B.P.R. Vithal Memorial Lecture
India's Recent Growth Experience

By

Dr. C. Rangarajan

Former Chairman, Economic Advisory Council to the Prime Minister

and

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CENTRE FOR ECONOMIC AND SOCIAL STUDIES

(Planning Dept. Govt. of Telangana & ICSSR-Ministry of Education Govt. of India)

Nizamiah Observatory Campus, Begumpet, Hyderabad-500 016

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C. Rangarajan

I am deeply honored and privileged to deliver the first BPR Vithal Memorial Lecture. Mr Vithal was an outstanding economic administrator. He was truly a scholar - administrator. He held the position of Planning - Finance Secretary of Andhra Pradesh for a recordthirteen years. That shows how well he was respected by the political system as well. He was a financial 'Wizard'. His understanding of the financial problems of the states was phenomenal. I came into contact with him when both of us were members of the Tenth Finance Commission. But my stay in the Commission was short. Even in that period, I found how his interventions were always sharp and clear and were backed up with cogent arguments. When I was in Hyderabad, I met him often and every conversation was meaningful and productive. He had a sense of humour which was difficult to beat. All of us who had known him miss him very much. His death is a great loss to the country.

India's economic journey started with Independence. In the first half of the 20th century, India's growth rate was just 1.4 per cent. With population growing more or less of that rate, the per capita income did not grow. Immediately after Independence growth became the most urgent concern of policy makers. The dominant view in the literature on development economics in the 1950s and 1960s was that the government had an important role to play and that it should undertake activities that would compensate for 'market failure'. Market failure was perceived particularly in its inability to allocate resources over time, that is, for investment because of the 'myopic' nature of market participants. The literature also emphasized the benefit of a coordinated and consistent set of investment decisions. It is this line of reasoning that led most developing countries including India to formulate economy wide plans.Though India adopted a mixed economy, the mix was tilted heavily towards state at least incrementally.

Policy makers in India in the 1950s and 1960s cannot be blamed for the decisions they took. At that time, there was no clear model available for accelerating growth in developing countries. State intervention on an extensive scale seemed to be appropriate. However by 1970s, it was becoming clear that the model we had chosen was not delivering and that it needed change. There were many critics of the Indian strategy by that time. But our policy makers refused to recognize this. It was around that time China made a big change[1].

It was the crisis of 1990-91 that compelled the policy makers to turn to an "idea whose time had come'. The break with the past came in three important directions. The first was to dismantle the complex regime of licences, permits and controls that dictated almost every facet of production and distribution. Barriers to entry and growth were dismantled. The second change in direction was to reverse the strong bias towards state ownership of means of production and proliferation of public sector enterprises in almost every sphere of economic activity. Areas once reserved exclusively for the state were thrown open to private enterprise. The third change in direction was to abandon the inward looking trade policy. By embracing international trade, India signaled that it was boldly abandoning its export pessimism and was accepting the challenge and opportunity of integrating into the world economy. This approach is very different from what we used to do when faced with balance of payments problems earlier.

What has been the impact on the economy because of the reforms? Did India's growth rate pick up? Did the balance of payments situation improve? What happened to inequality in income and poverty?

India's average growth till the end of 1970s remained modest with the average growth rate being 3.5 per cent. With population growing at 2.2 per cent the per capita income growth rate was extremely modest at 1.3 per cent.Indian economy did grow at 5.6 per cent in the 1980s. But the economy faced the worst crisis in 1991-92 and the growth rate fell to 1.0 per cent. It is extremely doubtful if without a change in the strategy of development, growth would have picked up.

Trends in Growth Post Liberalization

Between 1992-93 and 2000-01, GDP at factor cost grew annually by 6.20 per cent (Table 1). Between 2001-02 and 2012-13, it grew by 7.4 per cent and the growth rate between 2013-14 and 2019-20, was 6.7 per cent. The best performance was between

[1] The famous Deng's speech was delivered on December 13, 1978. He called for to 'explore new ways and generate new ideas'. It is interesting to note that in 1980, in current dollars, India's per capita income was 266 and that of China was 194. In 2020, India's was $1900 and that of China was 10500. Of course, one cannot attribute only to change in policy for the big difference.

2005-06 and 2010-11 when GDP grew by 8.8 per cent showing clearly what the potential growth rate of India was. This is the highest growth experienced by India over a sustained period of 5 to 6 years. This is despite the fact that this period included the global crisis year of 2008-09. During this period the investment rate reached the peak of 39.1 per cent in 2007-08. There was a corresponding increase in savings rate touching the high of 36.8 per cent in 2007-08. The current account deficit in the balance of payments remained low at an average of 1.9 per cent. The growth story suffered a setback after 2011-12. The growth rate fell to 4.5 per cent in 2012-13 according to 2004-05 series. According to 2011-12 base series, the corresponding figure is 5.5 per cent.

The downturn after 2011-12 was partly cyclical. The economy after having reached its full potential had begun to decline. And the decline was accentuated by the rise in Non-performing assets of banks. The extraordinary increase in bank credit between 2005 and 2011 - the annual growth rate was as high as 23.9 per cent - is one of the causes for the rise in non-performing assets. In fact, the downturn in general was not well managed. The government was also caught up with many controversies.

The decline in growth rate which started well before the advent of COVID 19 should make the policy makers reflect and introspect. The growth performance since 2012-13 is a bit difficult to interpret. The introduction of a new series on national income with the base 2011-12 has raised many controversies. The methodological changes that were introduced - particularly the use of MCA 21 data for calculating manufacturing growth - have not found general acceptance. In any case, we have no other data to go by. As per the new data, 2015-16 and 2016-17 were good years with the growth rate around 8.0 per cent. Thereafter it started declining and touched the level of 3.7 per cent in 2019-20. In fact this period is marked by a sharp decline in Gross Fixed Capital formation rate from 33.4 per cent of GDP in 2012-13 to 28.8 per cent in 2019-20. The private sector investment during this period fell from 26.4 per cent of GDP in 2012-13 to 21.8 percent in 2019-2020 (Table 2).

The growth story cannot be complete without reference to the two recent events - one Covid-19 and the other Russia - Ukraine War. The economic impact of Covid-19 is largely because of the actions taken to contain the spread of Covid-19 such as lockdown. The net result has been a decline in growth rate by 6.6 per cent in 2021 and a rise in growth in rate by 8.9 per cent in 2021-22. The result is that the economy is where it was in April 2020. We have lost two years. The decline in output is even greater when looked from the trend rate of growth.

2022-23 will be the first normal year after Covid-19. Even that assumption has been shattered by the Russian invasion of Ukraine. The economic impact of this War can be severe, if it continues for long. The sudden surge in Crude oil prices can severely affect our Balance of Payments and the Current Account Deficit can rise to 3 per cent of GDP. The impact of the rise in crude prices on the general price level can be severe and overall inflation may well exceed 6 per cent. The expectation that the growth rate in 2022-23 could be around 8 per cent was optimistic even before the Russian-Ukraine War. Perhaps, we should settle for a growth rate of 7 per cent. All this is a guess at this point. A clear picture will emerge only after a few weeks.

Balance of Payments

In the post liberalization period, the balance of payments situation had remained comfortable (Table 3). It is in fact a success story of liberalization. There were three years in which the current account showed a small surplus. Most of the years showed a small deficit. The exceptions were 2011-12 and 2012-13 when the current account deficit exceeded 4 per cent of GDP. This was taken care of quickly. Foreign Exchange reserves showed a substantial increase and touched $ 635 billion recently. The opening up of the external sector which included liberal trade policy, market determined exchange rate and enabling liberal flow of external resources has greatly strengthened the external sector. We however still run a high merchandise trade deficit which is offset to a large extent by the surplus in services. The merchandise export growth during 2005-2011 was high at 20.9 per cent. Of course, there were periods from time to time when the currency came under pressure because of the sudden outflows of capital largely triggered by external factors. In the final analysis, the exchange rate of the rupee cannot be stable, if there are significant inflation differentials. The rupee is currently under pressure because of the Russian invasion of Ukraine and the outflow of funds because of the withdrawal of funds.

Poverty Ratio

Besides growth, the other major objective of economic policy is to reduce the number of people living below the poverty line. There are many problems associated with the definition of poverty and the kind of data required to measure it. Going by the procedure adopted by the erstwhile Planning Commission using the Tendulkar expert group methodology, the overall poverty ratio came down from 45.3 per cent in 1993-94 to

37.2 per cent in 2004-05 and further down to 21.9 per cent in 2011-12 (Table 4). The per year reduction in percentage points in poverty ratio between 1993-94 and 2004-05 was 0.7 and between 2004-05 and 2011-12 was 2.18. The annual per capita income growth in the first period was 4.3 per cent and in the second period it was 6.7 per cent (Table 1). The post reform period up to 2011-12 saw a significant reduction in poverty ratio because of faster growth supplemented by appropriate poverty reduction programmes such as the Rural Employment Guarantee Scheme and Extended Food Security Scheme. This decline in poverty is also corroborated by the Multiple Indicator Index computed by Oxford Study[2]. With the decline in growth rate since 2011-12 and with a negative growth in 2020-21, this trend must have been reversed i.e. the poverty ratio may have now increased. The key lesson to be learnt is that for poverty reduction high growth is needed. We also need appropriate safety net measures.

Lessons from the Reform Experience

Had the growth trend seen up to 2011-12 continued, we would have an unqualified answer to the impact of reforms on growth. Growth requires more than reforms. Reforms do not automatically translate into growth. Reforms are, in the words of economists, only a necessary condition. It is not sufficient. In a developing economy, in the final analysis, growth is driven by investment. It is the decline in investment rate by 6.8 percentage points since 2011-12 that has led to the progressive decline of the growth rate (Table 1). Reforms normally create a natural climate for investment. But 'animal spirits' are also influenced by non-economic factors such as social cohesion. Reforms supplemented by a careful nurturing of the investment climate are needed to spur growth again. Growth should also become the sole concern of policy makers.

The reform agenda must continue. It will be incremental in character. It has to be. The paradigm shift occurred in 1991. Policy makers should be clear about the direction in which they should move. We need to move in the same direction in which we have been moving in the past three decades. Policy makers should identify the sectors which need

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[2] The Report on Global Multidimensional Poverty Index (MPI) 2018 released by UNDP and Oxford University says, "India has made momentous progress in reducing multidimensional poverty. The incidence of multidimensional poverty was almost halved between 2005/6 and 2015/16, climbing down to 27.5%. The global Multidimensional Poverty Index (MPI) was cut by half due to deeper progress among the poorest. Thus within ten years, the number of poor people in India fell by more than 271 million - a truly massive gain". This is indeed high praise.

reforms in terms of creating a competitive environment and improving the performance efficiency. Centre and states must be joint partners in this effort.

Reforms do attract criticism. The 1991 reforms were dubbed by some as dictated by IMF and World Bank. Some criticized some of the reforms as a sellout to capitalists. Under the shadow of a crisis, some of the reforms in 1991 could be pushed. But today this is no longer possible. Power sector,the financial system, governance and even agricultural marketing need reforms. But we need a lot more of discussion and consensus building. Timing and sequencing are also critically important. For example, labour reforms are best introduced when the economy is on the upswing. Looking at the recent controversies over agricultural marketing reforms, the best course of action now may have been to leave these measures to each state to decide whether they want these changes or not. That will set the stage for experimental economics and farmers themselves will be able to see the best possible solution for different agricultural crops and conditions.

Some years ago there was a talk about India becoming a $5 trillion economy. We are today a $2.7 trillion economy. To reach the goal of $5 trillion, India needs to grow at 9 per cent per annum for at least 5 consecutive years. That is the challenge before us, as growth is the answer to many of our socio-economic problems. It was only during the high growth period, the poverty ratio came down fast. High growth enabled government to introduce several social safety nets.

Reforms to be credible and acceptable must not only result in higher growth but also benefit all sections of society. In that sense, reforms are not ends in themselves. At the same time, equity will remain a dream, if it is not supported by growth spurred by reforms. Reforms, growth and equity must form the triad of economic policy. All of them are mutually reinforcing.

Table 1: Key Economic Indicators Since the 1991 Economic Reforms

Year	GDP Growth Rate	Per-Capita Income Growth Rate	GFD as a percentage of GDP	Bank Credit Growth rate	WPI Inflation	CPI Inflation	GFCF	GCF	GDS
1992-93	5.4	3.4	6.8	21.0			25.1	24.9	21.3
1993-94	5.7	3.7	8.0	8.2			23.7	24.0	21.7
1994-95	6.4	4.3	6.9	28.7	12.6		23.4	26.8	23.6
1995-96	7.3	5.3	6.3	20.1	8.0		25.1	27.3	23.6
1996-97	8.0	6.2	6.1	9.6	4.6		24.5	25.6	22.4
1997-98	4.3	2.2	7.0	16.4	4.4		25.4	27.7	24.2
1998-99	6.7	4.6	8.7	13.8	5.9		25.5	26.2	23.2
1999-00	8.0	6.0	9.1	18.2	3.3		27.5	28.8	25.5
2000-01	4.1	1.7	9.2	17.3	7.2		26.0	26.2	23.7
2001-02	5.4	3.3	9.6	15.3	3.6		29.9	26.2	24.8
2002-03	3.9	2.3	9.3	23.7	3.4		28.3	26.8	25.9
2003-04	8.0	6.5	8.3	15.3	5.5		28.3	29.0	29.0
2004-05	7.1	5.0	7.2	30.9	6.5		30.7	35.2	32.4
2005-06	9.5	7.8	6.5	37.0	4.5		32.8	36.4	33.4
2006-07	9.6	7.9	5.1	28.1	6.6		33.6	36.0	34.6
2007-08	9.3	8.1	4.0	22.3	4.7		35.8	39.1	36.8
2008-09	6.7	4.7	8.3	17.5	8.1		34.7	38.4	32.0
2009-10	8.6	6.8	9.3	16.9	3.8		34.0	38.9	33.7
2010-11	8.9	6.8	7.8	21.5	9.6		33.2	39.8	33.7
2011-12	6.7	5.1	6.9	17.0	8.9		34.3	39.0	34.6
2012-13	5.5	4.2	6.7	14.1	7.4		33.4	38.7	33.9
2013-14	6.4	5.0	6.7	13.9	5.2	9.3	31.3	33.8	32.1
2014-15	7.4	6.1	6.9	9.0	1.3	6.0	30.1	33.5	32.2
2015-16	8.0	6.6	6.9	10.9	-3.7	4.9	28.7	32.1	31.1
2016-17	8.3	6.9	5.8	8.2	1.7	4.5	28.2	32.0	31.3
2017-18	6.8	5.6	5.8	10.0	2.9	3.6	28.2	33.9	32.1
2018-19	6.5	5.4	6.9	13.3	4.3	3.4	29.2	32.7	30.6
2019-20	3.7	2.7	6.3	6.1	1.7	4.8	28.8	32.2	

Source: MOSPI, RBI. Economic Survey 2021-22

Note:

- Till 2011-12, GDP is estimated at constant 2004-05 prices at factor cost. From 2012-13 GDP market price at 2011-12 constant prices.
- Per Capita Income based on GDP at 2004-05 constant price till 2011-12. From 2012-13 per capita income growth rate is based on GDP at 2011-12 constant prices.
- GFD is the Gross Fiscal deficit of both state and Central Government combined.
- Base Year of the WPI inflation till 1993-94 is 1981-82. From 1994-95 to 2004-05 the base year is 1993-94 after that the base year is 2004-05.
- Base Year for CPI Combined inflation is 2012.
- GFCF and GCF as a percentage of current Market GDP at 2011-12 prices.
- Gross Domestic Savings (GDS) as a percentage of GDP at 2004-05 current prices till 2010-11. From 2011-12 GDS as a percentage of GDP at 2011-12 current prices.

Table 2: Sector Wise Gross Fixed Capital Formation as per cent of GDP at Current Market Prices

2004-05 series			
Year	**Public Sector**	**Private Sector**	**Total**
2000-01	6.7	16.0	22.7
2001-02	6.8	18.3	25.1
2002-03	6.6	17.1	23.7
2003-04	6.7	17.8	24.5
2004-05	6.9	21.8	28.7
2005-06	7.3	23.0	30.3
2006-07	7.9	23.4	31.3
2007-08	8.0	24.9	32.9
2008-09	8.5	23.8	32.3
2009-10	8.4	23.3	31.7
2010-11	7.8	23.1	30.9
2011-12	7.1	24.7	31.8
2012-13	7.8	22.6	30.4
2011-12 Series			
Year	**Public Sector**	**Private Sector**	**Total**
2000-01	6.9	19.1	26.0
2001-02	7.1	22.9	29.9
2002-03	6.9	21.4	28.3
2003-04	7.0	21.3	28.3
2004-05	7.2	23.6	30.7
2005-06	7.5	25.2	32.8
2006-07	8.1	25.5	33.6
2007-08	8.3	27.5	35.8
2008-09	8.8	25.9	34.7
2009-10	8.6	25.3	34.0
2010-11	8.0	25.2	33.2
2011-12	7.3	27.0	34.3
2012-13	7.0	26.4	33.4
2013-14	7.1	24.2	31.3
2014-15	7.0	23.1	30.1
2015-16	7.5	21.3	28.7
2016-17	6.9	21.3	28.2
2017-18	6.7	21.5	28.2
2018-19	7.1	22.1	29.2
2019-20	6.9	21.8	28.8

Source: Economic Survey 2013-14 and 2021-22

Table 3: Balance of Payment Indicators

Year	Export Growth Rate	Import Growth Rate	Import Cover of Reserves	Current Account Balance
1992-93	3.8	12.7	4.9	-1.4
1993-94	20.0	6.5	8.6	-0.4
1994-95	18.4	22.9	8.4	-1.0
1995-96	20.8	28.0	6.0	-1.6
1996-97	5.3	6.7	6.5	-1.2
1997-98	4.6	6.0	6.9	-1.3
1998-99	-5.1	2.2	8.2	-1.0
1999-00	10.8	17.2	8.2	-1.0
2000-01	21.0	1.7	8.8	-0.6
2001-02	-1.6	1.7	11.5	0.7
2002-03	20.3	19.4	14.2	1.2
2003-04	21.1	27.3	16.9	2.3
2004-05	30.8	42.7	14.3	-0.3
2005-06	23.4	33.8	11.6	-1.2
2006-07	22.6	24.5	12.5	-1.0
2007-08	28.9	35.4	14.4	-1.3
2008-09	13.7	20.8	9.8	-2.3
2009-10	-3.5	-5.0	11.1	-2.8
2010-11	40.5	28.2	9.5	-2.9
2011-12	21.8	32.3	7.1	-4.3
2012-13	-1.8	0.3	7.0	-4.8
2013-14	4.7	-8.3	7.8	-1.7
2014-15	-1.3	-0.5	8.9	-1.3
2015-16	-15.5	-15.0	10.9	-1.1
2016-17	5.2	0.9	11.3	-0.6
2017-18	10.0	21.1	10.9	-1.8
2018-19	8.7	10.4	9.6	-2.1
2019-20	-5.1	-7.7	12.0	-0.9

Source: RBI DBIE

Table 4: Percentage and Number of Poor Estimated from Expert Group (Tendulkar) Methodology

Year	Poverty Ratio (%)			Number of Poor (Million)		
	Rural	Urban	Total	Rural	Urban	Total
1993-94	50.1	31.8	45.3	328.6	74.5	403.7
2004-05	41.8	25.7	37.2	326.3	80.8	407.1
2009-10	33.8	20.9	29.8	278.2	76.5	354.7
2011-12	25.7	13.7	21.9	216.7	53.1	269.8

Decline in Poverty Ratio Estimated from Expert Group (Tendulkar) Methodology

(Percentage points per year)

Period	Rural	Urban	Total
1993-94 to 2004-05	0.75	0.55	0.74
2004-05 to 2011-12	2.32	1.69	2.18
1993-94 to 2011-12	1.36	1.01	1.3

About the Speaker

Dr. Chakravarthi Rangarajan is a leading economist who has played a key role both as an academic and as a policy maker in India. He has held several important positions which include Governor of Reserve Bank of India and Governor of Andhra Pradesh.

Dr. Rangarajan was the Chairman, Economic Advisory Council to the Prime Minister. He was also the Chairman of the Twelfth Finance Commission.

He was the President of the Indian Economic Association in 1988 and again was honored as the President of the centenary year (2017) of the association. He was also the President of the Indian Econometric Society in 1994.

Dr. Rangarajan was recipient of several prestigious awards. In recognition of his distinguished service to the country, the President of India honored him with **Padma Vibhushan** in 2002.

On June 29, 2020 he received Prof. P.C Mahalanobis National Award in Official Statistics, in life time achievement category in recognition of numerous distinguished and outstanding contributions he made to the Indian Statistical System. In August 2021 Dr. Rangarajan received Prof. C. R. Rao Centenary Gold Medal, instituted to commemorate his contributions to quantitative economic theory and practice, along with Prof. Jagdish Bhagawati, for their life time contributions to the fields of theoretical and applied aspects of Quantitative Economics and Official Statistics.

His well-known books on Indian Economy are ***Tracking the Indian Economy: A Collection of Articles***, (2017), ***Counting the poor : Where do we stand*** (co-author) (2017), ***Federalism and Fiscal Transfers in India*** (co-author) (2011), ***India : Monetary Policy, Financial Stability and Other Essays*** (2009), ***Selected Essays on Indian Economy*** two volumes (2003), ***Indian Economy : Essays on Money and Finance*** (1998).

He is currently Chairman, Madras School of Economics.

Sri Baru Pandu Ranga Vithal (1927-2020)

Sri B.P.R Vithal, is the Founder Member and the first Chairman of the Centre for Economic and Social Studies. He positioned CESS as an autonomous national institution providing a platform between academicians and policy makers.

He was educated at Madrasa-e-Aliya High School, Hyderabad. In 1942 he quit his under-graduate studies at Nizam College, attended the Quit India session of the Indian National Congress in Mumbai and immersed himself in the national movement. He graduated from Madras Christian College with B.Sc.in Chemistry. He joined the Hyderabad Civil Service in 1949, and qualified for the IAS in 1950.

B.P.R.Vithal served the Planning and Finance Departments, Government of Andhra Pradesh for a continuous period of 13 years during 1969 to 1982, as Secretary and Principal Secretary. He was Deputy Chairman, A.P State Planning Board and Member of Tenth Finance Commission. He was also Chairman Expenditure Commission, Government of Kerala. He had a brief stint at the International Monetary Fund as Fiscal Advisor to the Governments of Sudan and Malawi. He was a Member of the K N Raj Committee on Taxation of Agricultural Income, Government of India (1969).

B.P.R. Vithal has many publications to his credit. Prominent among which are ***A State in Periodic Crises - Andhra Pradesh, (2012), In Retrospect - A Miscellany***, (2012),***Gadgil Formula for Allocation of Central Assistance for State Plans***, (2002), and ***Fiscal Federalism in India***, (2001). His research paper titled "The Telangana Surpluses: A Case Study" played an influential role in shaping the demand for a separate state of Telangana.

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