

Growth and Structural Change in India, 1950-2015

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Indian Economy c. 2015

- 7th largest economy at current exchange rate (at \$2 trillion), and 3rd largest at PPP (as per IMF).
 - As against US \$18tn, China \$11tn
- Per capita income ranking 145th (with HDI ranking is 135th (HDR 2014)).
- **What is HDI?** based on 3 criteria: (i) Life expectancy at birth, (ii) mean years of schooling, and (iii) gross national income per capita.

Indian Economy c. 2010

- Per capita income is \$1,600, in 2014; Rs. 77,148, or Rs. 6500 per month.
- Domestic oriented economy: Export-GDP ratio 24%; merchandise exports just about 1½% of world trade (as against 18% of world's population).

Indian Economy c. 2010

- An agrarian economy with 53% of workforce engaged in agriculture ([Table 1](#)); 69% rural.
- India is a service economy by output (55%); a rural and agrarian economy by labour force distribution.
- It means growing inequality between rural and urban.

Long Term Trends, 1950-15 (1)

- Real annual economic growth: 4.4%, inflation 7%, BOP deficit 1-3% of GDP.
 - Macro policy is conservative with low inflation, modest BOP and fiscal deficits, relatively speaking
- Growth mostly financed domestically, GDS now is about 30% GDP, up from <10% in 1951.
- Gradual decline in annual pop. growth rate to 1.6%

Long Term Trends, 1950-10 (2)

- Household sector is the “surplus” sector financing government and private corporate sectors.
- NRI deposits and private flows finance the BOP. Much discussed FDI (in fresh fixed investment) forms just 1% of GDP, in best of years.
 - Lately FDI+FPI are financing BOP deficit significantly.
- India is a story of growth acceleration: No growth during colonial rule; low growth (3.5% pa) up to 1980; growth acceleration thereafter (6% pa); and briefly 9% during the boom last decade.

Initial Conditions, c. 1950

- Population: 350 million, over 70% living off agriculture, in villages.
- Modern sector: port-based export oriented cotton and jute mills, plantation agriculture.
- Pockets of prosperity, amid stagnation during colonial period.
- Modern public administration, spread of education in cities.

Period of Planning, 1950-80

- 1950-65: Rapid ISI in capital and intermediate goods, with public sector being the biggest “entrepreneur” – Mahalanobis plan.
- Fiscal and physical controls to promote “cottage industries” in consumer goods industries.
- Outcome: industry grew at 7% annually, ended in a BOP crisis with crop failure in mid-1960s.

Crises and Shocks, 1966-80

- Focus shifted to food self-sufficiency; Import substitution in fertilisers, and fuels.
- From rapid ISI to wider distribution of gains – regional dev., Small enterprises, new entrepreneurs etc.
- Increased controls on investment and output.
- Outcome: food self-sufficiency; Industrial deceleration.

Creeping Liberalisation, 1980-

- Emphasis on efficient ISI, step up in public investment in infrastructure, gradual opening to foreign capital and technology.
- Step up in agriculture and rural dev. – To spread the benefits of new agriculture technology – HYV seeds, irrigation and fertilisers.
- Outcome: growth accelerated to 5.5%. Industry turnaround, improved agricultural growth, poverty started to decline – for the first time.

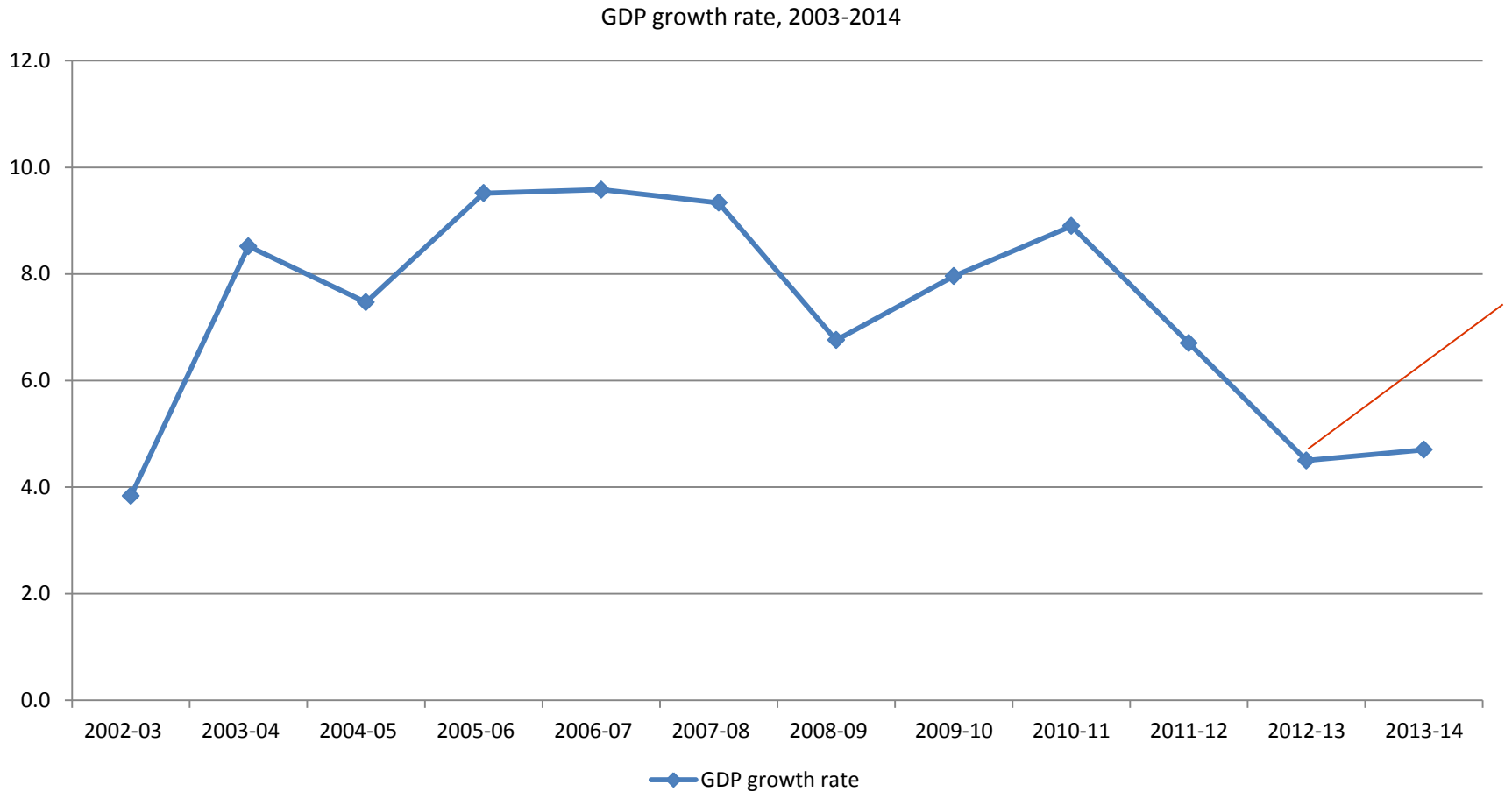
Speeding up of Reforms, 1991-

- Responding to external payment crisis, stabilisation and orthodox reforms were initiated in 1991 – popularly, **LPG**.
- The pace of it was much faster than in the past, but modest by comparative standard.
- Fiscal conservatism – sought to cut subsidies for the poor and for farmers; steep cut in public investment.

Speeding up of Reforms, 1991-

- Greater openness to foreign capital and technology; Deregulation in industry, trade and finance.
- Outcome: acceleration of growth in 2000s. Faster growth of services and exports, but agriculture suffered; Industry modernized, but growth did not improve; Poverty reduction moderated. Increased agrarian distress – farmers' suicides, leftwing extremists' violence.
- Widening inequalities.

Boom and Bust, 2003-2016



GDP Growth, 2003-2014

- GDP Growth, 2003-2016 Growth rate 1991-2003 – **5.5% PY**,
- 2003-08 – **8.9% PY**,
- Deceleration after 2011-12.
- But, official data shows an acceleration:
 - from **5.4%** in 2012-13 to **7.6%** in 2015-16;
- Many doubt this claim, new GDP numbers are widely contested.

Poverty Reduction

- India has more poor people than entire Africa.
- In 2004-05, about 27.5% of Indians or 302 million were poor.
- Abolition of famines; But persistence of malnutrition deaths and widespread deprivation.
- Poverty measured by calorie norm, roughly equal to \$1.25 a day. If it is \$2 a day, poverty climbs to probably 70% of the population.

Poverty Reduction

- Income poverty has declined since late 1970s; The rate of decline decelerated after the liberal reforms of 1991 ([Fig 6](#))
- Poverty more in rural areas, and concentrated in a few large states of north and eastern India – south and western India are better off.
- Poverty reduction has barely improved food consumption.
- Poverty reduction has had extremely limited impact on people's health outcomes.

Inequality (1)

- Measurement problems:
 - No income data available; Consumption as a proxy has problem as consumption of the rich is not adequately captured in surveys.
- So, I present inequality by broad structural features and between capital and labour.
- By all measures inequality has increased in the last 3 decades. ([Figures 2-5](#)).

Inequality (2)

- Economic inequality in India is suppose to be moderate – higher than east Asia, and lower than LA.
- But educational inequality in India is said to be worse than the income inequality in LA (Pranab Bardhan).
- If one take note of (age-old) social inequality, India is probably no better than LA.

Social Policy and Security

- Constitutionally mandated positive discrimination in public employment and higher education for the socially excluded.
- Social security only for organised sector, which accounts for 8% of workforce – practically none for the rest.
- Health and education record modest in comparative perspective, but rising gradually – wide variations across regions and between town and country ([Figure 1](#)).

Understanding Indian Experience

- Growth acceleration with macro stability – with growing inequalities
- Modest record in poverty reduction and limited social development.
- Creation of a nation state out of a civilizational state – with deepening democracy, in a highly heterogeneous society.

Economy and Democracy

- Fractious democracy exasperates collective action problems, limiting public investments with positive externality.
- Yet, democracy places premium on low inflation and macroeconomic stability.
 - As 9/10th of workforce has no indexation.
 - Indigenous capitalist class demands stability and protection from external forces.
- Deepening democracy compels public spending on redistributive policies, limiting market oriented reforms.

India at Cross Roads

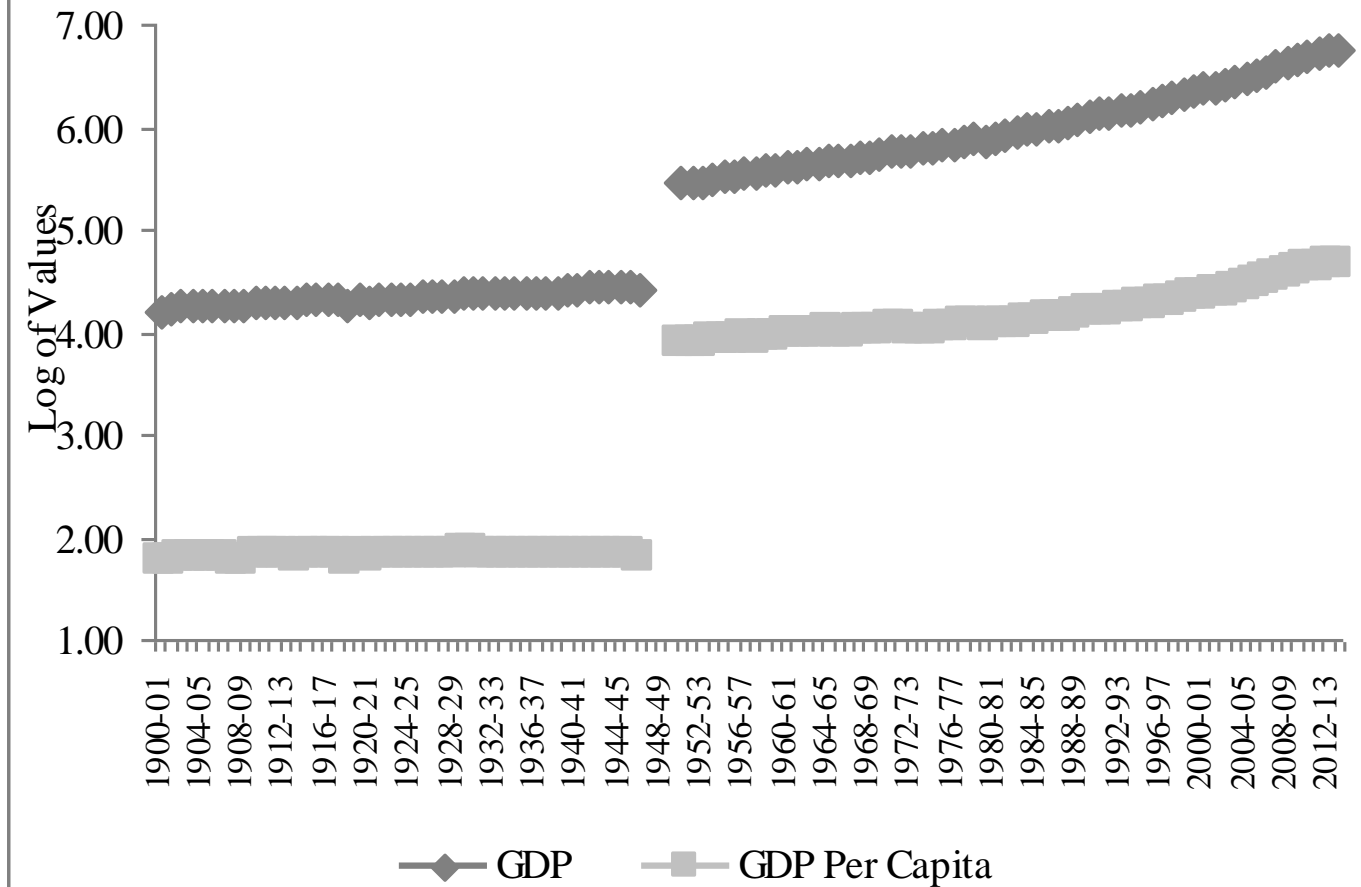
- Option 1: to follow the orthodox (neo-liberal, free-market) policy agenda to integrate with the world markets – as urged by international institutions. Actively followed in India currently.
- Option II: strengthen redistributive policies to address growing inequality, poverty and social backwardness.
 - Recent advances in rural employment guarantee act along with right to information act are powerful instruments for advancing the second option.

Thank You

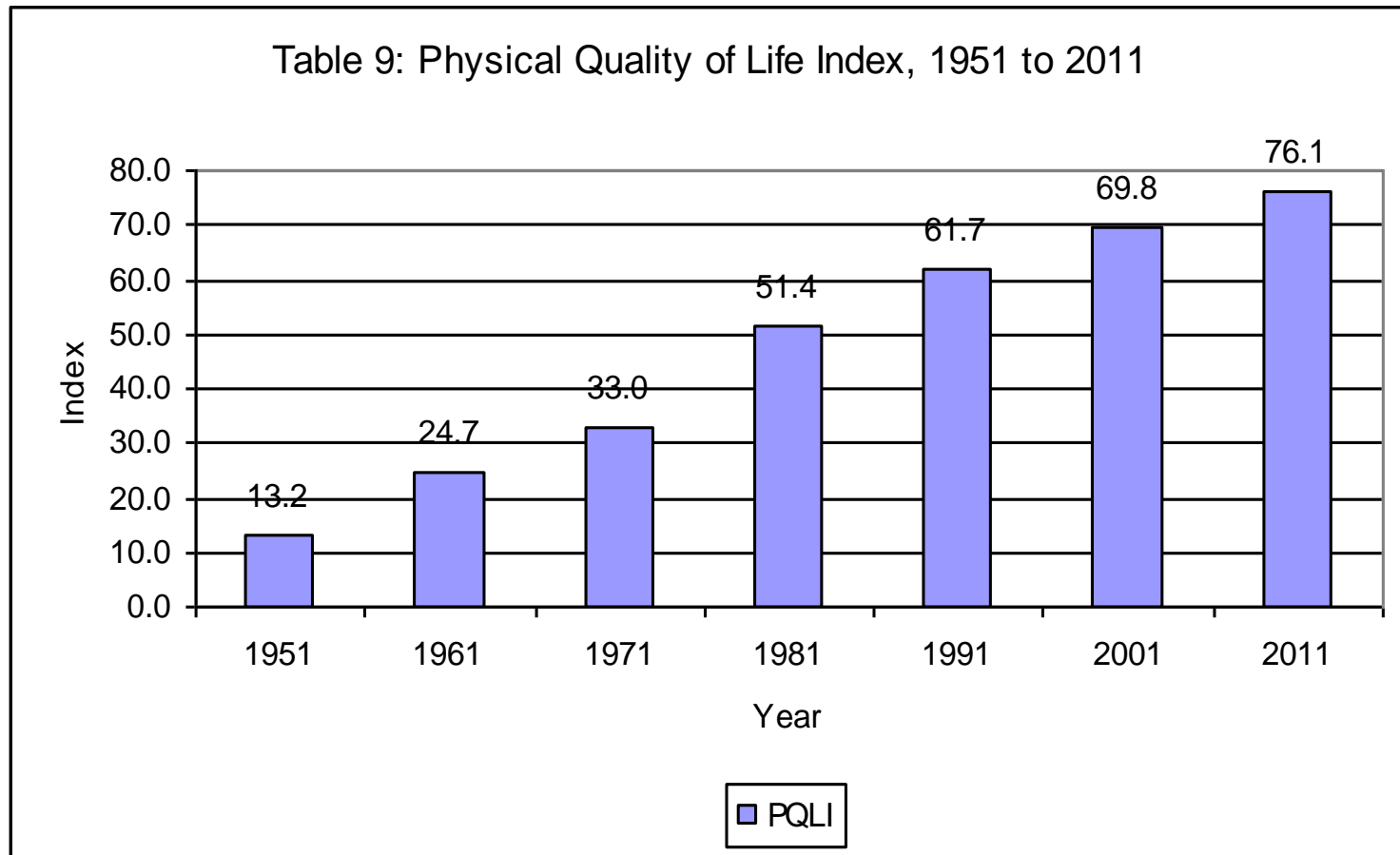
GDP and Workforce Distribution

| | 1983 | | 1993-94 | | 2009-10 | |
|--------------------|-------------|-------------|----------------|-------------|----------------|-------------|
| | % GDP | % Workforce | % GDP | % Workforce | % GDP | % Workforce |
| Agriculture | 40.0 | 68.5 | 30.0 | 64.0 | 14.6 | 53.2 |
| Industry | 24.3 | 13.8 | 25.2 | 14.9 | 28.3 | 21.5 |
| Services | 35.7 | 17.6 | 48.8 | 21.1 | 57.1 | 25.3 |

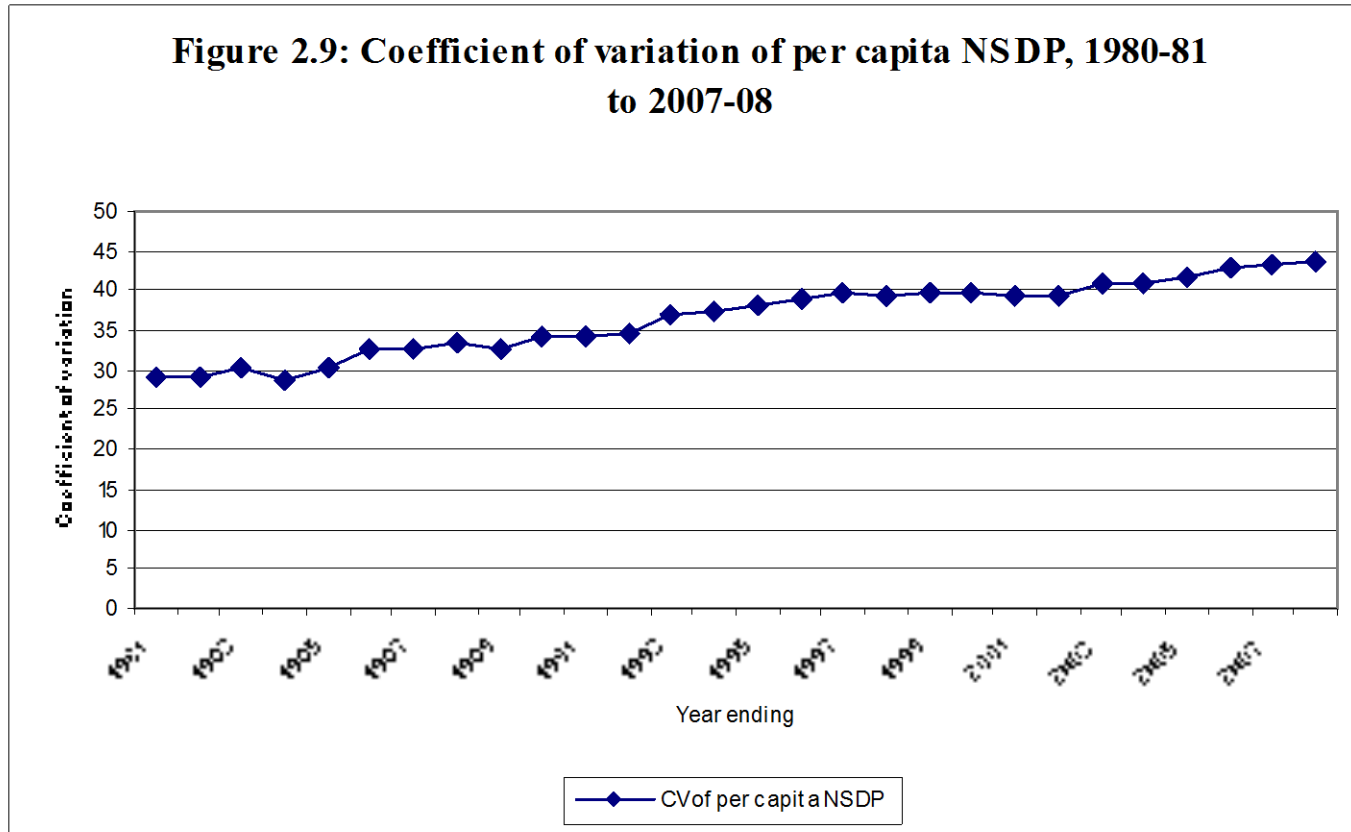
India's GDP and GDP Capita, 1901 to 2013-14



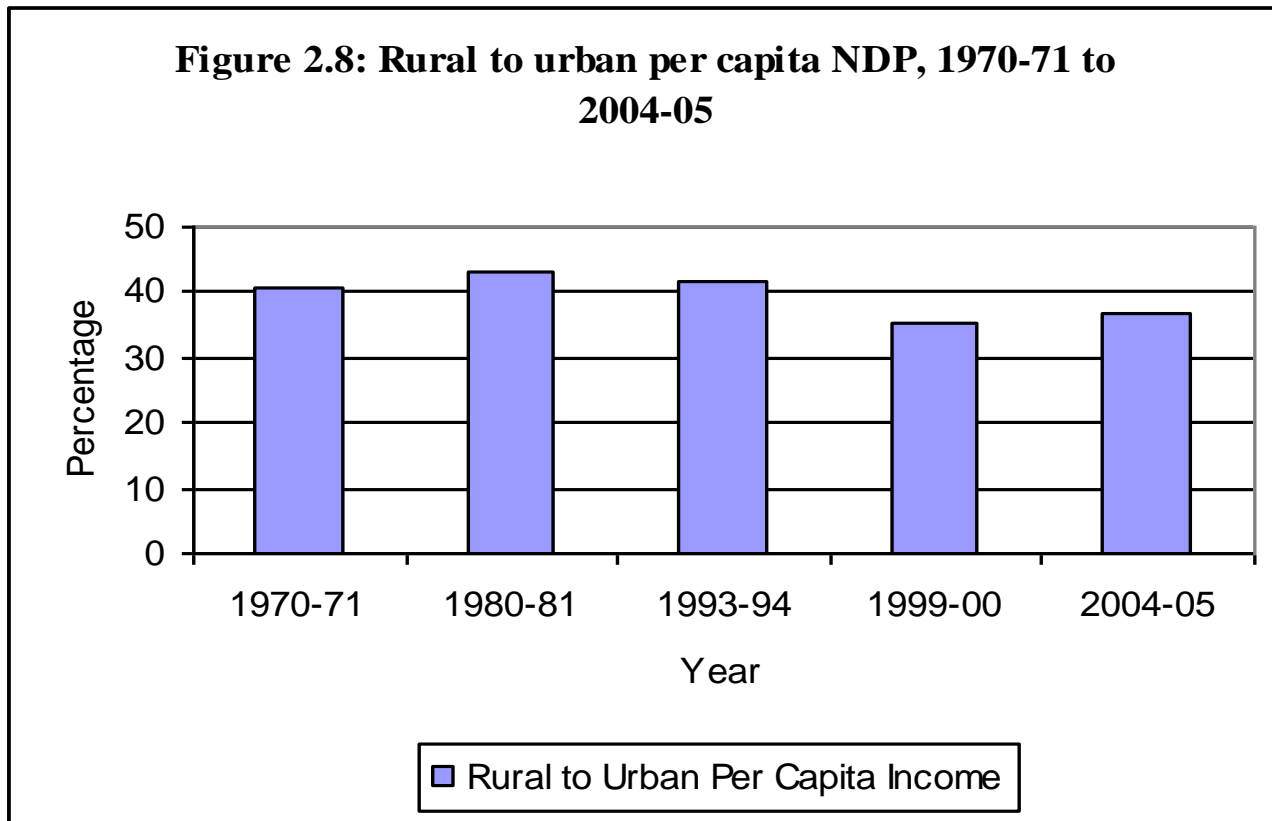
Physical Quality of Life Index



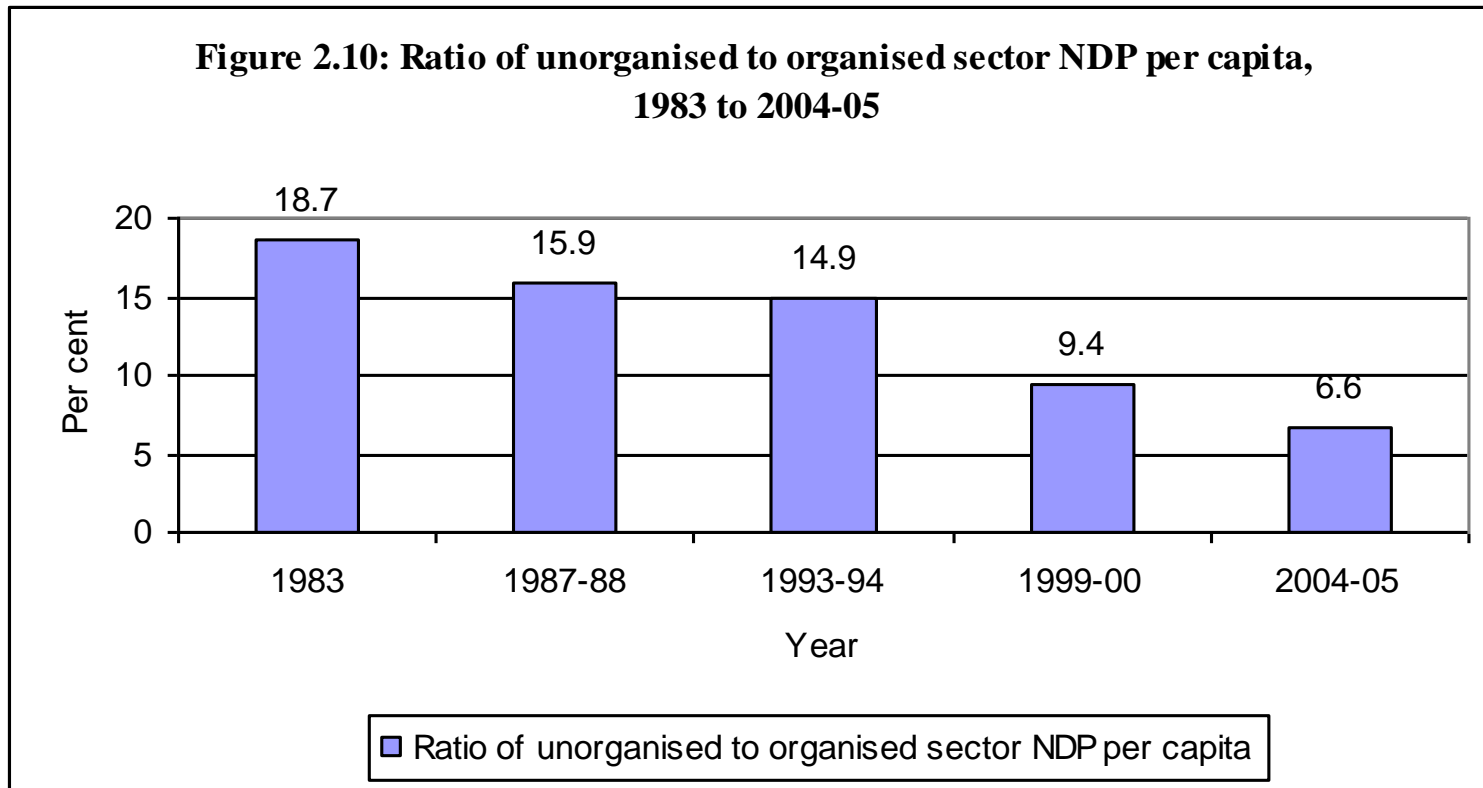
Inter-regional Inequality



Rural-Urban Inequality



Inequality between Formal and Informal Sectors



Wage and Profit Share

Figure 2.11: Wage and profit shares in private corporate sector, 1985-86 to 2007-08

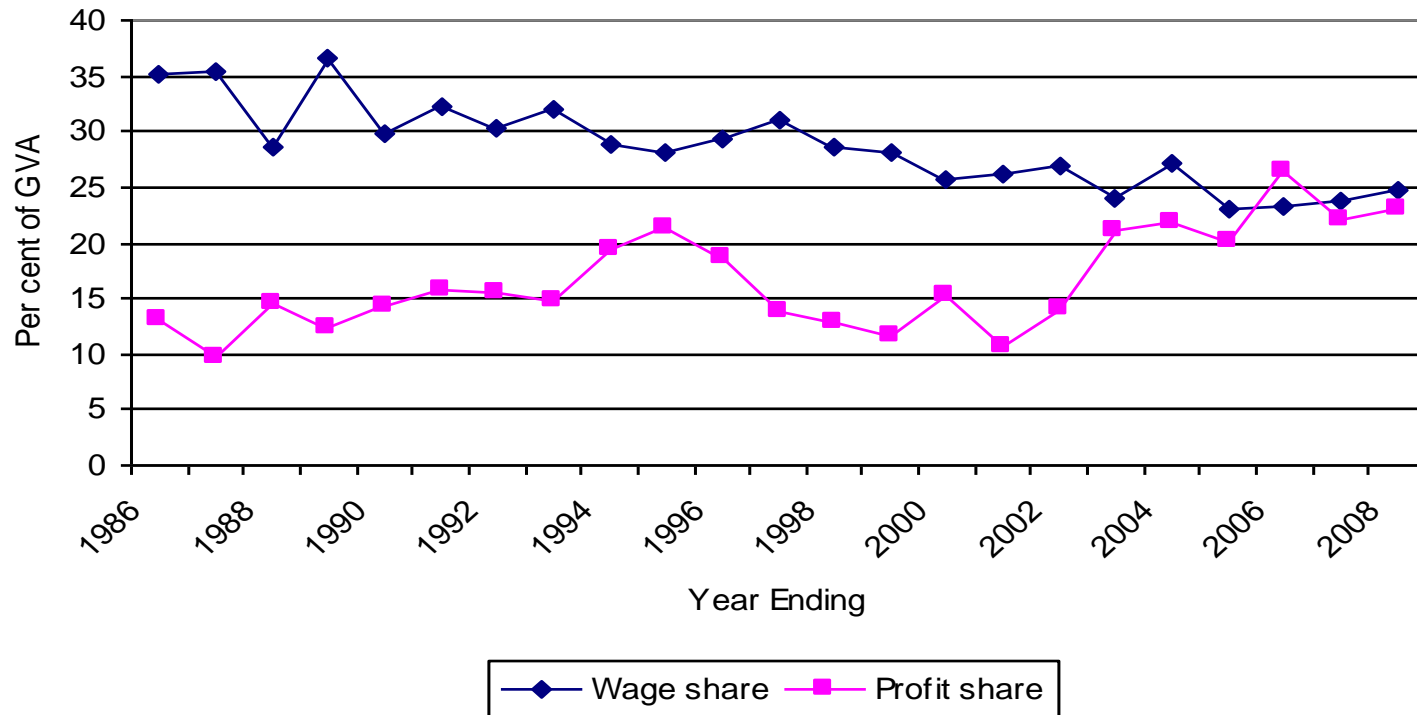


Figure 6

