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Impact of Political Stability in India on Economic Growth in Last Decade

Dr. Priyanka Kumari
Assistant Professor Department of Political Science Government College for Women, Narnaul, Haryana, India

ABSTRACT

Political uncertainty is an investor's nightmare. It does disturb the flow of foreign direct investment plans both into the private sector as well as the government owned public sector units and that surely affects economic growth. However, this argument is good only to a limited extent. Political stability is not necessarily an essential pre-requisite item for good economic growth. In actual practice, it is the other way around as it can be argued, that it is good economic growth, that essentially leads to political stability.
Keywords: Political Stability, Economiv Growth, BJP Government

I. INTRODUCTION

Political stability helps in making economic decisions and reducing the risk of imbalance in the economy. In May 2004, elections brought the United Progressive Alliance (UPA) into power. Growth, stability and equity are mutually reinforcing objectives. The quest of the UPA Government is to eliminate poverty by giving every citizen an opportunity to be educated, to learn a skill, and to be gainfully employed. The economic strategy of the UPA is composed of four main elements: maintaining macroeconomic balances; improving the incentives operating upon firms; enhancing physical infrastructure; and a range of initiatives aimed at empowering millions of poor households to participate in the growing prosperity. The major concern remains on commitment towards national interest, reduction of interference of unlawful elements in politics, public accountability and growth oriented policies of the government. Under the leadership of Dr Manmohan Singh the focus of the government is appropriate and will not be cause of distress It has positive effect on economic growth but many times due to other factors it may be negative. In India in last 20 years many governments were made. India is a developing country and it grows very fast. Whenever the govt. changes economic effected very much. India is the world's largest democracy. In India, the prime minister is identified as the head of government of the nation, while the president is said to be the formal head of state and holds substantial reserve powers, placing him or her in approximately the same position as the British monarch. Executive power is enforced by the government. It can be noted that federal legislative power is vested in both the government of India and the two characteristic chambers of the Parliament of India. Also, it can be said that the judiciary is independent of both the executive and the legislature.

For most of the years since independence, the federal government has been guided by the Indian National Congress , In India the two largest political parties have been the Indian National Congress and the bhartiya janata party (BJP). Presently the two parties have dominated the Indian politics, however regional parities too exist. From 1950 to 1990, barring two brief periods, the INC enjoyed a parliamentary majority. The INC was out of power between 1977 and 1980, when the Janata Party won the election owing to public discontent with the corruption of the then Prime Minister Indhira Gandhi. In 1989, a janata dal-led National Front coalition in alliance with the Left Front coalition won the elections but managed to stay in power for only two years. As the 1991 elections gave no political party a majority, the INC formed a minority government under Prime Minister P.V.Narsimha Rao and was able to complete its five-year term. The years 1996-1998 were a period of turmoil in the federal government with several short-lived alliances holding sway. The BJP formed a government briefly in 1996, followed by the United Front coalition that excluded both the BJP and the INC.

Therefore, when the Congress spokespersons talked of political stability without mentioning its correlation with economic growth, their apprehensions of coalition governments appeared misplaced. Further Congress talking political stability was like "the devil quoting the scripture". One cannot but remember that it was the Congress that destabilized the governments of 5 Prime Ministers, viz. Mr. Charan Singh, Mr. Chandrasekhar, Mr. H. D. Dev Gowda, Mr. Inder Kumar Gujral and of course Mr. Atal Bihari Vajpayee. Every one, of these governments, was toppled on flimsiest grounds. Indeed, they could have easily lasted their full term, if and only if politics had taken the back seat.

II. INDIA'S GROWTH

Since Independence India has moved from a moderate growth path of the first three decades (1950 to 1980) to a higher growth trajectory since 1980s. Over the last two and a half decades, India has emerged as one of the fastest growing economies of the world, averaging about 6 percent growth rate per annum and ranking of the country in terms of size of the economy, especially in Purchasing Power Parity (PPP) Terms have improved. In the last three years. We have averaged a growth rate of 8 percent. Apart from registering impressive growth rate over the last two and a half decades, India's growth process has been stable. Studies indicate that the yearly variation in growth in India has been one of the lowest. During the period, we have faced only one crisis in 1991. The crisis was followed by a credible macroeconomic structural and stabilization program encompassing trade, industry, foreign investment, exchange rate, public finance and financial sector. The evidence of stable economic condition is the successful avoidance of any adverse contagon impact of shocks from the East Asian crisis, the Russian crisis during 1997-98, sanction like situation in post pokhran scenario, and border conflict during May-June 1999. The performance of the Indian economy during the current fiscal year has exceeded expectations. Initial growth projections for the period April 2004 to March 2005 were around 6.8%. Expectation was paired with a percentage point due to low rainfall from July 2004. Global price shocks in oil, steel and coal added to apprehension, particularly about inflation. However, shaking off these fears, the economy has grown by a robust 6.9%. There are two aspects to the "emergence of India." First, there are signs of vigorous growth in manufacturing. High growth rates in exports have been extended beyond the now-familiar services story to skill-intensive sectors like automobiles and drugs. Manufacturing growth accelerated every month after May 2004 to reach double-digit levels in September and October. Merchandise export growth in the first 10 months of 2004-05 was 25.6%. For three quarters running, revenue growth in the corporate sector has been above 20% and net profit growth has been around 30%. Second, there is a pronounced pickup in investment. From 2001-02, the investment rate in India, low by East Asian standards, rose by 3.7 percentage points to 26.3% of GDP in 2003-04.

III. ROLE OF POLITICAL PARTIES

The janata dal won elections in 1989, but its government managed to hold on to power for only two years. Between 1996 and 1998, there was a period of political flux with the government being formed first by the right-wing nationalist Bhartiya janata party (BJP) followed by a left-leaning United Front coalition. In 1998, the BJP formed the National Democratic Alliance with smaller regional parties, and became the first non-INC and coalition government to complete a full five-year term. The grenal saw the INC winning the largest number of seats to form a government leading the united progressive alliance and supported by left-parties and those opposed to the BJP.

On 22 May 2004, Manmohan Singh was appointed the Prime Minister of India following the victory of the INC & the left front in the 2004 lok sabha election. The UPA now rules India without the support of the left front. Previously Atal Bihari vajpeyi had taken office in October 1999 after a general election in which a BJP-led coalition of 13 parties called the national democratic alliance emerged with a majority. Formation of coalition governments reflects the transition in Indian politics away from the national parties toward smaller, more narrowly-based regional parties. Some regional parties, especially in South India, are deeply aligned to the ideologies of the region unlike the national parties and thus the relationship between the central government and the state government in various states has not always been free of rancor. Disparity between the ideologies of the political parties ruling the centre and the state leads to severely skewed allocation of resources between the states.

IV. CENTRAL AND STATE GOVERNMENTS

The central government exercises its broad administrative powers in the name of the President, whose duties are largely ceremonial. The president and vice president are elected indirectly for 5-year terms by a special electoral college. The vice president assumes the office of president in case of the death or resignation of the incumbent president

The constitution designates the governance of India under two branches namely the executive branch and real national executive power is centered in the Council of Ministers, led by the prime minister of India. The President appoints the Prime Minister, who is designated by legislators of the political party or coalition commanding a parliamentary majority. The President then appoints subordinate ministers on the advice of the Prime Minister. In reality, the President has no discretion on the question of whom to appoint as Prime Minister except when no political party or coalition of parties gains a majority in the Lok Sabha. Once the Prime Minister has been appointed, the President has no discretion on any other matter whatsoever, including the appointment of ministers. But all Central Government decisions are taken by president.

V. POLITICAL STABILITY AND ECONOMIC GROWTH

The politicians should realize that in the last decade or so, the scene in the country has undergone a sea change:

- ✓ India is a young country, where the average age is less than 26 years.
- ✓ The literacy rate is continuously rising.
- ✓ The Primary Health Care services are improving.
- ✓ Female life expectancy rate and infantile survival rate are improving.
- ✓ There is a growing awareness of the need to let market forces decide on their role in the development of infrastructure projects.

The power distribution has shifted from a centralized command structure to one where even the leader at local level has an opportunity to address his local aspirations at the national level.

VI. PRIVATIZATION AND DISINVESTMENT

Vajpayee had a vision of the 21st century information age. So, he privatized the Internet, reformed the flawed telecom policy, opened radio broadcasting in

40 cities and allowed up-linking facilities to satellite channels. Congress has yet to realize the impact of global market and address issues on taxes, subsidy etc so that the effects of globalization do not come as a jolt to the common man in the street. Mr. Narasimha's government approach on globalization lacked this humane approach. There was progress on other incremental reforms - cut the diesel subsidy, de-licensed petroleum products and oil refining, set up a power regulatory authority, threw open transmission to the private sector. Moreover, he surprised us by squashing the irrational swadeshi forces within his own party.

6.1 Impact in India

There are many affect in Indian economy due to political stability every factor is affected. India opened up the economy in the early nineties following a major crisis that led by a foreign exchange crunch that dragged the economy close to defaulting on loans. The response was a slew of Domestic and external sector policy measures partly prompted by the immediate needs and partly by the demand of the multilateral organisations. The new policy regime radically pushed forward in favour of amore open and market oriented economy. Major measures initiated as a part of the liberalisation and globalisation strategy in the early nineties included scrapping of the industrial licensing regime, reduction in the number of areas reserved for the public sector, amendment of the monopolies and the restrictive trade practices act, start of the privatisation programme, reduction in tariff rates and change over to market determined exchange rates.

Over the years there has been a steady liberalisation of the current account transactions, more and more sectors opened up for foreign direct investments and portfolio investments facilitating entry of foreign investors in telecom, roads, ports, airports, insurance and other major sectors.

The Indian tariff rates reduced sharply over the decade from a weighted average of 72.5% in 1991-92 to 24.6 in 1996-97.Though tariff rates went up slowly in the late nineties it touched 35.1% in 2001-02. India is committed to reduced tariff rates. Peak tariff rates are to be reduced to be reduced to the minimum with a peak rate of 20%, in another 2 years most non-tariff barriers have been dismantled by march 2002, including almost all quantitative restrictions.

The Indian economy is passing through a difficult phase caused by several unfavourable domestic and external developments; Domestic output and Demand conditions were adversely affected by poor performance in agriculture in the past two years. The global economy experienced an overall deceleration and recorded an output growth of 2.4% during the past year growth in real GDP in 2001-02 was 5.4% as per the Economic Survey in 2000-01. The performance in the first quarter of the financial year is5.8% and second quarter is 6.1%.

VII. SECTORS

7.1 Industry and Services

India has one of the world's fastest growing automobile industries. Shown here is the Tata motors make Nano, the world's cheapest car. Industry accounts for 28% of the GDP and employ 14% of the total workforce. However, about one-third of the industrial labor force is engaged in simple household manufacturing only. In absolute terms, India is 16th in the world in terms of nominal factory output.

Economic reforms brought foreign competition, led to privatization of certain public sector industries, opened up sectors hitherto reserved for the public sector and led to an expansion in the production of fast-moving consumer goods. Post-liberalization, the Indian private sector, which was usually run by oligopolies of old family firms and required political connections to prosper was faced with foreign competition, including the threat of cheaper Chinese imports. It has since handled the change by squeezing costs, revamping management, focusing on designing new products and relying on low labor costs and technology.

Textile manufacturing is the second largest source for employment after agriculture and accounts for 26% of manufacturing output. Ludhiana produces 90% of woolens in India and is also known as the Manchester of India. Tripura has gained universal recognition as the leading source of hosiery, knitted garments, casual wear and sportswear. Dharavi slum in Mumbai has gained fame for leather products. Tata Motors' Nano attempts to be the world's cheapest car.

India is fifteenth in services output. It provides employment to 23% of work force, and it is growing fast, growth rate 7.5% in 1991-2000 up from 4.5% in 1951-80. It has the largest share in the GDP, accounting for 55% in 2007 up from 15% in 1950.

Business services (information technology, information technology enabled services, business process outsourcing) are among the fastest growing sectors contributing to one third of the total output of services in 2000. The growth in the IT sector is attributed to increased specialization, and an availability of a large pool of low cost, but highly skilled, educated and fluent English-speaking workers, on the supply side, matched on the demand side by an increased demand from foreign consumers interested in India's service exports, or those looking to outsource their operations. The share of India's IT industry to the country's GDP increased from 4.8% in 2005-06 to 7% in 2008. In 2009, seven Indian firms were listed among the top 15 technology outsourcing companies in the world. In March 2009, annual revenues from outsourcing operations in India amounted to US$60 billion and this is expected to increase to US$225 billion by 2020.

Organized retail such supermarkets accounts for 24% of the market as of 2008. Regulations prevent most foreign investment in retailing. Moreover, over thirty regulations such as "signboard licences" and "anti-hoarding measures" may have to be complied before a store can open doors. There are taxes for moving goods to states, from states, and even within states.

Tourism in India is relatively undeveloped, but growing at double digits. Some hospitals woo medical tourism.

7.2 Agriculture

Farmers work inside a rice field in Andhra Pradesh. India is the second largest producer of rice in the world after China and Andhra Pradesh is the 2nd largest rice producing state in India with West Bengal being the largest.

India ranks second worldwide in farm output. Agriculture and allied sectors like forestry, logging and fishing accounted for 17% of the GDP in 2009, employed 52% of the total workforce and despite a steady decline of its share in the GDP, is still the largest economic sector and plays a significant role in the overall socio-economic development of India. Yields per unit area of all crops have grown since 1950, due to the special emphasis placed on agriculture in the five-year plans and steady improvements in irrigation, technology, application of modern agricultural practices and provision of agricultural credit and subsidies since Green revolution in India. However, international comparisons reveal the average yield in India is generally 30% to 50% of the highest average yield in the world.

India is the largest producer in the world of milk, cashew nuts, coconuts, tea, ginger, turmeric and black pepper. It also has the world's largest cattle population: 193 million. It is the second largest producer of wheat, rice, sugar, cotton, silk, peanuts and inland fish. It is the third largest producer of tobacco. India is the largest fruit producer, accounting for 10% of the world fruit production. It is the leading producer of bananas, sapotas and mangoes.

7.3 Finance in India

Banking in Indiaand Insurance in India

The Indian money market is classified into: the organised sector (comprising private, public and foreign owned commercial banks and cooperative banks, together known as scheduled banks); and the unorganised sector (comprising individual or family owned indigenous bankers or money lenders and non-banking financial companies (NBFCs)). The unorganised sector and microcredit are still preferred over traditional banks in rural and sub-urban areas, especially for non-productive purposes, like ceremonies and short duration loans.

Mumbai is the financial and commercial capital of India. Shown here is the World Trade Centre of Mumbai Prime Minister Indira Gandhi nationalised 14 banks in 1969, followed by six others in 1980, and made it mandatory for banks to provide 40% of their net credit to priority sectors like agriculture, small-scale industry, retail trade, small businesses, etc. to ensure that the banks fulfill their social and developmental goals. Since then, the number of bank branches has increased from 10,120 in 1969 to 98,910 in 2003 and the population covered by a branch decreased from 63,800 to 15,000 during the same period. The total deposits increased 32.6 times between 1971 to 1991 compared to 7 times 1951 to 1971. Despite an increase of rural branches, from 1,860 or 22% of the total number of branches in 1969 to 32,270 or 48%, only 32,270 out of 5 lakh (500,000) villages are covered by a scheduled bank.

The public sector banks hold over 75% of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively. Since liberalisation, the government has approved significant banking reforms. While some of these relate to nationalised banks (like encouraging mergers, reducing government interference and increasing profitability and competitiveness), other reforms have opened up the banking and insurance sectors to private and foreign players.

More than half of personal savings are invested in physical assets such as land, houses, cattle, and gold. Indian has the highest saving rate in the world at 36 percent.

7.4 Natural resources in India

Energy policy of India

India has the world's fifth largest wind power industry, with an installed wind power capacity of 9,587 MW. Shown here is a wind farm in Muppandal, Tamil Nadu. India's total cultivable area is 1,269,219km² (56.78% of total land area), which is decreasing due to constant pressure from an ever growing population and increased urbanisation. India has a total water surface area of 314,400km² and receives an average annual rainfall of 1,100mm. Irrigation accounts for 92% of the water utilisation, and comprised 380km² in 1974, and is expected to rise to 1,050km² by 2025, with the balance accounted for by industrial and domestic consumers. India's inland water resources comprising rivers, canals, ponds and lakes and marine resources comprising the east and west coasts of the Indian ocean and other gulfs and bays provide employment to nearly 6 million people in the fisheries sector. In 2008, India had the world's third largest fishing industry.

India's major mineral resources include coal, iron, manganese, mica, bauxite, titanium, chromite, limestone and thorium. India meets most of its domestic energy demand through its 92 billion tonnes of coal reserves (about 10% of world's coal reserves).

India's huge thorium reserves- about 25% of world's reserves- is expected to fuel the country's ambitious nuclear energy program in the long-run. India's dwindling uranium reserves stagnated the growth of nuclear energy in the country for many years.

However, the Indo-US nuclear deal has paved the way for India to import uranium from other countries. India is also believed to be rich in certain renewable sources of energy with significant future potential such as solar, wind and biofuels (jatropha, sugarcane).

VIII. CONCLUSION

After complete this the paper come at this conclusion that politics effects economy very much. If a govt. change than many other factors also changes. Every govt. do work by their own style, they change many things like construction, infrastructure, their employees, contractors and it may affect positive or negative. So it based on situation. Political stability is very important for economic growth.

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