Growth and Structural Change in India, 1950-2015

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Indian Economy c. 2015

• 7\textsuperscript{th} largest economy at current exchange rate (at $2 trillion), and 3\textsuperscript{rd} largest at PPP (as per IMF).
  – As against US $18tn, China $11tn

• Per capita income ranking 145\textsuperscript{th} (with HDI ranking is 135\textsuperscript{th} (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 rate, 2003-2014

May 19, 2016
"Individual Choices and Collective Decisions"
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 polices 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

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<th>1983</th>
<th>1993-94</th>
<th>2009-10</th>
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<tr>
<td>% GDP</td>
<td>% Workforce</td>
<td>% GDP</td>
<td>% Workforce</td>
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<tr>
<td>Agriculture</td>
<td>40.0</td>
<td>68.5</td>
<td>30.0</td>
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<tr>
<td>Industry</td>
<td>24.3</td>
<td>13.8</td>
<td>25.2</td>
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<tr>
<td>Services</td>
<td>35.7</td>
<td>17.6</td>
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India's GDP and GDP Capita, 1901 to 2013-14
Physical Quality of Life Index

Table 9: Physical Quality of Life Index, 1951 to 2011

<table>
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<tr>
<th>Year</th>
<th>Index</th>
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<tbody>
<tr>
<td>1951</td>
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<tr>
<td>1961</td>
<td>24.7</td>
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<td>1971</td>
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<td>1981</td>
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<td>1991</td>
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<td>2001</td>
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<td>2011</td>
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Inter-regional Inequality

Figure 2.9: Coefficient of variation of per capita NSDP, 1980-81 to 2007-08
Rural-Urban Inequality

Figure 2.8: Rural to urban per capita NDP, 1970-71 to 2004-05

Year


Percentage

0 10 20 30 40 50

Rural to Urban Per Capita Income
Inequality between Formal and Informal Sectors

Figure 2.10: Ratio of unorganised to organised sector NDP per capita, 1983 to 2004-05

Per cent

Year


18.7 15.9 14.9 9.4 6.6

Ratio of unorganised to organised sector NDP per capita
Wage and Profit Share

Figure 2.11: Wage and profit shares in private corporate sector, 1985-86 to 2007-08
Figure 2.6: Head count ratio of poverty, 1983 to 2004-05

- **Rural**
  - 1983: 40%
  - 1993-94: 35%
  - 2004-05: 30%

- **Urban**
  - 1983: 30%
  - 1993-94: 25%
  - 2004-05: 20%

- **Total**
  - 1983: 50%
  - 1993-94: 45%
  - 2004-05: 40%