



POLITICAL ECONOMY AND ITS SIGNIFICANCE IN DEVELOPING COUNTRIES: WITH SPECIAL REFERENCE TO INDIA

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ABSTRACT :

From the time people started to live a settled life, different aspects of their life started to emerge like economic, social, political, spiritual, cultural etc. As survival was the main challenge for them so production, consumption, distribution together constituted the very base of the economic system. As they started their social life, people started interacting amongst themselves and hence they needed rules, laws, and authority for regulating their lives. As a result of it politics emerged in their social life. Thus from the very beginning of human life political and economic aspects are interrelated. Political economy is a system whereby the policy adopted by the government has an impact on the economy and the economic system equally has an influence on the political decisions taken by a country. At present political economy is supposed as a very interesting and significant topic so far as the concept of development is concerned. A perfect economic policy to a great extent can bring stability and prosperity in a country.

That's why in most of the developed countries where public policies are well formulated and implemented, their development rate is satisfactory and good enough. Whereas in the developing countries where the parameters for development are not properly analyzed while these public policies are formulated, are basically lagging behind in terms of development. Although politically India is an emerging country in the scenario of the present world politics, but still economically it is a developing country. So there is a great need to study the impact of political decisions and government policies on its economic system. In this paper an attempt has been made to study the nature of political economy of the developing countries and to find out its significance in development with special reference to India.

Keywords: *Political Economy, Development, Public Policy, India.*

I. Introduction:

Political economy is the branch of social science that analyses the correlation between the state, markets and society. In other words it studies how politics affects the economy and how the economy in turn shapes politics. The term Political economy derives from the Greek word **Polis**, which means 'city state and **oikonomos** which means 'housekeeper' or the one who manage a household. Here, the state can be supposed as the household of the citizens. Thus we can say that political economy is the study of how to manage a state taking into account its political, economic and social characteristics.



In fact, political science and economics are inseparable. Our political environment, economic system and the social construct are closely linked with each other. In this age of globalization, no country can remain out of the politico-economic influence of the other countries. Therefore in domestic as well as in international field, all the countries have to give special importance to political economy.

The developing countries as well as the under developed countries, needs to give more stress on development as their economic growth is slower than the developed countries. Actually most of the underdeveloped countries that are known as 3rd World countries remained under colonial rule for a long time. So although politically they got independence, their economy was totally ruined under colonial rule. It took them some time to restart their economic base. But already these countries were over burdened with so many economic problems like unemployment, poverty, illiteracy, hunger etc. that, it was a very tough period for those countries to prepare a proper public policy which could help in reviving their weak economic system. The political economic history of India also tells the same story. Although present India's economic growth is not bad, but in terms of development India is still not doing well. With regards to some parameters like literacy rate, infant mortality, employment, mental health, protection of women etc., India's position in world scenario is not yet satisfactory. In this paper an attempt has been made to study how far the public policies of India are properly formulated and implemented for its economic growth and development as a whole.

II.Objectives of the Study:

The main objectives of this paper are-

1. To examine the significance of political economy for the developing countries.
2. To study the impact of political decisions of the government of India on the economic development of the country.

III. Methodology:

The methodology of the paper is descriptive in nature. The data is collected from secondary sources. The secondary source is collected from various articles in different journals and magazines. Materials from various websites are also used.



IV. Discussion:

History of Political Economy

Political economy as an academic discipline dates back to the period of mercantilism (16-18 century) which is an economic theory that emphasizes self-sufficiency through a favorable balance of trade. It focuses on the accumulation of wealth and resources while maintaining a positive trade balance with other countries.

Political economists Adam Smith, in his book “An inquiry into the Nature and Causes of the Wealth of Nations”(1776) through his famous concept of **Invisible hand** emphasized that free markets possess the ability to maximize the resources of the country rather than a strict state regulation on production and consumption.

In the 19th century David Ricardo, an English political economist gave his view on political economy that a country should produce goods which it can make at a lesser cost than the others and import those which other nations can generate more profitably.

In the mid -19th century, Communist economist and philosopher Karl Marx evolved his socio-economic and political theory – **Communism**. Through this theory Marx wanted to prove that society is always determined by its economic system and in each of the stages of evolution of the society, two classes of people are always present characterized by the haves and the have not's. Since the haves exploit the have not's, class struggle takes place. Marx therefore wanted that a class less society to be established where the means of production would not remain in the hands of few, but society as a whole will control the economic as well as the political power of the state.

Later, in the early 20th century, Alfred Marshall defined economics is a study of mankind in the ordinary business of life. Economics has become more market –centric.

Political economy and development in India:

Before discussing about India's public policies and its effect on economic growth in terms of development, it is important to explain the meaning of development.



According to Nobel prize winner, Indian economist and philosopher, Amartya Sen, “development is a process of expanding the real freedom that people enjoy. This development requires the removal of major sources of captivity like– poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or over activity or repressive states. (Amartya Sen,1999)”. While traditional welfare economics had focused on incomes as the main measure of well-being, Mr. Sen held the view that development must be judged by its impact on people, not only by changes in their income but more generally in terms of their choices, capabilities and freedom; and we should be concerned about the distribution of these improvements, not just the simple average for a society. Sen's view is now widely accepted. However, here another important point is, development consists of more than improvements in the well-being of citizens, even broadly defined: it also conveys something about the capacity of economic, political and social systems to provide the circumstances for that well-being on a sustainable, long-term basis. Mainstream economics has had a difficult time explaining how economic and social systems evolve to create this capacity; and, in particular, our economic models have struggled to explain why some countries have experienced rapid economic growth while some other countries are not.

Here lies the importance of political economy for a developing country. To study India’s political decisions and policies of the government and its effects on economic development, we have to start from the period of India’s freedom struggle. During India’s freedom struggle, our leaders were not only providing a strong critique of colonial policies, but also provided alternative policies for economic growth and social transformation. Therefore, after India’s Independence, almost everyone agreed that the development of India should mean both economic growth and socio-economic justice. On the eve of Independence, India had before her, models of modern development-

1. The liberal-Capitalist model of much of Europe and the USA.
2. The Socialist model as in the USSR.

Many leaders of Communist party and Socialist party of India, even leaders like Nehru within Congress party were deeply impressed by the soviet model of development. In Independent India, therefore, under the leadership of Prime Minister Jawaharlal Nehru, planned



process of development was started in the form of Five Years Planning Program. In 1951, the First Five-Year Plan was implemented against the backdrop of Partition, with the country dealing with an influx of refugees, severe food shortages, and rising inflation. It was largely concerned with the development of agriculture and irrigation in the primary sector. The government was able to meet its growth targets set for the first five-year plan but was not able to achieve an increase per capita due to the huge increase in population. This proved the fact that 1st Plan prepared the ground for more ambitious planning in future. The 2nd Five Year Plan in which priority was given to industrialization, was criticized for its unbalanced policy, as it lacked agrarian strategy for development. However, the failure was not that of policy but its non implementation.

Another important economic policy that was adopted by the government of India was mixed economic policy that was adopted meaning, equal importance on both public and private sector of industrialization. The aim was to attain rapid economic development. The state helped the private sector to make profit. As a result of which a new middle class had started enjoying the privileges without much accountability. Poverty level did not decline rather their number kept on going up. Thus it can be assumed that this policy although opened a road for economic growth through privatization, but failed to solve some big economic problems like poverty, hunger, unemployment etc.

After independence another important step of the government was land reform policies for economic development of the country as a whole. Like abolition of intermediaries-Zamindars, Jaigirders etc, tenancy reforms, ceilings on land holding etc. But in reality many proposals for land reforms were either not translated into laws or when enacted, they remained only on papers.

The Green Revolution was a period that began in the 1960s during which agriculture in India was converted into a modern industrial system by the adoption of technology, such as the use of high yielding variety (HYV) seeds, mechanized farm tools, irrigation facilities, pesticides and fertilizers. Like other developing countries, Green Revolution has influenced the economy and way of life in India to a great extent. It was resulted in phenomenal increase in the production of agricultural crops especially in food-grains. The main benefit of Green Revolution was the increase in the production of food-grains, as a result of which there was a drastic reduction in



their imports. Thus it can be said that government policies sometimes can have great impact on economic development.

The story of development in India took a significant turn from the end of 1960s. From the late 1960s, economic regulations were tightened. The MRTP Act of 1969, nationalization of 14 large commercial banks, the same year the Patent Act of 1970, the Industrial Licensing Policy of 1970, and the Foreign Exchange Regulation Act (FERA) of 1973 are given as famous examples. In fact, the then Prime Minister Mrs. Indira Gandhi wanted to strengthen the role of the state in controlling and directing the economy. The government announced many schemes for the poor people as part of the ‘Garibi Hatao’ campaign. Thus, an ideology of socialist pattern of economy was developed. But its impact was not favourable for economic growth. Due to inefficiency and corruption in some public sector enterprises and not so positive role of the bureaucracy in economic development, the public opinion lost faith in state controlled economy. Therefore, after 1980, there was a major change in economic policy of India. Indian Government adopted the policy of liberalization and privatization, which reduced the importance of the state in Indian economy. Actually Indian economy was lagging behind its East and Southern Asian neighbours, so the government of Indira Gandhi and subsequently Rajiv Gandhi began pursuing economic liberalization.

In 1991, Narasimha Rao government introduced the Neo-liberal policy to confront several economic crises. The revenue that the government was generating was not enough to meet the expenses. Hence, it had to make hefty borrowings from foreign banks to pay debt. But they were caught up in debt-trap. To curb this crisis, India approached the World Bank and International Monetary Fund (IMF) for the loan and received \$7 billion to manage their crisis. As a result of which, these international organizations expected India to open its door to trade with other countries by removing the strict restrictions hitherto present. Hence India adopted the LPG (Liberalisation, Privatisation & Globalization) reforms under the Economic Reforms.

The political economy of India also included some important reforms such as forming Special Economic Zones, initiating the Golden Quadrilateral project for constructing a network of highways, enacting the Right to Information Act (2005), Right to Education Bill (2008) and Indo-US civilian nuclear agreement (2008). The impact of all these reforms is reflected in the



amount of foreign investment which grew to \$5.3 billion in 1995-96 from \$132 million in 1991-92.

Political economy of India under Modi's government

Prime Minister Modi when for the first time came to power in 2014, stormed India's political stage with grand promises - of more jobs, prosperity and less red tape. He promised Indians that “*acche din*” (good days) were coming. . And there was an expectation that the Indian economy would do well under a pro –business political regime.

While India has continued to reform its policies since the early 1990s, including recent tax reforms by the Modi administration, the pace of reform is disturbingly slow. Red tape continues to stifle the economy, which has been battered by the COVID-19 pandemic, while insufficient attention has been paid to the pressing problems of disease control, pollution, rural poverty, and inadequate social services, such as education and health care. The country has been reluctant to partner with others in deeper trade agreements. As a result, India has missed important opportunities to continue to improve its economic performance. As a stark reminder of the stakes, the country's once much poorer neighbor—Bangladesh—has continued to reform and has overtaken India in per capita income, according to the International Monetary Fund.

Many scholars like to focus on the deep structural factors affecting long-run economic development, such as geography and institutions, but we sometimes forget how farsighted political leadership and good economic policies can significantly influence the fate of nations. India is not alone in the world in finding these in short supply.

On 8th November 2016, the government withdrew all 500 and 1000 rupee notes from circulation, announcing the issuance of new 500 and 2,000 rupee banknotes in exchange for the now-defunct old ones. The aim of demonetization was to fighting black money, fake notes and creating a cashless economy by pushing digital transactions. But in reality it's impact in Indian economy was not good. For some critiques, demonetization was a total failure as, 2000 rupees notes give a better chance to store black money than 1000. And it is a failure in reality because no such big black money holders ever got caught. Actually the whole economic system of the country including the Reserve Bank of India was not yet ready for such a big change post



demonetization India suffered 2% loss in GDP. Cash management was totally paralyzed. Small and medium sectors which were the backbone of the country, has faced financial crunch, lakhs of small industries got closed down.

The initial implementation of the GST was not handled well – small businesses in particular were confused about onerous reporting requirements, which placed a large compliance burden on them. At the same time, the GST policy could be seen as one of the most important policy initiatives since the country's landmark 1991 economic reforms and as the one of the most significant constitutional innovations since 1950.

Evaluation: Indian economy is now called fastest-growing economy in the world. Yet, poverty, inequalities, social imbalance etc. still continuing to influence the process of development as well as the policies of the government. To manage the damages done by the British colonial rule Independent India followed democratic socialism and all Indian leaders agreed on a common minimum progress for economic development. . This consisted of Rapid industrialization, import substitution, self reliance, tenancy reforms, agriculture development, cooperative sector and public sector to lead and private sector to be under the support of the public sector, no foreign capital. This led to a path on which economic planning was done. Also Indian economic development functioned under a democratic polity and principles of civil liberties which was never seen in the world.

But present socio-economic scenario of India is not satisfactory despite so many government policies and programmes. As for example, India's youth force in 2022 is huge enough in comparison to other countries. Although this can be called as an opportunity for future economic growth, it presents policy makers with the challenge of creating employment. According to the World Bank, the projected increase in South Asia's working –age population during 2020-2050 is some 254 m accounting for 30.6% of the increase worldwide. India alone will account for 16.5% of the increase.

In terms of development also India is lagging behind many well known less developed countries. For example, according to UN sustainable development Goals (SDG) Index, Bangladesh is currently ranked 104th with a score of 64.2, while India is ranked 121st with a score of 60.32.



Regarding recent low economic growth of India, Covid crisis may be held responsible, but facts and figures shows that even before the outbreak of corona virus pandemic, Indian economy was not doing well. GDP falling to a 11 years low of 4.2 % in 2019-2020.

Demonetization policy of Modi government aimed at controlling the flow of black money in the country. But in reality, it affected the common people. Banking system was totally paralyzed. Even Reserve Bank of India was not ready for it. Although the aim was good, it's Implementation was defective. Thus wrong political policy may be a cause for low economy.

In the same way, application of GST in the country aimed at to establish single tax. But preparation and proper comprehension is important. Ground reality was overlooked.

V. Conclusion:

In this paper an analytical discussion is made on the significance of political economy in developing countries with special reference to India. In this study it has been found that development is the key for any country. And therefore, government undertake various public policies with developmental goals. But sometimes it so happens that targeted goals could not be achieved due to various reasons. It resulted in low rate of growth in the process of economic development. In case of India also it has been found that after her independence, various policies and programmes were undertaken by the government. To some extent it can be said that government policies helped in achieving economic growth in our country. But sometimes, despite of the presence of so many good policies of the government and the efforts put in, nothing can seems to contribute in the economic progress of the country. It mostly happens due to lack of coordination in between the policy formulating body and policy implementing agency. Moreover, proper execution of any governmental policy needs proper research on the respective field of work. Thus it can be concluded that in this age of globalisation, economic development is closely related to market economy and therefore policies must have to be adjusted with prevailing economic atmosphere. At the same time public policies must be implemented in a proper way so that policies can be transformed into economic growth.

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