

India's Growth Experience and the Missing Transition

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This paper examines the structure of growth acceleration of the post-independence Indian economy using national as well as state level output figures and capital stock series at the national level. By examining the manner in which growth accelerations at various national and sub-national disaggregated series are clustered in time, we argue that they began in the 1980s and caught momentum in the 1990s. In moving away from excessive dependence on agriculture, Indian economy seems to have missed the Kuznets transition to an increased share of the manufacturing sector. This has important implications for employment and rural poverty.

I Introduction

Economic growth is typically understood as increase in real output over a period of time. It is widely accepted that economic growth is indispensable for raising the standards of living in an economy. Therefore, after independence in the mid-twentieth century, the biggest challenge for the policy-makers in India was to accelerate and support economic growth. In this regard, Indian government adopted a planned strategy that heavily relied on an active role of the state in promoting faster economic growth. Import protection and state-led industrial planning became the preferred solution in India. To formulate the Indian planned strategy a Planning Commission was established by a cabinet decision in 1950 with the Prime Minister as its Chairman. Researchers in the past have agreed that the planning process initiated in 1950s was successful in putting India on a higher growth trajectory compared to the first half of the twentieth century (Hatekar and Dongre 2005).¹

The first five-year plan (1951-1956) emphasised the rehabilitation of refugees, rapid agricultural development to achieve food self-sufficiency and curbing inflation. The second five-year plan (1956-1961) radically changed its focus. It gave higher priority to the development of heavy and basic industries of the economy for a more rapid growth in the future. At the beginning of the plan in 1956, a new industrial policy was announced accepting the establishment of a socialistic pattern of society as the goal of economic policy. The industrial policy also re-defined the industrial category for public-private treatment, which bears a

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¹ This is not because the performance of the post-1950s period was exceptional in any way, but because the performance before it was exceptionally poor (Hatekar and Dongre 2005).