

Economics Module

Lecture 3

Reading

Rohit Lamba and Arvind Subramanian (2020) Dynamism with
Incommensurate Development: The Distinctive Indian Model
Journal of Economic Perspectives

An introduction to the Indian economy

- At independence, India was a poor country with little investable resources or infrastructure for rapid growth
- Moreover, it was a territory with exceptional heterogeneity in terms of various identities (language, caste, religion, ethnicity ..)
- Most economic and social indicators were at extremely low level (around 1947)
 - Per capita income 820 USD (2011 PPP dollars)
 - more than 70 percent of the population below poverty line
 - Child mortality rate 30 percent
 - Life expectancy at birth 32 years

The broad trajectory of economic policymaking

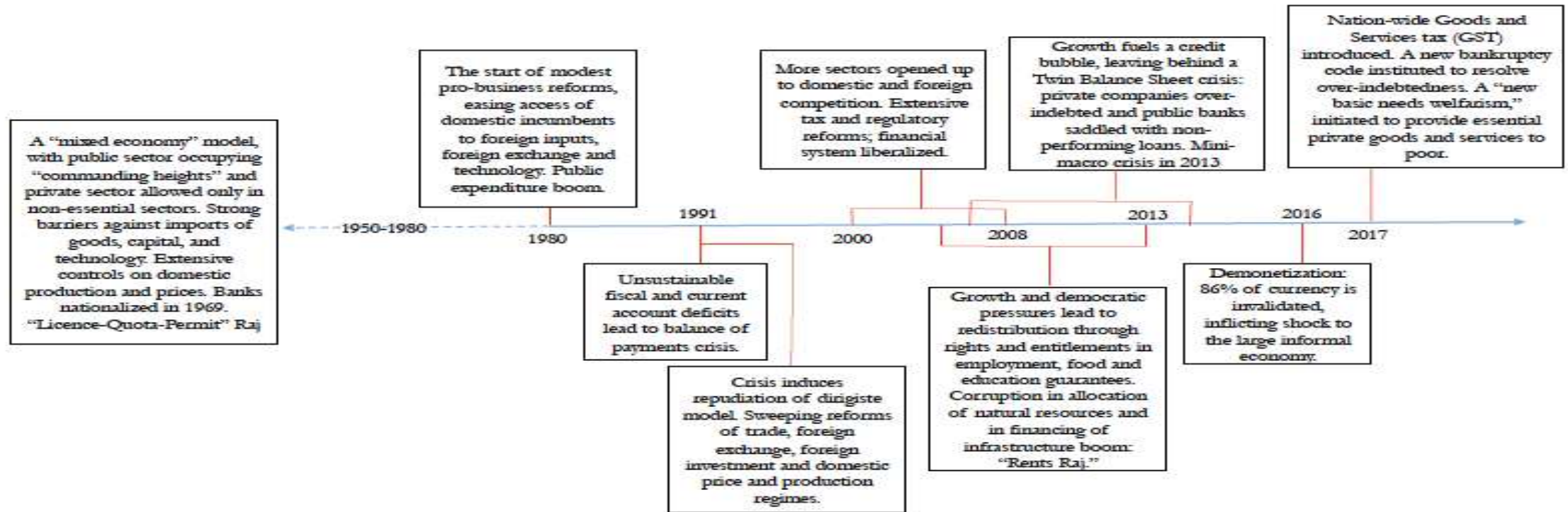


Figure A.1: Timeline of reforms

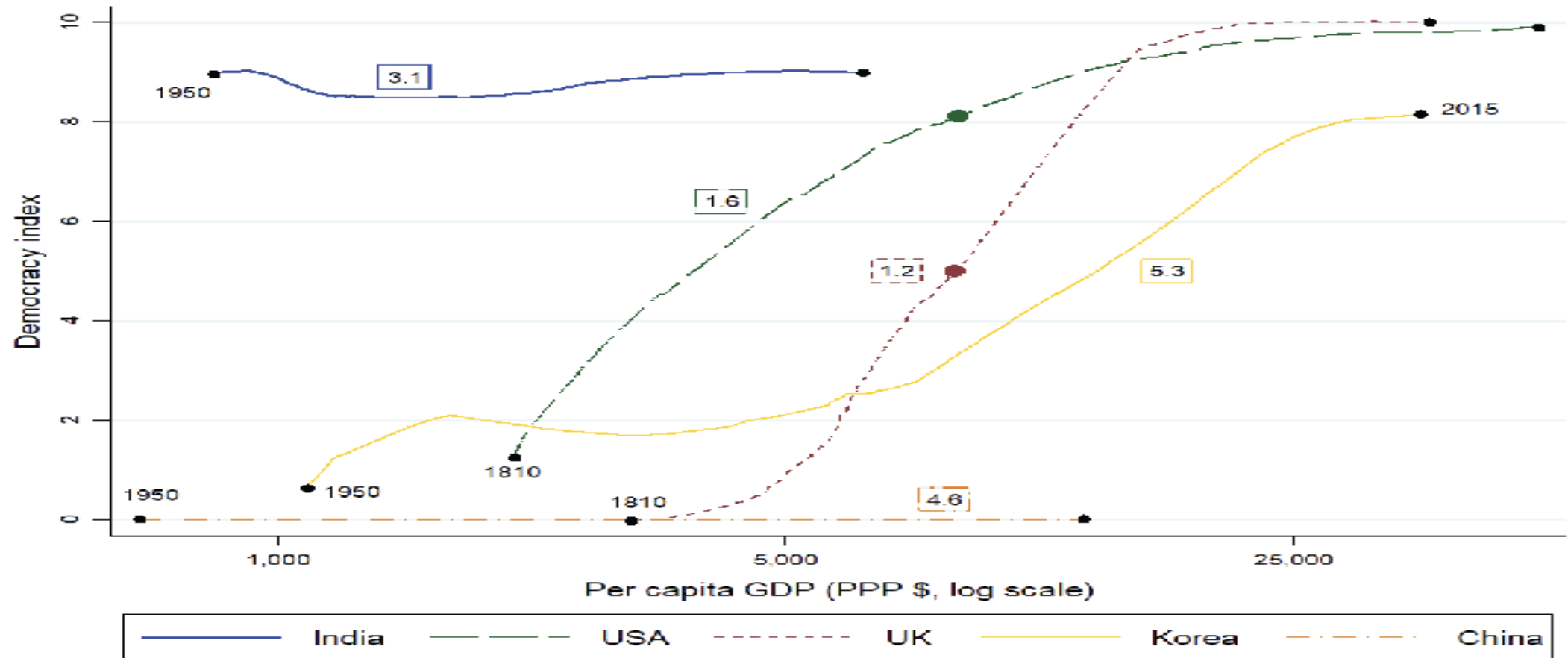
Main accomplishments of Indian development in past seven decades

- One of the few developing countries which has maintained a moderate growth rate throughout its post-independent history
- Growth clearly accelerated with the advent of market oriented economic reforms. The benefits of growth however was not evenly distributed
- Indian per capita income more than 6500 USD (in 2011 PPP dollars)
- Poverty rate less than 20 percent (although reliable estimate for the last 10 years is not available)
- Significant improvement in various indices of social development (health, education etc.)

Digging deeper into the Indian economic evolution

- Democratization before development (see next slide)
- Here we are really talking about electoral democracy
- What does universal electoral rights imply for the pace and nature of development?
- Does such democratic entitlement slow down the potential of rapid growth and development?
- Not really but why

Evolution of electoral democracy and economic development

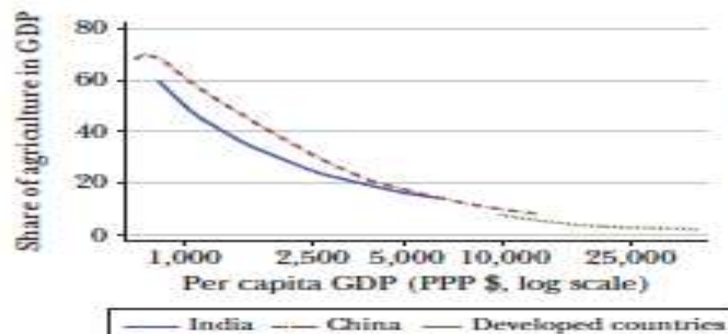


The imperfect nature of sectoral change

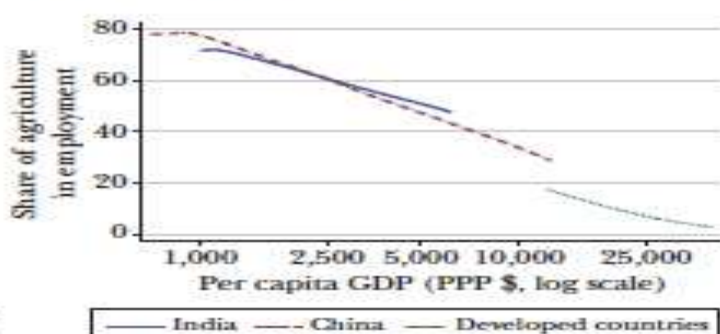
- Historically, every country that has developed, went through a process of structural change that involved a gradual reallocation of the share of employment and GDP from agriculture to manufacturing and eventually services (structural transformation as we have discussed)
- In case of India the nature of this change has been atypical
- The manufacturing sector which has the highest capacity to provide good quality jobs has had a stunted growth in India
- Services has been the dominant sector (servicification of the economy) with associated problems: a dynamic part with little employment and a huge informal part with low returns

Share of Different Sectors in GDP and Employment over Development Time for India, China, and the Developed Countries

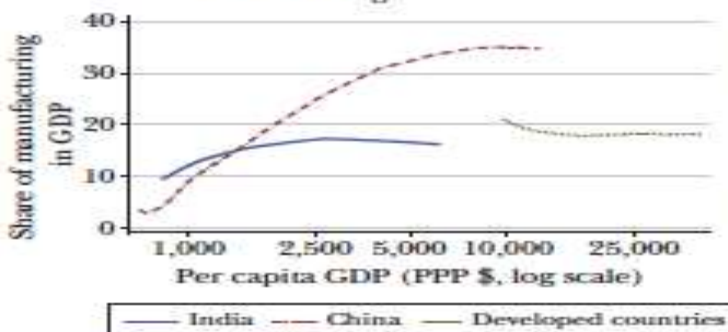
A: Share of agriculture in GDP



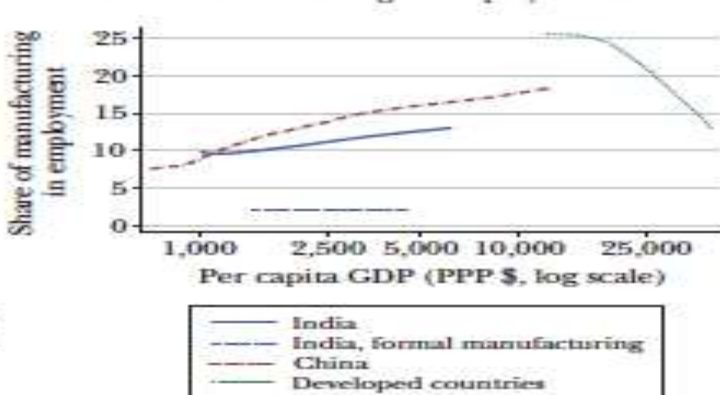
B: Share of agriculture in employment



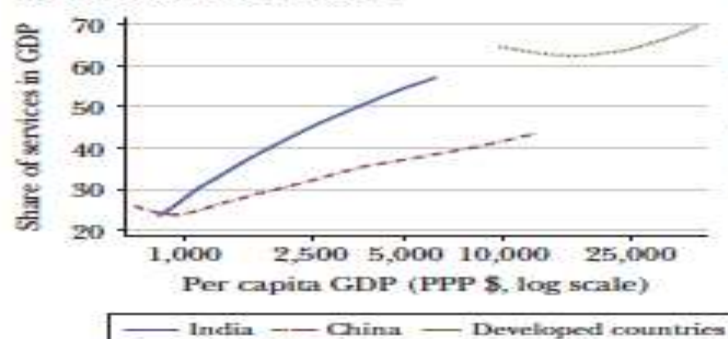
C: Share of manufacturing in GDP



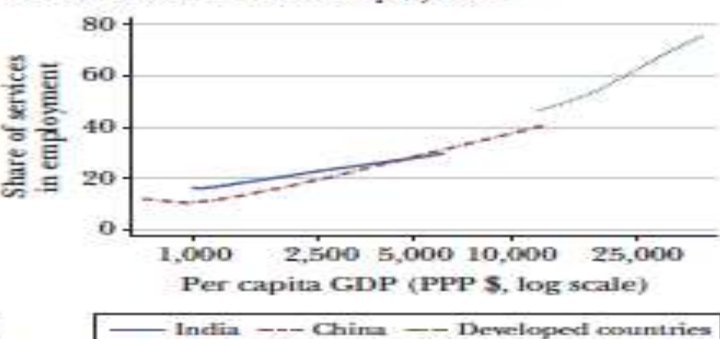
D: Share of manufacturing in employment



E: Share of services in GDP



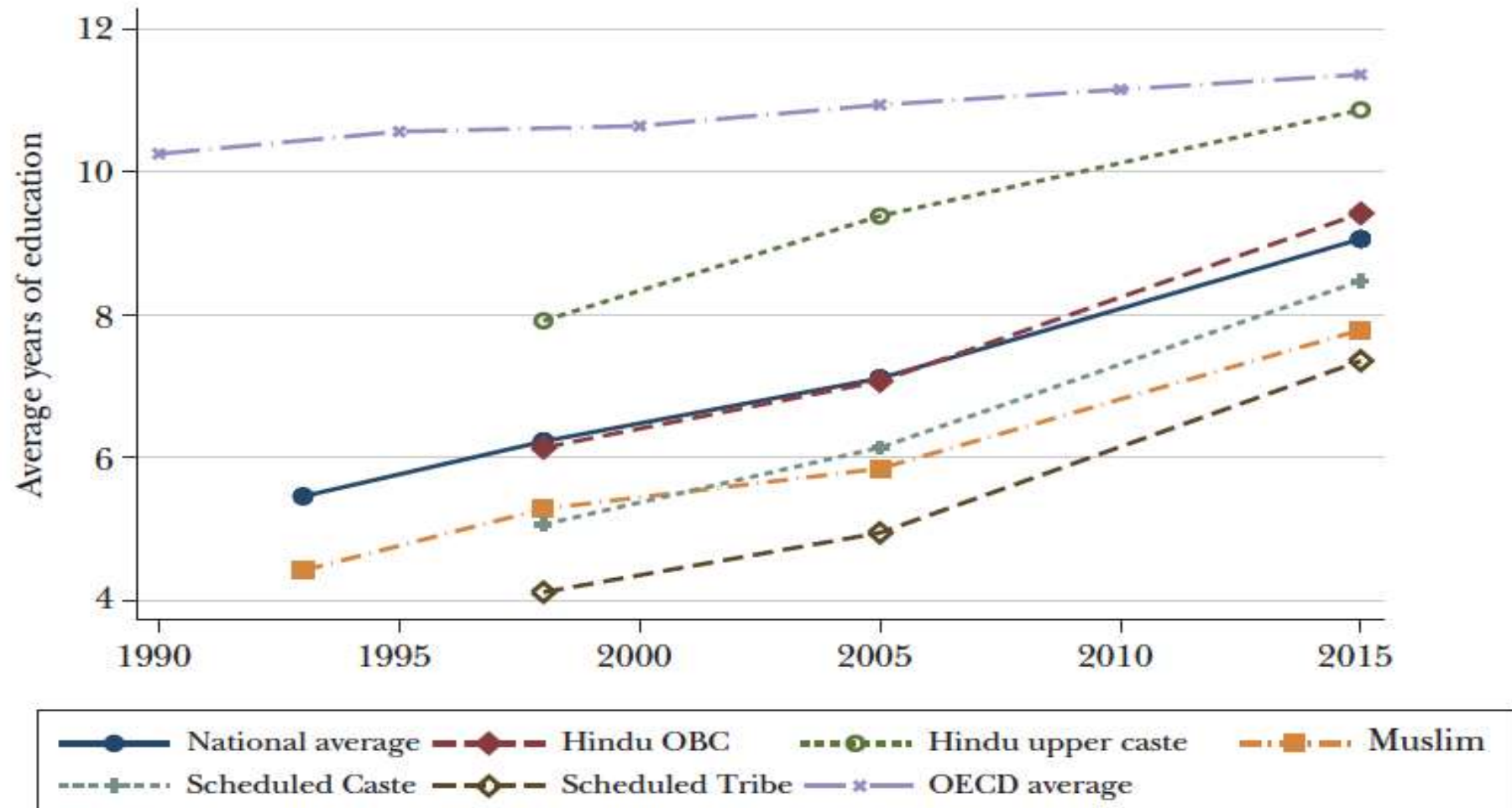
F: Share of services in employment



The nodes of inequality and exclusion in the growth process

- Spatial inequality: urban vs rural, high growth states vs. low growth states
- Exclusion based on caste and religion and ethnicity(see next slide)
- The gender dimension: sex selection at birth and educational constraints of the girl child, labour market discrimination
- The gaps in environmental sustainability: urban pollution, ground water depletion, rampant use of chemical fertilizers and insecticides in agriculture

Educational Attainment of Age Group 15–29 across Social and Religious Groups, 1992–2015



Source: For each social group in India, the data source is four rounds of National Family Health Survey (all four rounds), which can be obtained by applying for the Demographic and Health Survey. For the OECD average, the data source is the Organisation for Economic Co-operation and Development (OECD) Education Indicators Database.