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Economic Growth of India

Dr. Madhu Sharma
Head, Department of Economics
R.S.S. College, Pilakhuwa, Hapur
Email: dr.madhusharma2@gmail.com

Abstract

Many discussions have been sparked by India's departure from the slow-growing so-called "Hindu Rate" of growth in the 1980s and its continuous growth of more than six percent annually for more than three decades. India, China, and a few other developing nations, such as Vietnam, have maintained their growth pace after implementing market-oriented economic reforms, which are guided by the "Washington Consensus," in contrast to many other developing nations. These changes make up the Structural Adjustment Programme (SAP), which is supported by the IMF, WB, and WTO. It is referred to in colloquial language as the LPG, or liberalization, privatization, and globalization. India's rapid economic growth has been matched by a steady increase in polarization and inequality during the phase of market-oriented reforms. This strengthens a wealthy and affluent enclave that is primarily composed of metropolitan elites. It is for another investigation to determine whether or not such expansion is desirable and to what extent it is sustainable. The State is meant to play a very small role in the new policy framework. The private participants, or producers and consumers, are the ones who should make the important economic decisions.

Keywords

Economic Growth, Development, Producers, Consumers etc.

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Dr. Madhu Sharma

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Introduction

India has been rising at an average annual pace of 6.3 percent for more than three decades. Recent literature on the Indian economy has focused primarily on analyzing the causes of this remarkable and consistent growth, which has sparked heated discussions (Kohli, 2006; Chandrasekhar and Ghosh, 2002; Panagariya, 2008; Nell, 2012). Academics have differed on a wide range of topics, including the origins and timing of the structural break and turnaround, as well as the explanations for the growth's sustainability and future prospects. To examine the effects of liberalization generally across nations and continents, we also provide the cross-country studies.

Objectives of the Study

In this article we focused on the economic growth of India since the 1980s, the analysis period spans from 1980 to 2013. Checking if market fundamentalism by itself is adequate to account for India's sustained growth after its smooth transition.

Growth Turnaround: Conflicting Accounts

Numerous attempts have been made to determine the precise timing of the structural break, which is widely acknowledged as one of the most significant events in the economic history of India after independence (Wallack, 2003; Panagariya, 2004; Rodrik and Subramanian, 2005; Kohli, 2006). In this sense, there are notable methodological variations among economists. While some may use historical, political, and economic considerations to estimate the break's timing (Kohli, 2006), others may use statistical methods alone to estimate the break. The results are still contradictory today. What counts is not just when the turnaround occurs but also what preceded it.

Growth was accelerated by the financial deepening brought about by the nationalization of banks and the rise in public fixed investment. In the early to late 1980s, growth was also maintained by the decline in the relative price of private equipment brought about by the trade reform that targeted the intermediate and capital goods sector. The growth turnaround might be seen in the 1970s rather than the 1980s if we remove 1979 from the data, the year that saw the sharpest decline in growth rate following the second oil price shock and drought (Sen, 2007). Numerous academics have discovered similarities between the growth rates in the 1980s and 1990s (Chandrasekhar and Ghosh, 2002; Kohli, 2006). However, Panagariya (2012) finds it challenging to treat the 1980s as a single time. He contends that because of the strong average growth of 7.6 percent from 1988–89 to 1990–91, the growth rate of the 1980s is high and comparable with post–reform growth. Comprehending the growth performance following the 1991 economic changes is crucial. There are differing opinions about the post-reform Indian economy as a result of the 1990s and 2000s not being uniform. There have been times of notable expansion, consistent slowing down or deceleration, as well as spectacular growth spikes. The comprehension would be deceptive if we ignored these variances.

Since 2003, the Indian economy has grown at a rate never seen before, to the extent that experts believed India may achieve double-digit growth. From 2003–04 to 2007–08, the compound annual growth rate (CAGR) was 8.83%. Even after the global financial crisis, the growth rate from 2008–09 to 2012–13 was 6.46%. In Nagaraj's (2013) work, he attempts to confirm whether the success of the orthodox changes was due to chance or something else. According to him, the boom in terms of demand has been mostly driven by exports because of the favorable global trade circumstances, notable advancements in technology, particularly in the field of communications, and US financial deregulation.

The most significant contribution was made by private corporate investment. Overall, it was a cyclical boom driven by debt that was impacted by the financial crisis. If there hadn't been loose monetary policy and higher public spending, the post-crisis economy would have been worse (Nagaraj, 2013).

India's Growth Sources

The contradictory theories in the literature regarding the causes of growth turnaround and its maintenance are compiled in this section. Additionally, it contextualizes the goals of this article by identifying the research gap and critically examining those viewpoints.

Panagariya (2012) contends that the economic liberalization and changes implemented in the middle to late 1980s led to strong growth that began in 1988–89. In turn, the economic liberalization and reforms implemented in the middle to late 1980s led to this period of rapid growth. Realistic currency rates, export incentives, and import liberalization made up the external reforms. Internal reforms would include the cancellation of multiple licenses. Additionally, the government was able to maintain a high level of public expenditure thanks to the possibility of both domestic and external borrowing, which increased aggregate demand. In general, the stronger growth in the 1980s was brittle and, if 1989–91 is taken out of the equation, might not be regarded as significantly different from the Hindu pace.

Thus, only after the "systematic and systemic" changes of the 1990s was sustained high development possible (Panagariya, 2012). In a similar vein, Dholakia (2002) views the years following 1985 as a singular time frame for examining the drivers of expansion. Dholakia claims that the private sector's TFP growth has been the primary driver of growth during the post-liberalization era (post-1985). The non-agricultural sector experienced the majority of this TFP rise as a result of reform-induced resource reallocation, the development of a business climate, and the ensuing increase in efficiency (Dholakia, 2002). According to Bosworth, Collins, and Virmani's 2007 analysis of the development drivers since the 1960s, TFP improvement alone drove growth between 1983 and 1993, with a concentration in services and industry (manufacturing).

They also discovered that a 7% annual expansion in output between 1993 and 1999 was linked to a significant increase in labor productivity, mostly in the services sector, and unemployment. Both capital deepening and TFP were in play. From 1999 to 2004, the rate of growth decreased (Bosworth, Collins, and Virmani, 2007). In their growth accounting exercise, Bosworth and Collins (2008) conclude that increased integration with the global economy will result in improved productivity and, hence, growth.

Liberal Reforms and Economic Growth

Liberal economic reforms are the only plausible explanation for India's consistently high growth. In this sense, a counterfactuality test is challenging, if not impossible. For this analysis, two complimentary methodologies were employed:

1. The first strategy refers to a critical examination of the theoretical issues and an empirical study of other nations' post-reform growth results.
2. Looking back, it is essential that we comprehend the history of the developed world's modern nations. It aids in confirming whether free markets or globalization brought these nations to their current state. Put differently, it aids in situating the strategies that these nations have decided to pursue to attain growth.

Similar to liberalism, the forerunner of neoliberalism, has varying interpretations among individuals. Whereas liberalism in continental Europe is mostly linked to the ideology of the capitalist right, which is typified by "anti-state" feeling, in the US it is linked to moderate members of the Centre-Left, and in Australia it is known as "social liberalism". Von Mises deserves to be regarded as the real father of neoliberalism, even though it all began with an academic argument between German and Austrian intellectuals. Milton Friedman, Friedrich von Hayek, and Ludwig von Mises rose to prominence as the three leading proponents of neoliberalism. The political ideology of neoliberalism has roots in British classical liberalism, particularly in the 19th century.

Von Mises, his mentor, criticized planned economies and socialism by pointing out that "economic calculation" is impossible in socialist nations. In a similar vein, government action of any kind, or "interventionism," could not succeed. Hayek extended Mises's points of contention. For those with little understanding, price serves as the ideal means of information transmission in a free market, according to Hayek. It is believed that market mechanisms distribute resources in the most effective ways, making them, by definition, superior to planned economies. According to Peet (2009a and 2009b), Hayek's ideology was founded on main points of view.

Individuals' freedom of choice to satisfy their own needs within the framework of private property rights led to civilization. A democratic government with little room for forceful intervention is ideal. "We know of no society that has ever achieved prosperity and freedom unless voluntary exchange has been its dominant principle of organization," asserted Friedman and Friedman (1980). We quickly add that wealth and freedom do not depend solely on voluntary commerce. That's the lesson that history has taught us, at least so far. (Friedman & Friedman, 1980)

Thus, the core tenet of the neoliberal paradigm of development is the primacy of the unrestricted market (commodity and factor), which is defined by the ad hoc exchange relationship mediated by prices.

They contend that trade promotes growth through fostering "increased specialization, efficient resource allocation according to comparative advantage, diffusion of international knowledge through trade, and heightened domestic competition as a result of international competition."

They conclude that growth brought upon by open trade is essential for convergence. Gwartney, Lawson, and Holcombe (1999) attempted to demonstrate that economic freedom and market institutions are necessary conditions for growth. They form an index of economic freedom and their regression indicates that economic freedom is a substantial factor of growth. Four basic areas of freedom are taken into consideration: money and inflation, economic structure, takings and discriminatory taxation, and international trade. Bhagwati (2004) opposes the grievances of the "anti-globalization" group and accepts or "defends" globalization. Recalling Sachs' summary of neoliberal development policy, Pitt (2009) states that it is liberal in the 20th-century sense of victim concern and liberal in the classical (19th-century) sense of lack of state control and reliance on markets and the price mechanism, but neo in the sense that suffering was accepted as an inevitable result of "reform and efficiency."

They concluded that nations with greater levels of reform performed better in terms of economic growth during the second era, but radical reformers have paid a heavy price in the shape of a slower rate of GDP growth. They discover that volatility is consistently correlated with reform: the greater liberalization, the higher the growth volatility. Reforms notwithstanding, overall growth are not superior to that of the ISI era. Thus, it is evident that both the pre-reform era's growth and sustained high growth have been surpassed by the post-neoliberal system. Both supporters and detractors of the Consensus acknowledge its failure (Rodrik, 2006).

Easterly and Levine (2001) address a number of cross-sectional study difficulties. Other issues with using cross-section or panel data-based analysis to conclude the relationship between reforms and growth are as follows: country-specific structural factors are absent; the timing, pace, and pattern of the reforms vary amongst countries; many studies fail to clarify the direction of causation; growth performances are contingent upon international conditions, meaning that there are certain periods when growth is most favorable; indicators such as export growth can be the result of numerous other domestic factors, such as government intervention, or they can be induced by some government policy, so they do not accurately reflect actual liberalization.

In conclusion, one becomes skeptical of the certain assertion that market-oriented reforms invariably result in higher growth and that there is no other option after reading the overview of the literature on cross-country-based assessments linking reforms and growth provided above.

If the free market is the only path to prosperity, then it must have been the one that the so-called developed countries of today have taken in the past. Stated differently, the pertinent question to pose is: What steps did the developed countries of today take to get to where they are economically?

Although there may have been some spillover effects from public investment, Rodrik and Subramanian (2004) showed that this was not the main reason for the productivity increase. They claim that the Congress-led government's shift in attitude toward the private business class is the cause of the problem. In her political platform, Indira Gandhi substituted a "probusiness" mindset for "secularism and socialism." A lesser portion of the economic acceleration can also be explained by the reallocation of resources (such as labor), which is reflected in the significant structural change. The former Nehruvian regime's construction of the manufacturing sector, particularly the registered ones, was essential in enabling India to ultimately benefit from the expensive import-substituting industrialization (ISI) initiative.

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Regarding the 1980s' high economic growth, Chandrasekhar and Ghosh (2002) highlight three key developments that occurred in that decade: a) a large government fiscal stimulus; b) import liberalization that led to an increase in the importation of capital goods and other intermediate goods; and c) increased international liquidity availability that allowed for

According to Mukherji (2014), the government's response to the crisis of 1991 was a result of "ideational change" rather than being influenced by the domestic business elite or foreign organizations, as had not been the case after the 1966 crisis. This argument is indeed deceptive. It views the State as a free agency operating within capitalism.

A political economy viewpoint can show how the class dynamics drove the paradigm change that brought about the reforms in the mid-to late-1980s. Furthermore, in the mid-1960s, market-oriented change was not the prevailing worldview. It is crucial to stay connected to the evolving (global) macroeconomic discourse in this regard. Stated differently, it is accurate to say that there was a shift in ideas, but the author neglects to mention the Neoliberal predominance. the Indian government to pay its current account deficit and budget deficit by borrowing money from outside commercial lenders. Chandrasekhar and Ghosh (2002) contend, in opposition to the pro-market assertion, that both overall growth and sectoral performance throughout the reform era have been underwhelming.

Unprecedentedly high growth from 2003 to 2004 can be attributed to a number of factors, including favorable global conditions (strong export growth driven by demand) and a period of debt-driven cyclical boom that lasted until the start of the global crisis (Nagaraj, 2013).

Regarding the issue of bubble-led growth, it is important to remember that external demand has been crucial to the whole period of rapid expansion. One of the main drivers of aggregate demand growth has been exports. Furthermore, while though credit has undoubtedly played a significant role in the increase in consumption growth—high growth being unjust—we shouldn't discount the importance of public spending during the period when India adopted neoliberal policies.

We observed that, the Indian State has continued to be significant despite the credit-fueled expansion in consumption and the elites' contributions. Indian State has been crucial during the downturn stages. As a result, even though the bubble theory has some merit, growth is not exclusively driven by bubbles. We must acknowledge the role played by both the Indian State and external demand in generating demand that is both effective and long-term sustainable. Most importantly, India would not have demonstrated the resilience it did in the wake of the global crisis if its growth had solely been spurred by bubbles. Nell (2012) adds a great deal to the discussion on India's economic development. It is one of the very few narratives about Indian growth from a demand standpoint. He has offered a demand-based explanation for India's growth transition, upsurge, and sustenance, which contrasts with the widely accepted supply-side theory. Using the balance-of-payments-constrained (BPC) model, he makes the case that demand drove the growth transition. Sufficient export growth has also eased balance-of-payment restrictions in the post-liberalization era, resulting in rapid growth as it eventually let both public and private domestic spending to stay at extremely high levels.

There is an intrinsic relationship between the growth-distribution mutuality and demand-based analysis. Finding the shifting sources of demand within the distributional dynamics is crucial. The previous decades or so, during the liberalization era, have seen rising inequality and growing polarization, which suggests the creation of a smaller group that may be crucial to the expansion of domestic demand. It has previously been suggested in the literature that India alternates between growth driven by exports and growth driven by local demand. The cause of the surge in domestic demand has not yet been determined. Thus, further research in this area is necessary to comprehend India's consistently high growth.

The State's involvement is often ignored in the literature on India's economic recovery and maintenance, particularly in the period of market-oriented reforms. So far, only a few academics have tackled it. In terms of economic growth, the government ceased to play any active role after 1991. One of my goals is to demonstrate clearly how the federal and state governments have evolved into vital contributors to economic progress.

Conclusion

India's economic turnaround in the 1980s and subsequent growth experience can be extracted from the previously discussed literature assessment that was previously presented, Probusiness fiscal stimulus and government policies, market-oriented economic reforms, mutual interdependence in growth inequality, automatic growth-accelerating dynamics, favorable global economic conditions and finance flow. This is not to minimize the market's significance or the chances for lucrative accumulation it offers, but neither of these factors by itself can guarantee long-term rapid growth. It is further supported by the government's role in the East Asian miracle. Once more, the growth-inequality relationship is insufficient to offer a

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thorough picture of India's growth. Regarding the relationship between distribution and growth, there is disagreement in the literature. Our doubts about the clear-cut (mutual) relationship between growth and inequality are increased when we hear references to a long-term trend in inequality and growth. Consequently, it is critical to look at the structural factors that support or guarantee the rise of income and output in tandem. India has refrained from pursuing complete financial liberalization. To yet, India's growth has been primarily financed domestically, notwithstanding a significant increase in foreign direct investment.

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