1. For a developing country like India, the sectoral allocation of scarce resources is a critical factor determining pace and quality of development. Discuss.

Answer :

Resource allocation is the process of dividing up and distributing available, limited resources for competing priorities.. In a developing country like India, since the resources at disposal of government are limited, their allocation for meeting different priorities becomes an important challenge. For example, giving tax breaks cuts down the revenue stream of the government, but is considered critical to generating employment. Similarly, resources to keep the armed forces ready for protection of the country is as critical as meeting social security requirements of the vulnerable sections. In this context, it becomes necessary to critically set the targets, assess the current resources available and take steps for increasing the inflow in future so that goals of national development can be sustainably met.

There is no doubt that certain expenses are non-negotiable and their requirements should be met on priority basis. These include mostly revenue expenses such as salary and pensions of government functionaries, subsidies which the government provides for poor, etc. However, their rationalization is something that can be achieved going forward. Regarding capital expenses, these are the areas where governments have priorities - should money be spent on giving capital subsidies or tax breaks to services or to build highways and ports or to spend in education and health infrastructure or to promote certain industrial sectors which have potential to generate employment and increase exports?

It has been identified that efficient allocation of resources, keeping in mind the targets that we set for ourselves and the shifting trends in world economy, for India can be achieved if there is shift in allocation of resources from less or marginally more productive sectors to sectors which are either highly productive or have high potential for productivity growth In many cases, however, resources do not shift in this way. They shift instead from informal, low productivity sectors to ones that are marginally less informal/more productive. These are cases of “thwarted structural transformation”, which characterizes India‟s economic growth hitherto. This means that sectors which contributed to economic growth have undergone structural change without critically assessing the need of the economy. The shift has been there from informal and low productivity sectors (like agriculture) to the ones that are only marginally more productive (services like hotels, restaurants, transport). This is the reason for a stagnating industrial production, even though its potential may be much higher. This leads to unemployment and the tendency to keep the economy in a low equilibrium.

Economic survey identifies sectors and industries which have high return to investment values. For example, agriculture constitutes the largest, but decreasing employment avenue in India. It is necessary to invest in agriculture to meet the requirements of entire population. However, it must also be recognized that it is inherently a less productive activity and therefore investment should be made to both increase its productivity and to provide gainful employment to workers who are moving out. Growth achieved through investment in agriculture is only limited and simultaneous investment of additional resourcesshould be made sectors such as food-processing, leather and apparels, which have high productivity and employment and export potential.

We have the target of faster, inclusive and sustainable growth as defined by the twelfth plan. With the world moving towards a fourth industrial revolution and innovation driving its growth, it is essential for us to allocate resources towards these ends. Also, inclusiveness demands that the sectors that we promote going forward should be employment intensive as well highly productive. This can be achieved through investment in those sectors, most importantly manufacturing. Economic survey identifies 10 champion sectors which include capital goods, auto, defence, pharma and renewable energy to push growth in manufacturing and generate job opportunities. The other sectors are biotechnology, chemicals, electronic system design and manufacturing, leather, textiles, food processing, gems & jewelry, construction, shipping and railways.

Food processing, for example, can gainfully absorb the released labour from agriculture, have high productivity because they add value to raw materials and fetch more price per unit of input, and have more export potential. Hence, investing in improving the business environment for these sectors would be a better option than investing in less productive sectors. The quality and pace of growth achieved depends crucially on how we allocate our resources. Ad-hoc allocation to low productivity sectors also achieves growth; however that is non-sustainable and peaks out quickly. Better quality of growth can be achieved by adhering to desired structural transformations.

PRACTICE QUESTIONS

Answer the following Questions

1. Highlight the importance of MSME sector in India's economy. Also, identifying the challenges, suggest some policy recommendations to ensure their sustenance and competitive growth.

(150 words)

2. In the inclusive development index of World Economic Forum (WEF), India stands very low. Discuss briefly the issues associated with living standard, environmental sustainability and protection of future generations from further indebtedness in India, on which the ranking is done.

(150 words)