

# Economic Survey 2019-2020 Summary

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Economic Survey Volume 1 and Volume 2 Gist

**Prepared by ClearIAS.com**

# Volume 1

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Volume I, attempts to capture ideas that encapsulate “economic freedom and wealth creation”, provides evidence based economic analyses of recent economic developments to enable informed policymaking.

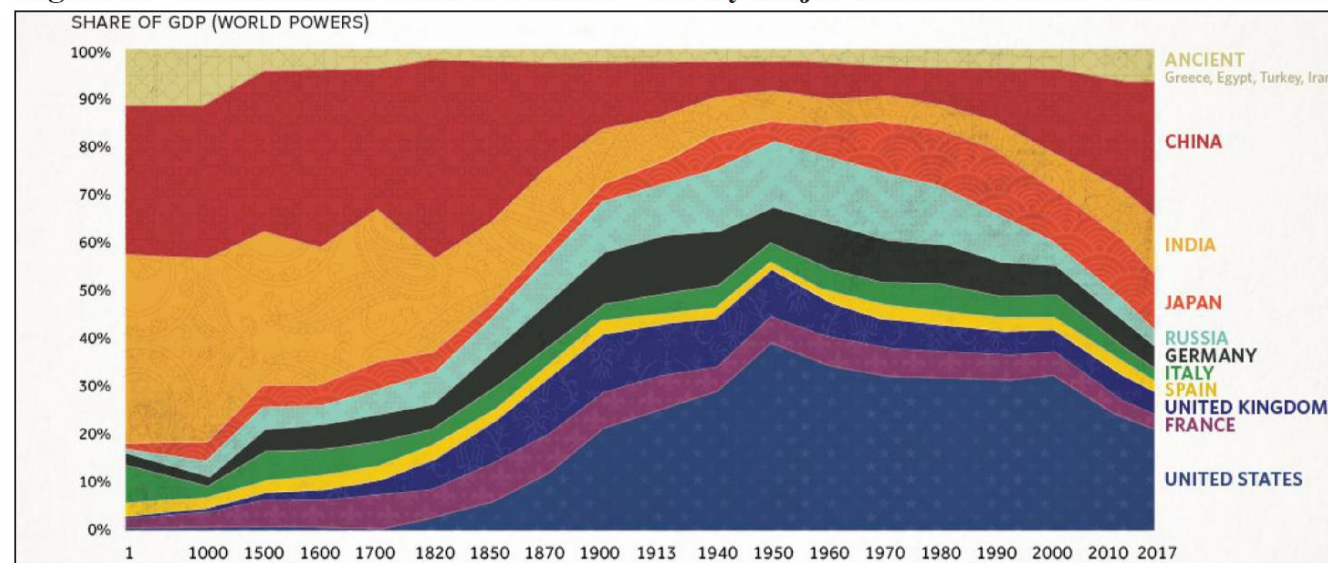
# Chapter 1

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## **Wealth Creation: The Invisible Hand Supported by the Hand of Trust**

# Wealth Creation: The Invisible Hand Supported by the Hand of Trust

**Figure 1: Global contribution to world's GDP by major economies from 1 AD to 2003 AD**



Source: Maddison A (2007). Note: X-axis of graph has non-linear scale, especially for 1-1500 AD, which underestimates the dominance of India.

# Wealth Creation: The Invisible Hand Supported by the Hand of Trust

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- For more than three-fourths of known economic history, India has been the dominant economic power globally. Such dominance manifests by design; not happenstance.
- During much of India's economic dominance, the economy relied on the invisible hand of the market for wealth creation with the support of the hand of trust.
- Specifically, the invisible hand of markets, as reflected in openness in economic transactions, was combined with the hand of trust that fostered intrinsic motivation by appealing to ethical and philosophical dimensions.
- As far as half-a-century back, Spengler (1971) reflected this fact by asserting that Kautilya's *Arthashastra* postulates the role of prices in an economy.

# Wealth Creation: The Invisible Hand Supported by the Hand of Trust

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- The Survey shows that contemporary evidence following the liberalization of the Indian economy supports both pillars of the economic model advocated in our traditional thinking.
- The exponential rise in India's GDP and GDP per capita post liberalisation coincides with wealth generation in the stock market.
- Similarly, the evidence across various sectors of the economy illustrates the enormous benefits that accrue from enabling the invisible hand of the market.
- Indeed, the Survey shows clearly that sectors that were liberalized grew significantly faster than those that remain closed.
- The events in the financial sector during 2011-13 and the consequences that followed from the same illustrate the second pillar - the need for the hand of trust to support the invisible hand.
- In fact, following the Global Financial Crisis, an emerging branch of the economics literature now recognises the need for the hand of trust to complement the invisible hand.

# Wealth Creation: The Invisible Hand Supported by the Hand of Trust

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- The survey posits that India's aspiration to become a \$5 trillion economy depends critically on strengthening the invisible hand of markets and supporting it with the hand of trust.
- The invisible hand needs to be strengthened by promoting pro-business policies to (i) provide equal opportunities for new entrants, enable fair competition and ease doing business, (ii) eliminate policies that unnecessarily undermine markets through government intervention, (iii) enable trade for job creation, and (iv) efficiently scale up the banking sector to be proportionate to the size of the Indian economy.
- Introducing the idea of “trust as a public good that gets enhanced with greater use”, the Survey suggests that policies must empower transparency and effective enforcement using data and technology to enhance this public good.

# Chapter 2

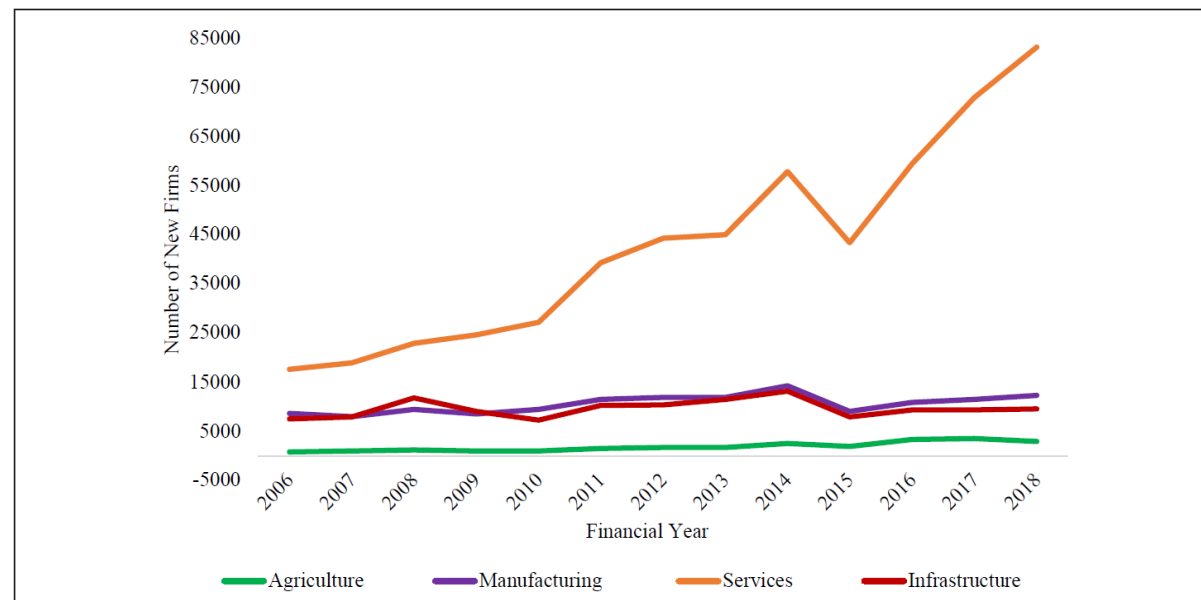
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## **Entrepreneurship and Wealth Creation at the Grassroots**



# Entrepreneurship and Wealth Creation at the Grassroots

Figure 2b: Growth in new firms over time in India



Source: MCA-21 and Survey Calculations

# Entrepreneurship and Wealth Creation at the Grassroots

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- This chapter examines the content and drivers of entrepreneurial activity at the bottom of the administrative pyramid – over 500 districts in India.
- The analysis employs comprehensive data on new firm creation in the formal sector across all these districts from the Ministry of Corporate Affairs (MCA)-21 database.

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