

**APPLICATION OF TRICKLE DOWN THEORY IN ECONOMICAL POLICIES OF
INDIA
(A STUDY OF INDUSTRIAL INNOVATION IN NATIONAL CAPITAL REGION)**

Deepa Rani
Research Scholar
Mahatma Gandhi Kashi Vidyapith, Varanasi
Department of Journalism & Mass Communication,
Mahatma Gandhi Kashi Vidyapith, Varanasi

Abstract

Trickledown theory has been observed in the economical development through which poverty is reduced in a society. For the wealth, it trickles down from rich to poor. Further, the theory says that the process of industrial innovation and foreign investments will support the economical growth and allow the benefit to trickle down from rapid growth. During the presidency of Ronald Regan, this theory got more legitimacy in the USA. In fact, the theory linked to Regan economic policies came to be known as Reagonomics. It was the Trickle-down Theory of Development which faced vast criticism, but the concept and ideology contained in the theory is still being applied in the economical Development of some countries including India.

In India after 1991, when privatization, globalization and decentralization of resources started, various forms of trickle-down approaches were observed. Several forms of impact were observed in the economical development policies of government to benefit the poorest section of society. Certain policies supported entrepreneurs to earn profit through vast investments in different locations of India. In the year 2006, the Government of India devised principle guidelines for establishing SEZ (Special Economic Zone) in India. SEZ is duty free enclaves which are purposely established for generating trade, operations and tax benefits. This self-contained zone are integrated with their own infrastructure and support services which are benefitted with low tax, good incentives and other bureaucratic regulations. The main purpose of Special Economic Zone scheme in India is:

1. Generation of additional economic activities
2. Promotion of exports of Goods and services
3. Promotion of investments from national and international sources.

4. Providing more employment opportunities
5. Development of advanced infrastructure facilities

In the last one decade various IT, ITES, outsourcing and other manufacturing as well as service industries are established in the special economic zones of India. The study will focus on the close conceptual framework of Trickle Down Theory with the policies of Indian Government. It will also try to find out the relevance of this theory in Industrial Development and Economical Growth of India.

Keywords: trickledown theory, industrial development, economic policies, special economic zones.

Introduction

Trickledown is an approach through which things move from top to the bottom. Trickle-down theory has been found to be integrated by various countries in their developmental projects for economical growth. Development itself is a trickle-down process except when the approach is localized. Trickle-down Theory is considered in economical development as a concept to reduce poverty in a society. As per the Goal-9 of the Sustainable Development Goals (SDG) initiated by United Nation Development Program (UNDP), investment in infrastructure and industrial innovation are crucial drivers of Economical Growth and development. Manufacturing is also an essential driver of economical development and employment. Without technological innovation, industrialization cannot be done. Likewise, without industrial growth, development is difficult to achieve. Through the process of industrialization, development of the welfare states and democratization allow for the trickle down of the benefits from swift growth. This theory was first initiated by Ronald Regan during the great depression in the United States of America. Later this theory was repeatedly found to be applied during the regime of President Bush and President Trump. In India, the trickle-down theory was first experimented in the year 1991 when privatization, decentralization and globalization of resources began. The new policy envisages disinvestment of government equity and marked a leap towards liberalization and privatization. The objective was to increase market competency and achieve modernized economy. If we study the growth and development of NCR(National Capital Region), several popular multinational and corporate companies were taking interest in establishing their infrastructures in these zones sighting the huge manpower and skilled labor resource. Presently,

major international and domestic companies are successfully established in these NCR regions of India. Either it is Liberalization of Industrial Licensing Policy or the Foreign Direct Investment Policy, these were envisaged with the intention to drive the economical growth of the nation. Certain policies also supported the entrepreneurs to earn profit through the vast investments which trickle down to the employees and the workers. They expend their wages to drive economic growth of the nation. In the year 2006, the Government of India developed principle guidelines for establishing Special Economical Zones in India with the purpose for generating trade, operations and tax benefits to attract investors from the foreign and domestic sources. Such policies also helped in developing infrastructure facilities along with generating employment opportunities and enhancing the economical growth of the nation. The aim of the research study is to find out the application of trickle-down theory in the Indian economical policies and reform process. It will also try to find out the impact of such policies in the National Capital Region of India.

Research Objectives

- ✓ Assessment of developmental ideologies of Indian government through Trickle Down economics.
- ✓ Assessment of the relevance of this theory in industrial development of NCR.

Research Questions

The Research Questions of the paper are:

1. How far the Trickle-down Theory has a close conceptual framework with some economic policy of Indian Government.
2. How far these policies encourage the Economic Growth and Industrial Development of NCR (National Capital Region).

Literature Review

As mentioned by Himanshu Arora, the Doctoral Scholar of Economics, JNU, The proponents of Trickle Down Economics argues that rise in income at the top spectrum would lead to more jobs, more income and more poverty. According to this theory, as long as the economy is growing, the benefit will eventually reach the poor and make their way through the system that will make

everyone better off. It says that as the growth happens, the fruit of the growth will eventually flow to the poorest section of society.

- ✓ Dr. Satya Narayan Sahu mentioned in his article that the defining feature of Reaganomics or supply side economics is trickling down of economic growth became a model of economic planning across the world in 1990's.
- ✓ In his book culture and consumption Grant MaCracken aims to rehabilitate the Trickle Down Theory. He expanded this concept in the modern contemporary society to define the groups that assume super ordinate roles in the modern trickle down process.
- ✓ Proponents of Trickle-down model, especially Simon Kuznets, reached the following conclusions that when the rate of capital growth is amply high, the market economy converges to a steady wealth distribution. Secondly, even though the trickle-down process can lead to a distinctive kind of distribution under laissez-faire, redistribution of money from rich lenders to the middle-class and the poor borrowers improves the production competence of the economy. Third, the process of capital growth initially has the effect of increasing inequalities but in later stages it decreases them.
- ✓ Chandrasekhar (2003, p.3) defined three supply-side mechanisms through which Indian industrial development would occur. First, the breach of controls was likely to improve domestic market competition, activate a process of industrial reforms would increase utilization of capacity through competition. This was expected to produce new superfluous leading to advanced development. Second, liberalization in the import of industrial goods would direct investments and enhance international competitiveness. As a result exports would rise more swiftly leading to higher opportunities. Thirdly, the liberalization of international investment and trade was expected to increase larger inflow of foreign investments which would enhance international export.

Research Methodology

The study tried to find out the close conceptual framework of trickle-down theory with economical policies of India through literature review. With due references, secondary data was also used. The study also focused on the economical growth and industrial development in NCR (National Capital Region) through physical observation method. It also posed open and closed-ended questions to find out the development of SEZ locations through survey method (self-designed questionnaires).

Analysis

After independence in 1947, India followed the socialistic framework planning and initiated ambitious strategies of industrial and economic development which were dedicated to self-sufficiency. But such strategies failed to develop national economy and competent institutions. The first approach for industrial growth was outlined in the Industrial Policy Resolution of 1948. Later in 1951, the IDRA (Industrial Development and Regulation Act) was introduced to enact industrial licensing policy. The purpose was to channelize private resources as per stated priorities of development plans. In 1964, Monopolies Inquiry Commission (MIC) was established by government to inspect the effect of economic power in private hands. Later Monopolies and Restrictive Trade Practices Act (MRTP) was planned. In July 1969, an Industrial Licensing Inquiry Committee was appointed to examine the shortcomings of licensing policy. Later, in 1973, the Foreign Exchange Regulation Act (FERA) was revised and improved. The industrial Policy Statement of 1977 focused more in promoting small scale cottage industries and in decentralizing industrial sectors. After 1980, government policies were focused on diluting the licensing system to encourage entrepreneurs for industrial establishments. Finally, in the year 1991, the full fledged industrial and economic liberalization was introduced in India which involved stepwise approach. It first initiated the re-establishment of the macro- economic stabilization which was then followed by structural and sectoral reforms.

1. How far the Trickle Down Theory has a close conceptual framework with industrial policies of Indian Government.

The trickle-down economics claims that the profits provided to the wealthy class flow down to everyone else. These profits include tax benefits to business, high-income earners, capital gains, and bonus. According to this theory, the investors and the company owners are the real drivers of

economical growth. Owners of the companies invest in their operations and hire workers. All of these investments and expansion trickle down to the sub-ordinates and workers. They further spend their wages to drive demand and economic growth. In India after 1991, when privatization, globalization and decentralization of resources started, various forms of trickle down theories were observed. Several types of impact were observed in the economical developmental policies of government to benefit the poorest section of society.

Policies in the Post Reform Period (1991 – 1992 onwards)

In the year 1991 full-fledged liberalization of Indian economy began in India. The policy welcomed the foreign industries which slashed the trade barriers. This resulted in initiating industrial privatization and an immediate economical growth of 7 to 8 percent was also observed. The industrial sectors made huge gains in production, investments, pricing and trade.

- ✓ **The Liberalization of Industrial Licensing Policy:** The new industrial liberalization policy of 1991 eradicated all kinds of industrial licensing except 18 industries related to strategic and security concerns, hazardous chemicals, social and environmental reasons and items of elitist consumption. The policy supported the entrepreneurs to establish industries in the country to develop competitive infrastructure in the market without any restrictions. This policy was found in a close conceptual framework with the trickle-down theory which supported the economical growth through the investments of entrepreneurs. According to Trickle-down theory, as long as the economic is growing, the benefit will eventually reach the poor and make their way through the system that will make everyone better off.

- ✓ **Foreign Direct Investment:** The foreign direct investment policy of India has been revised from time to time. In the initial modification stage it included only 51 percent of equity ownership by international companies in a group of 34 technology-intensive industries. At present, the policy allows 100 percent ownership of international companies in a huge number of industries excluding few sectors which are allowed only through government approval on the recommendation of the Foreign Investment Promotion Board (FIPB). The policy helped India to attain financial stability and economic growth. It also helped in generating employment and eradicating poverty. The concept of Trickle Down Theory states that the investors, savers, and company owners are the real drivers of growth. Hence, with the support of international

investments, Indian economic stability was observed and the concept of this policy had a similar conceptual framework as that of trickle-down economics.

✓ **SEZ Policy**

The Special Economic Zone Policy was announced in India with a purpose to overcome unstable fiscal regime and shortcomings in control and clearance. The view was also to establish world-class infrastructural facilities and attract foreign investors to enhance the Indian economy. It was finally in the year 2006, the Special Economic Zone Act supported by SEZ guidelines came into effect with the primary objective to generate more economic activities in the nation, promote good and export services on large scale, create huge job vacancies for the youth and develop the infrastructural facilities. The Special Economic Zones of NCR contains both the processing and non-processing areas. If we study the growth and development of NCR (National Capital Region), multinational companies and international corporate bodies from all across the world has turned their heads towards this region. NCR is now home to major domestic and international companies which include IT, ITES, outsourcing and other manufacturing and service industries. As per the concept of Trickle-down, extra tax benefits to investors support them to expand their businesses. Owners make huge investments in their operations and hire workers. All these expansions and investments trickle down to the employees.

2. **How far these Policies supports the Economical Growth and Industrial Development of NCR(National Capital Region).**

The economical development of Independent India after 1947 was not at a pace because it was based upon the socialistic framework which was dedicated to self-sufficiency. Various policies and norms were created by the government to enhance the growth in industrial and institutional sectors. In the decades of 70's the process to decentralize the private industrial sectors was initiated with effective promotion of the Cottage and Small-scale Industries (SSI) in rural and small town locations but least growth was observed in national economy because the strict licensing system would slow down the industrial performance. India was not able to compete with the international market. After 1980, the government policies diluted the strict licensing system to encourage industrial growth in the nation. During this period, the seed of liberalization

was soon providing more freedom to the entrepreneurs. In 1991, finally the full fledged economic liberalization was introduced in India. This policy was initiated in a stepwise approach, it started with the restoration of the macro- economic stabilization, followed by structural and sector specific reforms. When the liberalization of Industrial Licensing Policy was introduced with a motive to transform India into a major partner and player in the global arena, the foreign direct investment policy also commenced in India. In continuation, with the above modifications in the Industrial policy of India, the Special Economic Zones policy was introduced which supported the economical growth of nation. The corporate and multinational sectors from all across the world started moving towards India.

Through an observation method, the industrial growth and infrastructure development of the SEZ locations were observed.

While studying the Industrial Development of NCR it was found that there are total nine SEZ locations. These include:

- ✓ HCL Technologies, which is an IT/ITES sector located in Noida.
- ✓ WIPRO Ltd, which is also an IT/ITES sector situated in Noida
- ✓ Moserbaer SEZ which is non conventional energy sector, which also includes solar energy equipment cell located in Greater Noida.
- ✓ Noida SEZ, a multiproduct sector also located in Greater Noida.
- ✓ NIIT Technologies situated in Noida
- ✓ Aachvis Softech Pvt. Ltd. which is also an IT/ITES situated in Noida.
- ✓ DLF Cyber city, an IT/ITES in Gurgaon
- ✓ DLF Limited, an IT/ITES in Gurgaon and
- ✓ Gurgaon Info Space Ltd which is also an IT/ITES situated in Gurgaon.

In the Noida SEZ location, the infrastructural facilities were developed by the government and were provided to the companies on lease. It is an export zone and contain good facilities with optimum resources. These zones consist of thousands of companies engaged in different activities. Other NCR SEZ locations include HCL, WIPRO, Moserbaer, NIIT, DLF City and DLF Limited, which have developed their own infrastructural facilities as per their business requirements. Private builders have supported the infrastructure with the construction of school, colleges, residential complex, shopping complex and roads. The company provided transportation facilities to their employees along with all basic facilities. The investors here are

the groups that assume super ordinate roles in the modern trickle down process. A survey was conducted in the SEZ location of NCR to find out the Social and Economical Development of these locations.

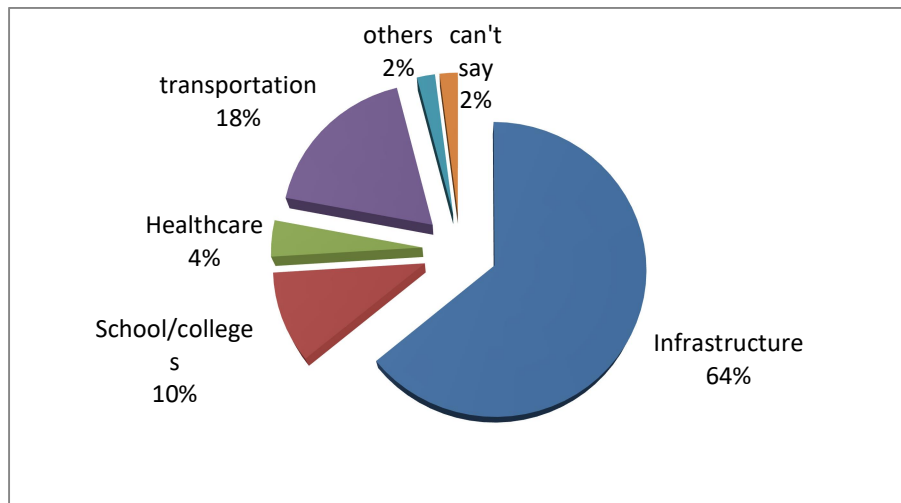
Findings

The total sample size was 50 and the random sampling technique was used for collecting data from the Special Economic Zones of the Noida and Greater Noida region. Both closed as well as open-ended questions were included in the survey. The respondents were in between 18 to 45 years of age group. It included professional, businessmen and non professional groups. The respondents were either residing or working in the SEZ location.

The respondents affiliated to the company included full time employees, part time employees and vendor service providers. These respondents were either management staffs, executives, associates, lower subordinate staffs or the housekeeping staffs. The non employed respondents included the juice vendors, shopkeepers, and the local residents of SEZ locations. The respondents shared mixed views which were both positive and negative. Most of them were found to be appreciating the infrastructural development of these locations.

Statistical Overview of the Findings:

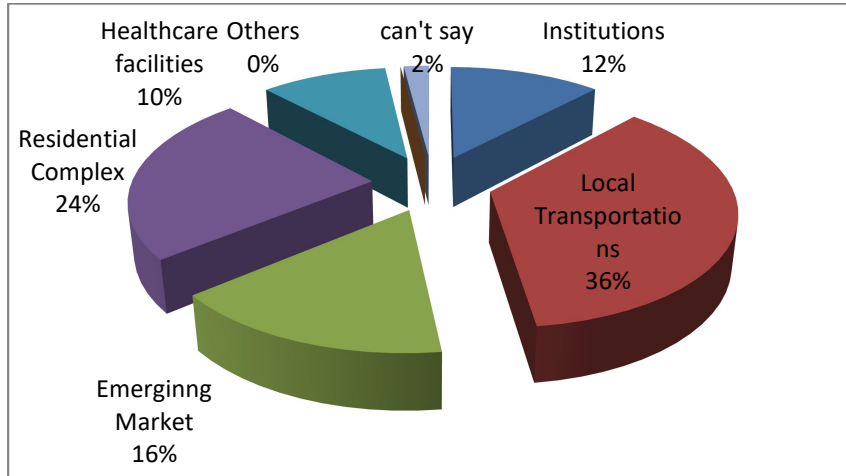
1. Specific Contribution of the company in the regions Socio economic development



32 out of 50 respondents appreciated the companies for developing good infrastructure in these locations. 5 respondents appreciated the school developments, 2 said about healthcare facilities

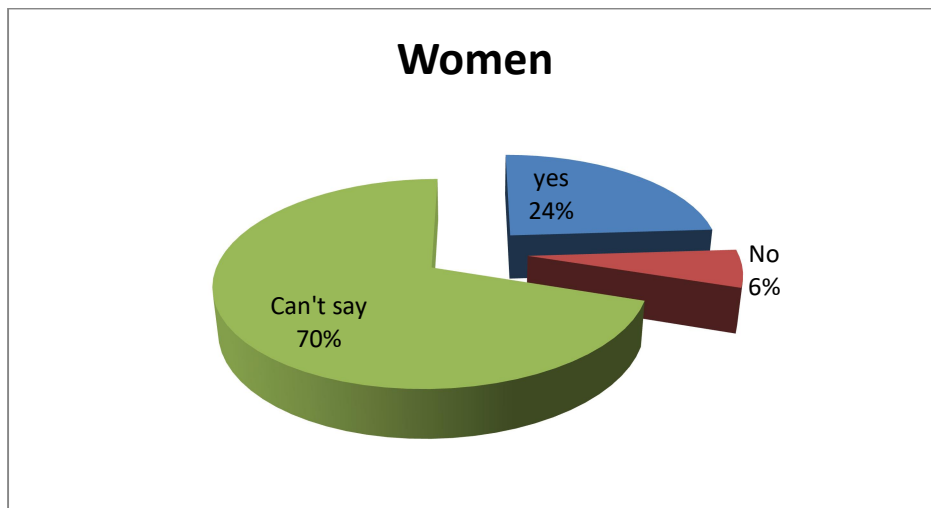
and 9 were talking about transportation facilities provided by the company. 1 respondent opted the other option whereas 1 was confused.

- The development noticed by the respondents during their stay in their locations.

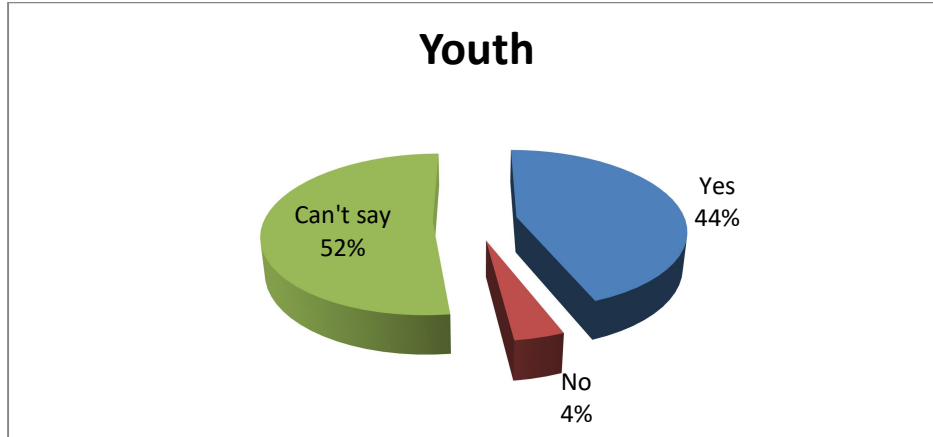


During their stay in the Special Economic Zones, 6 respondents mentioned the development of institutions, 18 talked about local transports, 8 found enhancement in the emerging markets, 12 mentioned residential complex, 5 were talking about healthcare facilities and 1 respondents opted can't say option.

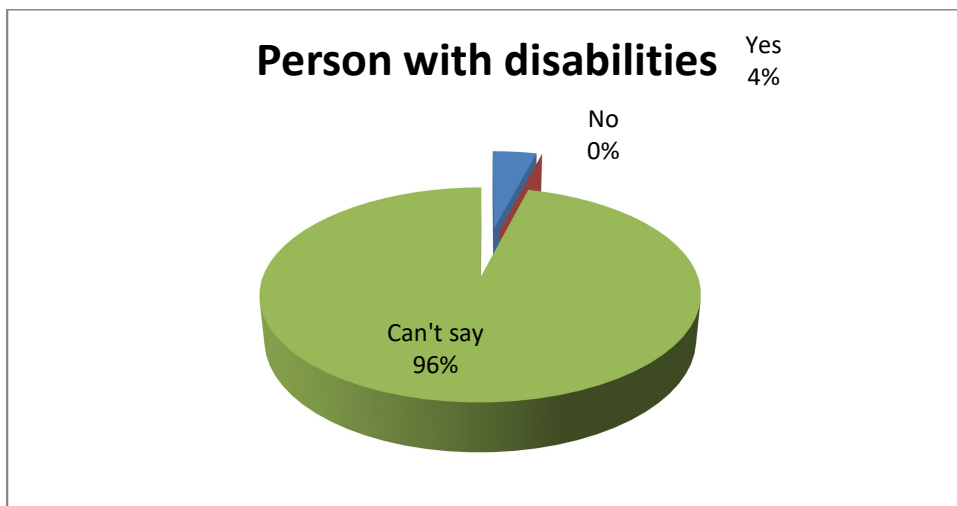
- Does the company specifically contribute participation of the following social groups?



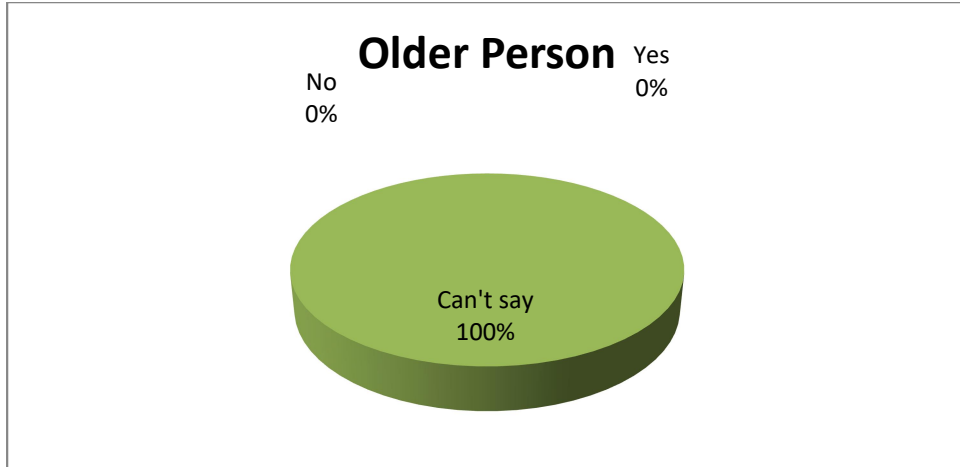
Out of 50, 12 respondents said the women get facilities from the company, 3 refused from any such facilities whereas 35 opted can't say options.



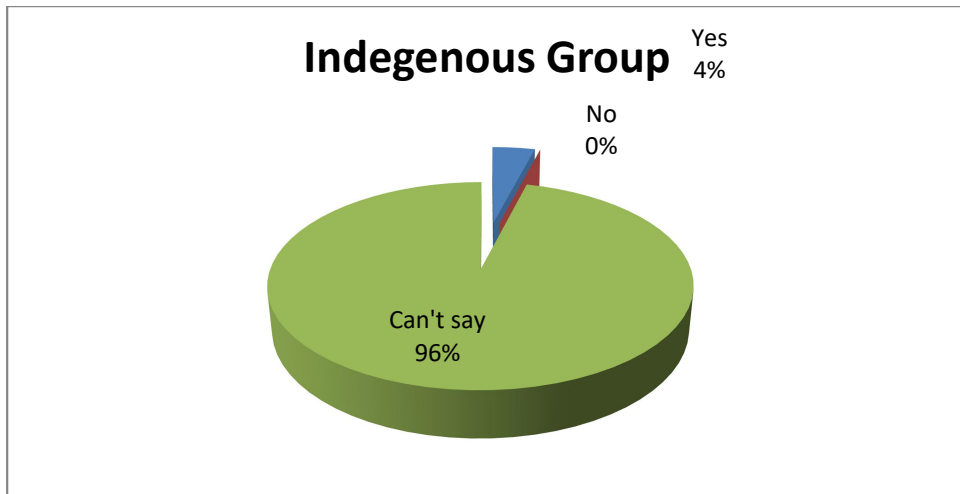
22 people appreciated their companies for providing opportunities to the youth. 2 refused from any such opportunity whereas 26 had no opinion.



48 respondents were unaware about any such benefits. 2 said that company provides facilities to such groups.

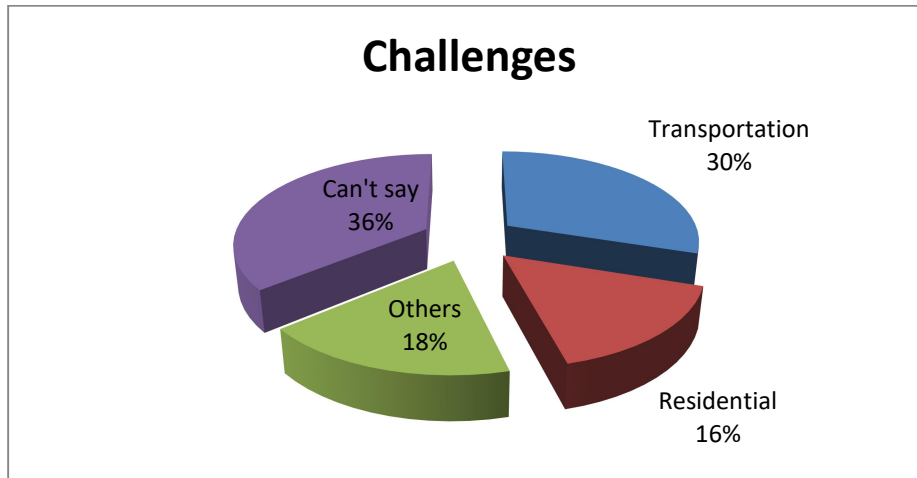


All the respondents were not aware about any facility for older people.



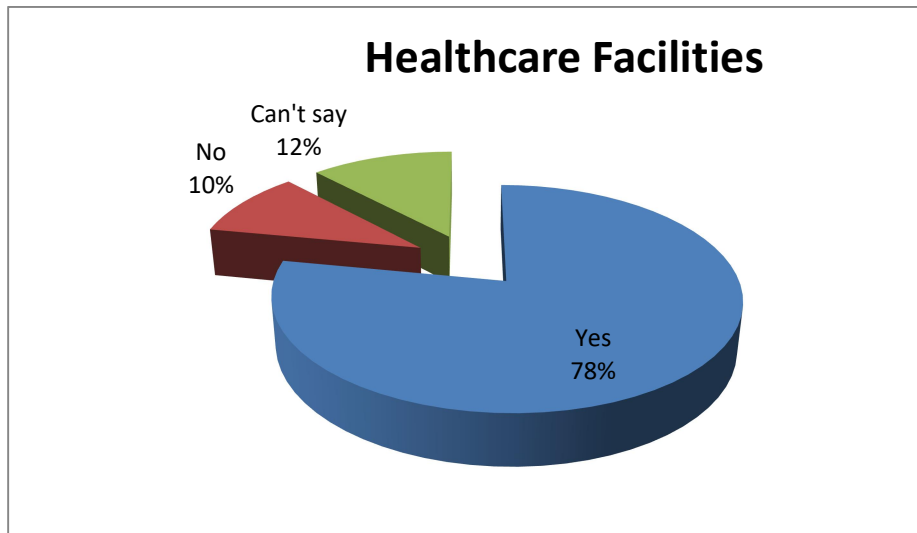
48 respondents had no idea whereas 2 respondents were found in favor of such facilities for indigenous groups.

4. Challenges experienced by the residents/employees?



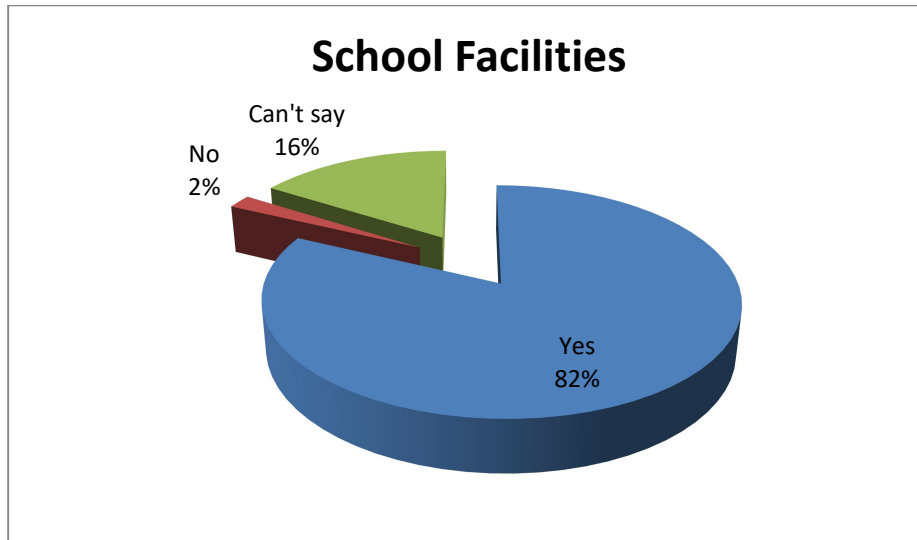
15 respondents were found to be experiencing local transportation problems. 8 talked about residential problems. 9 had other problems whereas 18 respondents had no challenges to share.

5. Is their proper healthcare facility available in the locality?



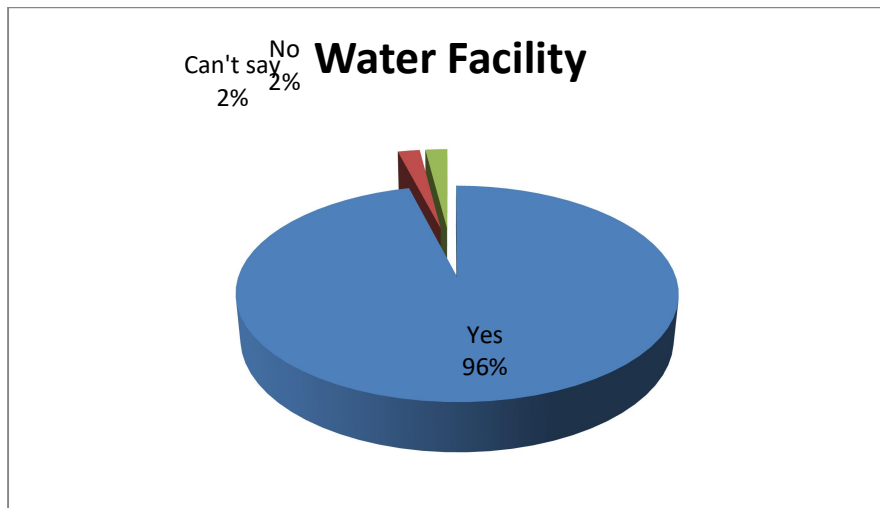
39 respondents agreed that they have optimum healthcare facilities while 5 denied and 6 were confused.

6. Is their proper school facility available in the locality?



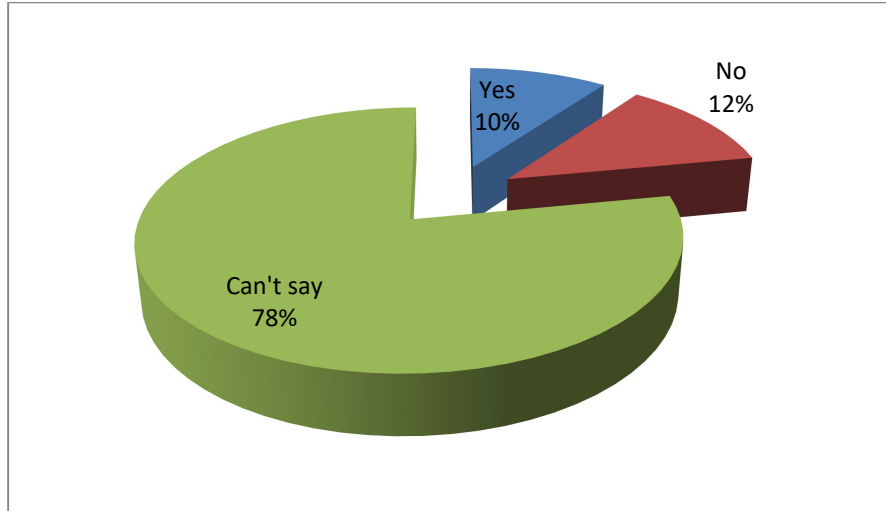
41 accepted that good schooling facilities are available in the locality for their children but 1 refused and rest respondents were confused in responding.

7. Is their proper water facility available in the locality?



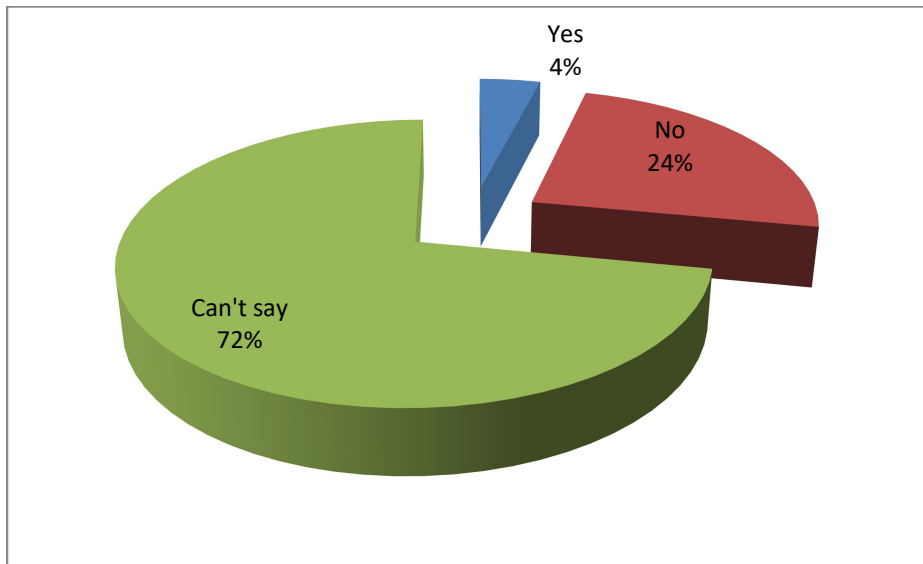
48 respondents said that they get good water facility in these locations. But rest refused and did not responded.

8. Does the company provide financial aid for the development of the zone?



Out of 50, 5 respondents agreed with the statement but 6 of them disagreed and 39 were neutral.

9. Does the government provide financial support for the development of this zone?



12 respondents disagreed from any such financial support for the development of their locations whereas two agreed. 36 respondents mentioned can't say option.

10. Expectations and Suggestions of the employed/residing respondents of SEZ locations of NCR

The local residence residing in the SEZ locations are mostly nearby villagers who keep more expectation to get hired in these multinational companies. The employee working in these SEZ

industries are mostly hired from all across the nation. The designation of these employees depends upon their education and experiences. They expect more security and development in these zones. Although the infrastructure is still developing but local transportation facilities are found minimum. There is no metro connectivity found. The auto and rickshaw facilities were also less. Even the buses ply on larger intervals. The working employees are completely dependent on their company's transportation facilities. The respondents expected more socio-economic development in these regions.

Limitation of the Study

The size of the sample used in the study was very small. Only 50 people were included in this survey. Hence, the analysis was limited to just 50 respondents from Special Economic Zones of the National Capital Region of India. It consist the employees and local residence in between 18 to 50 years of age groups. Hence, the nature of the entire population was not studied in the paper. The old age group, teenagers and the illiterate group were not the part of this survey.

Conclusion

The concept of trickle-down theory has been criticized on larger scale but the policies of the government still follow this concept to enhance the economical situation of the nation and maintain their position in the international markets. The policies of the post reform period helped the nation to establish advanced infrastructure and generate more employment opportunities. However, these approaches were not the end solution to improve the social and economical situation but a growth in national economy was observed after the liberalization policy. When SEZ Policy was introduced in India, advanced IT, ITES and manufacturing sectors were established and their investments supported in the development of infrastructure and facilities in these areas. The benefits provided by the government in these zones helped the companies to generate additional economic activities, develop infrastructure facilities and promote additional employment opportunities for youth. The large scale investments of the entrepreneurs and the government helped the local builders to facilitate residential complex, local marketing complex, schools, colleges, hospitals, roads and parks. The development of nearby villages was also observed and most of the villagers are now more engaged in their own business. They have constructed cemented houses and provide accommodation facilities to the employees and

students who come from far locations for education or employment purposes. Local schools and healthcare facilities for the villagers are also available. However, their poor education qualifications refrain them from joining the SEZ companies.

Hence various post reform policies had similar conceptual framework with the trickle-down theory of economical development. These policies initiated by the government also supported the economical growth and industrial development of the National Capital Regions of India.

References

Chakravarty Manas.(2015) *Just How high is Income Inequality in India?* Retrieved July 22, 2016

Kozma, R.(2005) *National policies that connect-based education reforms to economic and social development.*

Wilbur. Rogers D. and Joseph R. Dominic. (2011) *Mass Media Research: An Introduction* (Ninth Ed.) (Boston, MA: Wadsworth Cengage Learning), 290

Donald Treadwell. (2011) *Introducing Communication Research: Paths of Inquiry* (Thousand Oaks, California: Sage)

<http://www.investopedia.com/terms/t/trickledowntheory.asp> (accessed on 22 July 2016)

Livemint.(2016). *Inequality in India Far Worse than Believed.* (<http://www.livemint.com/Opinion/GdqzdrPteRzQFnTWAwgLYI/Inequality-in-India-is-far-worse-than-believed.html>/Accessed on 26 July 2016).

Treadwell, Donald. (2011) *Introducing Communication Research: Paths of Inquiry* (Thousand Oaks, California: Sage), 34; Roger D. Wimmer and Joseph R. Dominick. 2011 *Mass Media Research: An Introduction* (Ninth Ed.) (Boston, MA: Wadsworth Cengage Learning).

(PDF) *A Review of India's Industrial Policy and Performance.* Available from: https://www.researchgate.net/publication/280727114_A_Review_of_India's_Industrial_Policy_and_Performance [accessed Nov 02 2018].