

1. Elaborate the link between Policy Paralysis and the rise in unemployment. Also describe how such situation leads to the erosion in confidence in government and further leads to various other problems in an economy. (150 Words)

**Answer:**

- The Indian Economy, which was doing exceptionally well in the first decade of 21st century had the potential to grow at 8 to 9 per cent, but it was slowed down to 4.6 per cent. The government with its short-sighted policies missed a very good opportunity to put the economy on a high growth trajectory.
- According to the Economic Survey for 2012-13, the moderation in growth was primarily attributed to weakness in industry which registered a growth rate of 3.5 per cent and 3.1 per cent in 2011-12 and 2012-13, respectively. This industrial weakness is attributed to the policy paralysis, government didn't brought meaningful reforms to the system and instead of concentrating on doling out subsidies for votes, it should have focused on expediting investment in big infrastructure projects and bringing pending reforms in labour and fiscal sector.
- The reasons attributed to policy paralysis are:
  - a) Formation of coalition government leads to pressure from political parties and consensus cannot be developed – for example the railway reforms – rise in fair of railways had to be reversed due to TMC objection, which in turn led to further deterioration in finances of Indian railways.
  - b) Judicial Activism – The Vodafone judgment on Transfer pricing created negative investment sentiments in India and though it was a laudable decision, it affected foreign investment flow in India.
  - c) Corruption and scams including 2G, Coal gate and their indictment by the CAG also created situation where government was always in defence mode could not take tough decisions.
- Such environment lead to erosion in confidence among the domestic corporate sector and foreign investors, as a result, there was reluctance in investing in new plants and thus, not enough employment was generated.
- It also affected the efficiency and ICOR increased during this period, which means the productivity and export competitiveness fell during the period and no wonder country had to face a semi-currency crisis in 2012-13.
- Similarly, government also ran huge fiscal deficit, which added to the inflation and further eroded the investor's confidence.
- Increased inflation with falling incomes also lead to a huge decline in savings and investment ratio. India's savings and investment was 36.8% and 38.1% of GDP, respectively, in FY08. In FY13, the overall savings rate dropped to 30.1% of GDP and investment to 34.8% of GDP. This also shows an increase in the viability gap and further dependence on foreign capital.

## PRACTICE QUESTIONS

### **Answer the following Questions**

1. The developments since the beginning of 21st century have augured well for India-Japan relations, nonetheless terming them natural allies would require further consolidation of the ties. Critically comment. (150 words)
2. In view of India's quest to become a leading power globally, assess its potential to achieve desired outcomes and preparedness to address key emerging issues in international arena. (150 words)

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