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# We've Come A Long Way

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When the history of our times is written, the dip in growth last year or the spike in food prices this year will barely find a mention. The story that will dominate the history of the 21st century is undoubtedly the rise of China and India, and the gradual swing of the pendulum of economic power from the West back to the East. From this perspective, what are the highs and lows that dominate the landscape as we look back at India's economic performance during the first decade of the 21st century?

On the positive side, it has been a decade of great transformation. India has emerged as one of the fastest growing countries in the world. During the first half of this decade, from 1999-2000 to 2003-04, India grew at an average rate of less than 6 per cent. During the second half, growth accelerated to an average of close to 9 per cent about 50 per cent faster than during the first half. Much has been made of the dip in growth to 6.7 per cent last year, but this was still higher than the rate averaged during the first half of the decade.

These numbers reflect, admittedly very crudely, how rapidly the level of living is changing in India. The average Indian's per capita income has risen from around Rs 1,300 per month in 1999-2000 to over Rs 3,000 per month today. Adjusting for the rise in the level of prices, this means the average Indian's real purchasing power is more than 60 per cent higher today compared to 10 years ago. Much lies hidden behind this parable of the "average Indian", on which more below. Let us first note that this remarkable pace of transformation has rarely been preceded in history, certainly not in the western world.

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What has been driving this remarkable growth acceleration? The immediate driver is investment. It has risen from about 26 per cent of GDP in 1999-2000 to almost 40 per cent today, supported by a corresponding rise in both domestic savings and capital inflows from abroad. Most of that increase occurred during the decade's latter half, thus accounting for the sharp growth acceleration during this period. Almost the entire increase in the investment rate is attributable to private investment. Compared to 1990-91, the year economic reforms were initiated, the private investment rate has doubled to over 28 per cent at present, most of that increase having occurred in the last five years. In contrast, the public investment rate is actually lower today at 9 per cent compared to 10 per cent in 1990-91.

Clearly, the opportunities arising from the freeing up of market forces and integration with the global economy that started in 1991 have given a big push to private investment. It took a good 15 years before these reforms finally generated a sustained acceleration in growth, but this is not unusual. In China too, growth accelerated only a decade after that country initiated its reforms.

Reforms alone are not the whole story. Though the public investment rate has not risen, its composition has changed from investment in a wide range of manufacturing and services to more focused investment in infrastructure and energy in recent years. The partial easing of these critical bottlenecks has also given a strong boost to private investment and growth. Another important factor is India's demographic dividend: a young population with a large and rising proportion in the working age group. The declining ratio of dependents, both the elderly and children, has helped raise the savings rate and enhanced supply of productive labour. Finally, there is what economists call the Solow Residual: increases in output attributable neither to capital nor labour but simply higher productivity, arising from better technology and more efficient organisation of production. That's the upside. There is also a sad downside to this story of rising growth. The distribution of the fruits of growth has clearly become more unequal. There is an overwhelming persistence of poverty. A group headed by Suresh Tendulkar, until recently chairman of the prime minister's economic advisory council, has estimated that about 37 per cent of the population, more than one in every three Indians, was poor in 2004-05, the last year for which data is available. They used a new method of estimation. But even the conventional estimate puts the poverty headcount at over 27 per cent or around 300 million people. These numbers may have reduced somewhat during recent years of high growth, but that is small comfort. We still have hundreds of millions of hungry people; malnourished, underweight and stunted; unable to afford any real medical care or education. That too is a part of the story this past decade.

As we reach the end of India's first decade in the 21st century, this is the great challenge facing us. How can India use its high growth to deliver to these Indians at the margins of existence something akin to a decent human life as you and i know it? It is easy to pose the question, but the answer still escapes us.

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