivity is a very controversial issue among the economists. But finally, it has been concluded that productivity of employed disguised worker is low.

Educational unemployment is due to the gap between manpower planning and number of educated personnel and is mainly due to the structural inadequacy to absorb all the educated persons in the system.

Therefore, it is quite clear that unemployment in underdeveloped economies like India is not the result of deficiency of effective demand in the Keynesian sense but a consequence of shortage of capital equipment or other complementary resources.

Poverty in India is also associated with unemployment, unlike in industrially advanced countries. "The miseries of unemployment in India are sometimes partly cushioned by the institution of joint family. Yet for a given family, the lack of adequate employment opportunities for its adult members and a non-earner who is dependent are among the common characteristics of poverty".

It has been said that unemployment is mainly the result of emphasis on heavy industry during the planning process. Early planners had almost a mystic faith in the twin gods of technology and heavy industry which has turned out to be misplaced. Western technology, which developed in the west in response to a shortage of labour and the consequent need to replace men with machine, provides no short cut to prosperity in countries with a large number of underemployed and undernourished labour and an acute shortage of capital.

Planners and economists have often debated whether employment is a by-product of development and economic growth or whether employment creating policy should be a primary objective of the planning process. The primary objective of such a policy has to be the maximisation of economic welfare of all. The attainment of this objective would require structural changes in the development process.

Thus, the problem of unemployment cannot be viewed as a residual one and all measures and policies concerning economic affairs of the country have to be directed in such a way that they aim at the elimination of various forms of unemployment.

Manpower planning is a part of the entire labour force organisation which requires policy and programmes for the development and effective utilisation of human capital on its optimum basis. This process involves the available and future supply of human capital, simultaneously, while keeping close watch on the demand pattern. Thus, manpower planning is an inter-disciplinary subject. It is intimately connected with social and economic factors of demographic composition.

There is no formal report by the Niti Aayog about the unemployment data. However, according to the National Sample Survey (NSS) Office's Periodic Labour Force Survey, the country's unemployment rate was at a 45-year-high of 6.1 per cent in 2017-18. This reported generated much controversy and Niti Aayog claimed that the data released by NSS were not verified.

8.3 Inequalities in Income Distribution

Income inequality is a significant disparity in the distribution of income between individuals, social groups, populations, or countries. It is a major factor of social stratification and social class. Other elements included in inequalities are wealth, political power, and social status. Income is a major determinant of quality of life, affecting the health and well-being of individuals and families, and varies by social factors such as sex, age, and race or ethnicity.

As per the 'World Inequality Report 2022', India is among the most unequal countries in the world, with rising poverty and an 'affluent elite.' The report highlights that the top 10% and top 1% in India hold 57% and 22% of the total national income respectively while the bottom 50% share has gone down to 13%.

According to another report by the Johannesburg-based company New World Wealth, India is the second-most unequal country globally, with millionaires controlling 54% of its wealth. In India, the richest 1% own 53% of the country's wealth, according to the latest data from Credit Suisse. The richest 5% own 68.6%, while the top 10% have 76.3%. At the other end of the pyramid, the poorer half held a mere 4.1% of national wealth. The Credit Suisse data shows that India's richest 1% owned just 36.8% of the country's wealth in 2000, while the share of the top 10% was 65.9%. Since then, they have steadily increased their share of the pie. The share of the top 1% now exceeds 50%.

The average national income of the Indian adult population is Rs 2,04,200. Here, the bottom 50% earns Rs 53,610 while the top 10% earns Rs 11,66,520, over 20 times more.

Causes of Inequalities

Major causes of the inequalities are the following:

(i) **Inheritance:** It plays a significant role in inequality. The persons born in rich family have a significant advantage. If they are prudent enough, they maintain the lead. On the other hand, people born in poor families are at disadvantage in this respect.

(ii) **Difference in natural traits:** Different people have different talents and initiatives. The people gifted with natural traits and entrepreneurship multiply their prosperity as compared the people who lack these qualities.

(iii) **Opportunities of higher education and skill development:** Some people get opportunities of better education and skill development. With this background, they succeed in getting jobs of higher emoluments.

(iv) **Family influence:** It is often found that family influence plays important role in getting one a lucrative job.

Consequences of Inequality

The consequences of inequality are summarized in Figure 4.

Figure 4.

(i) Social unrest: Inequality in society creates two classes: 'haves' and 'have not'. The people who are deprived of essential requirements feel frustrated and create unrest. The caste-based agitations demanding reservations in jobs and other fields are the examples of the social unrest. Thus, inequality of incomes is an important cause of social and political instability.

(ii) Rise of economic populism: This word refers to irrational economic policies followed by the government to gain populism. Waiving off farmers' loans, distribution of freebies during the elections are some of the examples of economic populism.

(iii) Derailing of the economic reforms: It is related to the economic populism. Under the pressure of 'have-nots' the government is not able to pursue economic reforms which strengthen economy.

(iv) Distress migration: Millions of footloose and impoverished men, women and children in India, migrate from the countryside each year to cities — in crowded trains, buses, trucks and sometimes on foot — their modest belongings bundled over their heads, in search of the opportunities and means to survive. They themselves live under pathetic conditions and at the same time, they create problems for the civic authorities of the cities.

(v) Rise in intergenerational inequality and poverty: Unfortunately, due to various reasons, poverty of one generation percolates to the next generation and it becomes perpetual.

(vi) Increase burden of subsidies on the government: It is related to economic populism and derailing of economic reforms. In democracy, the party in power is compelled to give different types of subsidies to keep its vote-bank intact. Overall, it harms economic growth.

(vii) Exploitation: There is exploitation of the poor. They are compelled to work on lower wages. At the same time, they are not given fringe benefits, such as paid-leave, healthcare, insurance in case of accident, etc.

Measures to Reduce Inequalities

As discussed above, inequalities in income distribution cause many social and political problems. In view of this, the government endeavors to reduce inequalities by following appropriate policy matters. The important measures followed for reducing inequalities are as follows.

(i) Fixing minimum wages: Guaranteeing a minimum wage consistent with a minimum standard of living is an important step. In India, the Minimum Wages Act was passed in 1948 in pursuance of which minimum wages are fixed for agricultural labour and labour in what are called the 'sweated trades'. The minimum wage is revised from time to time in accordance with the price index. Depending on the local conditions, minimum wages may be different in different States. For example, according to the Delhi minimum wage notification (Oct. 2021), the minimum wages for the unskilled, semiskilled and skilled labour were Rs. 618/-, 681/- and 749/- respectively.

(ii) Social security: The government must ensure adequate social security schemes which must include provision of free education, free medical and maternity aid, old-age pension, liberal unemployment benefits, sickness and accident compensation, provident fund and schemes of social insurance, etc. As an example, recently, the State and Central governments provided compensation to the kin of the persons died due to COVID.

(iii) Need to promote labour-intensive manufacturing: There is need to promote labour-intensive manufacturing like; Construction, Textile, Clothing, Footwear etc. to reduce rising inequalities. The Labour-intensive manufacturing has the potential to absorb millions of people who are leaving farming.

(iv) Skill development: The development of advanced skills among the youth is a prerequisite if India wants to make use of its demographic dividend. The skilling of youth by increasing investment in education is the only way we can reduce inequality. India needs to become a Skill-led economy.

(v) Progressive Taxation: Progressive Taxation on the rich and the luxuries will help reduce income inequalities. Other direct taxes like the super tax, excess profits tax, and capital gains tax and limitation of dividends, etc., may also be imposed.

(vi) High Taxes on Luxuries: There should be heavy taxation on the consumption of luxuries. This will take away from the rich the power to display their wealth. This will also take away the incentive to amassing wealth for exclusive private enjoyment. Expenditure tax in India sought the same objective. (This tax has, however, been abolished.

(vii) Ceilings on Agricultural Holdings and Urban Property: Ceilings on agricultural land holdings can be imposed to reduce inequality between big and small farmers. This has been done in India and recently the ceilings have been lowered to 10-18 standard acres. The main purpose of land ceilings is to bring about a wider and equal ownership and use of land. Similarly, a ceiling on urban property can be imposed so that inequalities in urban areas can also be toned down. More radical socioeconomic reforms seem to be in the offing in India.

There is also need of policies and some sort of machinery by the government, which may provide equal opportunities to all rich and poor in getting employment or getting a start in trade and industry. In other words, something may be done to eliminate the family influence in the matter of choice of a profession. For example, the government may institute a system of liberal stipends and scholarships, so that even the poorest in the land can acquire the highest education and technical skill.

8.4 Regional Disparities

Regional imbalances or disparities means wide differences in per capita income, growth rate, per capita consumption, investment rate, literacy rates, health and education services, levels of industrialization. This is prevailing between different regions in the country. Regions may be either States or regions within a State. The regional disparities as per some important criteria are shown in the following Table.

TABLE 6.8. Important Socio-Economic Indicators for Different States in India

States	Per capita Income at 1993-94 prices [2002-03]	Per cent of population below poverty line [1999-2000]	Percentage of urban population to total population [1991]	Average daily employment workers of factory per lakh [1985]	Net irrigated area as per cent of net area [1994-95]	Per capita consumption of electricity [1996-97]
1. Andhra Pradesh	10,634	15.77	27	910	39.6	332
2. Arunachal Pradesh	NA	33.47	12	N.A.	N.A.	85
3. Assam	6,221	36.09	11	400	15.0	108
4. Bihar	4,048	42.60	13	600	43.2	145
5. Goa	NA	4.40	41	N.A.	12.0	450
6. Gujarat	14,539	14.07	34	1,890	28.9	686
7. Haryana	14,694	8.74	25	1,630	77.2	508
8. Himachal Pradesh	NA.	7.63	9	N.A.	20.0	240
9. Jammu & Kashmir	N.A.	3.48	24	N.A.	45.0	250
10. Karnataka	11,799	20.04	31	1,340	23.9	338
11. Kerala	10,389	12.72	26	1,080	13.6	236
12. Madhya Pradesh	7,015	37.43	23	750	22.3	368
13. Maharashtra	15,466	25.02	39	1,750	15.3	557
14. Manipur	N.A.	28.54	28	N.A.	50.0	100
15. Meghalaya	N.A.	33.87	19	N.A.	30.0	120
16. Mizoram	N.A.	19.47	46	N.A.	15.0	90
17. Nagaland	N.A.	32.67	17	N.A.	35.0	90
18. Orissa	5,836	47.15	13	400	25.8	447
19. Punjab	15,264	6.16	30	1,400	94.8	790
20. Rajasthan	7,608	15.28	23	520	29.1	295
21. Sikkim	N.A.	36.55	9	N.A.	20.0	90
22. Tamil Nadu	12,839	21.12	34	1,400	49.5	469
23. Tripura	N.A.	34.44	15	N.A.	20.0	60
24. Uttar Pradesh	5,610	31.15	20	470	62.6	194
25. West Bengal	10,982	27.02	27	1,510	28.7	197
All India	**11,088**	**26.10**	**26**	**1,050**	**36.5**	**338**

Table 1.

Source: https://www.yourarticlelibrary.com/india-2/regional-disparities-inindia-top-8-indicators/63004

There are diverse geographical factors responsible for disparity among states. Among these, it has been seen that adverse climate and proneness to flood are two factors responsible for poor rate of economic development of different regions of the country. These are reflected by low agricultural productivity and lack of industrialization. Thus, these natural factors have resulted uneven growth of different regions of India.

Historically British regime is also responsible for creating regional imbalances in India. They developed only those earmarked regions of the country which as per their own interest were possessing rich potential for prosperous manufacturing and trading activities. They mostly preferred to concentrate their activities in two states like West Bengal and Maharashtra and more particularly to three metropolitan cities like Kolkata, Mumbai and Chennai. They concentrated all their industries in and around these cities neglecting the rest of the country to remain backward.

Locational advantages are playing an important role in determining the development strategy of a region. Due to some locational advantages, some regions are getting special favour in respect of site selections of various developmental projects.

While determining the location of iron and steel projects or refineries or any heavy industrial project, some technical factors included in the locational advantage are getting special considerations. Thus, regional imbalances arise due to such locational advantages attached to some regions and the locational disadvantages attached to some other backward regions.

The most important indicator of regional imbalance in India is per capita income. Punjab, Haryana, Maharashtra, Gujarat and Tamil Nadu have more than average per capita income of India. Bihar has the lowest per capita income. States of the southern region of India are Tamil Nadu, Andhra Pradesh, Kerala etc.

To remove regional disparities, various five-year plans aimed at the expansion of power, transport, irrigation, education and training facilities and the development of village and small industries. Some backward areas in different states were given special considerations for location of industries.

In our planning process from second five year plan onwards, balanced growth was one of the major objectives of economic planning in India but regional disparities increased due to lack of specific backward state development policies rather, in the process of implementation, planning mechanisms has enlarged the disparity between the developed states and less developed states of the country.

There was more allocation plan outlay relatively to developed states as compared to less developed states. From First Plan to the Seventh Plan, Punjab and Haryana have received the highest per capita plan outlay, all along. The other three states like Gujarat, Maharashtra and Madhya Pradesh have also received larger allocation of plan outlays in almost all the five-year plans.

On the other hand, the backward states like Bihar, Assam, Orissa, Uttar Pradesh and Rajasthan have been receiving the smallest allocation of per capita plan outlay in almost all the plans. Due to such divergent trend, imbalance between the different states in India has been continuously widening, in spite of framing achievement of regional balance as one of the important objectives of economic development in the country.

Inter-state economic and social disparities in India have been increasing in spite of various governmental measures to develop backward areas. The increased disparities are in terms of demographic indicators, female literacy, state domestic product and poverty, development and non-development expenditure by state government, shares in plan outlay, investments, banking activities and infrastructure development.

9. Conclusion

After India got independence in 1947 the process of rebuilding the economy started. However, it was mostly centralized and the period from 1947-1991 was termed as the licence raj because the successive governments followed protectionists economic policies. This trend led to a balance of payments crisis in the year 1990. The year 1991 turned out to be watershed in the Indian economy when the government of India announced major liberalization policies in Indian economy. Under the new economic policy some radical changes related to foreign trade, foreign direct investment, exchange rate, industry, fiscal discipline, etc. were made. The NEP has been towards creating a more competitive environment in the economy as a means to improving the productivity and efficiency of the system. Under NEP liberalization was a key component. It included industrial sector reforms, financial sector reforms and fiscal reforms. The second component of NEP was privatization which included sale of shares of PSUs, disinvestment in PSUs and diminished role of PSUs. The third component of NEP namely globalization included reduction in tariffs and long-term trade policy. Under the latter all controls on foreign trade have been removed; open competition is encouraged and partial convertibility of Indian currency permitted. The NEP presented a mixture of macroeconomic stabilization and structural adjustment. The structural changes include change in final demand, change in exports, change in import structure and change in technology. In spite of the Indian economy responding vigorously and positively to the new changes, it still suffers from certain issues. The major issues controlling Indian economy comprise poverty, unemployment, inequalities in income distribution and regional disparities.

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