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DID ECONOMIC REFORMS IN INDIA MAKE POSITIVE IMPACT ON INCLUSIVE GROWTH AND SUSTAINABLE DEVELOPMENT?–AN ANALYTICAL PERSPECTIVE

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Abstract: *This paper is set to analyze some salient components of India's macroeconomic variables, viz. inclusive growth, fiscal deficit, poverty alleviation, and built in inequality with focus on historical trends and growth sustenance. This, together with approaches to fiscal and monetary policies make sure of two powerful and important macroeconomic stabilization tools, ramifications with (i.e. overall economic framework comprising several components) for improving the country's financial position.*

In many developing countries, economic growth has been found fundamentally uneven. First, one sector, then another and then a third, have grown rapidly but not all of them together*. This is true of India as well. A list of some instances of this phenomenon would include software development; outsourcing of services; quick compositional shifts amongst agriculture and other sectors with the rise of export processing zones; amongst others. The question is not whether growth is balanced–which it isn't–but whether the abstraction thereof is a useful one (Debraj Ray, Summer-2010)?*

It highlights the need to achieve efficiency in utilising the country's resources effectively in addressing social and economic challenges, working for financial inclusion, improving agricultural growth, and increasing industrial output, generating employment opportunities for all-round development, even while responding to rising environmental degradation enveloping the country.

Lastly, it highlights on crucial infrastructure projects, financial and institutional reforms e.g. pending tax reforms, better targeting of social expenditure, those reforms carried out very recently, that have potential for improving the country's overall economic performance and eventual financial inclusion.

Keyword: *Economic reforms, inequality, poverty alleviation, inclusive growth, sustainability, fiscal deficit.*

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1. INTRODUCTION

The purpose of this study is to present a theoretically relevant discussion with a background analysis to recognize the benefits of Planned Economic Development, Growth and Structural changes in India (with focus from 1991 to 2015), economic reforms implemented for development and the consequent impact thereof on the overall financial health, inclusive growth, and its sustainability. This analytical document is a verily data source for qualitative research in the light of empirical evidence.

Against this backdrop, this paper raises questions of fairness as to when and how Government responds in an equitable manner, setting high standards of work ethics, and transparency in business/trades, best practices, accountability, innovation etc. This research also highlights some Macro-Economic Challenges: (12^{th} five year plan)

- India must increase the rate of investment, especially in infrastructure;
- Domestic savings must increase to reduce investment savings gap, which is imperative to keep the Current Account deficit under control
- Growth of subsidies to be contained/controlled;
- Centre and States to encourage private and PPP route investments in the economy (the Government, household plus corporate).

The RBI had observed "it is important that monetary and fiscal policies retain focus on macroeconomic stability," in the circumstances where Inflation expectation and actual *inflation* have begun to edge up again (2^{nd} Qtr review, Oct-2013).

At a broader level, in the absence of perceptible fiscal correction, there is a shadow of doubt cast on the feasibility and desirability of continuation of the overall reform process itself. This paper therefore aims at a closer examination of the fiscal situation that prevails in India today. In particular, the paper makes an assessment of fiscal sustainability, inclusive growth and examines implications thereof.

The institutional arrangements have been changing in many developing countries as they are moving towards making central banks more independent, implying time varying behaviour of the interaction between fiscal and monetary policies, which have important implications for the objectives of macroeconomic stabilisation. Thus, from the macroeconomic policy point of view, it is important to empirically verify the nature of the interaction.

This paper further makes a reference to: India's crisis in 1991, reform process initiated and the development of fiscal disciplinary framework, the country's experience of fiscal response to the global financial crisis in 2008, and the subsequent return (U-turn) to the fiscal consolidation path, where a detailed examination of the structural and cyclical behaviour of fiscal variables has been made. This is followed by a discussion on the sources of uneven growth; the political economy of uneven growth; growth and sustainable development; the slowing down in India's economic growth, fiscal deficit and indebtedness.

Further, the discussion is made about fruits of country's economic growth that have not trickled down and equitably shared across all its geographic locations. Because of persistent inequality there is a greater need now for *inclusive growth* which India must achieve. Lastly, it highlights the current situation of the economy and factors responsible there for. It refers to the report by UNDP 2015 about various development indices of India followed by a conclusion, with some perspectives of Economic Survey 2016, and few suggestions have been outlined for the improvement and achievement of better economic growth.

2. LITERATURE REVIEW

Macroeconomics has, until recently, focused on the positive short-term relationship between the rate of increase in prices, and output. Developments in growth theory have resulted in both a theoretical and an empirical analysis of the effect of inflation on long-term growth. The ultimate policy objective is a high level of well-being for the population, but a conflict arises in respect of the means of achieving it – by higher growth or by low inflation. There is a trade-off involved and both cannot be achieved in tandem. A tightening of fiscal and monetary policies may achieve lower inflation but at the cost of growth.

On the one hand, government have to increase public spending in order to boost the economy; and on the other, the fiscal deficit has to be controlled to avoid its pitfalls. To achieve fiscal stability, inclusive growth, attention needs to be paid to optimal paths of public consumption, investment, taxes, and borrowing. The government needs to find the right balance between contractionary and expansionary policies to maximise well-being of its populace.

The appropriate and comprehensive literature review has been carried out in respect of this study. Gaps still exist in some macroeconomic variables, as India is undergoing development and is in the process of transforming the lives of her citizenry in various areas for betterment in quality of life.

[Note: Please refer the list of sources for 22 research papers that I have gone through in depth and gaps identified in forming the problem statement].

Problem Statement

Did economic reforms in India make positive impact on Inclusive Growth and Sustainable Development? – An Analytical Perspective

Scope

The scope covers select macroeconomic challenges such as Inclusive Growth, Inequality, Poverty Alleviation and Sustainability (Time period: 1991 to 2015).

Objectives of Study

The need and the "objective" for inclusive growth, fiscal consolidation and sustainability is one of the key macroeconomic issues confronting Indian economy.

- To analyse the past and present growth trends;
- To analyse the impact of economic reforms on variables such as: inclusive growth, inequality and sustainability;
- To study the relationship between economic reforms and inclusive growth.

Significance

The problem outlined here itself is very significant for India, a country that has population of 1.25 billion, with an area of 3.28 million sq. kilometres. And yet 20 crore of its population is below poverty line (even after 68 years of Independence). Growth in employment is stagnant and inequality is growing despite of economic reforms under way since 1991.

Methodology

This study is descriptive in nature and as such, the emphasis is on describing the present state of affairs of Indian economy, the macroeconomic challenges extent in particular. Relevant secondary data from various authentic sources (*e.g.* RBI, CSO, Finance Ministry, erstwhile Planning Commission, Economic Survey, McKinsey reports, UNDP, etc.) have been collated, used and presented to arrive at meaningful analysis.

3. THEORETICAL ANALYSIS

India in 1991

Very low foreign exchange reserves and critical balance of payment position.

For granting of loan, World Bank and the IMF stipulated certain conditions. Since India was in a critical situation, she accepted the conditions of the World Bank and the IMF and then provided an immediate context for the realignment of the macro-economic fundamentals, through a programme of economic stabilization. Towards this end in view, India initiated the new economic policy in July 1991. The package of economic reforms, which are expected to have long-term impact on the economy, includes fiscal, monetary, financial, and industrial and export-import (EXIM) sector reforms.

Liberalization, Growth (1991 and onwards)

Following the balance of payments crisis of 1991, Government commenced on a path of economic liberalisation whereby the economy got opened up to foreign investment and trade, the private sector was encouraged and the system of quotas and licences was scrapped. The Tax Reforms Committee provided a blue print for reforming both direct and indirect taxes. It recommended improving tax administration and increasing computerisation and information system modernisation amongst others.

As a part of the subsequent direct tax reforms, the personal income tax brackets were reduced to three with rates of 10, 20 and 30 per cent in 1997-98. The rates have largely remained unchanged, with the exemption limit being increased and slab structure rising now and then.

In indirect taxes, the MODVAT credit system for excise was expanded to cover most commodities and provide a comprehensive credit system by 1996-97. In 2000-01, the three rates were merged in to a single rate and renamed as central VAT (CENVAT). There remained now three excises of 8, 16 and 24 per cent.

In case of customs duties, the peak rate was brought down to 40 per cent in 1997-98, 30 per cent in 2002-03, 25 per cent in 2003-04, and 15 per cent in 2005-06. The number of major duty rates was also brought down from 22 in 1990-91 to 4 in 2003-04. Eventually, provisions were made for allowing input tax credits for both goods and services at the central indirect tax level.

A major move in state government tax reforms was the coordinated simplification of the state sales tax system in 1999. This eventually led to the introduction of a VAT in 21 states in 2005. The basic features of the tax include two rates of 4 per cent for common consumption commodities and inputs and 12.5 per cent for others. The tax credit operates fully only for intra-state sales. This major hindrance to the formation of a smooth nationwide market is to be addressed by the Goods and Services Tax (GST) on the anvil.

The need was felt to have a new fiscal discipline framework, and the FRBMA was adopted in 2003. This Act gave a medium term target for balancing current revenues and expenditures and set overall limits to the fiscal deficit at 3 per cent of GDP to be achieved by 2017-18 (now extended to 2018-19) according to a phased fiscal deficit reduction roadmap.

The reform of the financial sector consists primarily of a reduction in the statutory liquidity ratio and a rationalisation of subsidised credit to priority sectors, relaxation of interest controls and restrictions on firms' access to capital markets, and more autonomy for public sector banks. The major reform in the case of public sector enterprises consisted of eliminating privileges such as protection from external and domestic competition and preferential access to budget and bank resources. Though the condition relating to an effective exit policy 'for the closure or restructuring of money-losing firms' in the private and public sector has not been fulfilled, the reforms made have largely been in line with the program's objectives.

Fiscal discipline legislations seemed to have had good impact at both the central and state levels. The year before the global financial crisis in 2007-08, the central government's revenue deficit came down to 1.1 per cent of GDP while the GFD was 2.70 per cent. This fiscal discipline led into other economic variables in a positive manner. Inflation was moderate and growth was buoyant at 9.6 per cent in 2006-07. This benign macroeconomic environment was disturbed by the global financial crisis in 2007-08.

Is Indian fiscal policy maturing? Post global financial crisis and return to fiscal consolidation:

The global financial crisis that erupted around September 2008 saw Indian fiscal policy being tested to its utmost. The policymakers had to grapple with the impact of the crisis that was affecting the Indian economy through various channels that include: contagion risks to the financial sector; the negative impact on exports; and the effect on exchange rates.

Although economic reforms did bring in new avenues, around half of all workers still remain in low value-added agriculture. The scope is therefore enormous for economy-wide productivity gains from further migration of workers into modern technology oriented sectors. Weaknesses in the business environment and extremely restrictive labour legislations have prevented India from reaping the benefits of its demographic advantage.

To fully reap the benefits of this demographic dividend and support a return to high growth, India needs to continue to address important obstacles thereof.

New bottlenecks to growth have surfaced. Following the 2008 global meltdown, the Indian economy recovered somewhat, notwithstanding decline in growth in 2011 and new macroeconomic challenges began to emerge. GDP rose by 6½ per cent in 2011-12, revealed the slowest annual growth in almost a decade, and has continued to remain so since then.

This slowdown is only partly cyclical and reflects the emergence of energy, infrastructure, human capital and institutional bottlenecks. The rapid economic growth in the last two decades has indeed accentuated the demand for energy and natural resources, for transport infrastructure and skills. But supply of these key engines of growth has not been able to keep pace. Institutions and public as well as private governance also need to adapt to the development of India for its economic progressive transformation.

1. Sources of Uneven Growth

In an economy with a large number of sectors, each sector calls for physical capital and various kinds of human capital in order to produce output. In reality, there are supply bottlenecks and that public resources are not allocated evenly across all sectors of the economy. Indeed, they leave behind several fundamental problems.

Food is perhaps one of such example of long-run uneven growth, one that necessitates basic structural change in the workforce and in resource use. The majority of India's population lives and works in the rural sector. The compositional pattern of demand – and its alteration as income grows is important whenever substantial costs must be incurred (including the cost of migration and relocation, not to mention training) to transfer factors of production from one sector to another, *e.g.* agriculture, industry, coal mining, and software fits the bill.

2. The Political Economy of Uneven Growth

Deliberate government policies can generate comparative advantage in certain sectors, however, which sectors are to be nurtured in this way, or which sectors are to be abandoned? These questions are a subject of constant debate across the developing world.

The allocation of limited public resources whether allocated to infrastructure, tax breaks, subsidies on the use of electricity or fertilizer, or other forms will ultimately depend on debate, discourse, and of course lobbying. At any one point of time, a small subset of economic activities – perhaps "chosen" (*e.g.* sugar, power) in an entirely random way – appear to be focal, and the attention and energies of the country are drawn to it. Such is the case with the outsourced business in India from the United States and European Economic Union.

Thus political economy issues here include agricultural subsidies, attitudes to globalization, agrarian land rights, urban property rights, compensation related to displaced persons, transfer of land from agrarian to commercial use such as cash crops and industry. Much recent research in development economics emphasizes these issues (for example, Besley, 1995; Binswanger, Deininger, and Feder, 1995; Stiglitz, 2002; Goldstein and Udry, 2008; Duflfl o and Pande, 2007; Field, 2007; Wang, 2008).

3. Growth and Sustainable Development

India, while continuing to engage actively in the in-ternational discourses, needs to take necessary measures because it is one of the faster growing economies but, at the same time, faces a big threat from environmental degradation, to tackle, India has prepared a 'National Action Plan for Climate Change' (NAPCC) objective of which is to 'establish an effective, coopera-tive and equitable global approach based on the prin-ciple of common but differentiated responsibilities and respective capabilities, enshrined in the United Nations Framework Convention on Climate Change (UNFCCC)'. Under its action plan, there are eight missions that focus on different aspects of the ecology that ensure sustainable and green growth. They are:

- National Solar Mission;
- National Mission for Enhanced En-ergy Efficiency;

- National Mission on Sustainable Habitat;
- National Water Mission;
- National Mission for Sustaining the Himalayan Ecosystem;
- Nation-al Mission for a *Green India;*
- National Mission for Sustainable Agriculture; and
- National Mission on Strategic Knowledge for Climate Change.

Is India's Growth story slowing down?

On the one hand, it is believed that the recent fall in GDP growth below the long run average may be the beginning of a permanent decline in potential growth of output. Anand, Cheng, and Rehman (2014) points that trend growth in India reached a peak of 9% before 2008 and then declined. Mishra (2013) analyses the growth performance in the last two decades and finds that potential output saw the highest increase from 2003-04 to 2007-08.

We see a cyclical downturn post-financial crisis caused by external and domestic idiosyncratic factors. India's economy was part of the global slowdown owing to its trade and financial linkages with the rest of the world. Further, over exuberance in investments in infrastructure and non-infrastructure capital due to easy financing conditions faced a correction post-crisis, dragging down growth below its long-term trend. However, part of the slowdown can be attributed to weak global environment, but also the emergence of strains created by the pressure that rapid economic growth has put on energy, natural resources, infrastructure and skills. The negative shocks to the trend were arising from the policy and decision making framework which increased uncertainty in the economy led many projects to be stalled, which caused investment, in particular, to drag down output growth. The policy framework that severely hampered firms' investment activity and investors' business confidence was a negative shock to the trend growth of output.

But does India have the institutional framework to overcome negative shocks through policy reform? The country has already gone through various difficult stages of learning how to operate in a democracy and has reached a level of political maturity. While, so far, the political process has not managed to achieve support for all the required reforms, the institutional capability to do so exists. Hence, with sufficient resources and the capacity for reform, negative shocks to the trend growth can potentially be reversed.

The question is: are the shocks permanent or can they be overcome, and can the trend growth be revived? Aguiar and Gopinath (2007) observed that emerging economies are subject to shocks to the trend growth due to policy changes. Accordingly, a positive supply-side shock causes the trend growth of output to increase and a negative shock causes the trend growth to decline. Thus, in their framework, trend growth itself becomes cyclical. However, appropriate policy changes aimed at reform can resolve the bottlenecks so that the negative shock has a temporary effect. The policy changes can in turn act as a positive shock to growth. Then, given that the supply side of factors appears robust, the decline in the trend growth can be reversed.

A noteworthy feature of Indian growth process over the last one and a half decades has been its *stability*. This is evident from the substantially lower coefficient of variation of real GDP growth during the post-reform period as compared to that during the pre-reform period, that is, before the nineties. It is also important to note that India's growth is driven by *domestic consumption*, contributing on an average to almost two-thirds of the overall demand. As consumption is less volatile component of demand, this has also contributed to reducing the volatility of GDP.

Higher Fiscal Deficit and Total Debt Position

There is argument in the economic theories that higher deficit policies coupled with monetization of the central bank can lead to inflation. However, interestingly this is not always the case and even in the absence of monetization by central banks, higher deficit policies can lead to higher inflation. As correctly pointed out by Ackay et al. (1996) that there are two other possible channels through which higher deficits lead to higher inflation. Firstly, the government's borrowing requirements normally increase the net credit demands in the economy, driving up the interest rates and crowding out private investment. The resulting reduction in the growth rate of the economy will lead to a decrease in the amount of goods available for a given level of cash balances and hence the increase in the price level.

The second is the case when central banks do not monetize the debt when the private sector monetizes the deficits. This takes place when high interest rates induce the financial sector to develop new interest bearing assets that are almost as liquid as money and are risk free. Thus, the government debt is not monetized by the Central Bank, but monetized by the private sector and the inflationary effects of higher deficit policies prevail consequently.

High levels of fiscal deficit relative to GDP tend not only to cause sharp increases in the debt-GDP ratio, but also adversely affect savings and investment, and consequently, growth. The usability of fiscal policy as a tool of countercyclical intervention is also compromised when fiscal deficit is high and structural in nature.

On the flip side, one of the most embarrassing disappointments during the reform period has been our inability to contain the fiscal deficit. Indeed, the combined gross fiscal deficit of the Centre and States in 2003-04 (RE) at 9.4 per cent was precisely at the same level as it was in the crisis year of 1990-91. Not surprisingly, serious questions are being voiced about fiscal sustainability.

Inclusive Growth: Poverty Alleviation and Inequality

Developing India's stellar gross domestic product (GDP) growth rates have masked rapidly rising *relative* and *absolute* inequalities, leading to two faces of India. A "shining India", which is competing internationally and benefiting from the forces of globalization, technological change, and economies of scale, has grabbed the attention of the media and the world. In contrast, a "suffering India", not as well publicized but even more important, has unacceptably wide swatches of its population who are poor and vulnerable. These two faces of India are both a beacon of hope and a symbol of despair. Merging these two faces will be the development challenge over the next generation for the region.

Consistent with cross-country evidence for developing countries, measures of absolute consumption-poverty in India tend to fall with economic growth (Ravallion and Datt, 1996). But one also finds that: the sectoral composition of growth matters to the aggregate (country-wide) rate of poverty alleviation: the aggregate time series data for India indicate that poverty measures have responded more to rural economic growth than urban economic growth (Ravallion and Datt, 1996), and differences in initial conditions related to rural development and human resource development accounted for a sizable share of the long-run differences between states in rates of rural poverty reduction (Datt and Ravallion, 1998a). Despite the successes, India has not seen the kind of massive, rapid decline in poverty that occurred in countries like Korea and Taiwan in the '60s and '70s or in China in the last three decades.

The explanation for the difference lies in the fact that manufacturing in India has not grown as rapidly as it did in the other countries. In fact, most of India's growth is concentrated in the services sector. Within manufacturing, especially labour-intensive firms that typically employ a lot of workers and produce things like apparel, footwear and light consumer goods have not done all that well. And it is this that accounts not only for the smaller effect of growth on poverty that other countries experienced, but also for the general poor performance of manufacturing. (Prof. Arvind Panagariya, CDE Insight, 2013).

Government of India have developed a policy under which 20 per cent of its purchase from the small and micro enterprises would come from the private enterprises owned by the SCs and STs. It must be mentioned that about 50 per cent of the minority community households are engaged in self-employed enterprises and businesses. Therefore, a policy to increase the productivity of the macro and small enterprises operated by these people needs to be developed. The policy for modernization of the small and macro enterprises will go a long way in reducing the poverty of this group.

There are clearly countrywide factors that have influenced growth and poverty reduction in India, and comparisons of experiences over time in different states cannot throw much light on those factors. However, the diverse experiences of these states in poverty alleviation can illuminate one important question: are these diverse experiences mainly due to differences in the rate and sectoral pattern of economic growth, or are there important differences in the poverty-reducing impact of that growth?

While India's official poverty line focuses on extreme poverty, the Empowerment Line poses an entirely different question: what is the level of consumption required for an individual to meet the necessities of human development? To answer this, it is essential to estimate the cost of fulfilling eight basic household needs (*food, energy, housing, drinking water, sanitation, health care, education, and social security*) at a level sufficient to achieve a decent, modest standard of living rather than just bare subsistence/existence.

The Empowerment Line is a measure of individual consumption, yet the ability or willingness to spend money is not wholly sufficient to guarantee a decent quality of life. In addition to having sufficient income, households need physical access to affordable basic services of acceptable quality. Their own purchasing power can meet some needs, such as food and energy, but they also require access to community-level social infrastructure such as health clinics and schools.

Despite rapid GDP growth, the majority of India's labour force remains engaged in low-productivity activities. Almost 60 percent of those who live below the Empowerment Line derive most of their livelihood from agriculture, but India's land productivity is just half of other emerging Asian countries. Today there are too few job opportunities outside the farm sector, a factor that limits the economic opportunities available to women in particular. In fact, just 57 percent of India's working-age population participates in the labour force–below the norm of 65 to 70 percent in other developing countries.

Moreover, the casual wage labour households, who are the most poor among the four livelihood categories, have recorded the lowest decline in poverty and the lowest elasticity compared to the rest. This was particularly so in the case of the STs and the Muslims. Increasing the employability through vocational and skill education is the only way of pulling them out from chronic poverty. This, too, calls for a public employment programme in urban areas, similar to that in rural areas.

Health care, *clean drinking water* and *sanitation* are critical gaps for all of these groups, whether in urban or rural India. However, the pattern of needs varies segment-wise. The most urgent unmet needs of the excluded and impoverished are *hunger* and *health*, while health, education, and housing are major issues for the vulnerable. Urban Indians, while less prone to being impoverished or excluded, are almost as likely to fall into the vulnerable category as rural residents, and *affordable housing* is a significant unmet need for them.

Although government spending on basic services increased rapidly during this period, its impact was also dampened by inefficient programme delivery. Apart from leakage and waste, the quality of services is also lacking. State-run schools and health centres produce weak learning and health outcomes—by some estimates, half of what was spent did not produce better outcomes for the poor. India's ability to further increase social spending is also coming under pressure, as slowing economic growth limits the available fiscal resources. It is within India's grasp to bring the share of the population below the Empowerment Line to single-digit levels and virtually eradicate extreme poverty by 2025—but doing so will require policy makers at all levels of government to focus on an agenda that emphasises job creation, growth oriented investment, farm sector productivity, and more innovative delivery on social programmes.

While the framework and funding would fall to the central government, many of the specific initiatives that would make this agenda a reality can be implemented at the state level. The only requirements are political will and a relentless focus on results—and with these building blocks in place, India could realise its long-held goal of providing all its citizens with basic dignity and economic opportunity.

There is some sort of consensus in the development literature that it is only economic growth that can make sustainable reduction in poverty. However, growth, especially in the non-primary sectors, has also the tendency to be concentrated among the few and accentuate inequality. Researchers have pointed out that there is evidence of rise in inequalities that has eroded to a large extent the potential of growth to reduce poverty. More significantly, it has been found that there are substantial differences across socio-religious groups as far as participation in the growth and reduction in poverty is concerned, as indicated by the responsiveness of the poverty alleviation measures to growth of income.

Inclusive Growth: Present Scenario and Challenges

Making growth more inclusive and addressing widespread poverty is another key challenge for India, it requires sustained investment in people, starting from *health* and *education* but also *transport* and *energy infrastructure*. It also requires a review of the poverty alleviation programmes, their targeting and efficiency. In addressing this challenge, inclusive growth with its focus on creating economic opportunities and ensuring equal access to them will play a pivotal role.

India has recently switched to a new strategy focusing on two objectives: raising economic growth and making growth more inclusive (erstwhile Planning Commission of India 2006). Inclusive growth as a development concept is also being embraced by many development partners of developing countries including bilateral and multilateral aid agencies, international organizations, non-government organizations, and civil society.

The path of inclusive reforms envisages a far more positive alternative, one in which the nation takes steps to stimulate investment, job creation, and improved farm productivity, as well as dramatically improve the delivery on basic services. In fact, job growth in non-farm sectors combined with productivity growth in agriculture would directly contribute to lifting more than 400 million people above the Empowerment Line, or more than 70 per cent of the total impact in the inclusive reforms scenario.

The impact is even more pronounced for the vulnerable segment, but even for the impoverished and the excluded, jobs and productivity growth are the most powerful drivers of higher living standards Raising public spending alone, without improving the effectiveness on delivery, would contribute less than 10 per cent of the potential impact across segments.

The higher GDP growth inherent in the inclusive reforms scenario generates more tax revenue that can be ploughed back into spending for basic services—and it simultaneously ensures that India meets its fiscal objectives more quickly.

White proposed three criteria for pro-poor growth, *viz.*, the share of the poor in income exceeds their existing share, their share in incremental income surpasses their share in population, and the share of the poor in incremental income exceeds by some international norm (Grinspun, 2009). Klasen (2010) summarized the concept of inclusive growth (which also includes pro-poor growth as its subset) in terms of both processes and outcomes:

(a) Positive per capita income growth rates

(b) Income growth rates for disadvantaged groups, *viz.*, income of poor, ethnic minorities, women, backward regions, and rural areas are as high as the growth rates for per capita income, indicating that such groups have been able to participate in the growth process at least proportionately, and hence growth has been non-discriminatory.

(c) Expansion of non-income dimensions of wellbeing that exceed the average rate for disadvantaged groups. Non-income dimensions include achievements in schooling, survival rates, nutritional status, and access to transport, communication and household requirement.

The Approach Paper (XIIth five year plan) observed:

"*Inclusive growth should result in lower incidence of poverty, improvement in health outcomes, universal access to school education, increased access to higher education, including skill development - better opportunities for both wage employment and livelihoods and improvement in the provision of basic amenities like water, electricity, roads, sanitation and housing. Particular attention needs to be paid to the needs of the SC, ST and OBC population, women and children as also the minorities* *and other excluded group."* (Erstwhile Planning Commission Aug-2011, pp-4).

The Current Situation of Indian Economy–Critical Factors for Next Phase of Growth

The overall growth rate of the Indian economy was 4.5 per cent in 2013-14 sharp reversal as against 8 per cent and more achieved in the previous years (2005-2009). The slowdown is attributable both to domestic as well as global factors. There has been a slowdown in the global economy from 5.1 per cent in 2010 to 2.4 per cent in 2016 (by IMF World Economic Outlook, June-2016). The RBI also followed a relatively tight monetary policy during 2012-14 to rein in inflation which contributed to the increase in the cost of borrowings. Due to a combination of factors like: industrial slowdown affecting tax revenues and higher expenditure on subsidies on fuel and fertilizers, reduced investment activity that impacted on fiscal deficit which shot up to 5.1 per cent of GDP in 2012-13.

At present, the Indian economy is making various efforts to fend itself against downside risks in some of the macroeconomic variables. These risks appear to have been contributed by domestic factors and equally by the international trends. Starting with stubborn high inflationary situation, high and unsustainable twin deficits (current account deficit to over 6 per cent in the first quarter of 2013-14 and fiscal deficit over 5.5 per cent in 2012-13), not so robust recovery in the United States and the Euro zone area, low and fluctuating Industrial Production (IIP) numbers, increasing banking sector risk in terms of non-performing assets (NPAs), not so conducive atmosphere for disinvestment process, and the business confidence on India appears to be not so high. Moreover, investment spending fell in the last quarter of 2015, as did industrial production and capital utilisation rates remain low, said Moody, the rating agency.

Broadly, the following factors have played a solemn role impacting Indian economy and reveal its current position:

(i) Indian economy witnessed negative shocks to the trend growth caused by institutional burdens, poor infrastructure, unskilled labour force, structural issues and international trade/business cycles.

(ii) Some perceptions and reality about growth of Indian economy:

   (a) Fluctuating and below potential export growth;

   (b) Weakness in the business environment and restrictive labour legislation;

   (c) Weak manufacturing that goes across various industries.

(iii) The exclusion is in terms of low agriculture growth, low quality employment growth, low human development, rural-urban divide, gender and socialite inequalities and regional disparities, etc. are some of the major problems for the nation.

(iv) Development is about removing the obstacles to what a person can do in life, obstacles such as lack of income, un-employability, illiteracy, and ill-health, lack of basic trainings on skill development related to various technical matters, lack of access to resources including financial, or lack of civil and political freedoms.

(v) One study analyses the behaviour of monetary and fiscal policies interaction in India using quarterly data for 2002(Q2) – 2010(Q1):

- It finds that fiscal policy continues to substantially influence the conduct of monetary policy. Specifically, the reaction of two policies to shocks of inflation and output is mostly in the diametrically opposite direction;
- While monetary policy reacts in a counter-cyclical manner, fiscal policy reaction is primarily pro-cyclical;
- It seems fiscal deficit leads to decline in savings and investments in the economy over the medium term, besides crowding out more efficient private sector investment for use by government consumption expenditure.

Latest UNDP Report: Some facts about India

India continued to rank low in the *Human Development Index (HDI)*, though climbed five notches to the 130th rank in the latest UNDP report on account of rise in life expectancy and per capita income. India ranked 130 among 188 countries in Human Development Report 2015 released by the United Nations Development Programme (UNDP). "India's HDI value for 2014 is 0.609, which puts the country in the medium human development category.

The HDI is an average measure of basic human development achievements in a country. It is a summary measure for assessing long-term progress in three basic dimensions of human development—*a long and healthy life*, *access to knowledge* and *a decent standard of living*.

Life expectancy at birth increased to 68 years in 2014 from 67.6 in the previous year and 53.9 in 1980. Gross National Income (GNI) per capita was $5,497 in 2014 up from $5,180 in 2013 and $1,255 in 1980, an increase of 338 per cent between: 1980 to 2014.

However, as per the report, the expected years of schooling is stagnant at 11.7 since 2011. Also, mean years of schooling at 5.4 has not changed since 2010. Between 1980 and 2014, India's life expectancy at birth increased by 14.1 years, mean years of schooling increased by 3.5 years and expected years of schooling increased by 5.3 years. According to the report, India's 2014 HDI of 0.609 is below the average of 0.630 for countries in the medium human development group and above the average of 0.607 for countries in South Asia.

4. DISCUSSION AND CONCLUSION

As the 12th Plan suggests implementation of all the intended policies need large resources. But the allocations at the mo-ment are very meagre due to lack of viable project proposals and lack of enough sensitivity towards the sustainable issues at the level of the sub-national governments. While increasing such resource allocations will ensure long term sustainable devel-opment, this might put pressure on fiscal deficits and the growth in the short run, however, this will ensure the achievement of long term goal of sustainable devel-opment.

What needs to be done is to adopt what the 13th Finance Commission suggests- the '*expansion-ary fiscal consolidation*' strategy of reducing subsi-dies that are unproductive as well as unsustainable and at the same time increasing the developmental capital expenditures. Sustainable development strategy may com-promise growth to some extent. However, such strategy would ensure long term goal of achieving green growth.

It is worthwhile to mention some perspectives of Economic Survey, 2016. It said on the fiscal deficit front, the other key area where everyone is watching the steps closely, the government clearly admits that adhering to the 3.5 per cent target would be challenging and there could be a case for a review of the medium-term fiscal framework. Alternative to fiscal consolidation would be to reduce subsidies to the well-off amounting to about Rs.1 lakh crore by better targeting subsides to the poor, it said. However, there could be measures to channel more domestic savings to the financial markets and discourage flow of household savings to physical assets such as gold and real estate. The twin challenges are major impediments to private investment and a full-fledged economic recovery, the Survey said.

To address the same, the Survey recommends a four- fold strategy: viz. *Recognition, Recapitalization, Resolution and Reform*. It said the PSU lenders would need at least Rs 1.8 lakh crore by FY19. Inclusive growth in India requires bridging gaps in educational outcomes and improved health attainments across the population, it said. This calls for higher allocations towards social sectors.

A return to strong, sustainable growth is paramount for Indian economy to ensure continued progress in alleviating severe poverty, catching up and lifting living standards more generally. India needs to ensure that stronger growth benefits its entire population. The bottlenecks that are bearing down on growth will have to be addressed for India to continue to narrow its major gap in living standards with middle-income and OECD economies, to reduce widespread poverty, to reverse rising inequality and to improve the wellbeing of its citizen. This is essential not only for India but also for the world economy at large. This study concludes with optimism, in that opportunity for India is now set to focus on: the Supply side engines of growth in key areas *e.g. energy, natural resources, human capital* (including education and health), *increase potential employment opportunities, better infrastructure for improving connectivity*, and implement new manufacturing–*Make in India* policy. This will bring about an overall growth potential and desired level of development.

Combined with the fact that external demand is likely to remain lacklustre, a sustained improvement in domestic private investment would be required for the growth momentum to be at higher level," said Moody, the rating agency.

5. RECOMMENDATIONS

Based on the analysis presented, and conclusion drawn the author recommends that the following steps are necessary and would be important for India to remain focused on:

A. For India to achieve all-round sustained inclusive growth there is a pressing need for coordinated supply side and demand management measures: fiscal consolidation and appropriate monetary policy coupled with active measures to loosen supply constraints.

B. Some of the priorities for India to improve its macroeconomic situation include:

   (i) **Legislate and implement Goods and Services Tax (GST) :** The experience of other countries of the world shows that transparency level increases and efficiency enhanced which help and translate into some basis point being added in country's GDP in medium term;

   (ii) **Streamlining equitable land acquisition mechanism:** This will help to consider all relevant stakeholders' needs and interest that facilitate speedy completion of transaction/procedure;

   (iii) **Labour reforms:** A necessary requirement to align with present day business and industry demand.

   (iv) **Coal supply linkage to power sector:** This will help to utilise coal in more optimised manner which is of vital importance for power sector - their input requirement;

   (v) **Accelerating disinvestment process:** It will free up some financial resources for the government to be spent on creating various infrastructure facilities needed to achieve efficiency and growth.

6. LIMITATION

The study is limited to select macroeconomic variables as described in the scope and confined the twenty five year period as mentioned. Any limitations to the study, including flaws in design and the analysis due to circumstances beyond one's control is unintentional. The identification of some variables could be the limitations of the dissertation and explains how important each of these limitations can be.

Scope for Future Research

The larger purpose and the greater interest of the research suggest to carry out more studies on these macroeconomic variables in future with required data analysis so that findings becomes more relevant and provide course to initiate appropriate action thereon.

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