
Perspectives on the Indian Economy (HSL717)

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2 January 2025

How well is India doing?

1. The Size of the GDP
 2. The Size of the Working-age Population
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GDP and Population in some of the world's largest economies, 2022

Source: World Development Indicators, World Bank

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	GDP billion \$	Population millions	GDP per capita 1000 \$
US	25,744	333	77
China	17,882	1,412	13
Japan	4,256	125	34
Germany	4,082	84	49
India	3,353	1,417	2.4
UK	3,089	68	46
Brazil	1,952	215	9
Australia	1,693	26	65
South Korea	1,674	52	32
Indonesia	1,319	276	5

India's GDP surpassed Britain's in 2021 – India emerged the fifth largest economy in the world.

Britain's GDP of \$3 trillion is the value of goods and services produced by its population of 68 million.

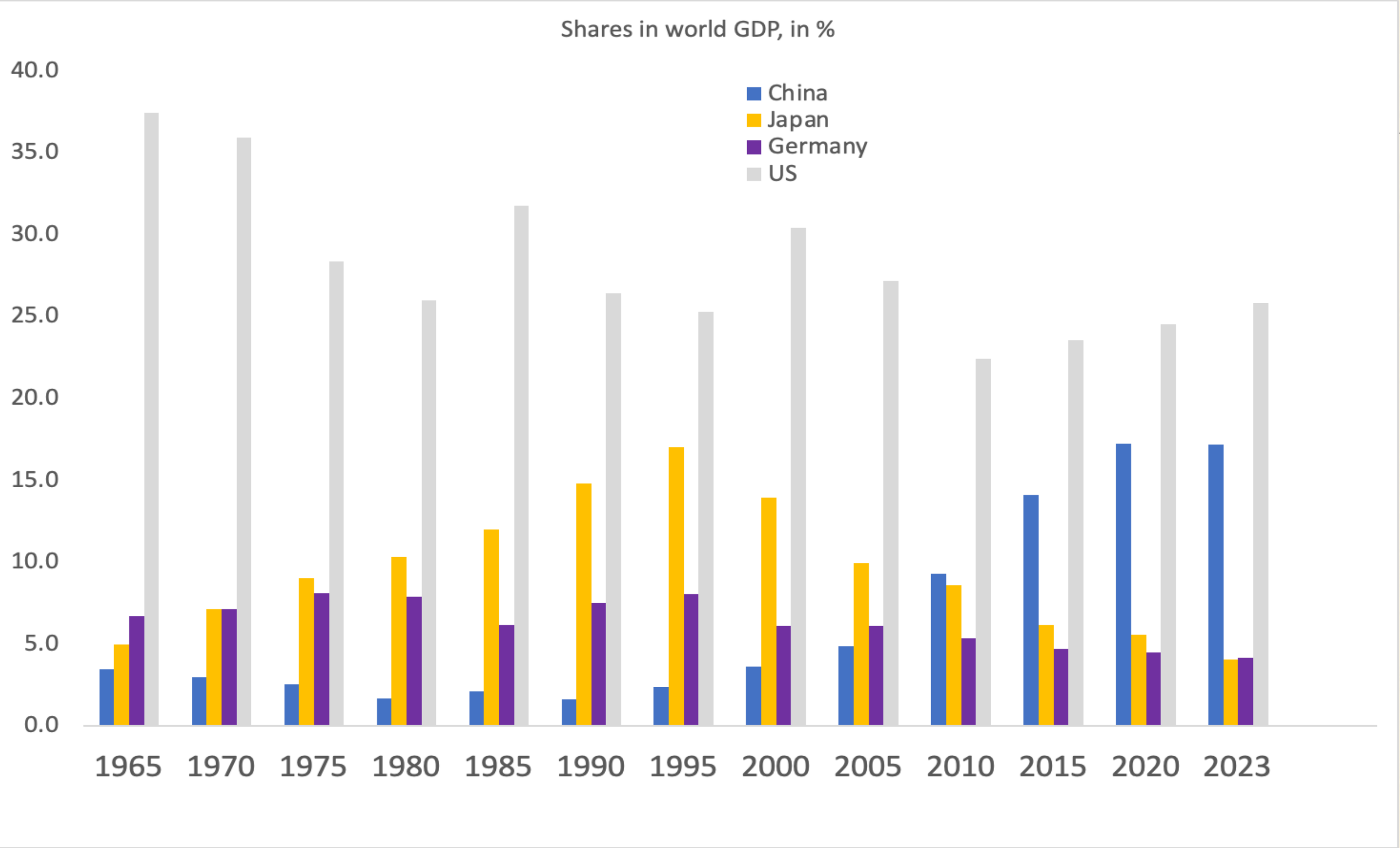
The value of goods and services produced by India's 1417 million population was only slightly higher, at \$3.4 trillion.

Therefore, India's per capita GDP was approximately only 1/20th of Britain's per capita GDP.

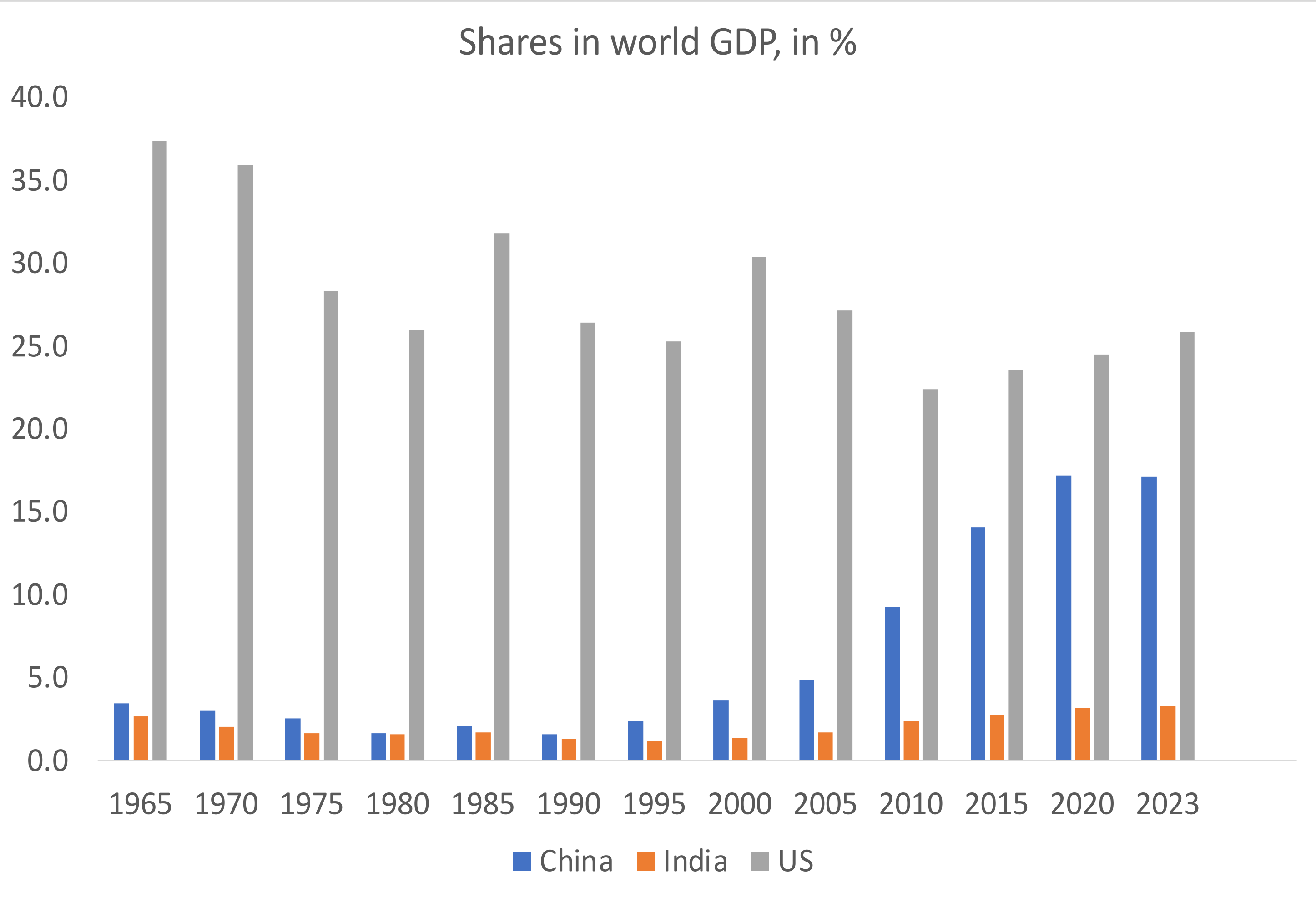
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- GDP (**Gross Domestic Product**) is the sum of **value added** in the **production of all goods and services** in a country during a given period of time (typically a year).
 - Value added refers to the **value of output minus the value of inputs**.
 - Production of **Output** of goods and services = **Incomes** generated in the course of this production = **Expenditures** incurred in the purchase of these goods and services

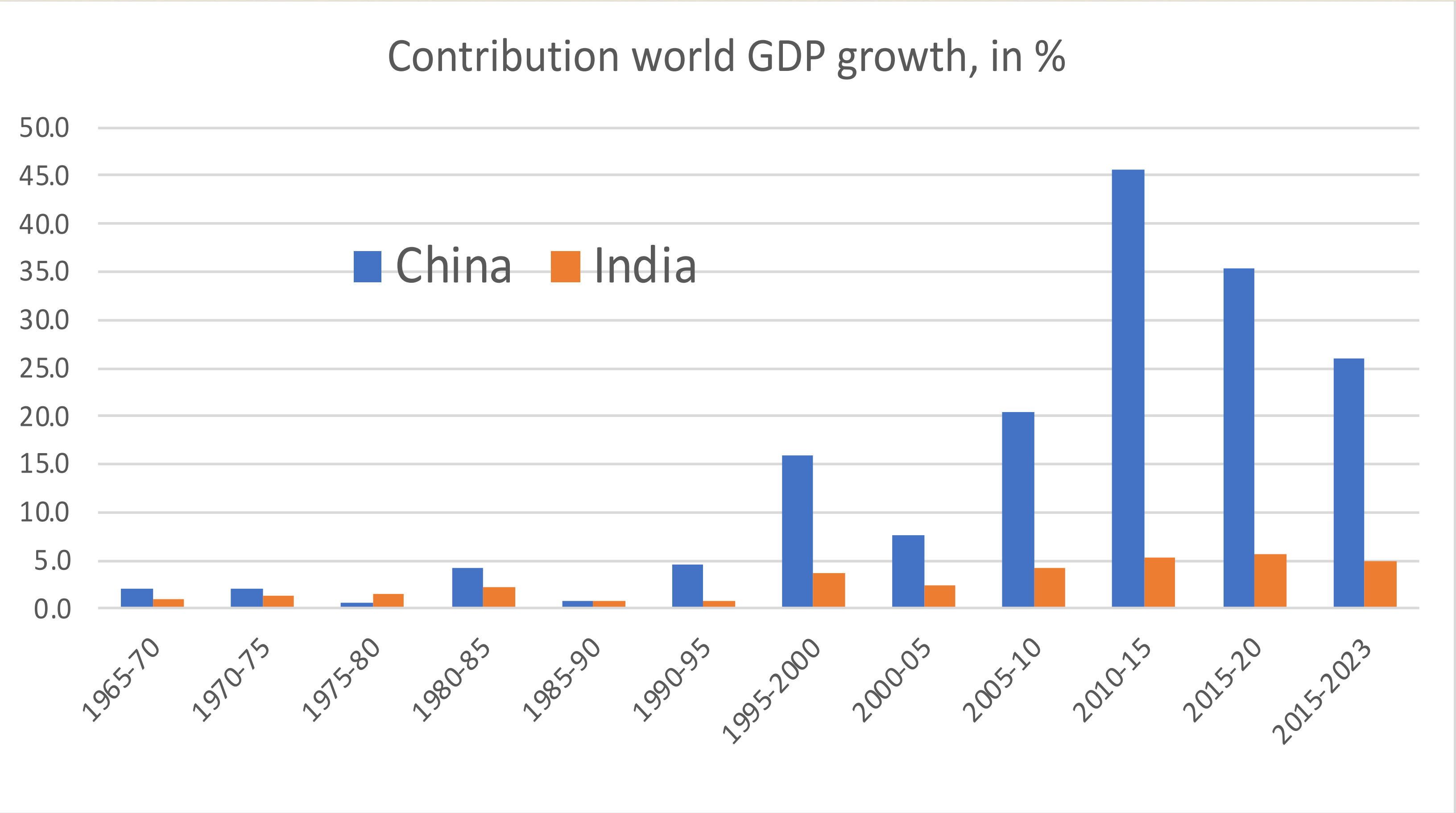
Shares in world GDP of Selected countries, in % (Source: Based on data from World Development Indicators, The World Bank)



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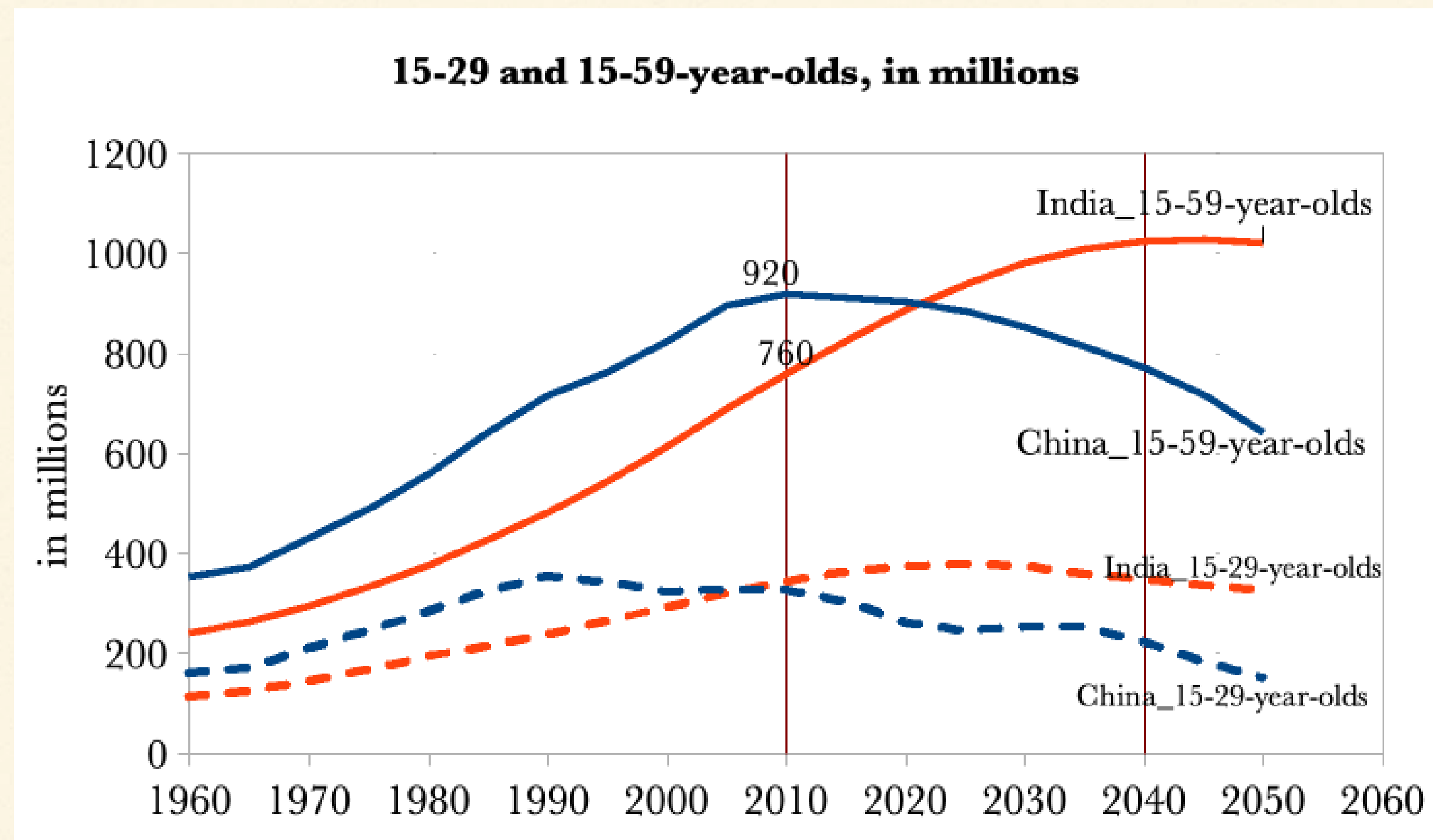


Contribution to the growth of world GDP (in %): India and China, different periods (Source: Based on data from World Development Indicators, The World Bank)



Will India's economic growth gain from its young population?

(Figure *Source*: World Bank)

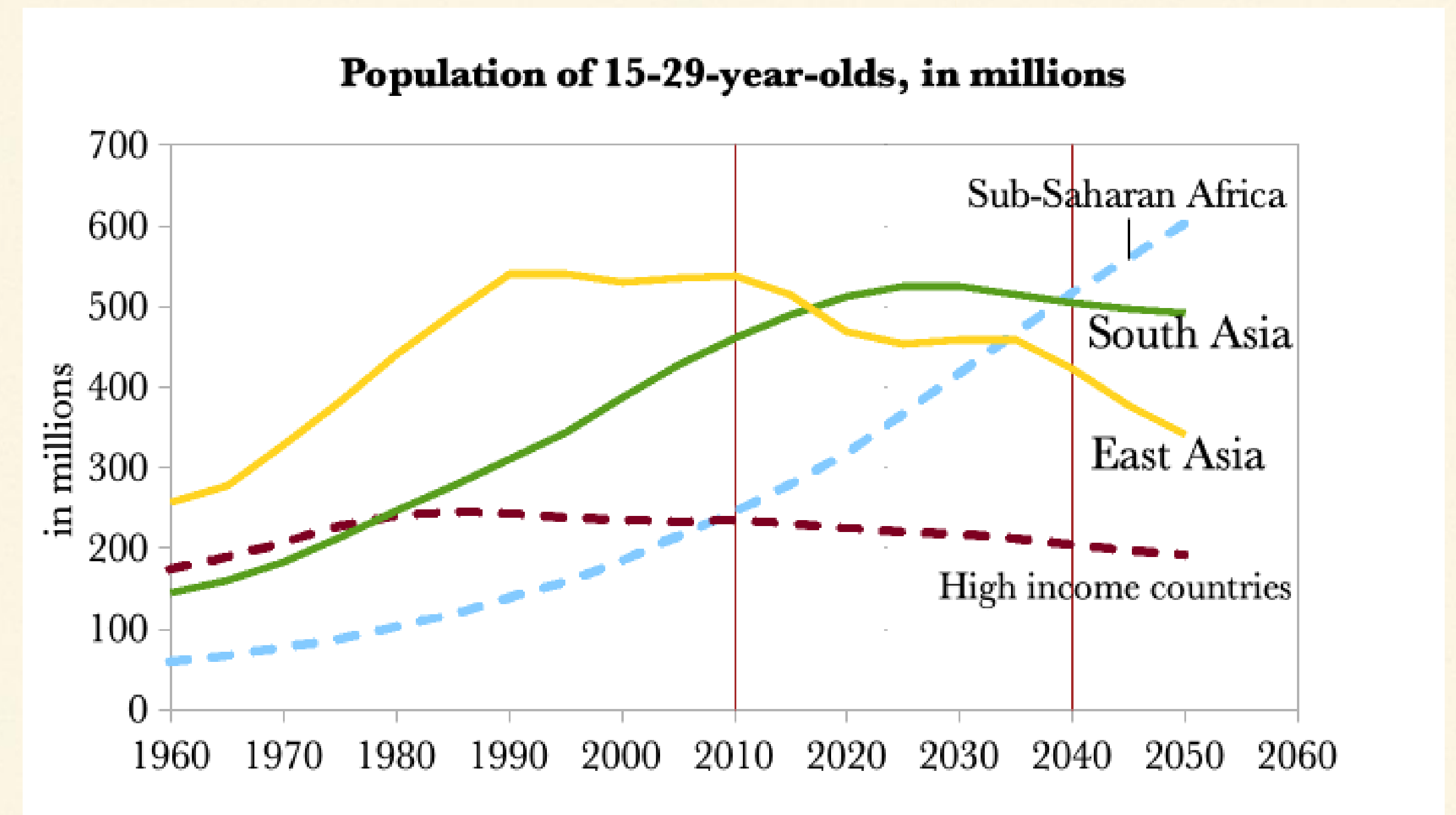
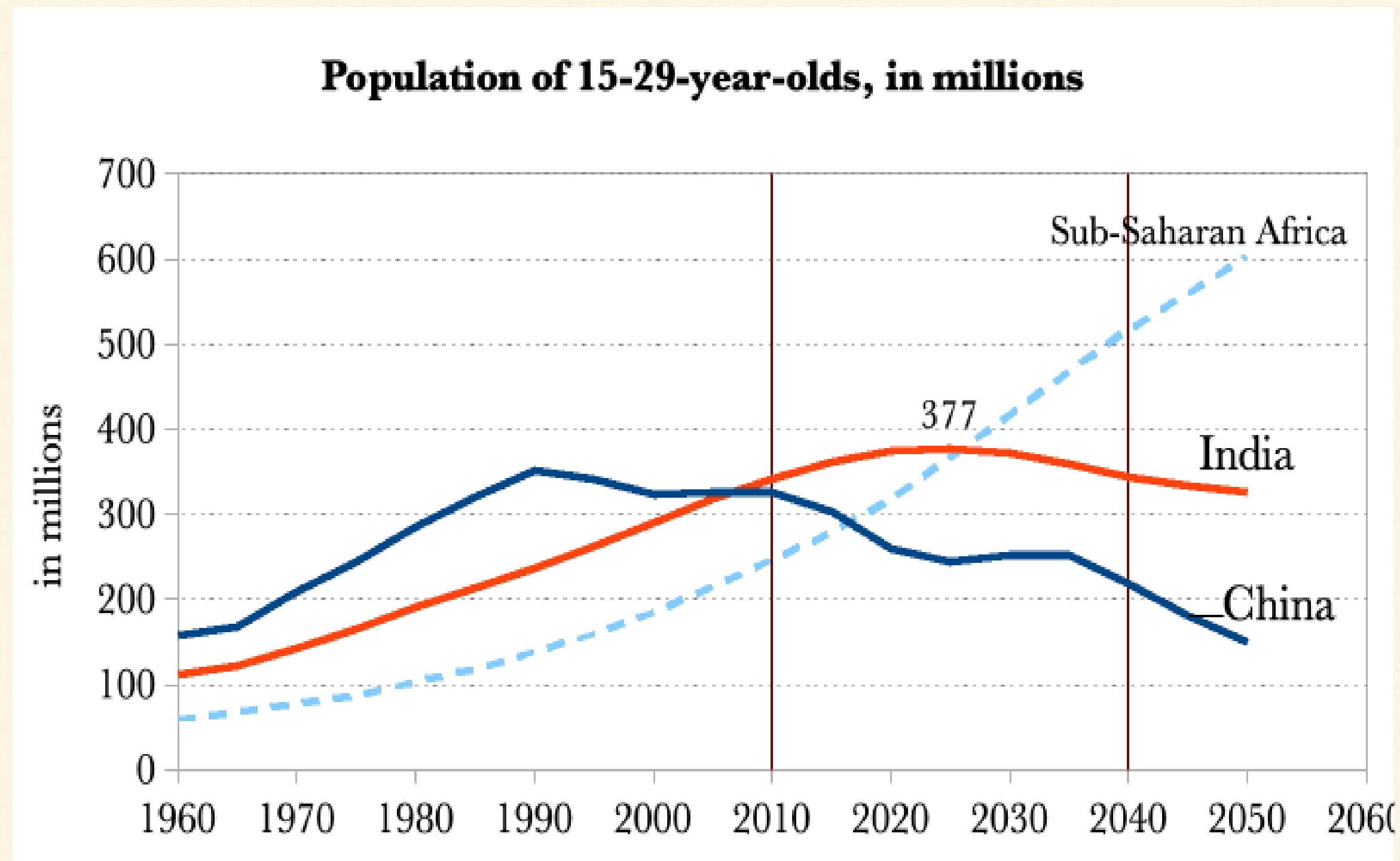


■ The phase of fast economic growth in China (1980 to 2010) coincided with a sharp increase in its working age population.

■ But **China's working age population on an absolute decline since 2010.**

■ Will it be India's (and South Asia's) turn next?

But the demographic window of economic opportunity for India and South Asia will disappear by 2040. Just as it had disappeared for China and East Asia by 2010. Possibilities for Sub-Saharan Africa (Figures *Source*: World Bank data)

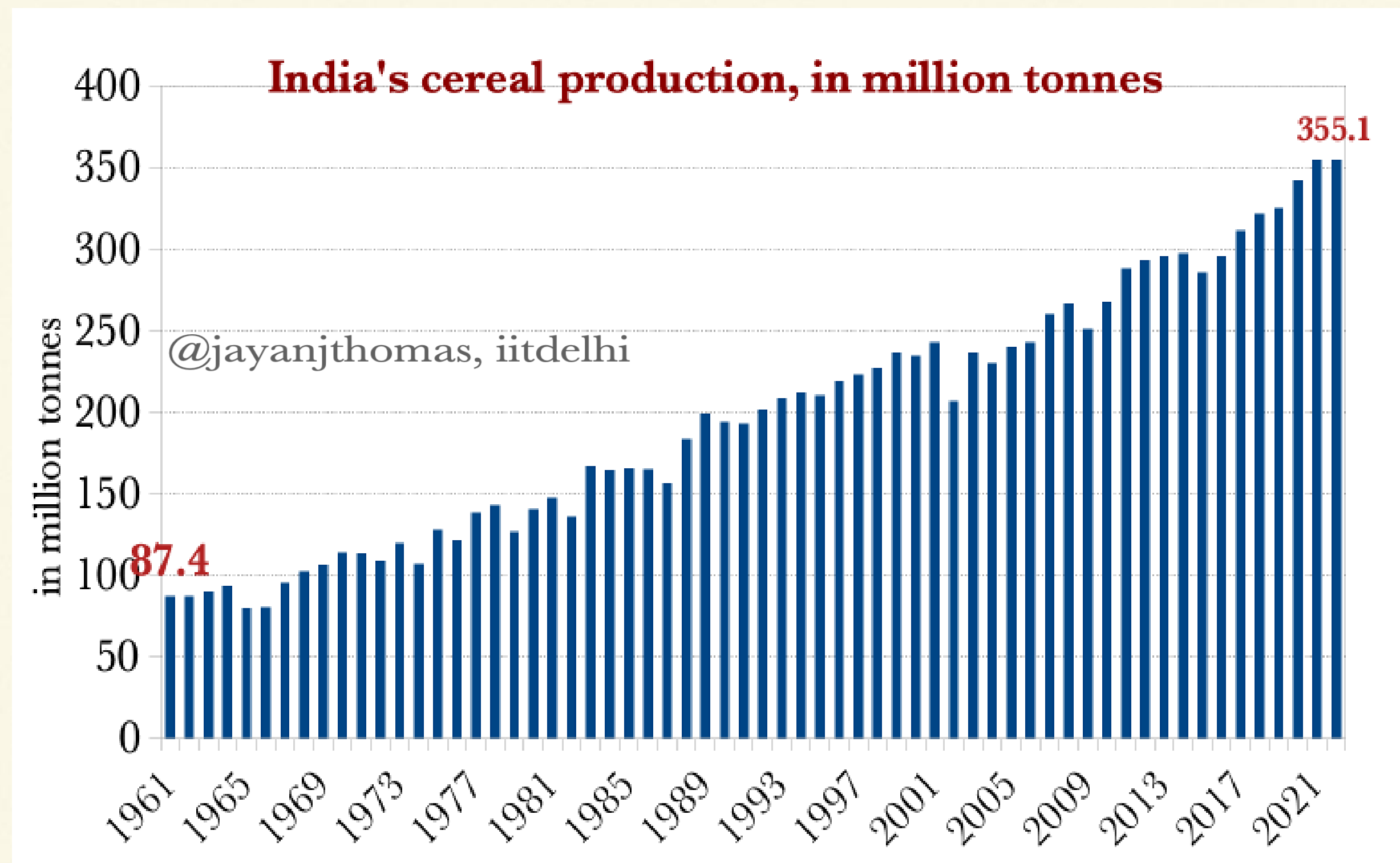


How well are Indians doing?

1. Low levels of Per capita incomes, Per capita food availability
2. The Size of the Working-age Population

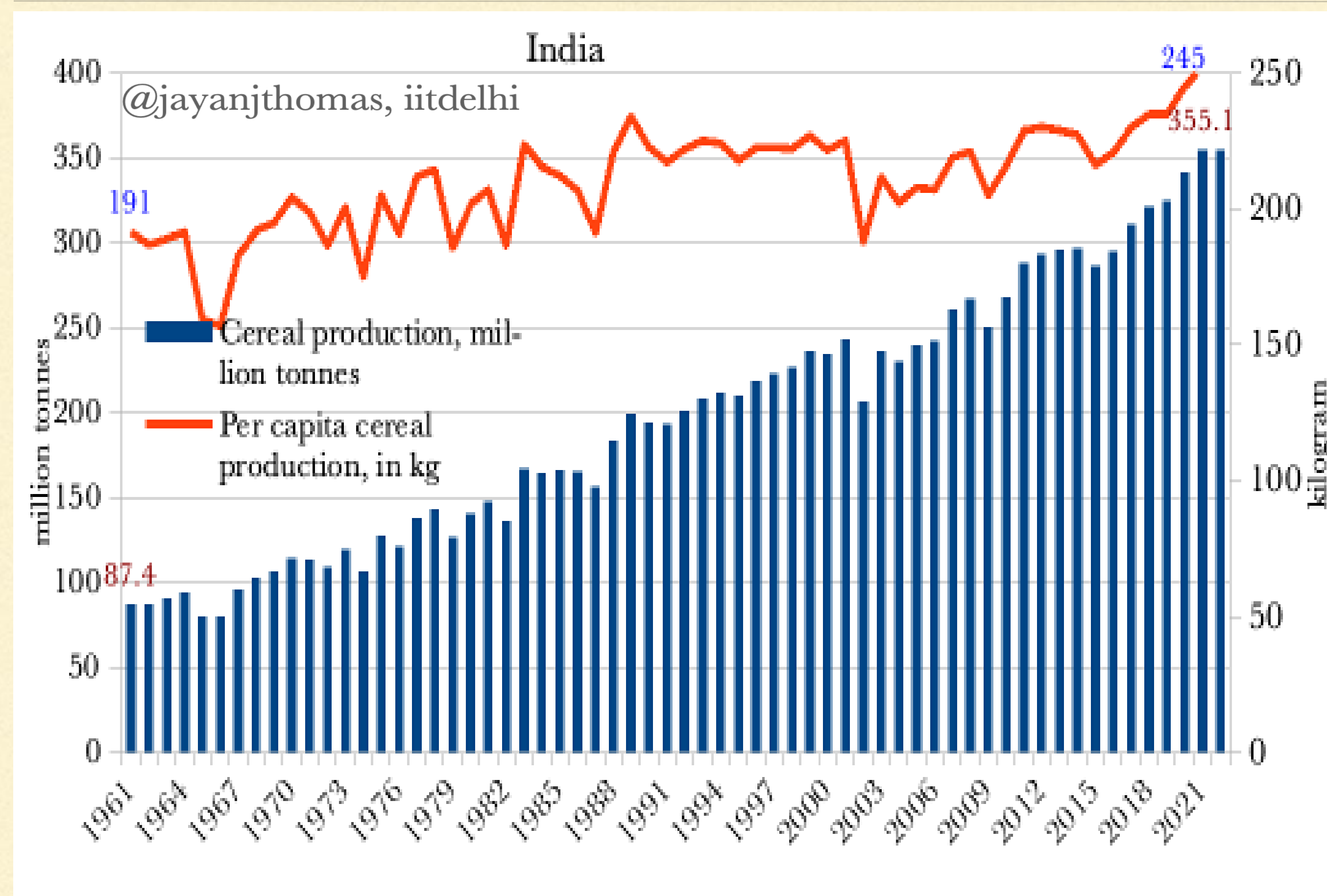
India's cereal production

(Figure *Source*: Food and Agriculture Organization)



- India's cereal production increased by **four times**, from 87 mt in 1961 to 355 mt in 2022.
- (cereal production = the production of barley, maize, millet, rice, sorghum, and wheat combined).
- To what extent has this increase helped to improve individual food intake?

Nevertheless, India's per capita cereal production has increased only marginally
(Figure *Source*: Food and Agriculture Organization)



- While the country's cereal production increased by **four** times, India's population increased by **3.2 times**, from 446 million to 1429 million (between 1961 and 20220).
- This implies that per capita grain production increased by **1.3 times**, from 192 kg to 251 kg.

Some Indicators of Human Development in India and selected countries

Source: Human Development Report, United Nations Development Programme

Countries	Life expectancy at birth, in years, 2021	Mean years of schooling, 2021	Rank in HDI (out of 191 countries), 2020
United States	77.2	13.7	21
South Korea	83.7	12.5	20
China	78.2	14.2	82
Sri Lanka	76.4	10.8	75
India	67.2	6.7	130

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India's record in health, education and human development are quite poor.

The country was ranked 130 out of 191 countries in human development index.

India's achievements in human development are even lower than the achievements of countries whose per capita incomes are close to India's.

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Amartya Sen (1999) *Development as Freedom*

- Development is the expansion of capabilities or freedoms that we have reason to value -- freedom to lead a healthy life, to engage in political debates, and so on
- (Aristotle: “wealth is evidently not the good we are seeking, for it is merely useful and for the sake of something else”)
- Income and wealth are means for having more freedom to lead the kind of lives that we have reason

Capabilities

- Capability: ‘the various combinations of functionings (beings and doings) that [a] person can achieve. . . ‘
- ‘**a set of vectors of functionings**, reflecting the person’s freedom to lead one type of life or another’ (Sen, 1992: 40).
- - Being healthy,
 - Employed
 - able to take part in political discussions,

The Question of Distribution

1. Who gets what part of the Income?

- Production of **Output** of goods and services = **Incomes** generated in the course of this production = **Expenditures** incurred in the purchase of these goods and services
- **Who gets what part of the total income?**
- India's per capita incomes are low. The country's achievements in basic health, basic education, nutrition, and other aspects of human development are lower than those of countries whose per capita incomes are comparable to India's.
- Average per capita income does not tell us about the inequalities in income distribution. India's **poor record in human development is on account of the high level of inequality**, with the poor receiving a very low share of the national income.

Distribution of Income across groups in a country

50	40	10
Bottom 50%	Middle 40%	Top 10%

20	35	45
Bottom 50%	Middle 40%	Top 10%

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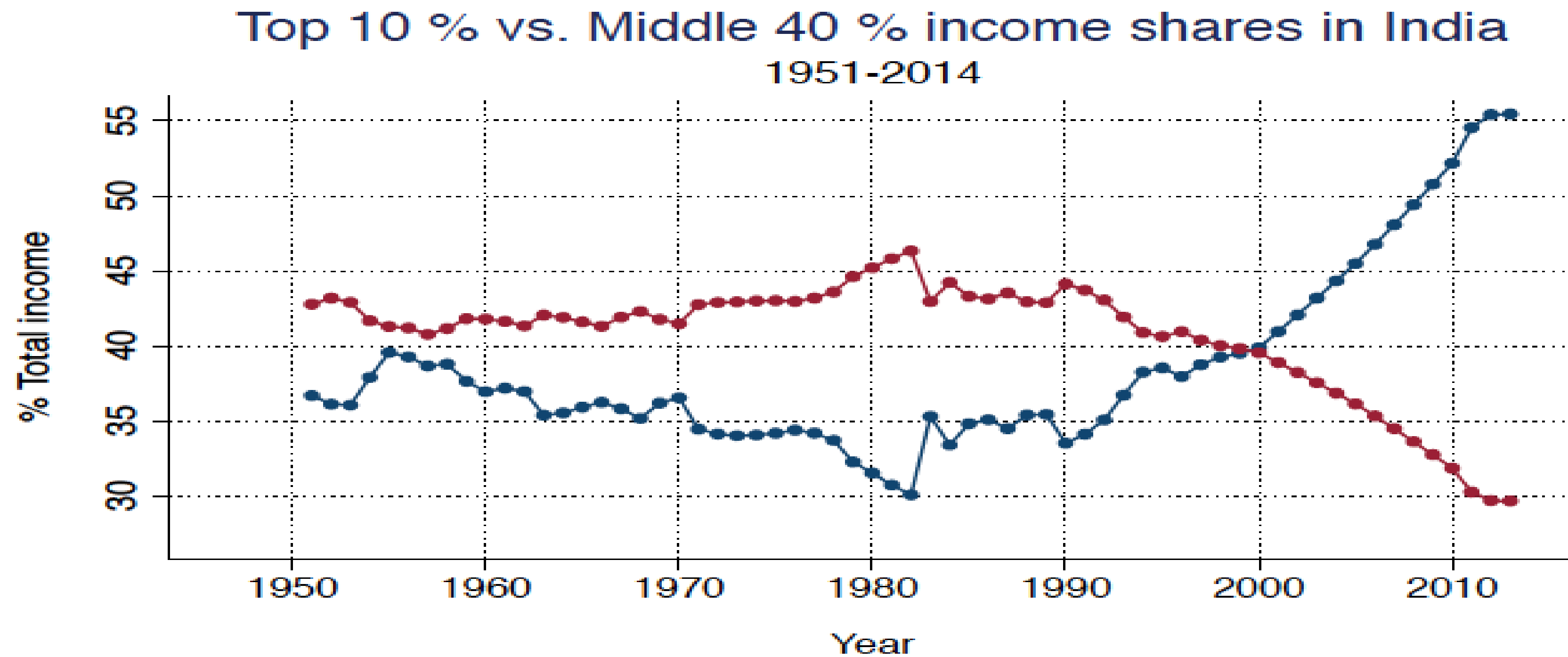
The figure shows a hypothetical income distribution across a population group.

Highly **equal distribution in the top figure**: with the richest 10% getting exactly 10% of the total income, and so on.

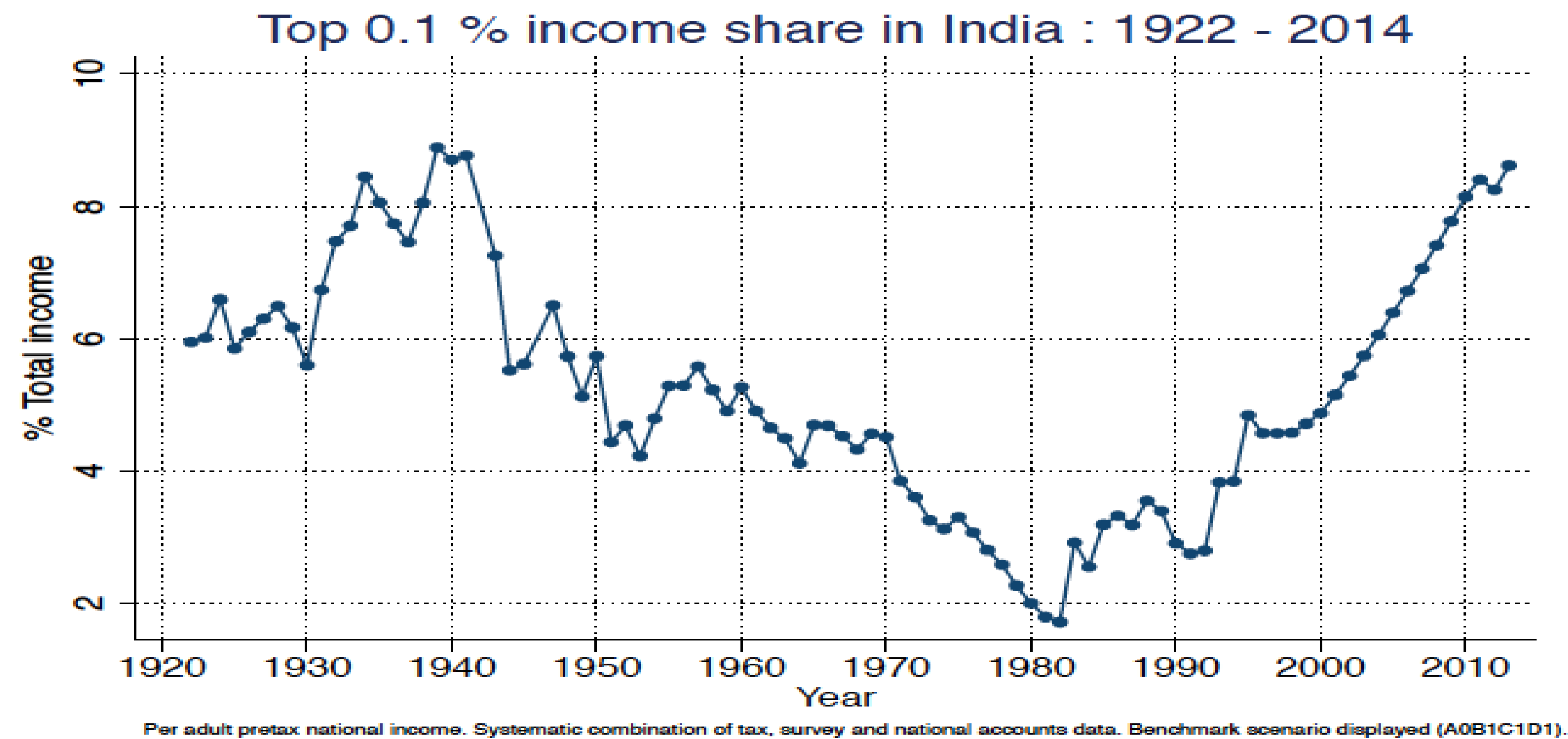
The second figure depicts a a **highly unequal income distribution**.

The figure is partly based on the work by Piketty (2014) and Chancel and Piketty (2019)

Chancel, Lucas and Piketty, Thomas (2019) 'Indian Income Inequality, 1922-2015: From British Raj to Billionaire Raj'



Chancel, Lucas and Piketty, Thomas (2019) 'Indian Income Inequality, 1922-2015: From British Raj to Billionaire Raj'



From: Thomas Piketty's *Capital in the Twenty-First Century*

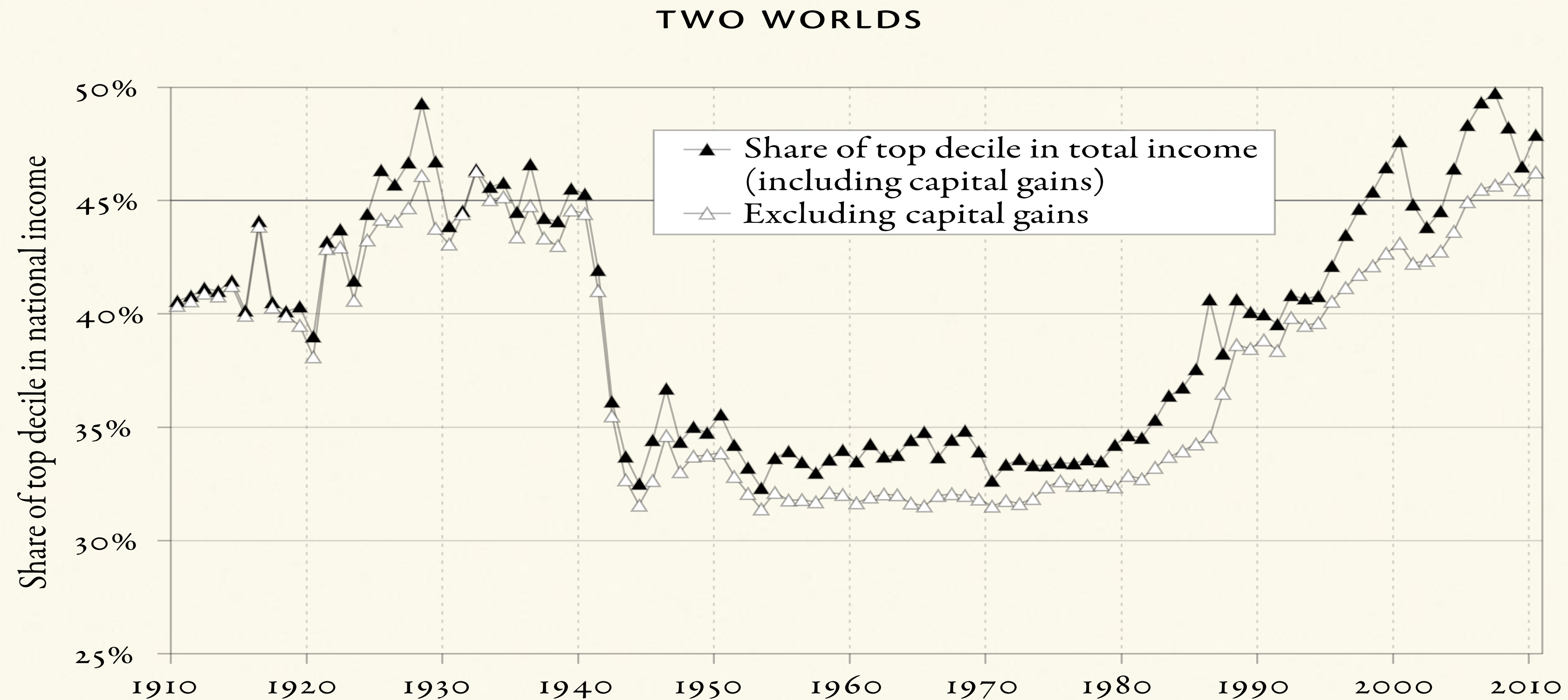


FIGURE 8.5. Income inequality in the United States, 1910–2010

The top decile income share rose from less than 35 percent of total income in the 1970s to almost 50 percent in the 2000s–2010s.

Sources and series: see piketty.pse.ens.fr/capital21c.

India's Workforce and GDP in 2022-23, in %

Source: Estimations by Thomas, Jayan Jose (2024) based on data from India’s Periodic Labour Force Survey and National Statistical Office.

Sectors	GDP	Employment
A. Agriculture, Forestry and Fishing	15.1	41.5
B. Industry	22.3	13.4
B1. Manufacturing	17.7	12.5
C. Construction	8.4	12.7
D1. Trade, Hotels, Transport, Communication, & Services related to broadcasting	19.0	18.2
D2. Financial , real estate & professional services	22.5	4.7
D3. Public Administration, Defence and other services	12.7	9.4
GDP/Employment	100.0	100.0

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One way to understand the inequality in income distribution is from the sectoral distribution of GDP and employment in India.

In 2022-23, agriculture and allied activities accounted for 41.5% of India’s total workforce numbering 564 million.

But agriculture and allied activities contributed only 15% of India’s GDP. Average income per worker is much lower than the average in agriculture.

On the other side, the sector, finance, reals estate and professional services, employs less than 5% of India’s workforce but has a share of 22.5% of the country’s GDP.

Distribution and social classes

- Agricultural workers (typically landless)
- Industrial and service sector workers
- Small peasants
- Big landlords
- Owners of small enterprises
- Big capitalists

Economic and social inequalities are often intertwined (or connected), especially in rural areas of a country like India. The poor and the lower middle classes comprise largely of landless agricultural workers, small peasants, and owners of small enterprises. Big landlords and large capitalists form the ranks of the rich.

GDP Per capita current US \$

(Source: World Development Indicators)

	1960	1980	2016
China	90	195	8123
India	81	264	1710
Korea	94	1704	27538

In 1960, India, China and South Korea were all low income countries.

Over the next 20 years, by 1980, South Korea achieved ‘miraculously’ fast rates of economic growth.

China too achieved fast economic growth after 1980.

What should be India’s strategy for faster economic growth and improved distribution?

- “...We worked last winter till 9 (evening), and the winter before till 10. I used to cry with sore feet every night last winter....”
- “That boy of mine when he was 7 years old I used to carry him on my back to and fro through the snow, and he used to have 16 hours a day... I have often knelt down to feed him as he stood by the machine, for he could not leave it or stop.”

MAJOR TOPICS FOR DISCUSSION

The Context

1. *Understanding the Current State:* size, nature, and growth of the Indian economy.

Data and measurement issues: The debates about GDP growth.

2. *State versus market debate* in the Indian context: a quick survey of the various time periods and sectors.

The Past and the Present

3. *The Indian Economy during the Colonial Period.*

Economic history; Deindustrialization; the drain of wealth

4. *Agrarian Relations and Agricultural Growth*

The origins of agrarian inequalities in India; agrarian changes before and after the Green Revolution; agricultural growth after the 1990s; agricultural regimes in various regions,

5. *Industrial Development*

Planning for Industrialization; where Planning delivered (new technologies, higher education, diversified manufacturing) and where it did not (widely spread growth, basic education); the labour flexibility debate; the need for industrial policy to ‘Make in India.’

MAJOR TOPICS FOR DISCUSSION

The Widening Gulf

6. *Labour and Employment*

Jobless growth, unemployment, underemployment in agriculture and the informal sector. Labour market divisions by gender and caste; Education, aspirations and jobs for the young; Data and measurement issues.

7. *Poverty and Inequality*: The evidence, issues, debates, data and measurement problems; Variations across regions and social groups.

Policies for the Future

8. *The Government and Fiscal Policies*: Government spending on social sectors: ‘freebies’ or investments for the future? Federal fiscal relations between the Union and the State Governments.

9. *Trade, Investment, Exchange Rates*: Investment for growth: public or private, domestic or foreign? Should we regulate foreign short-term capital flows?

10. *Prices, Banking, and Monetary policies*: What should guide monetary policies? Inflation or growth?

11. *Education and Health*: Policies for the future.

REQUIREMENTS

This course will be open to all graduate students (PhD, MSc, MTech) and to senior undergraduates of all disciplines. The most important prerequisites are a willingness to read and learn, curiosity about Indian development, and readiness to engage with various views. A familiarity with macroeconomic relations will be helpful but not a binding requirement (if you are willing to put some effort, you will learn the economics behind the issues). You will be expected to read understand and analyse data (simple analysis will be adequate).

Course Evaluation: HSL 717

- Class participation = 4%
- Class presentation (at least one) = 8%
- Term paper = 10%
- Data-based assignment = 10%
- Minor Exam = 34%
- Major Exam = 34%

Attendance Policy

- Your participation in classes is critical for the success of this course.
- Therefore, I would urge you to attend and actively participate – by asking questions and taking part in discussions – in the class.

WHAT YOU CAN EXPECT FROM THE COURSE: KEY SKILLS

- Reading: An understanding of the key debates about Indian economy
- Writing
- Data: Sources and Analysis

Incomes and Wealth

Income (or GDP): refers to the incomes or value added generated during the production of goods and services (that constitute the GDP)

Incomes could be in the form of **wages** (for workers); or, for capitalists: in the form of **profits** for enterprises, **interest payments** (for moneylenders; **rent** for owners of land buildings; dividend for owners of equity.

All of these are payments received by the respective agents for their role in production during a particular period. **Incomes thus constitute a flow.**

Wealth: It corresponds to the total wealth owned by individuals, firms or government at a given point in time. Wealth may be in the form of **real property** (including residential real estate), **machinery and infrastructure** (including furniture, consumer durables such as television and fridge; automobiles), **financial capital** (bank deposits, stocks, and so on), or other forms of professional capital (such as patents). **Wealth is a stock.**

Inequality in Income vs. Inequality in Wealth

Inequality in wealth is much higher than inequality in incomes.

20	35	45
Bottom 50%	Middle 40%	Top 10%

Inequality in Incomes: A hypothetical distribution in a an economy with total income of 100

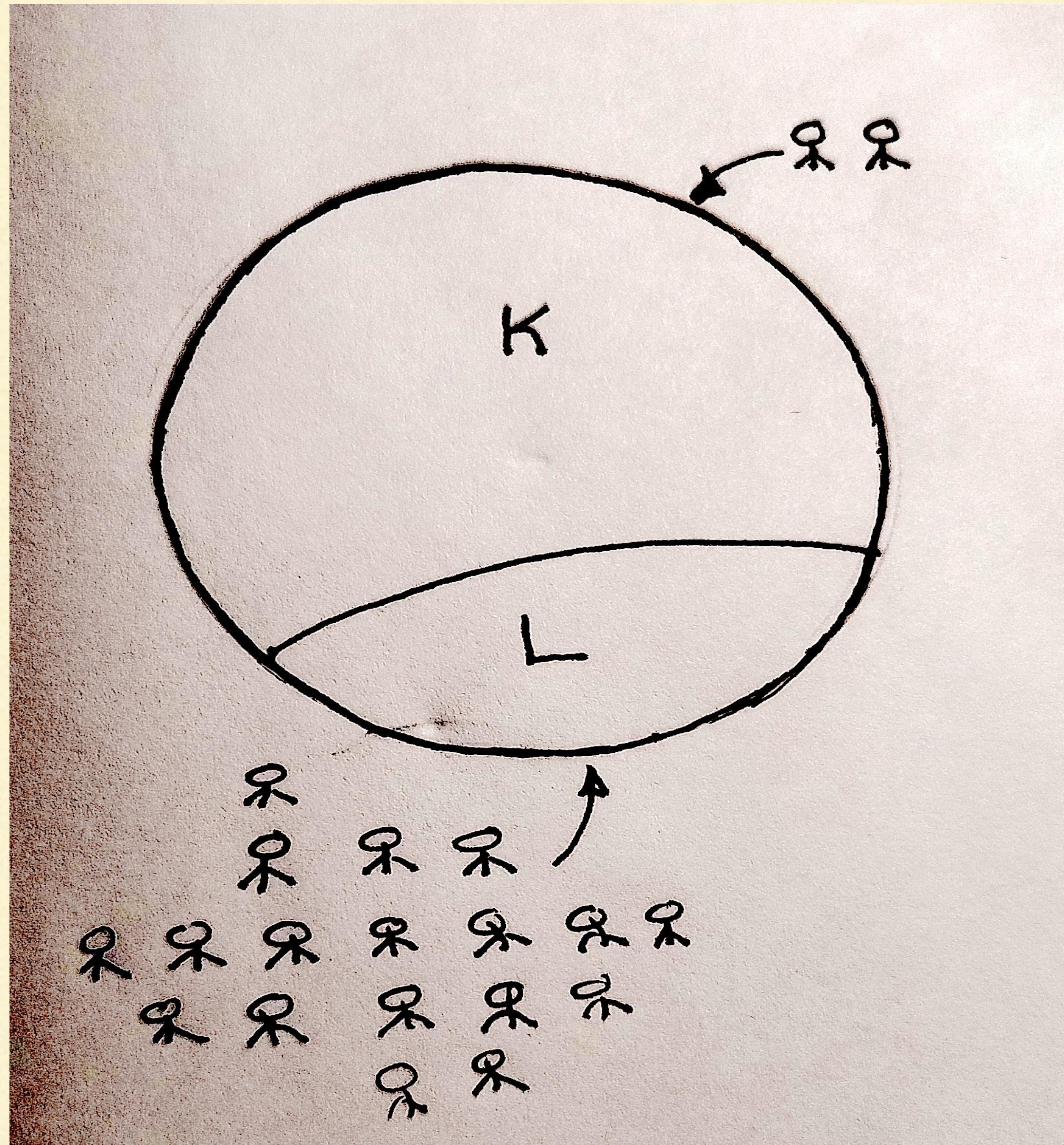
40 (8%)	160 (32%)	300 (60%)
Bottom 50%	Middle 40%	Top 10%

Inequality in Wealth: A hypothetical distribution in an economy with total wealth of 500

A large part of the wealth is inherited.

Wealth also arises from the accumulation of saving from incomes. Only the rich can save. The incomes of the poor are barely sufficient to meet their minimal needs.

A large section of the poor in India own no assets – no land, house, or other possessions -- even when they earn minimal incomes for subsistence.



The distribution of wealth and income is between two economic classes: labour (L) and owners of capital (K).

The figure shows distribution of income. The owners of capital form only a small proportion of the whole population but they manage to receive the bulk share of the national income (in any economy).

What differentiates workers from capitalists? Labour does not own capital or the means of production.

A landless agricultural worker must work for a landlord as the former does not own land or tools.

A skilled worker who does not have the connections, resources and enterprise must work for a company.

Economic Growth and Distribution

Economic growth and distribution are shaped not only by economic factors alone but also by social, historical and political factors.

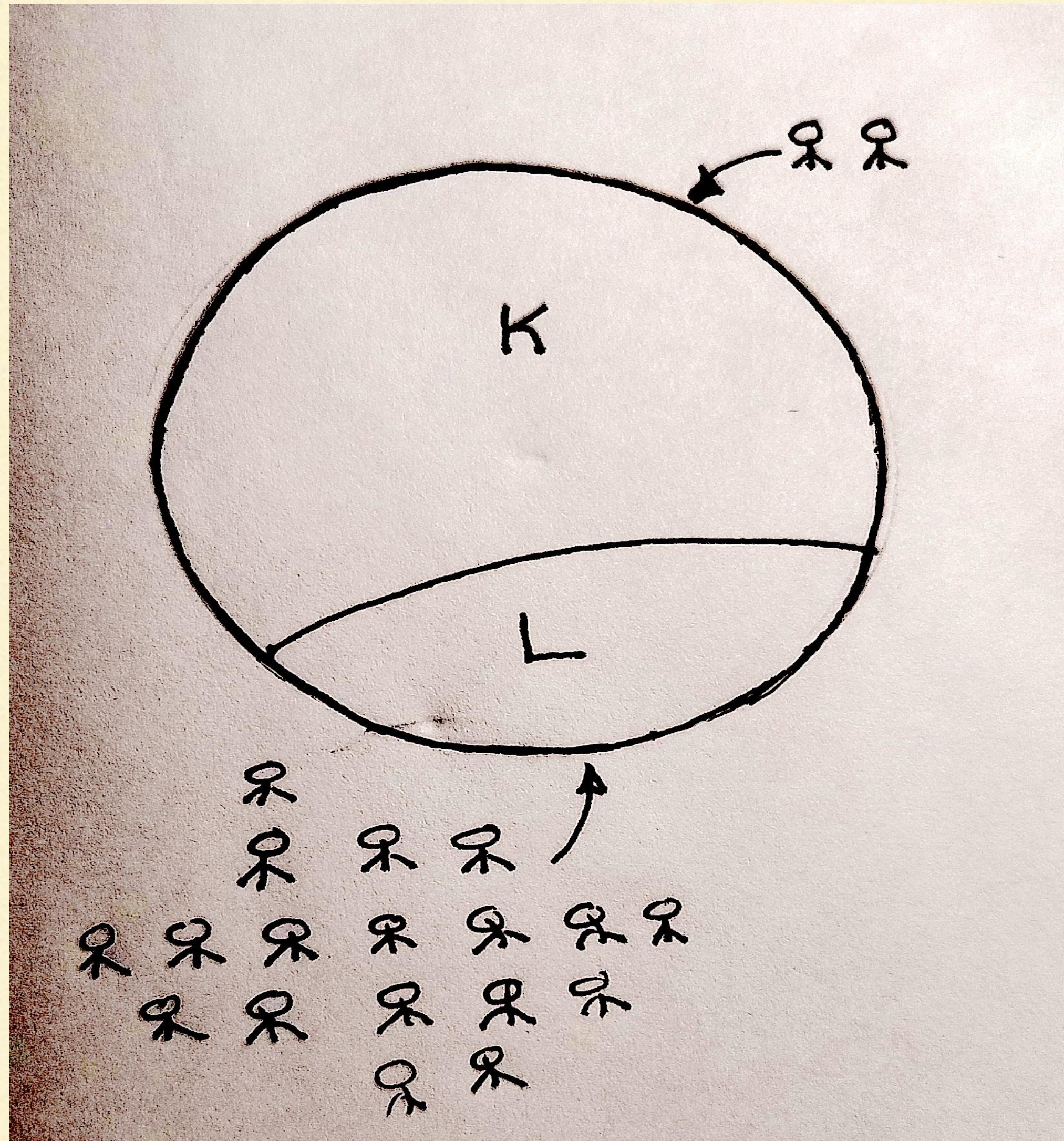
In rural India, the ownership of land and other assets is much greater for communities, castes and groups that have enjoyed social and historic privileges.

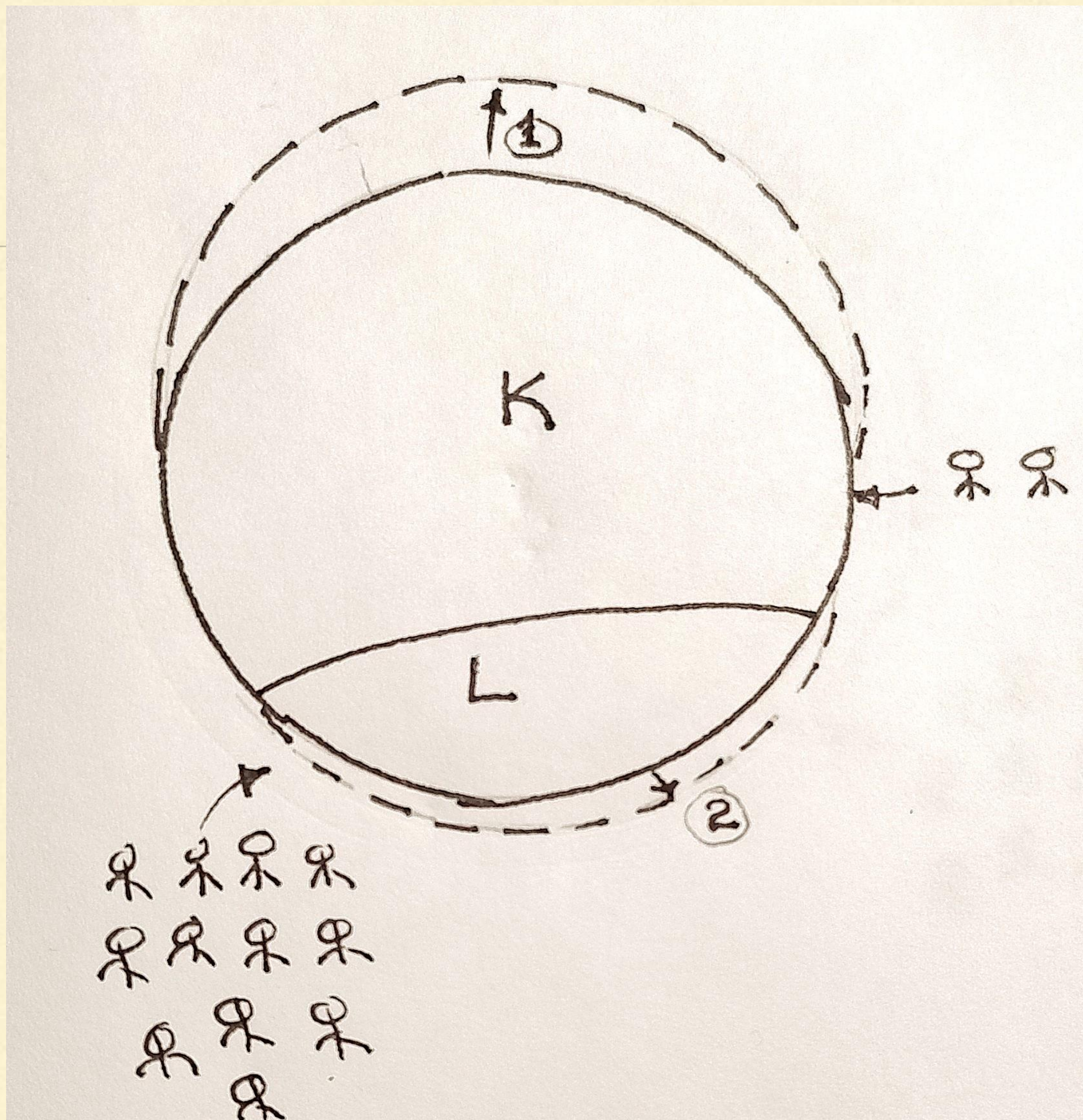
On the other hand, a greater proportion of the landless are members of disadvantaged castes and groups.

In many occupations including agriculture, women are paid less than men. The discrimination that women face in other spheres are often transmitted to the labour market (unfortunately!)

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- Average farm size in hectares: 1.1 in India; 179 in the US; and 63 in Brazil.
 - 99.43 per cent of the country's farmers are "low income or resource poor".
 - At the same time, approximately half of the agricultural workforce are landless agricultural workers.
 - More than 80% of India's workforce in the informal sector
-

Distribution of Income in an economy: between Labour and Capital





‘Growth first’ strategy: later the benefits of growth will trickle down to the poor

Distribute and then grow OR Growth with distribution strategy

