Characteristics of the Indian Economy

What is Indian Economy?

The Indian economy consists of all the production units or institutions such as farms, factories, workshops, railways, hospitals, schools and banks. The Indian economy can be broadly classified into three sectors:

- Primary sector: This sector consists of agriculture and various allied activities such as dairy, poultry, fishing, forestry and cattle rearing or animal husbandry. Most of the goods are produced by using natural resources. The primary sector plays an important role in India, an overpopulated agro-based economy.
- Secondary sector: This sector is also known as the industrial sector. It consists of manufacturing and construction activities such as small-, large- and tiny-scale industries. The small- and tiny-scale industries include clothes, candles, poultry, match box, handloom and toys which provide huge employment. The large-scale industries include iron and steel, chemicals and fertilisers; their contribution to the gross domestic product is significant.
- Tertiary sector: This sector produces services such as transport, communication, banking, insurance, trade and commerce, including both national and international trade. Also, all services such as doctors, engineers, lawyers and teachers fall in this sector. It also includes the services provided by the government for the welfare of citizens.

Basic Characteristics

While reviewing the process of India's economic growth during the planning periods, there are some dynamic characteristics for this growth process. The study of the basic characteristics of the Indian economy can be grouped under the following heads:

India – Underdeveloped Economy

An underdeveloped economy is one with low levels of living, absolute poverty, low per capita income, low assumption levels, poor health services, high birth and low death rates and dependence on foreign economies.

Characteristics of an Underdeveloped Economy

- Low per capita income: According to the World Development Report, 2011, the per capita income of India has been estimated at $1080 in 2009. While comparing with other countries, the per capita income of India is the lowest in the world. A large proportion of population of the country's population lives below the poverty line.
- Predominance of agriculture: India is predominantly an agricultural economy which provides employment to about 52% of the total labour force, but their contribution to the National Income is only 14.6%.
- Inequalities in income and wealth: According to the Human Development Report 2007–08, the richest 20% enjoy 45.3% of the total income and the poorest 20% receive only 8.1% of the total income.

According to the National Sample Survey Organisation, 39% of the rural population receive only 5% of the total rural assets, whereas 8% of the top households receive 46% of the total rural assets.

- Rapid population growth: According to the National Census, the population of India was 121.1 crore in 2011, while it was 43.9 crore in 1951. At the second stage of demographic transition, the death rate is reducing with a steady increase in the birth rate. Hence, it resulted in population explosion and imposed a greater burden on the economy.
- Low level of technology: The Indian economy is suffering from technology backwardness. Advanced technology is applied in productions units in a limited scale. Lack of capital, trained labour force and literacy are major drawbacks when it comes to using modern techniques in agro-industrial production activities.

India – Dualistic Economy

The Indian economy is considered to have a dualistic feature because it comprises the features of both types of economies—underdeveloped and progressive. A very large portion of the economy consists of people who are underdeveloped and belong to the backward class. This includes people from the rural and agricultural sector of the economy. On the other hand, a very small portion of people in the economy are rich and developed. This includes people belonging to the urban industrial sector. The first mentioned category is known as regional dualism and the second mentioned category is known as technological dualism.

India – Mixed Economy

It refers to a type of economy wherein some important part of production is undertaken by the government, while some is left to private owners. Thus, it is a blend of both capitalist and socialist economies. It means the co-existence of two sectors—private and public. This provision was included by the government of India in the industrial policies of 1948 and 1956.

India – Developing Economy

The principal features of the Indian economy as a developing economy are

- Increase in the national income: An increase in the national income leads to the development of an economy. It is the best indicator of the economic development of a country. During the independence period, the national income of our country was only about Rs 1.32 lakh crore. Currently, the national income increased to 105.4 lakh crore. During the last two decades, the national income has significantly increased to 5.8% per year as compared to 3.4% in the first three decades after Independence.
- Increase in per capita income: Increase in the per capita income is also considered one of the best indicators of economic development of a country. Therefore, there is a need to express progress in economic growth in income per head. During 1857–1956, the annual growth rate income was only 0.5%. However, the planning period resulted in an increase in the per capita income at the rate of 1.8% per annum.

- Rise in capital formation: Rise in capital formation gives rise to primary, secondary and tertiary sectors. The rate of capital formation depends on the rates of saving and investment. There has been a significant increase in capital formation during the planning years. The rate at which it has increased is from 8.4% in 1950–51 to 35% in 2011–12.

- Agricultural progress: New agricultural policies during the Green Revolution have improved the yield per hectare of land. It also increased food grain production substantially from 81.0 million tonnes in 2003 to 212.0 million tonnes in 2014. This increase in production is seen in all major crops of the country. This is because Indian agriculture has become technology-oriented, making the country self-sufficient in food grains. Moreover, there has been an increase in the irrigation process from 17% to about 40% in recent years.

India – Planned Economy

A planned economy is also known as a controlled economy. In this kind of economy, the government/state has full control over all the economic activities/matters of the country.

India – Federal Economy

According to the Constitution of India, the Indian economy is a federal economy. It implies that the powers of the government regarding the control and regulation of the economic life of the people will be undertaken at two levels—centre and state. The centre has the responsibility to guide and regulate the major economic activities of the country such as railways, post and atomic power plants. On the other hand, the state has several responsibilities which fall in its jurisdiction such as education, electricity, irrigation and transport. At times, the centre has major controlling power such as in the construction of dams and river valley projects even after assigning these responsibilities to the state. Hence, the centre plays an important role in this economy.