

INDIA'S COMPARATIVE GROWTH RECORD

—Growth, Investment and Incremental Capital-Output Ratios with Reference to ECAFE Countries : 1950-1959

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I. *Introduction*

Object : Object of the present study is to explain the divergent growth-rates observed during 1950-59 in the ECAFE countries in terms of investment ratios and Incremental Capital-Output Ratios (ICORs). Main conclusions of the study are that there is no relationship between growth rate and investment ratios. On the other hand, growth rate and ICOR are related inversely. The study also throws light on the poor performance of our economy in comparison with the ECAFE countries.

Approach : Two approaches are usually adopted by empirical studies (ECE, NIESR, Hill, etc.) to explain the divergent growth-rates. One attempts to measure the contribution of labour and capital to the growth rate. The other attempts to measure how much is left to be explained by differences in the effectiveness with which additional labour and capital are used, i.e. differences in rates of change in inputs and differences in productivity of factor inputs as causes for divergent growth-rates. The present study adopts this approach, but concentrating on differences in investment and in return to investment as explanation of differences in growth rates. This approach is adopted for more than one reason : firstly, lack of data on employed labour-force comes in the way of application of production-function approach; secondly, our interest is more in examining the role of investment in economic development and the relationship between growth rate and ICOR, as these have analytical implications for planning (discussed later).

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