India’s Economic Development Since 1947

Edited by
UMA KAPILA

ACADEMIC FOUNDATION
NEW DELHI

www.academicfoundation.com
Contents...

Preface ...................................................................................................................... 21
The Contributors ....................................................................................................... 23

PART - I

1. Indian Economy Since Independence: Major Features ........................................... 27
   Uma Kapila
   • The India of 1947 ............................................................................................. 28
   • The Planning Era ............................................................................................ 30
   • Structural Constraints and the Development Strategy ..................................... 31
   • Role of the State as Visualised in the Fifties .................................................... 33
   • Evolution of Strategy and Priorities ................................................................. 36
   • Changing Perceptions ...................................................................................... 38

PART - II

Growth, Development and Structural Change

2. Planning and the Market (Ed. Notes) ................................................................. 45
   • Role of Planning in a Market Economy ............................................................. 45
   • Redefining the Role of State ........................................................................... 48
3. Growth and Development Experience (Ed. Notes) .................................................. 54

- The Performance .................................................. 54
  Two Phases of Growth ........................................... 56
  Periodisation of Indian Growth Experience .................. 57
  Assessment of Performance ..................................... 61
  Causal Factors .................................................. 63
  What Next? .......................................................... 66
  Emerging Indian Economy ....................................... 67
  Growth Prospects ................................................ 71
  International Comparisons ...................................... 72
  Sustaining High Growth ......................................... 74
  Vision for the Eleventh Plan .................................... 76

- Growth and Structural Change .................................. 77
  Growth and Sectoral Shares, Cross-Country Evidence and Indian Experience ............. 79
  Structural Change in terms of Industrial Distribution of Workforce and Occupational Structure .................. 84

- Human Development .............................................. 91
  Human Development Index ....................................... 93
  Progress and Setbacks in Human Development ................ 94
  State of Human Development in India ......................... 97

- Environment and Development ................................ 102
  Consequences of Environmental Plunder ....................... 104
  Environment Policy ............................................... 106

- Disparities in Growth and Development ......................... 108
  Regional Sectoral Disparities of Growth ....................... 114
  Causal Factors .................................................. 115

- Indian Development Experience in International Perspective ........................................... 118
  Learning from the Experiences of Other Countries .................. 121

- India's Internal Diversities:
  - A Rich Source of Insights .................................... 123
Kerala in International Perspective ........................................ 125
Selected Regional Perspectives: Learning from the Diversity of Development Experience ...... 126
Political Action and Rural Development in West Bengal ...................................................... 128
Social Opportunities in Himachal Pradesh ................................................................. 130
• Conclusion ................................................................................................................. 133

4. India’s Recent Economic Growth: A Closer Look ......................................................... 137

R. Nagaraj
• Industrial and Services Growth ................................................................. 138
• Reliability of Estimates .................................................................................. 141
• Understanding Recent Growth ................................................................ 146
• Conclusions ...................................................................................................... 156

5. Growth Record of the Indian Economy, 1950-2008: A Story of Sustained
Savings and Investment ...................................................................................... 160

Rakesh Mohan
• A Review of the Indian Growth Process ..................................................... 160
• Growth Acceleration over the Decades ....................................................... 161
• Consistent Growth in Savings and Investment ...................................... 163
• Growing Fiscal Imbalance and Correction ............................................ 164
• Public Sector Savings.................................................................................... 167
• Performance of the Private Corporate Sector ......................................... 169
• Household Savings ....................................................................................... 172
• Estimation of Savings and Investment ...................................................... 174
• Efficiency in the Use of Resources ......................................................... 174
• Financial Sector Reforms .......................................................................... 176
• Prospects for the Next Five Years ............................................................ 179
• Issues and Challenges .................................................................................. 183

6. Reforms and Regional Inequality in India .......... 190

Sabyasachi Kar, S. Sakthivel
• Framework of ‘New Economic Geography’ ............................................ 192
• Studies on Regional Inequality in India ................................................ 193
• Reforms and Regional Inequality ........................................ 197
• A Decomposition Framework ........................................... 198
• Role of the Sectors ...................................................... 199
• Concluding Remarks .................................................. 205

PART - III

Issues in Indian Economic Policy

7. Population and Human
Resource Development (Ed. Notes) ................. 211

• Population Trends .................................................... 211
• Gender Equity and the Demographic Transition .... 215
• Population Policy since 1947 ................................. 215
• National Population Policy 2000 ......................... 217
  Objective of National Population Policy .......... 217
• Implications of Mortality Decline for the Future ..... 221
• Human Resource Development ......................... 222
  Education Policy in India ................................. 223
  Public Expenditure and Education Policy .......... 225
  Health Care as a Social Responsibility ............... 230
• Tamil Nadu: The Success Story ......................... 237
  Enabling Factors ................................................. 237
  The Future ....................................................... 239

8. India's Demographic Transition and its
Consequences for Development .......................... 243

Tim Dyson

• India's Demographic Transition ......................... 244
• Urbanisation ......................................................... 250
• The Future .......................................................... 252
• Discussion.......................................................... 256
9. Current Debate on 'Demographic Dividend' in India

K. S. James

- The Concept of Demographic Dividend .......................... 264
- The Theoretical Confusion .......................................... 268
- Empirical Estimation of Demographic Dividend ............... 269
- Statistical Analysis .................................................... 276
- Conclusions ............................................................... 280

10. Growth, Unemployment and Poverty
    (Ed. Notes) ............................................................ 283

- Poverty and Unemployment .......................................... 284
  * Poverty Estimates .................................................. 284
  * Report of the Planning Commission Expert Group
    (Tendulkar Committee) Regarding Poverty Lines .......... 288
  * Poverty Reduction .................................................. 291
  * Poverty and Inclusive Growth ................................... 297
  * Poverty Alleviation Programmes ............................... 303

- Employment Perspective ........................................... 303
  * Long-term Trends in Employment Situation:
    1983 through 2005 ............................................... 305
  * Informalisation of Employment ................................ 308

- What Explains Lack of Growth in Formal Sector Employment? 311
- The Employment Situation Among the Vulnerable Groups .... 313
- Growth and Employment ............................................ 317
- Weaknesses in Past Performance .................................. 319
- Employment Projections for the Eleventh and Twelfth Plans 322
- Sectoral Employment Perspectives ............................... 322
  * Employment in Manufacturing, Construction and Services 323

- Employment and Labour Policy .................................. 325
• Public Employment Programme for the Unorganised Workers: The Case of NREGA ............. 326
  The Performance ................................................................. 328
  Success Stories ....................................................................... 329
• Conclusion ............................................................................. 331
• Indian Labour Laws and Labour Markets ................................. 331

   Chairman: S.D. Tendulkar
   • Summary ............................................................................... 335

   Abhiroop Mukhopadhyay, Indira Rajaraman
   • Introduction ........................................................................... 340
   • Reported Unemployment from the Two Rounds ..................... 341
   • Data and Estimation .............................................................. 342
   • Findings ............................................................................... 343
   • Conclusions ......................................................................... 351

   Pinaki Chakraborty
   • Budgetary Incidence ............................................................. 355
   • Implementation Issues .......................................................... 357
   • Spatial Dimension ................................................................. 359
   • Summing Up ......................................................................... 364

   • The Background ................................................................. 366
   • The Macroeconomic Crisis .................................................. 366
   • Rationale for the Reforms .................................................... 368
   • Macroeconomic Reforms ..................................................... 368
   • Fiscal Adjustment and Stabilisation ....................................... 374
   • Fiscal Responsibility and Budget Management Act, 2003 ........ 378
   • Central Government Finances ............................................. 381
### Contents

- External Balance ........................................... 382
- Macroeconomic Performance: An Overview ............... 386
- Monetary Policy Issues ..................................... 386
- Credit Delivery ............................................. 388
- External Sector Management ................................. 389
- Global Financial Crisis: Policy Response ............... 390
- Global Financial Crisis and Conduct of Monetary Policy ......................................................... 391
- Fiscal Policy Developments ................................ 393
- Challenges and Outlook ..................................... 395

15. Financial Sector Reforms and Monetary Policy: The Indian Experience .............. 401

*Rakesh Mohan*

- Introduction ................................................ 401
- Financial Sector and Monetary Policy: Objectives and Reforms ........................................ 402
- An Assessment .............................................. 415
- Monetary Policy ............................................ 421
- Some Emerging Issues ..................................... 428
- Concluding Observations .................................. 438


- Linkage between Agriculture and Industrial Sectors ......................................................... 440
- The Institutional Context ................................... 442
- The New Technology ....................................... 446
- Three Phases of Green Revolution ......................... 447
- Reform Period, 1991 to the Present ...................... 451
- The Role of Technology in Indian Agriculture .......... 452
- Deceleration in Agriculture Growth ....................... 456
- Major Factors Affecting the Growth Potential ........ 462
- National Policy for Farmers, 2007 ......................... 471
- Towards Sustainable and Inclusive Growth ............. 472
- Technology .................................................. 475
- Irrigation .................................................... 475
India’s Economic Development Since 1947

17. Agricultural Growth in India Since 1991
Pulapre Balakrishnan, Ramesh Golait, Pankaj Kumar

- Agriculture and the Economic Reforms ........................................ 522
- Growth of Agriculture Since 1991 .................................................. 523
- Prices and the Recent Agricultural Growth ...................................... 525
- Non-price Factors and the Recent Agricultural Growth ....................... 533
- Conclusion, with Implications for Policy ......................................... 549

18. Food and Nutrition in India: Facts and Interpretations
Angus Deaton, Jean Drèze

- Introduction ..................................................................................... 554
- Trends in Calorie Consumption and Nutrition ..................................... 556
  Trends in Nutritional Status ............................................................. 574
- Interpretations .................................................................................. 587
- Concluding Remarks ......................................................................... 611


- Extent and Pattern of Industrialisation during the British Rule ............. 621
- The Industrial Scene at Independence ............................................ 621
• Industrial Control Regime ............................................. 623
• The Policy Regime in the 1990s ................................. 626
• New Economic Policy .................................................. 627
  Opening up to Foreign Investment ................................. 629
  Public Sector Reforms, Privatisation and Infrastructure .......... 629
• Industrial Growth ..................................................... 630
  Phases of Industrial Growth ....................................... 630
  Industrial Growth in the 90s ....................................... 631
• Profile of Industrial Growth ....................................... 638
  Shift in Favour of Registered Manufacturing ..................... 639
  Decline in Employment Growth in Organised Manufacturing ........ 639
  The Stagnant Share of Manufacturing Sector in GDP .......... 639
• Factors Causing the Industrial Slowdown: Some Hypotheses ............. 641
  Infrastructure Constraints in the Industrial Sector .......... 642
• Productivity Trends in the Manufacturing Sector .................. 645
• Recovery in Industrial Growth since 2002-03 ...................... 646
• Industrial Policy Eleventh Plan ................................... 650
• Industrial Growth since 2007-08 .................................. 651
• Challenges and Outlook .............................................. 653
• Micro and Small Enterprises (MSEs) ............................... 656
  Role of MSEs in Indian Economy .................................. 659
  Globalisation and Small Industry Performance ..................... 661
  Future Prospects of Small Industry ............................... 667
• Public Sector .......................................................... 670
  The Rationale ......................................................... 670
  Performance of Central Public Sector Undertakings .............. 673
  Central PSE's Profitability ......................................... 676
• Reasons and Implications ............................................ 678
  Policies toward CPSEs and their Implementation .................. 675
• Privatisation ........................................................... 680
Indian Experience since 1991
• Labour Policy Reforms

20. Removing Infrastructure Bottlenecks

OECD
• Infrastructure is a Major Constraint on Growth
• The Private Sector has a Crucial Role to Play in Narrowing Infrastructure Gaps
• Private Sector Involvement is Transforming Certain Sectors
  Civil Aviation
  Wireless Telecoms
• A More Limited Start has been made in other Sectors
  Fixed Line Telecommunication
  Electricity
  Roads
  Ports
  Airport
• In Other Sectors, the Framework is not conducive to competition
  Coal
  Railways

21. Services in the Indian Growth Process
(Ed. Notes)
• Growth and Sectoral Shares, Cross Country Evidence and Indian Experience
• Which Services Have Grown Rapidly?
  Factors Underlying the Services Growth
• India’s Share in World Exports
• World Trade in Services Sector
• Summing Up

22. Reforming India’s Product and Service Markets

OECD
• Despite Extensive Liberalisation in Some Areas Regulations are on Average Rather Restrictive
• Policies to Improve Product Market Regulations
23. Foreign Trade: Issues and Policies
(Ed. Notes) ...................................................... 798

- Constraints Arising from Foreign Trade and Import Substitution-based Policies ......................... 798
- Inward Looking Strategy ........................................ 799
- Foreign Trade Performance ..................................... 805
- Structural Changes in India's Foreign Trade ............. 809
- Global Recession and India's Merchandise Trade: ... 817
  Direction and Composition of Trade ............................. 825
- World Merchandise Trade: Global Recession ............. 827
- India's Services Imports ........................................ 835
- Special Economic Zones ......................................... 836
- Bilateral and Regional Cooperation ............................ 838
  Regional Trade Agreements ......................................... 839
- Challenges and Outlook ........................................... 839
- India's Balance of Payment Trends
  1950-2008-09 .......................................................... 841
  A Decade of Comfort ................................................. 842
  The Period of Difficulties ......................................... 842
  Easing of Pressure .................................................. 843
  The Build-up to the Crisis ........................................ 843
  The Crisis: 1990-1992 ............................................... 844
  Balance of Payments during
  1993-94 to 2005-06 .................................................. 845
  Balance of Payment during 2006-07
to 2008-09 .............................................................. 847
- Current Account .................................................... 849
  Sustainability of Current Account ............................... 851
- Capital Account ...................................................... 853
  External Debt .......................................................... 856
- Capital Account, External Debt and Exchange Rate .......... 860
- Roadmap Towards Fuller Capital Account Convertibility ........................................ 861
- Managing Capital Flows ............................................. 863
- Foreign Exchange Reserves:
  Approach, Developments and Issues ......................... 864
PART - IV

Development Prospects

24. India's Development Prospects:
   Looking Ahead (Ed. Notes) ................................. 899
   - Some Aspects of India's Recent
     Growth Dynamics ........................................ 901
     Growth Drivers ........................................... 901
     Aggregate Demand and Supply ......................... 901
     Sectoral Composition .................................. 903
     Growth Prospects ....................................... 906
   - International Comparisons ............................. 908
   - Sustaining High Growth ................................ 910
   - Sustaining the Growth Momentum—
     Some Aspects of the Policy Agenda .................. 917
   - Tasks Ahead ............................................. 920
     Launching the Second Generation of Reforms ..... 920
   - The Political Economy of Reform ..................... 921
25. India’s Key Challenges to Sustaining High Growth .................................................. 932

OECD

- Economic Reforms have Transformed the Indian Economy ........................................ 932
- The Economy has responded Positively to the Reforms ........................................... 938
- Looking into the Future ................................................................................................ 958
- Easing Regulation in Goods and Service Markets .................................................... 962
- Removing Barriers to Employment in the Formal Sector ...................................... 965
- Improving the Efficiency of the Financial System ............................................... 969
- Orienting Public Finances to Achieve more Rapid Growth .................................... 970
- Improving Infrastructure ........................................................................................... 979
- Improving Education .................................................................................................. 989
- Conclusions .................................................................................................................. 992

26. India Amidst the Global Crisis .................................................. 997

Mihir Rakshit

- Introduction .................................................................................................................. 997
- Pre-crisis Developments ............................................................................................. 998
- Global Crisis: Domestic Consequences .................................................................. 1020
- Policy Omissions and Commissions ......................................................................... 1030

27. Lessons from the 2008 World Food Crisis ............... 1037

Jomo Kwame Sundaram

- Longer-term Problems .............................................................................................. 1038
- Trade Liberalisation .................................................................................................. 1040
- Other Longer-Term Trends ....................................................................................... 1042
- Proximate Causes of Food Price Hikes .................................................................... 1044
- U-Turn in Washington? ............................................................................................. 1045
- Prospects .................................................................................................................... 1049

Statistical Appendix .................................................................................................. 1053

- Selected Economic and Social Indicators 1950-51 to 2008-2009 ......................... 1054