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ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT IN INDIA SINCE INDEPENDENCE

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Abstract

The challenge for India's growth and development is to get a larger proportion of the Indian people into its middle class, which is well served by markets and competition. This discusses how enterprise demands an active role of the Indian state and will demand support from its society. What are the drivers of India's growth? Industrial de-licensing after 1991 allowed Indian private companies to produce whatever they liked in almost all areas, without the need for a license. Growth has unambiguously reduced poverty and improved the human condition in India. But the gains of the middle and richer classes have been greater than those that went to the poorer sections of society.

Keywords: Entrepreneurship, economic development, paradigm shift, trade orientation, globalization, economic self-reliance, consensus.

INTRODUCTION

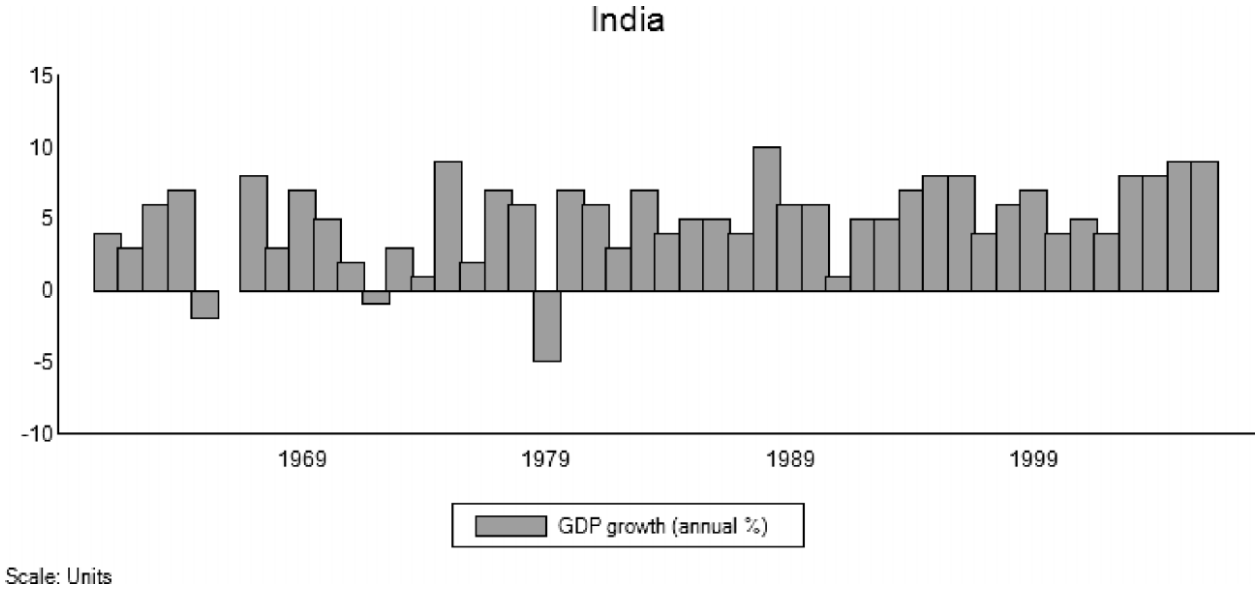
Entrepreneurship has long been considered a crucial mechanism of economic development (Schumpeter 1934; Landes 1998). However, empirical studies on the role of entrepreneurship in economic growth show mixed evidence (Stam 2008). This is not remarkable because there is much heterogeneity in both the kinds of entrepreneurship and the kinds of economic contexts in which economic growth takes place. Unlike China, India could neither abolish private enterprise nor could it embrace globalization with the same speed and ferocity. Both complete state-driven nationalization and state-driven globalization would demand a state, which would have much greater command over interest groups like industrialists, farmers and trade unions. Substantial economic policy change would require building upon a historical path of gradual changes in ideas and policies, punctuated by economic crises. This paper demonstrates how this dynamic is critical for explaining the politics of the green revolution and consequent self-sufficiency in food grains, as well as for understanding the India's globalization beyond 1991. It is a story of getting to higher rates of economic growth in a gradual and circuitous way after building a policy consensus among diverse stakeholders. Economic crises aided the arrival of a new consensus.

ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT

Development is a broad concept entailing the raising of human capabilities (Sen 1999). One of the central challenges in improving economic development is to increase the standards of living for individuals and growth of the economy as a whole. Even though economic growth in itself is a rather narrow target, it is probably one of the most important targets for development policies. It is also one of the measures that is most easy to access for analysts,and probably the best measure to make cross-national (Barro 1991; Sala-i-Martin 1997) and historical (Maddison 2001) analyses of the development of economies. Traditionally the economic output of a country is seen as a function of capital and labour inputs, combined with technical change (Solow 1957). Of course, conflicts and wars might interrupt this function (Sala-i-Martin 1997), but these are 'just' contingencies. The standard production function used, shows that economic output (Y) is a function of the sum of labour and capital inputs, and the level of technological knowledge (i.e. productivity). This means that economic growth—the growth of economic output—is a function of the growth of labour and capital inputs and technological progress. In traditional models of economic growth investment in capital, labour and technology is sufficient to realize economic growth.

India's growth rates began looking more like China's after 2003. Figure 1 gives us a visual feel of the trajectory of India's growth. Between 1956 and 1974, India's GDP grew between 3 and 4 percent per annum, when it was a closed and highly regulated economy

FIGURE 1
INDIA'S GDP GROWTH



Source: *World Development Indicators* (Washington, DC: World Bank, 2018).

The same increased to over 5 percent between 1975 and 1990 when India's domestic private sector was given greater room for maneuver. This was not a period when India's engagement with the global economy saw a significant rise (Figure 2). The paradigm shift in private sector and trade orientation beyond 1991 has been associated with higher rates of growth, over 6 percent between 1991 and 2004, and over 8.5 percent between 2003 and 2007. It is the latter figure that has drawn the attention of the world when India became one of the fastest growing economies in the world after China.

FIGURE 2
MEASURING INDIA'S GLOBALIZATION–MERCHANDISE TRADE/GDP (%)

India, on the other hand, was caricatured as a country whose industrialization and growth were obstructed by politics and patronage. India's sustained growth beyond 1991 poses a puzzle for this literature. This paper will discuss the twists and turns in India's economic development policy since the time of independence in 1947, which gradually resulted in the high growth trajectory. It will deliberate on the reasons why sectors like telecommunications and stock markets became efficient, while others like the power sector lagged behind. What are the socioeconomic and political reasons for low levels of literacy in India, the decline of Indian agriculture, the persistence of poverty, and the rise of inequality in India?

India's business houses were regulated to a greater or lesser extent by the state depending on the amount of influence they could handle within the state. The period from 1947 to 1968 were years of moderate regulation by the state. In comparison, the years between 1969 and 1974 were characterized by stringent regulation of private and foreign companies. The inability of the state to meet the demands of an increasingly mobilized people in the context of low levels of growth and productivity led to a gradual process of liberalization of the economy favoring the private sector between 1975 and 1990. The substantial bias in favor of government ownership and economic self-reliance that remained needed the balance of payments crisis of 1991 for spurring further economic liberalization. In 1991, a technocracy convinced about the importance of globalization and private initiative exploited India's dependence on the IMF to direct policy attention towards the competitiveness of the Indian economy. India's private sector was freed from significant state control during this period. The subsequent Indian private sector boom has been associated with high levels of economic growth in India.

The power of Indian business and its close links with the state produced a regulatory regime between 1947 and 1955, which was far more considerate towards the interests of Indian business than the socialists within the Congress Party had desired. The socialists had desired greater government control over private assets. India's accelerated economic growth, at a rate greater than 5 percent in the period from 1975 to 1990, needs to be understood in the context of steady private sector orientation beginning in the mid 1970s, which accelerated in the 1980s. Thoughts about private sector and trade orientation arose in the mid-1970s. In 1975 a special Cabinet Committee was formed for export promotion.16 A number of influential reports the period of domestic deregulation witnessed the emergence of the software sector as an export oriented sector. This was aided by synergies between the Department of Electronics (DOE) and India's natural comparative advantage, which lay in its cheap English speaking technically competent workforce.

The most important legacy of the Rajiv Gandhi government was the background research on economic liberalization that was carried out within the Prime Minister's Office, the Ministry of Commerce and Industry and the Ministry of Finance by people like Montek Ahluwalia, Shankar Acharya, Rakesh Mohan, and Vijay Kelkar. This effort was spurred in part by India's own policy failures and in part by the rising growth rates in China and Southeast Asia.

What are the drivers of India's growth? Industrial de-licensing after 1991 allowed Indian private companies to produce whatever they liked in almost all areas, without the need for a license. To give one example, the Tatas, who were not allowed to make Indian cars during the regime of controls, took the initiative and produced one of India's most popular cars – the Indica. The devaluation of the Indian Rupee automatically made India's software and other exports more competitive. To give just one example, India replaced Japan as Sri Lanka's biggest trader in 1996 after a period of 60 years. Geography, exchange rates, and improved products made Indian goods such as watches, motor bicycles, cars, and trucks more competitive than their counterparts from Japan. Titan watches replaced their Japanese counterparts and the cheaper Indian Kawasaki Bajaj and Hero Honda bikes replaced the more expensive Kawasaki and Honda bikes from Japan.

India's increasing competitiveness arose also as result of the competition from foreign markets. Even though India's tariffs are high by Association of Southeast Asian Nations standards, the weighted average nominal tariff came down from 81.4 percent in 1991/92 to 32.9 percent in 1995/96 to 18 percent in 2004/05. India abolished its quotas for consumer goods in 2001. Third, tariff liberalization, which was especially successful in the intermediate goods sector, reduced the prices of Indian finished products.32 Preferential trade agreements with Singapore, Sri Lanka, and Thailand also pushed the government and Indian companies to increase their competitiveness.

SUGGESTIONS AND CONCLUSION

The trajectory of economic policies favoring India's growth was path dependent. From 1947 to 1975 the policy consensus favored an important role of the state within a relatively closed economy. Private enterprise survived during this period but India's trade declined. Changes in the policy consensus favoring economic deregulation began to appear in the mid-1970s, which prepared the ground for the tectonic policy shifts beyond 1991. The major challenge for India's development is inclusive growth.

Growth has unambiguously reduced poverty and improved the human condition in India. But the gains of the middle and richer classes have been greater than those that went to the poorer sections of society. This is evident from the fact that reforms in areas such as telecommunications, banks, stock markets, airlines, trade and industrial policy have not been matched by agricultural and human development.

India's industrialization continues to be capital and knowledge intensive at a time when over 250 million people survive on less than a dollar a day. If India grows in this way it will take a longer time to eradicate poverty, illiteracy, and malnutrition. Moreover, slow progress in human development in areas such as education and health will make it tougher for India to grow in the long run. India's high growth trajectory, which is essential for development, has become reasonably stable. The debate is not about whether India will grow at 6 percent or at 4 percent per annum. The debate is whether India will grow at 10 percent or 8 percent or 6 percent. This is a substantial achievement.

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