

ECONOMIC POLICIES, GROWTH AND STRUCTURAL CHANGE OF INDIA

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Objectives

- Examine the economic policies prior and after liberalisation
- Trends in growth of Indian economy
- Trends in structural change
- Trends in demographic change
- Demonetisation and economic growth
- Frame of analysis : relating economic policies to growth
- Data: latest data (Economic survey 2016-17, Vol I & II and CSO data)

Prior to Liberalisation (1947-1990)

- A centralized planning machinery for economic development and public investment decision-making
- Expansion of the public investment in the basic and key industries
- To intervene in the market through a number of regulatory measures and controls
- To achieve rapid economic development through State intervention in the market, public investment and planning

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- A system of industrial licensing known as industrial raj
- System of import licensing
- Import substitution oriented and export promotion oriented strategies were followed
- The imposition of import controls, licensing and restrictions to restrict imports
- A fixed exchange rate regime was pursued.

Mixed Economy Framework

The major characteristics were as follows

- A framework of private agriculture based on public investment support in key areas such as irrigation, research and extension
- The adoption of the logic of investment planning aimed at coordinating large scale investment in the so-called key sectors of the economy
- Assigning of a lead role to investment under the State auspices

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- A complex system of regulatory instruments aimed at conserving foreign exchange
- To prevent the growth of the so-called monopoly houses
- A deliberate policy of fostering small and medium industries to help diffuse ownership
- The use of State power to regulate the inflow of the private foreign capital
- The adoption of a regime of administered prices in the key sectors

Results of the Policy

- Excessive intervention in the market has distorted the market prices, interest rates, wages, foreign exchange rates, created incentives for entrepreneurs for rent seeking and corruption and prevented modernization and technological change
- The continuous deficits in BoP were financed through external borrowing resulting in huge foreign debt.

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- By 1991, the country was in the midst of an unprecedented BoP crisis
- Reserve Bank of India (RBI) was forced to ship 47 tones of gold to the Bank of England in July 1991 to raise a loan of \$600 million

Structural Adjustment Reforms (SAR)

- Market oriented economic reforms (Freeing markets to determine prices)
- Stabilisation : correction in the balances in foreign payments, government budgets and money supply to reduce macro economic instability

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- Liberalisation : removal of government intervention of all kinds – price controls quantity restrictions, investment and import licensing and barriers to entry
- Globalisation : reduction in customs tariffs, allowing free flow of foreign capital, opening up of service sector to foreign capital, full convertibility of Rupee etc.

SAR since 1991

- Four major policy initiatives taken by the government were fiscal correction, trade policy reforms, industrial policy reforms and public sector reforms
- Fiscal policy was to restore fiscal discipline in the context of the acute BoP crisis and the persistent inflationary situation that prevailed due to large budgetary fiscal deficits.

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- Trade policy reforms was to create an environment that would provide a stimulus to exports, while at the same time reduce the degree of regulations and license control of foreign trade
- Industrial policy aimed to de-regulate industries so as to promote the growth of a more efficient and competitive industries
- Public sector reforms were to improve the operational efficiency and to implement a limited disinvestment of the public sector equity

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- Between 1991 and 1996 (Congress rule), major policy changes were implemented with respect to industry, international trade, external sector, infrastructure, fiscal front, financial sector and capital market
- In March 1993, India moved from the earlier dual exchange rate regime to a single, market-determined exchange rate system
- The second phase in which the economic reforms were expanded was the period of the BJP rule between 1998 and 2004

Results of the Reforms SAR since 1991

- Indian economy moved from a low rate to high growth rate
- Achieved 6.5% to 7.6% growth rate except during Ninth Plan period
- Secondary sector began to register a higher growth rate
- Tertiary sector witnessed the highest growth. Some sub sectors achieved double digit growth in certain years

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- Continuous decline in share of primary sector indicating a healthy change
- Share of secondary sector to GDP witnessed an increase
- Share of tertiary sector witnessed a highest increase
- The process of transformation to an industrial and service sector economy was accelerated

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- Substantial increase in domestic savings and fixed capital formation
- Achieved a comfortable foreign exchange reserve
- Volatility in exchange rate has been reduced
Indian Rupee become more stable.

Table 1**Growth of Net National Income of India (Annual Average Growth Rate)**

Plan	Net national income (Constant prices)	Percapita net national income (Constant prices)
First Plan (1951-52 to 1955-56)	4.6	2.7
Second Plan (1956-57 to 1960-61)	4.1	2.1
Third Plan (1961-62 to 1965-66)	3.3	1.0
Three Annual Plans (1966-67 to 1968-69)	3.5	1.3
Fourth Plan (1969-70 to 1973-74)	3.0	0.7
Fifth Plan (1974-75 to 1978-79)	5.0	2.7
Annual Plan (1979-80)	-5.9	-8.2
Sixth Plan (1980-81 to 1984-85)	5.3	3.1
Seventh Plan (1985-86 to 1989-90)	5.8	3.6
Two Annual Plans (1990-91 to 1991-92)	2.8	0.8
Eight Plan (1992-93 to 1996-97)	6.5	4.4
Ninth Plan (1997-98 to 2001-02)	5.4	3.4
Tenth Plan (2002-03 to 2006-07)	7.6	5.9
Eleventh Plan (2007-08 to 2011-12)**	7.5	6.0
Twelfth Plan (2012-13 to 2016-17)***	6.7	5.3

Source: Government of India (2017), Economic Survey 2016-17, Vol. II

Table 2
Annual Growth Rates of Real Gross Value Added at Factor Cost by
Industry of Origin (Percent)

At Constant Prices						
Year	Agriculture, forestry & fishing, mining and quarrying	Manufacturing, construction, electricity, gas and water supply	Trade, hotels, transport & communication	Financing, insurance, real estate and business services	Community Social & personal services	Gross value added at factor cost
2004-05	1.1	10.0	9.5	7.7	6.8	7.1
2005-06	4.6	10.7	12.0	12.6	7.1	9.5
2006-07	4.6	12.7	11.6	14.0	2.8	9.6
2007-08	5.5	10.3	10.9	12.0	6.9	9.3
2008-09	0.4	4.7	7.5	12.0	12.5	6.7
2009-10	1.5	9.5	10.4	9.7	11.7	8.6
2010-11	8.3	7.6	12.2	10.0	4.2	8.9
2011-12	4.4	8.5	4.3	11.3	4.9	6.7

Source: Government of India (2017), Economic Survey 2016-17, Vol. II

Table 3
Annual Growth Rates of Real Gross Value Added at Basic Prices
by Industry of Origin (Percent)

At Constant Prices						
Year	Agriculture , forestry & fishing, mining and quarrying	Manufacturing, construction , electricity, gas and water supply	Trade, hotels, transport & communication	Financing , insurance, real estate and business services	Community Social & personal services	Gross value added at factor cost
2011-12 Series						
2012-13	1.4	3.6	9.8	9.7	4.3	5.4
2013-14	4.8	4.2	6.5	11.2	3.8	6.1
2014-15	1.5	7.0	9.0	11.1	8.1	7.2
2015-16	2.2	8.6	10.5	10.8	6.9	7.9
2016-17 (PE)	4.4	6.0	7.8	5.7	11.3	6.6

Source: Government of India (2017), Economic Survey 2016-17, Vol. II

Notes: PE : Provisional Estimates

Table 4
Structural Change of Indian Economy (Percent)

At Constant Prices						
Year	Agriculture, forestry & fishing, mining and quarrying	Manufacturing, construction, electricity, gas and water supply	Trade, hotels, transport & communication	Financing, insurance, real estate and business services	Community Social & personal services	Gross value added at factor cost
1950-51	55.03	14.71	11.28	8.55	10.43	100
1960-61	50.86	18.31	12.91	7.78	10.14	100
1970-71	44.51	21.74	14.49	7.52	11.74	100
1980-81	38.70	23.27	16.94	8.23	12.86	100
1990-91	33.10	24.22	17.69	11.55	13.44	100
2000-01	25.22	24.30	21.64	14.42	14.42	100
2010-11	16.84	25.67	27.33	17.27	12.89	100
2015-16	18.51	28.37	18.96	21.92	12.24	100

Source: Government of India (2017), Economic Survey 2016-17, Vol. II

Table 5
Gross Domestic Saving and Gross Capital Formation
(As percent of GDP at current market prices)

Year	Gross domestic saving				Gross fixed capital formation		
	Household sector	Private corporate sector	Public sector	Total	Public sector	Private sector	Total
1950-51	6.5	0.9	2.1	9.5	2.5	6.8	9.3
1960-61	6.8	1.6	3.2	11.6	6.8	6.0	12.8
1970-71	9.5	1.4	3.4	14.3	5.8	7.9	13.6
1980-81	12.1	1.6	4.1	17.8	9.1	8.8	17.9
1990-91	18.5	2.6	1.8	22.9	10.2	13.6	23.8
2000-01	21.3	3.7	-1.3	23.7	6.7	16.0	22.7
2015-16	19.2	11.9	1.3	32.3	7.4	21.9	29.3

Source: Government of India (2017), Economic Survey 2016-17, Vol. II

Table 6
Foreign Exchange Reserves

End of Fiscal	Reserves				
	Gold	Reserve Tranche Position in IMF	Special Drawing Rights	Foreign Currency Assets	Total
1980-81	370	---	603	5850	6823
1989-90	487	---	107	3368	3962
1990-91	3496	---	102	2236	5834
2000-01	2725	---	2	39554	42281
2010-11	22972	2947	4569	274330	304818
2016-17	19869	2321	1446	346319	369955

Source: Government of India (2017), Economic Survey 2016-17, Vol. II

Table 7**Exchange Rate of Rupee vis-à-vis Selected Currencies of the World**

Year	US dollar	Pound sterling	Euro	Yen
1993-94	31.366	47.206	---	0.291
2000-01	45.684	67.552	41.483	0.414
2005-06	44.273	79.047	53.912	0.391
2010-11	45.563	70.881	60.232	0.533
2016-17	67.072	87.690	73.609	0.620

Source: Government of India (2017), Economic Survey 2016-17, Vol. II

Demographic Change

- Growth of population witnessed high increase during the 1951-61
- The growth trend continued till 1981
- During the first decade of 20th century growth falls
- Share of urban population registered a high growth since 1971
- Literacy rate increased steadily
- Substantial increase in quality of life as per demographic indicators
- The ratio of BPL population registered a fall at a higher rate during the post-liberalisation period

Table 8
Population Growth in India

Census Years	Population	Decadal growth rate
1951	36,10,88,090	13.31
1961	43,92,34,771	21.51
1971	54,81,59,652	24.80
1981	68,33,29,097	24.66
1991	84,64,21,039	23.87
2001	1,02,87,37,436	21.54
2011	1,21,07,26,932	17.69

Source: Government of India, Publication Division (2014), India 2014

Table 9
Rural and Urban population

Census year	Population (Million)		Percentage of total population	
	Rural	Urban	Rural	Urban
1951	299	62	82.70	17.30
1961	360	79	82.00	18.00
1971	439	109	80.10	19.90
1981	524	159	76.70	23.30
1991	629	218	74.30	25.70
2001	743	286	72.20	27.80
2011	834	377	68.85	31.15

Source: Government of India, Publication Division (2014), India 2014

Table 10
Literacy Rate in India : 1951-2011

Census year	Persons	Males	Females	Male-Female gap in literacy rate
1951	18.33	21.16	8.86	18.30
1961	28.3	40.4	15.35	25.05
1971	34.45	45.96	21.97	23.98
1981	43.57	56.38	29.76	26.62
1991	52.21	64.13	39.29	24.84
2001	64.83	75.26	53.67	21.59
2011	74.04	82.14	65.46	16.68

Source: Government of India, Publication Division (2014), India 2014

Table 11
Demographic Indicators of India and State of Kerala

Demographic indicators	Kerala	All India
Male Life expectancy at birth (2010-14)	72.0	66.4
Female Life expectancy at birth (2010-14)	77.8	69.6
Total Life expectancy at birth (2010-14)	74.9	67.9
Male Life expectancy at birth (2011-15)	72.2	66.9
Female Life expectancy at birth (2011-15)	78.2	70.0
Total Life expectancy at birth (2011-15)	75.2	68.3
Infant Mortality Rates (Per 1000 live births) 2014	12	39
Infant Mortality Rates (Per 1000 live births) 2015	12	37
Birth Rate (per 1000) 2014	14.8	21.0
Death Rate (per 1000) 2014	6.6	6.7
Birth Rate (per 1000) 2015	14.8	20.8
Death Rate (per 1000) 2015	6.6	6.5

Source: Government of India (2017), Economic Survey 2016-17, Vol. II

Table 12
Poverty Line in Kerala and India (Lakdawala Methodology)
(Rs. monthly per capita)

Year	Kerala		All India	
	Rural	Urban	Rural	Urban
1973-74	51.68	62.78	49.63	56.76
1977-78	58.88	67.05	56.84	70.33
1983-84	99.35	122.64	89.50	115.65
1987-88	130.61	163.29	115.20	162.16
1993-94	243.84	280.54	205.84	281.35
1999-00	374.79	477.06	327.56	454.11
2004-05	430.12	559.39	356.30	538.60

Source: Planning Commission 2014, Report of the Expert Group to Review the Methodology for Measurement of Poverty

Table 13
Poverty Line in India and Kerala (Rangarajan Methodology)
(Rs. monthly per capita)

Year	Kerala		All India	
	Rural	Urban	Rural	Urban
2009-10	803.06	1139.81	801	1198
2011-12	1054.03	1353.68	972	1407

Source: Same as Table 12

Table 14
Percentage of Population Below Poverty Line
(Lakdawala Methodology)

Year	Kerala			All India		
	Rural	Urban	Total	Rural	Urban	Total
1973-74	59.19	62.74	59.79	56.44	49.01	54.88
1977-78	51.48	55.62	52.22	53.07	45.24	51.32
1983	39.03	45.68	40.42	45.65	40.79	44.48
1987-88	29.10	40.33	31.79	39.09	38.20	38.86
1993-94	25.76	24.55	25.43	37.27	32.36	35.97
1999-2000	9.38	20.27	12.72	27.09	23.62	26.10
2004-05	13.20	20.20	15.0	28.30	25.70	27.5

Source: Same as Table 12

Table 15
Percentage of Population Below Poverty Line
(Rangarajan Methodology)

Year	Kerala			All India		
	Rural	Urban	Total	Rural	Urban	Total
2009-10	9.7	23.7	16.0	39.6	35.1	38.2
2011-12	7.3	15.3	11.3	30.9	26.4	29.5

Source: Same as Table 12

Table 16**Number of People below Poverty Line (Lakdawala Methodology)
(Lakhs)**

Year	Kerala			All India		
	Rural	Urban	Total	Rural	Urban	Total
1973-74	111.36	24.16	135.52	2612.90	600.46	3213.36
1977-78	102.85	24.37	127.22	2642.47	646.48	3288.95
1983	81.62	25.15	106.77	2519.57	709.40	3228.97
1987-88	61.64	26.84	88.48	2318.79	751.69	3070.49
1993-94	55.95	20.46	76.41	2440.31	763.37	3203.68
1999-2000	20.97	20.07	41.04	1932.43	670.07	2602.50
2004-05	32.43	17.17	49.60	2209.24	807.96	3017.20

Source: Same as Table 12

Table 17
Number of People Below Poverty Line (Rangarajan Methodology)
(Lakhs)

Year	Kerala			All India		
	Rural	Urban	Total	Rural	Urban	Total
2009-10	17.4	35.4	52.7	3259.3	1286.9	4546.2
2011-12	12.3	26.0	38.3	2605.2	1024.7	3629.9

Source: Same as Table 12

Demonetisation in India

- Implemented on November 8, 2016
- Objectives (1). Eradicate black money, (2). Wipe out counterfeits, (3). Root out terror financing, (4). Reduce cash in circulation and spur digital payments.
- Demonitised all the currency notes of ₹ 500 and ₹ 1000
- Nearly 86% of the currency in circulation was demonetised (₹ 15.44 crore)

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- Severe restrictions imposed in exchanging the old currency
- Severe restrictions in withdrawing money from banks and ATMs
- New ₹ 2000 notes issued
- It created acute problems in changing currency
- Functioning of ATM paralysed for months
- Restrictions on Co-operative Banks paralysed banking in the sector

Consequences of Demonetisation

- Introduction of police raj in possession of cash, use of cash and withdrawal of cash
- It destroyed the entire market transactions using cash
- Through the destruction of market, the economy was destroyed
- Destroyed all core activities – production – employment – income of people – consumption and demand for goods

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- Restrictions in exchange of old currency, withdrawal of money from Banks and ATM resulted in unprecedented cash shortage
- Issue of Rs 2000 notes created acute change of notes to small denominations
- In an economy using 80% of transactions in cash, acute economic problems were created
- The worst hit were the informal sector
- In agriculture the price of commodities fall due to lack of demand

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- Most of the traditional, cottage and village industries came to stand still
- Construction sector faced acute crisis and migrant workers returned from Kerala
- Real Estate and construction sector faced acute recession
- Tourism was very badly affected
- The households depending on Gulf remittances faced severe economic problems
- The revenue from indirect taxes came down

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- There was substantial fall in the revenue of State governments
- Quarterly growth rate indicate a steady decline in post-demonetisation period
- One percent fall in growth indicate a reduction of GDP worth Rs. 1.5 lakh crores
- There was substantial fall in private final consumption expenditure (57% of GDP of India)
- The adverse economic consequences were so large that it could be more than that of the global economic crisis of 2008

Table 18
Economic Growth and Trade Balance

Year	Growth Rate (%)	Exchange Rate (1\$=C)	Trade Balance (US \$ million)	Exports US \$ million (%)	Imports US \$ million (%)
2010-11	8.9	45.577	-118633	40.5	28.2
2011-12	6.7	47.923	-183356	21.8	32.3
2012-13	5.4	54.410	-190336	-1.8	0.3
2013-14	6.1	60.502	-135794	4.7	-8.3
2014-15	7.2	61.144	-137695	-1.3	-0.5
2015-16	7.9	65.468	-118717	-15.5	-15.0
2016-17 (PE)	6.6	67.072	-108039	5.3	0.9

Source: Government of India (2017), Economic Survey 2016-17, Vol. II

Table 19
Quarterly Estimation of Growth Rate (GVA, at 2011-12 prices)

SL. No.	Category	2015-16	2016-17			
		Q4 (Jan-Mar)	Q1 (Apr-Jun)	Q2 (Jul-Sep)	Q3 (Oct-Dec)	Q4 (Jan-Mar)
1.	Agriculture, forestry & fishing	1.5	2.5	4.1	6.9	5.2
2.	mining and quarrying	10.5	-0.9	-1.3	1.9	6.4
3.	Manufacturing	12.7	10.7	7.7	8.2	5.3
4.	electricity, gas and water supply	7.6	10.3	5.1	7.4	6.1
5.	construction	6.0	3.1	4.3	3.4	-3.7
6.	Trade, hotels, transport & communication	12.8	8.9	7.7	8.3	6.5
7.	Financing, insurance, real estate	9.0	9.4	7.0	3.3	2.2
8.	Public Administration, defence and other services	6.7	8.6	9.5	10.3	17.0
	GVA at Basic Price	8.7	7.6	6.8	6.7	5.6

Source: Central Statistical Office, Quarterly Estimates of GDP for 4th Quarter, 2016-17 and First Quarter 2017-18.

Table 20
Quarterly and Half Yearly Estimate of Gross Value Added
(at 2011-12 prices)

Sl. No.	Category	2017-18		Half yearly	
		Q1 (Apr-Jun)	Q2 (Jul-Sep)	2016-17 (Apr-Sep)	2017-18 (Apr-Sep)
1	Agriculture, forestry & fishing	2.3	1.7	3.2	2.0
2	mining and quarrying	-0.7	5.5	-1.1	2.0
3	Manufacturing	1.2	7.0	9.2	4.0
4	electricity, gas and water supply	7.0	7.6	7.6	7.3
5	construction	2.0	2.6	3.7	2.3
6	Trade, hotels, transport & communication	11.1	9.9	8.3	10.5
7	Financing, insurance, real estate	6.4	5.7	8.1	6.1
8	Public Administration, defence and other services	9.5	6.0	9.1	7.6
	GVA at Basic Price	5.6	6.1	7.2	5.8

Source: Central Statistical Office, Quarterly Estimates of GDP for 1st and 2nd quarter, 2017-18

Table 21
Private Final Consumption Expenditure (Expenditure of GDP)

	Year/Quarter	Current Prices (C Crore)	Growth (%)
1.	2016-17		
	Q1 (Apr-Jun)	2,042,054	-
	Q2 (Jul-Sep)	2,106,743	3.17
	Q3 (Oct-Dec)	2,341,797	11.16
	Q4 (Jan-Mar)	2,436,415	4.04
2.	2017-18		
	Q1 (Apr-Jun)	2,226,885	-8.60
	Q2 (Jul-Sep)	2,304,645	3.49

Source: Central Statistical Office, Quarterly Estimates of GDP for 4th Quarter, 2016-17 and First Quarter 2017-18.

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