

# *India: The Precocious Development Model and Its Future*

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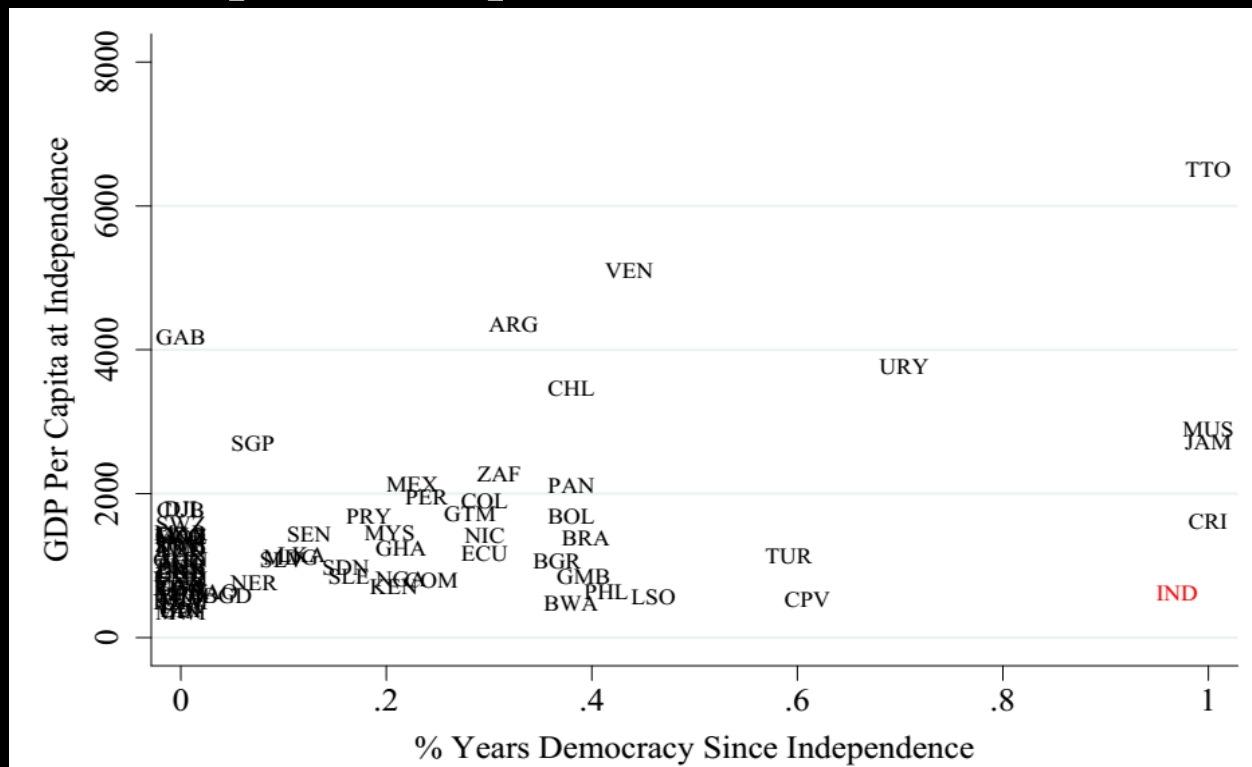
Arvind Subramanian  
Chief Economic Adviser

## *Overview*

- India's unique (“Precocious”) development model
- India's performance
- The meta challenges facing India

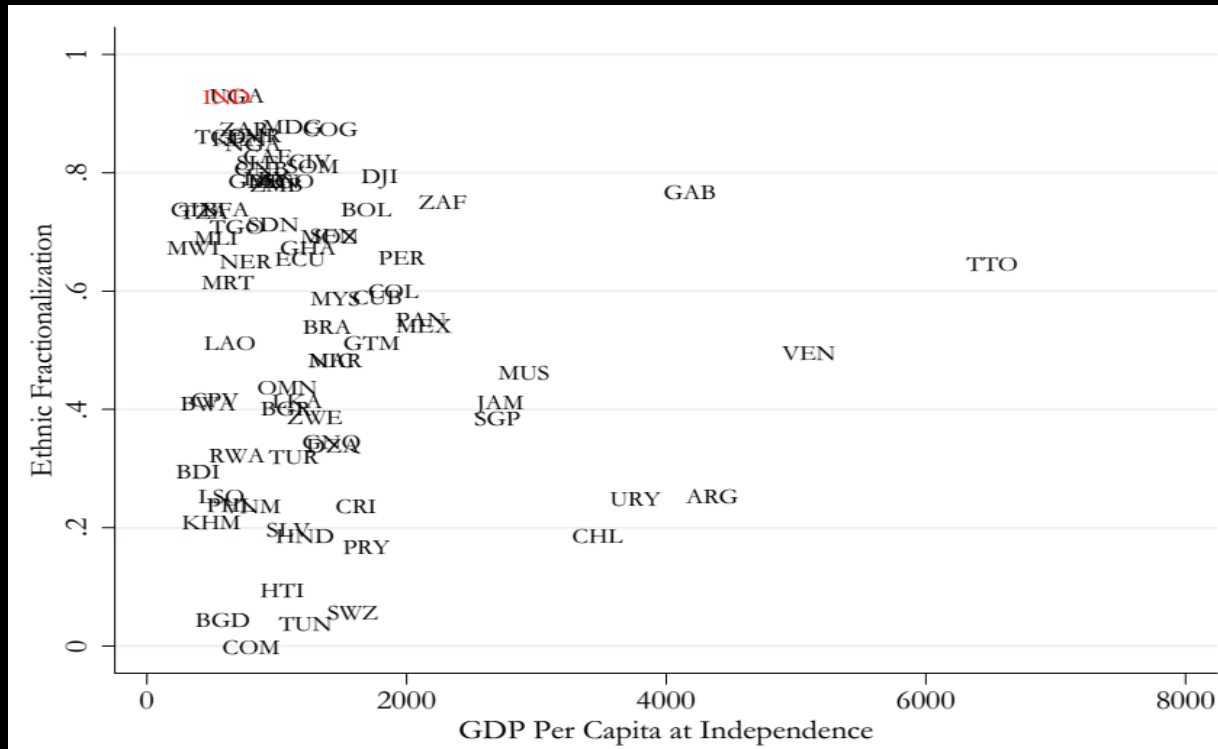
# *Precocious' development model: Politics*

Sustained political openness at low levels of income



# *Precocious' development model: Politics*

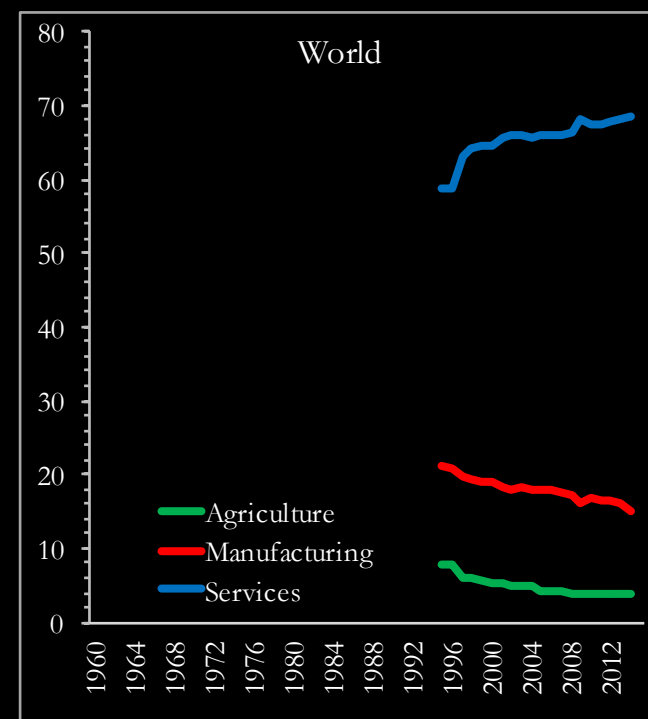
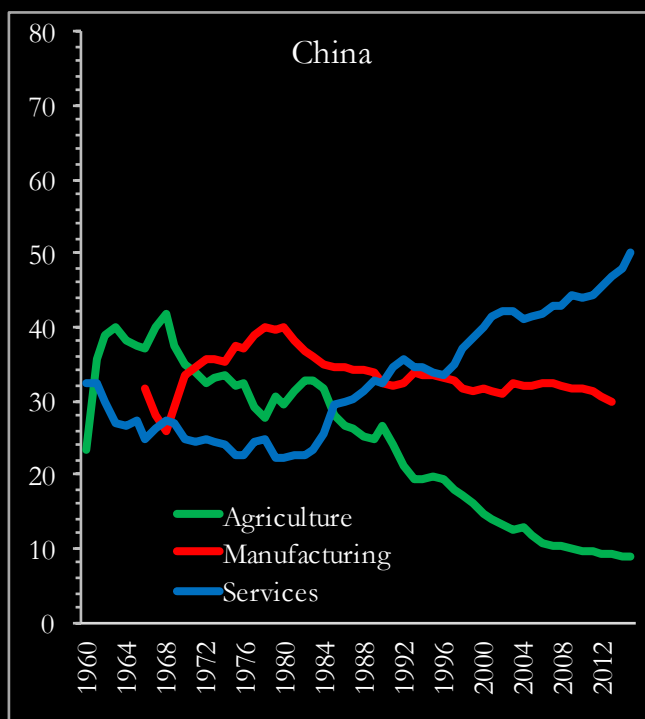
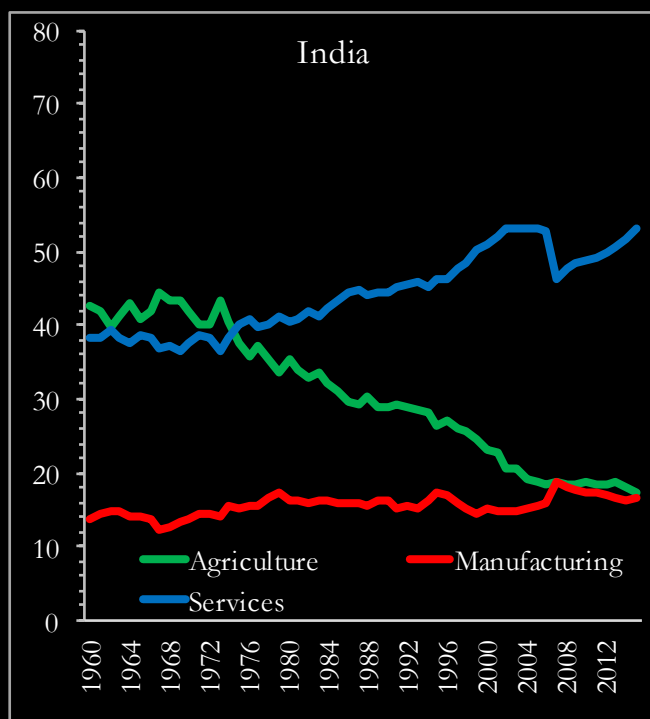
Sustained political openness despite social cleavages



Source: Banerjee & Somanathan, 2007 and Own Calculations

# *Precocious' development model: Economics*

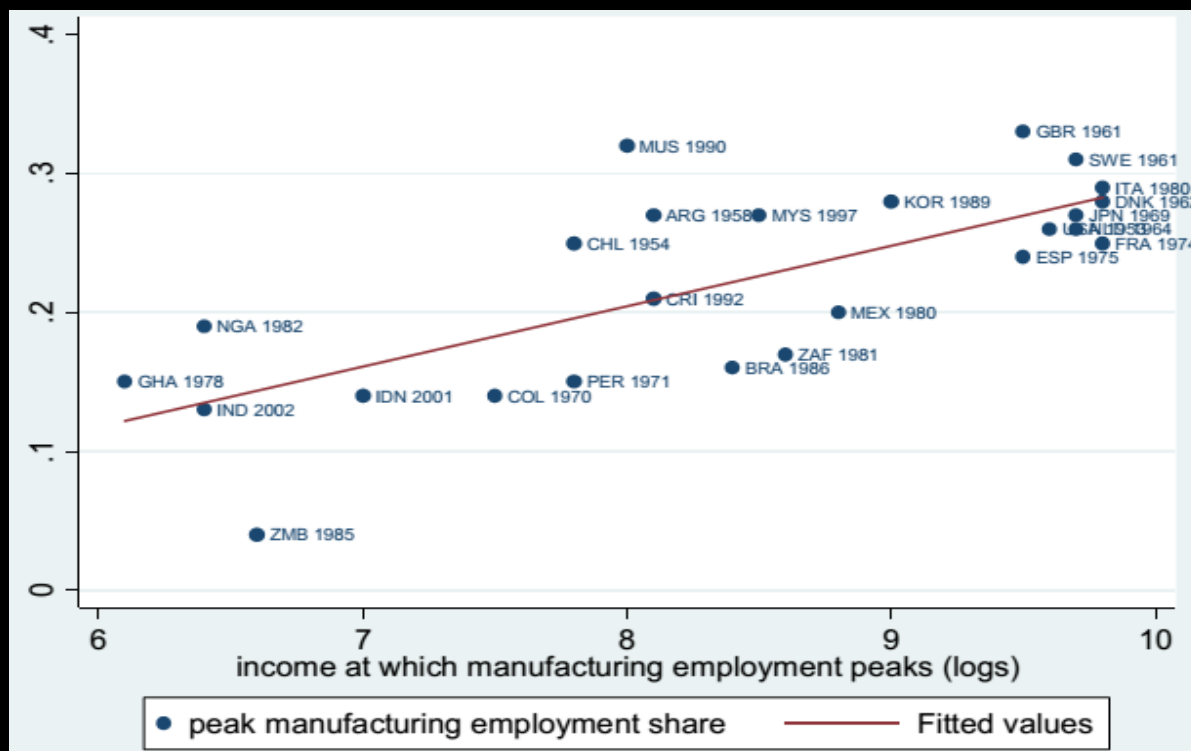
Services-intensive not Manufacturing-intensive pattern



Source: World Development Indicator and Own Calculations

# *Precocious' development model: Economics*

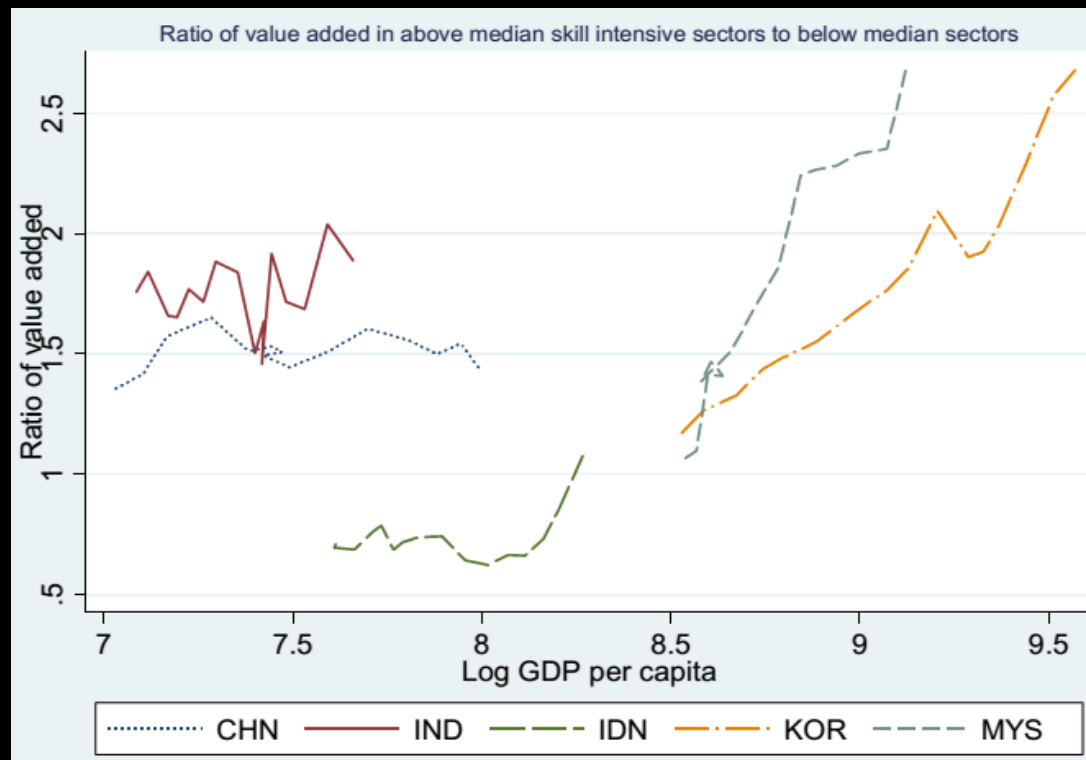
## Prematurest De-Industrializer



Source: Premature Deindustrialization; Dani Rodrik

# *Precocious' development model: Economics*

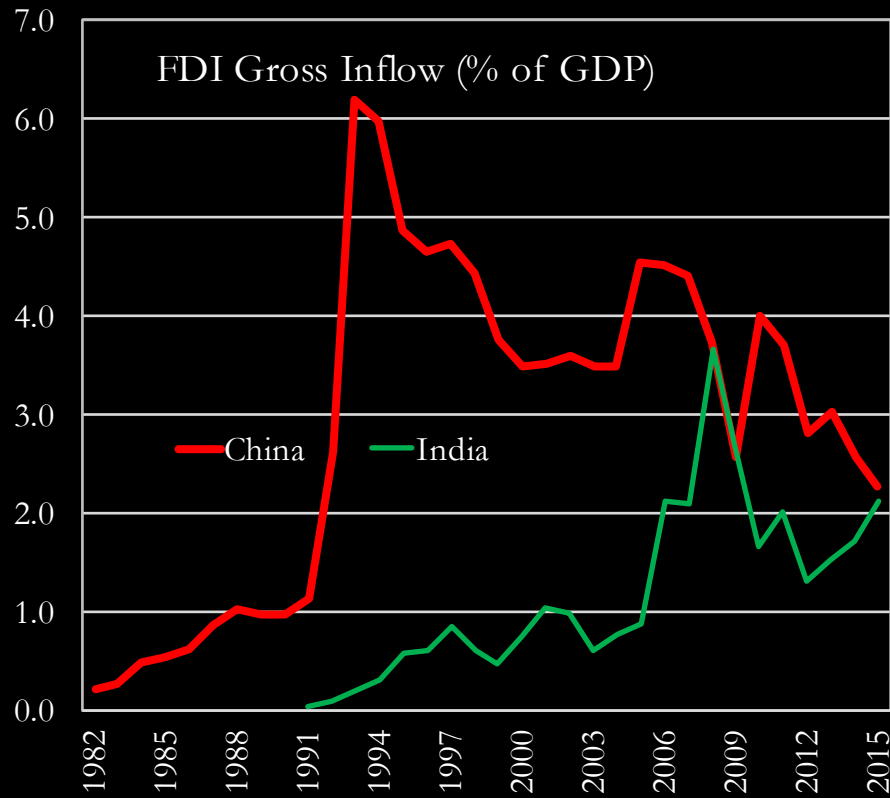
Highly skill intensive pattern of specialization



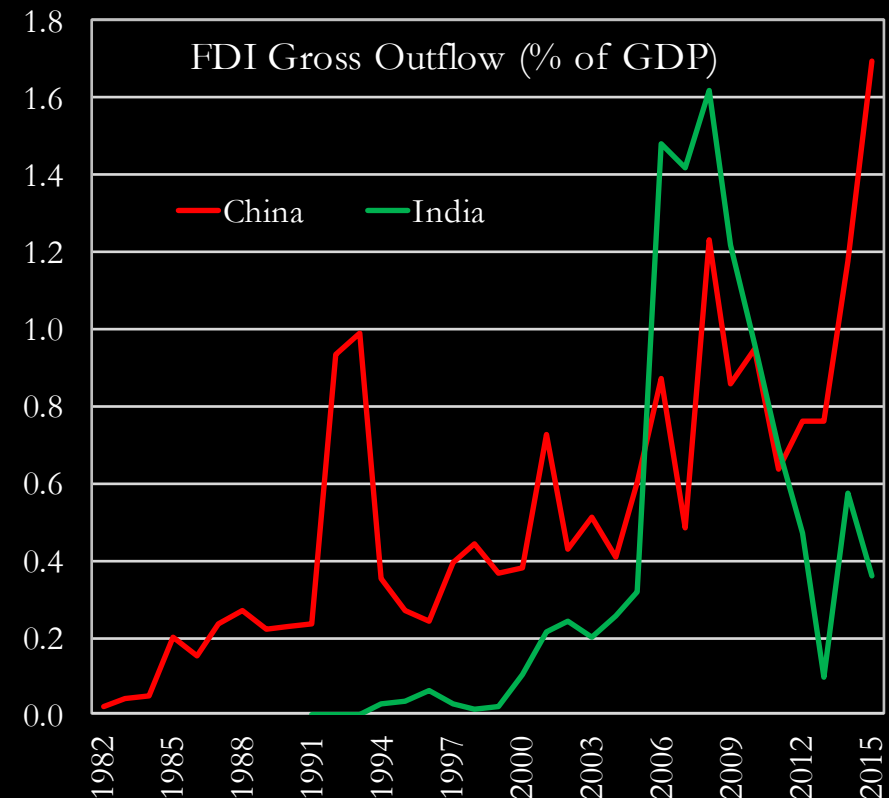
Source: India's Pattern of Development: What Happened, What Follows?; Kalpana Kochhar, Utsav Kumar, Raghuram Rajan, Arvind Subramanian, and Ioannis Tokatlidis

# *Precocious' development model: Economics*

## Large exporter of FDI (Skill)



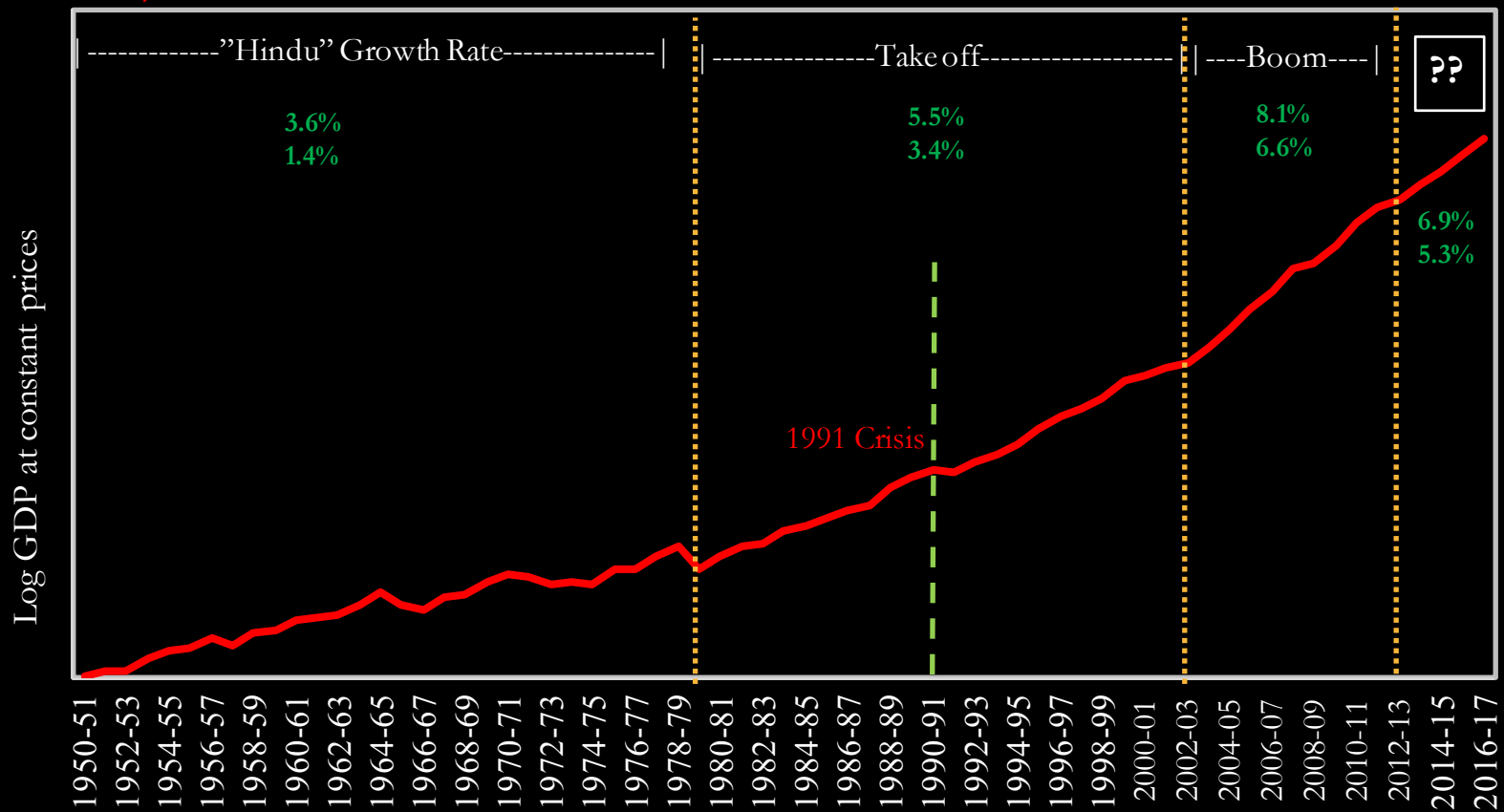
Source: International Monetary Fund and Own Calculations



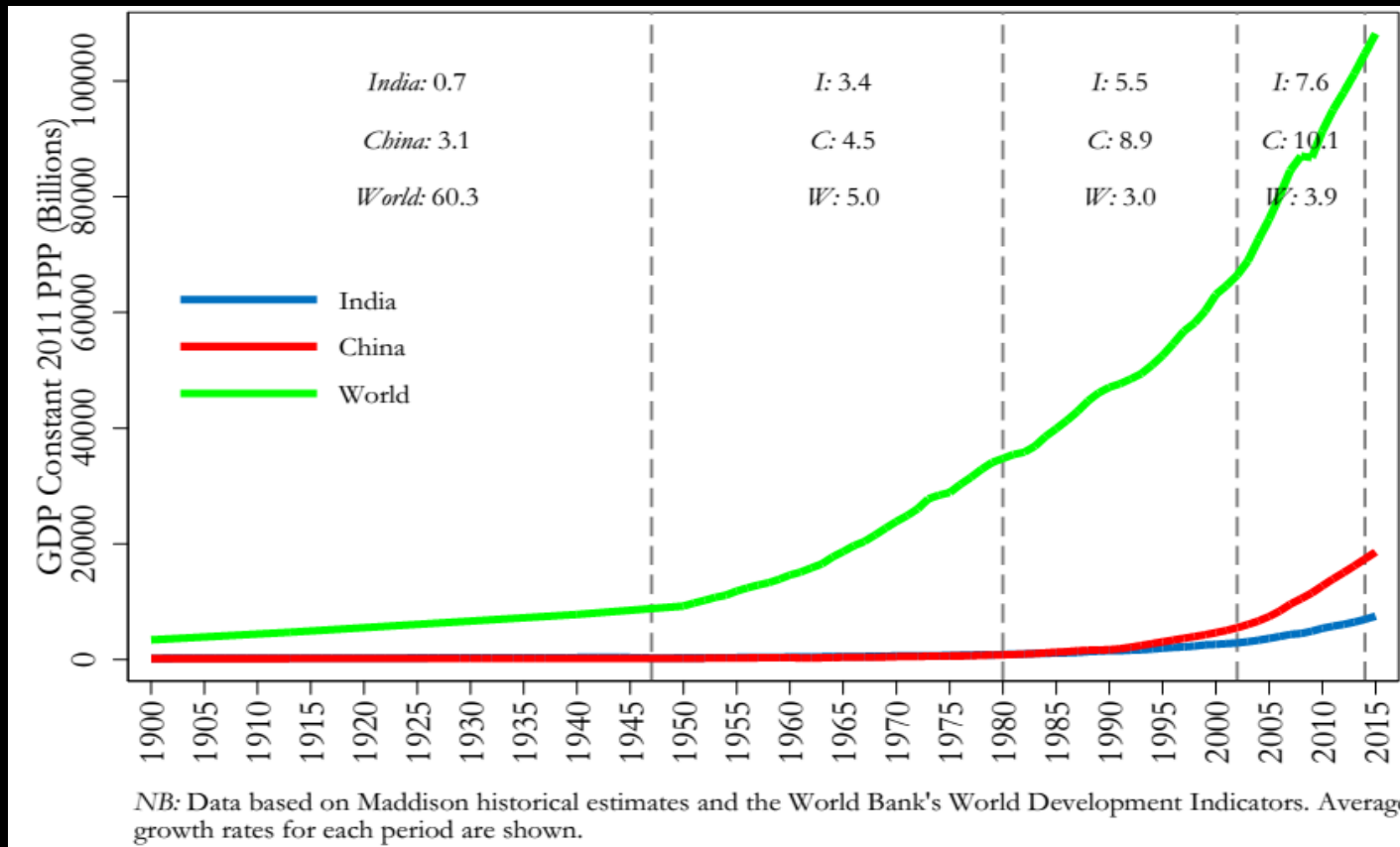


# *India's performance*

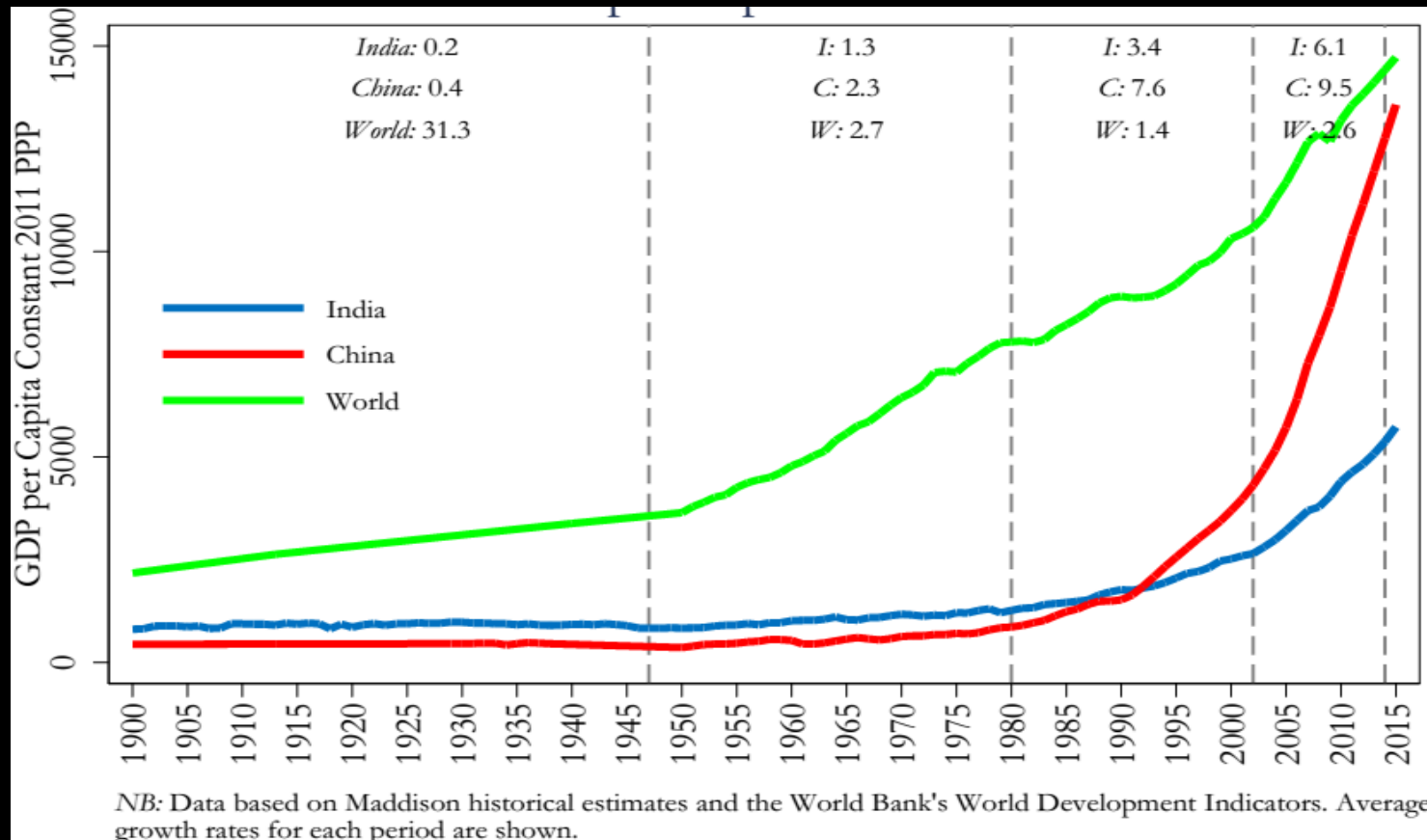
# Indian Growth History: 50-50 (Hindu versus Rapid Growth)



# Chindia From 1900-1980



# Reversal of fortune between China and India



## *Steady decline in poverty*

	Poverty Ratio (Total)	No. of Poor (million) (Total)	
1973-74	54.9	321.3	URP
2004-05	27.5	301.7	
2009-10	29.8	354.7	MPR
2011-12	21.9	269.8	

## *Growth and democracy have led to seismic social transformations*

	Western Uttar Pradesh			Eastern Uttar Pradesh		
	1990	2007	Change	1990	2007	Change
Dalits not seated separately at non-Dalit weddings	26.9%	82.1%	<b>55.1%</b>	22.7%	91.1%	<b>68.3%</b>
Non-Dalits visiting Dalit homes eat/drink tea/water if offered	4.1%	62.6%	<b>58.5%</b>	1.1%	72.6%	<b>71.6%</b>
Government non-Dalit midwives come to Dalit homes to deliver babies	0.0%	2.2%	<b>2.2%</b>	5.7%	54.3%	<b>48.6%</b>
Only Dalits lift dead animals	72.6%	5.3%	<b>-67.3%</b>	19.1%	5.6%	<b>-13.5%</b>

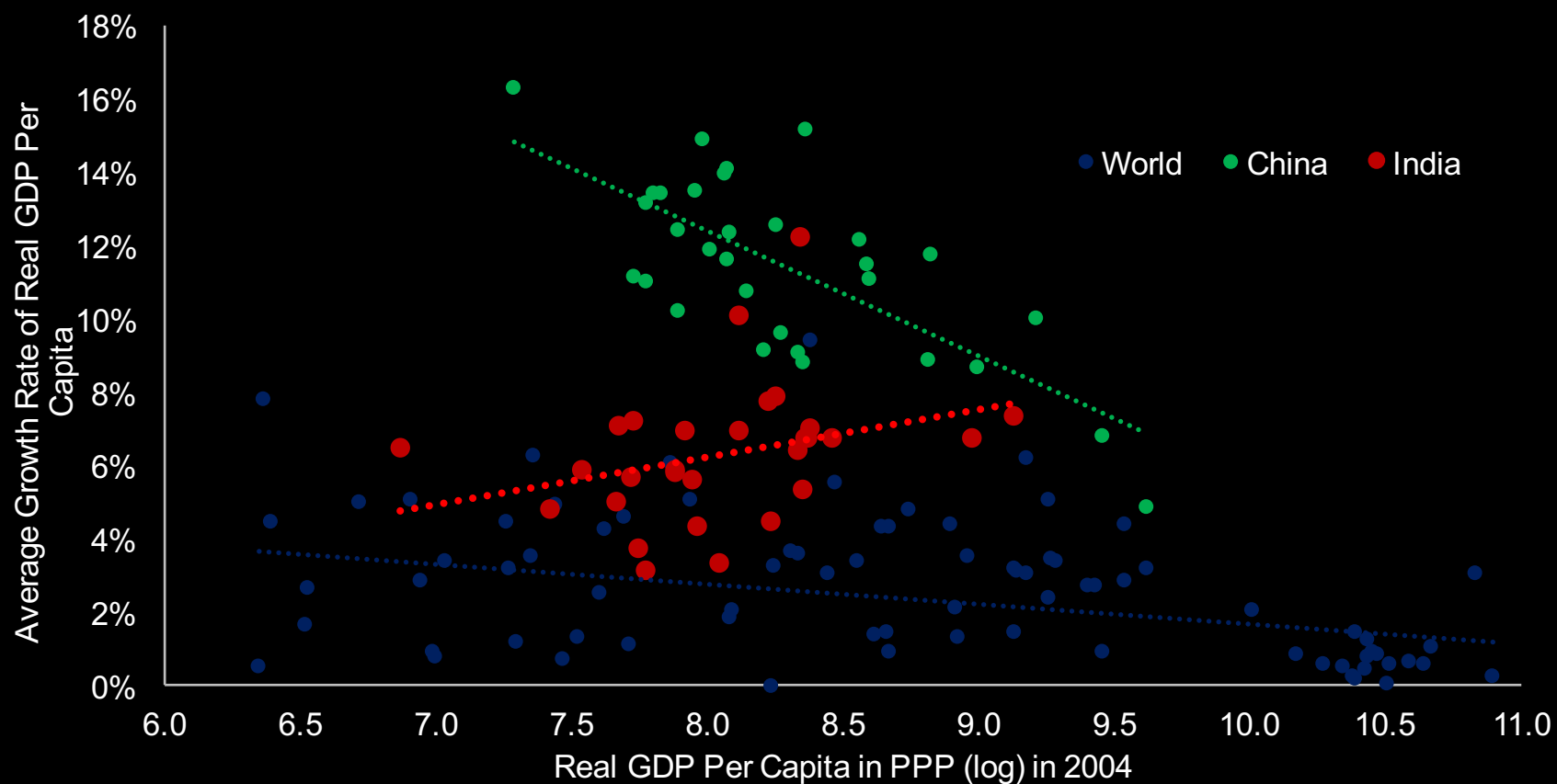
Source: Kapur et. al. 2011

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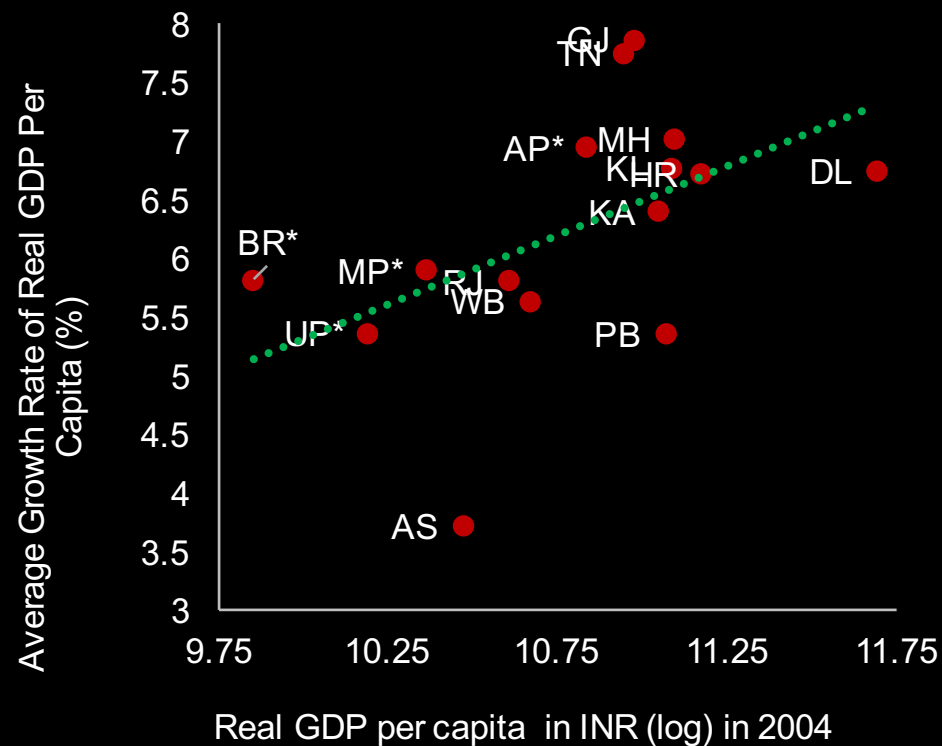
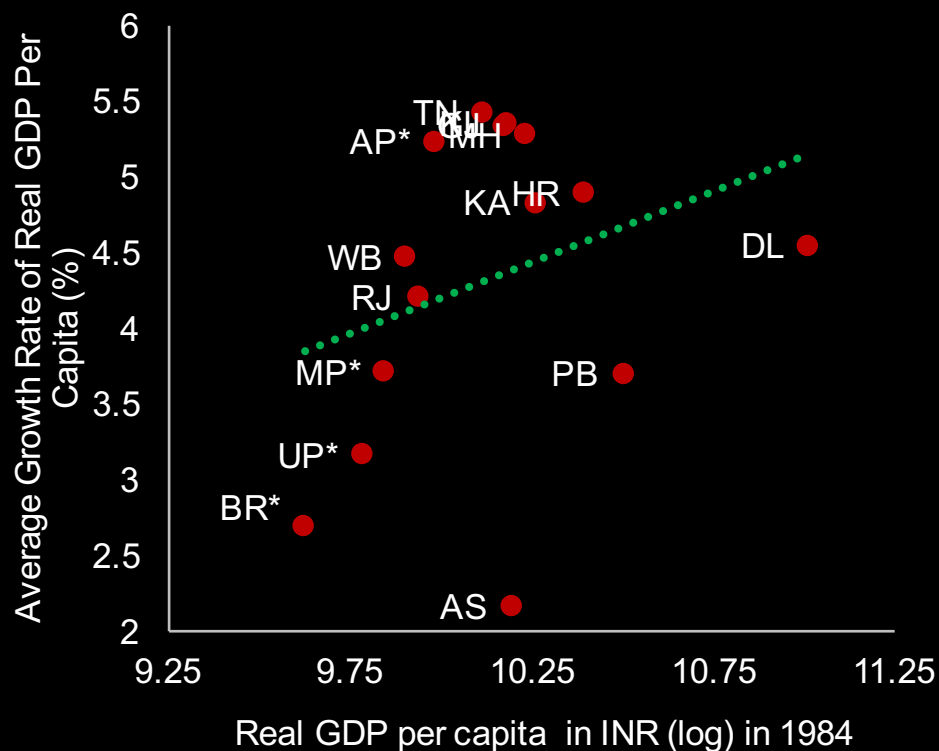
MCRHRD, 24<sup>th</sup> November, 2017

14

*Income convergence observed in World and within China, but divergence within India*



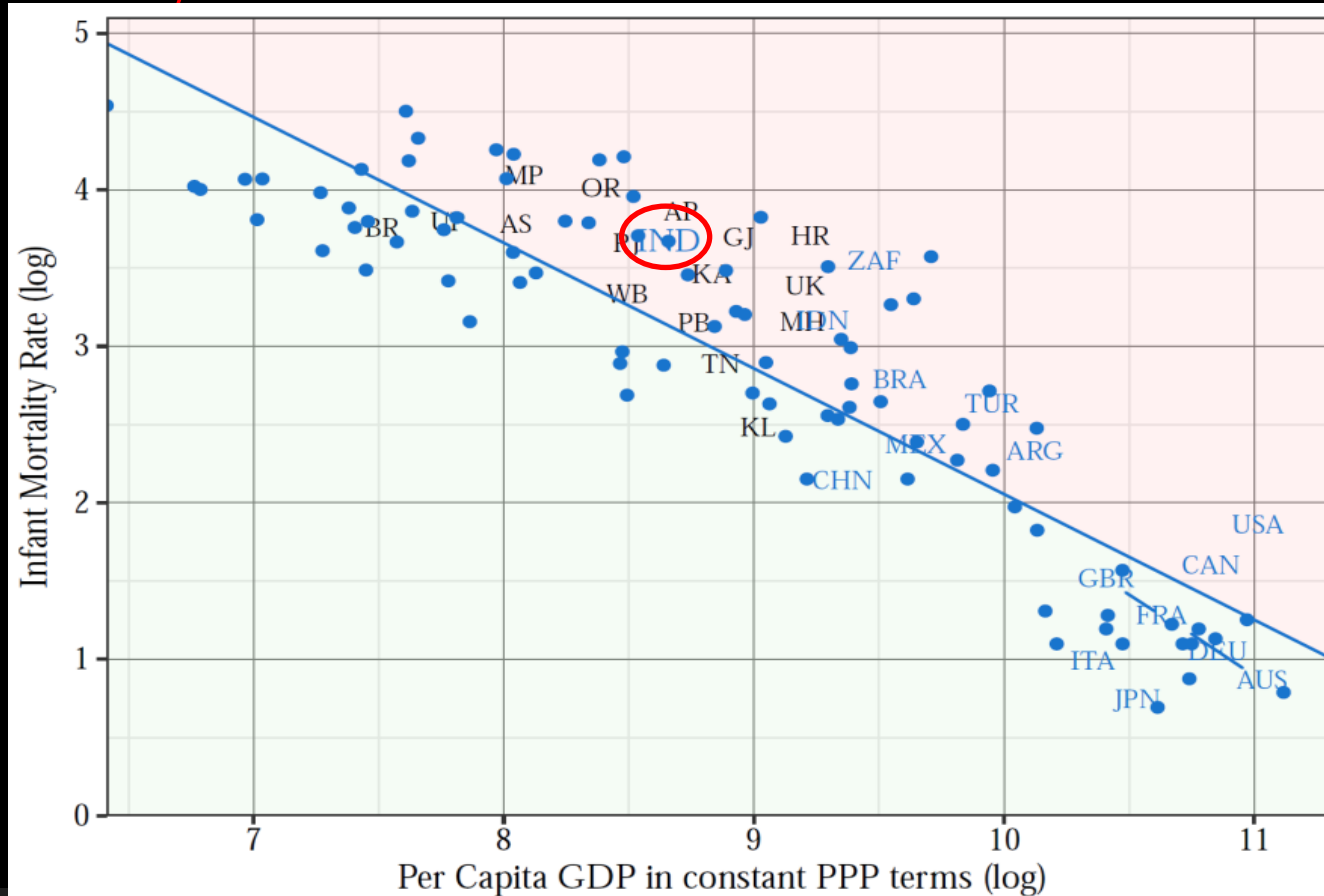
# Income divergence “Big Time” in India (increase in regional inequality) for the last 3 decades



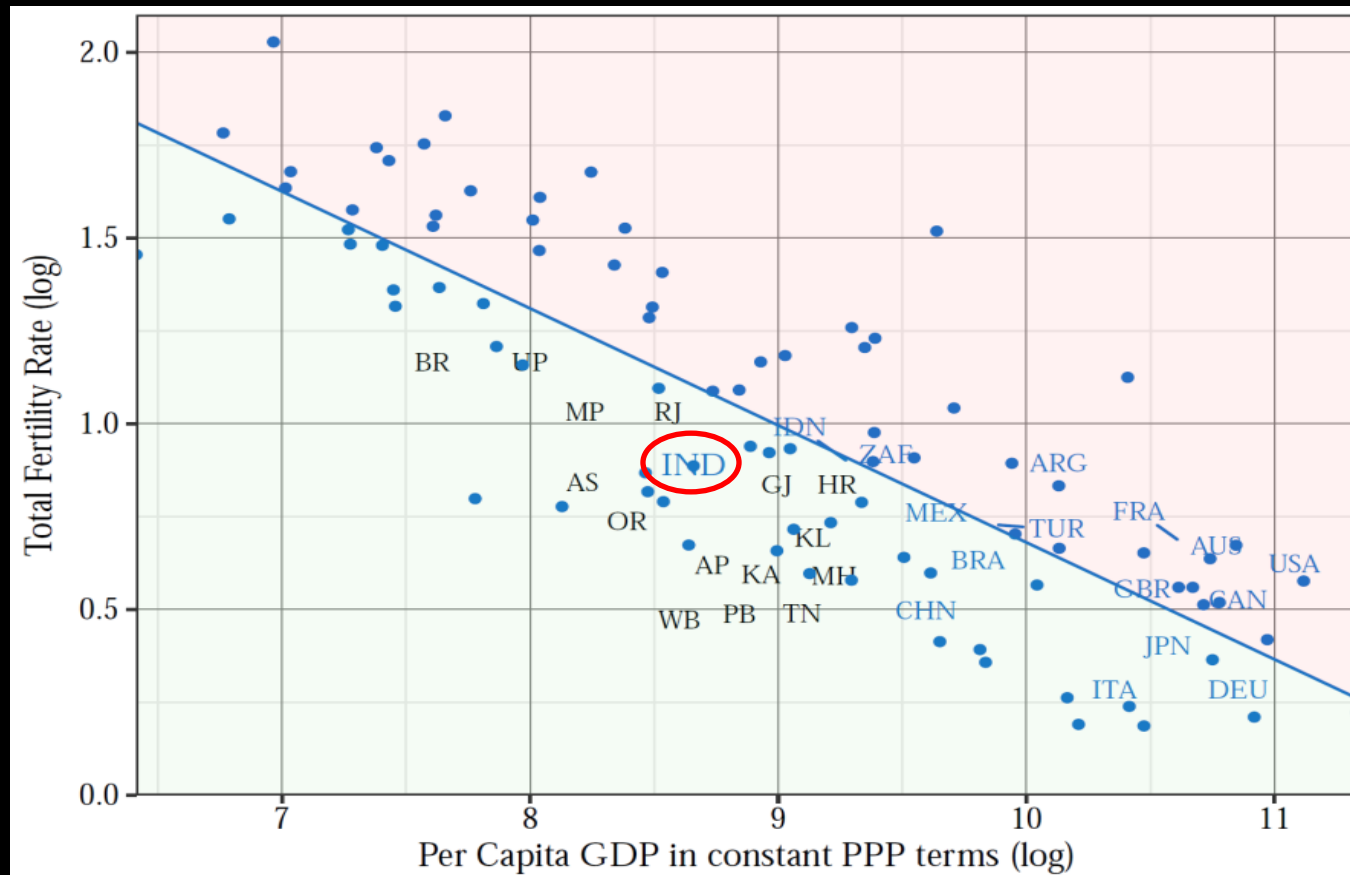
\* Combined States



*India and most Indian states have higher Infant Mortality Rate(IMR) for their levels of income*

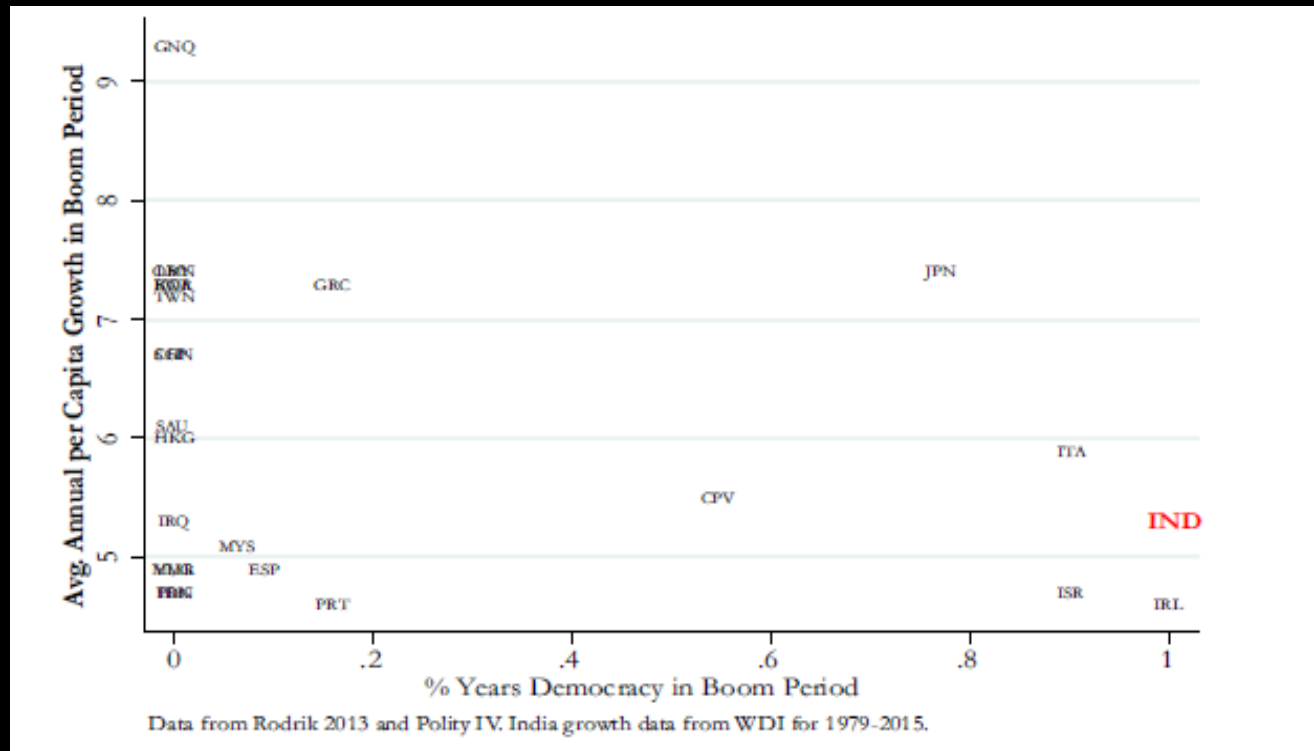


*India and Indian states have lower Total Fertility Rate (TFR) for their level of income*

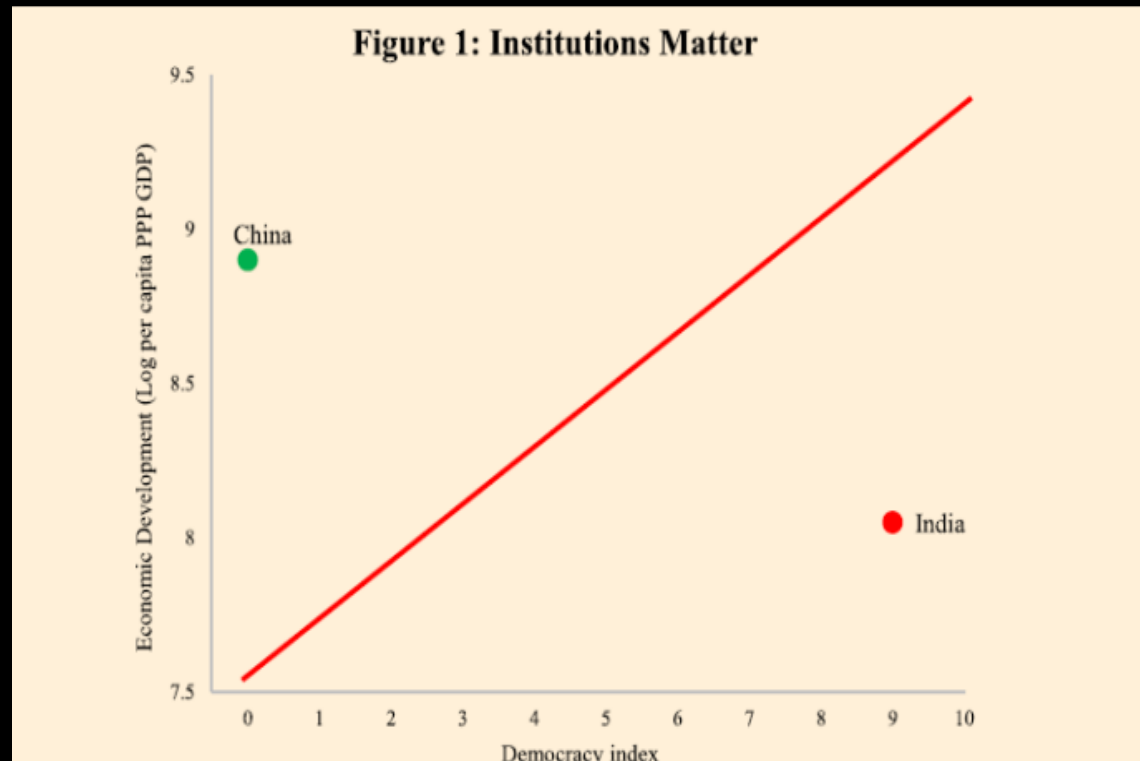


# *India's Meta-challenges*

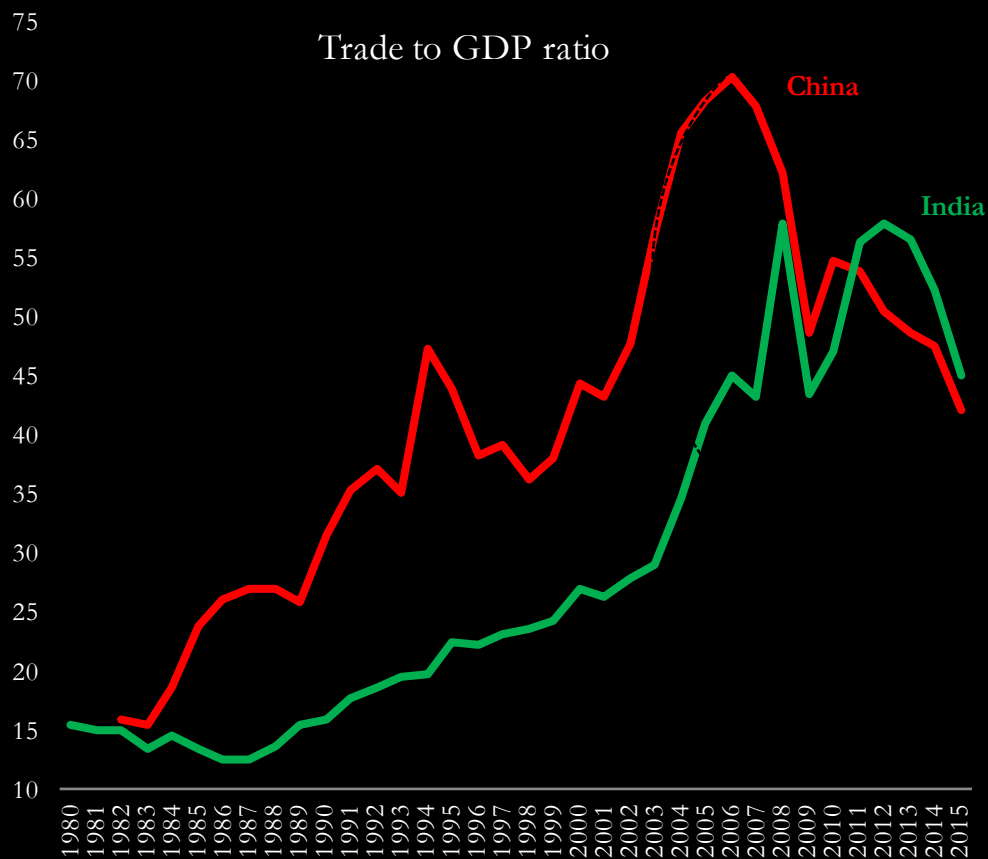
*India's performance: Sustained average growth of 4.5 per cent under a fully democratic political system*



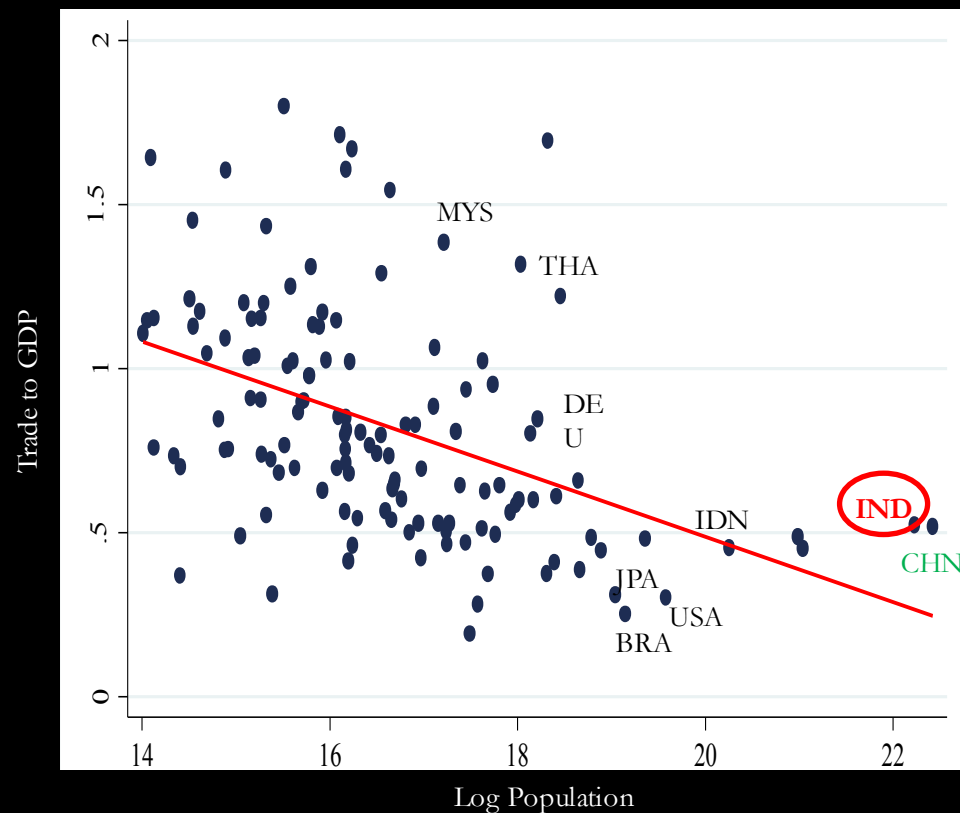
# *Has India under-achieved its potential?*



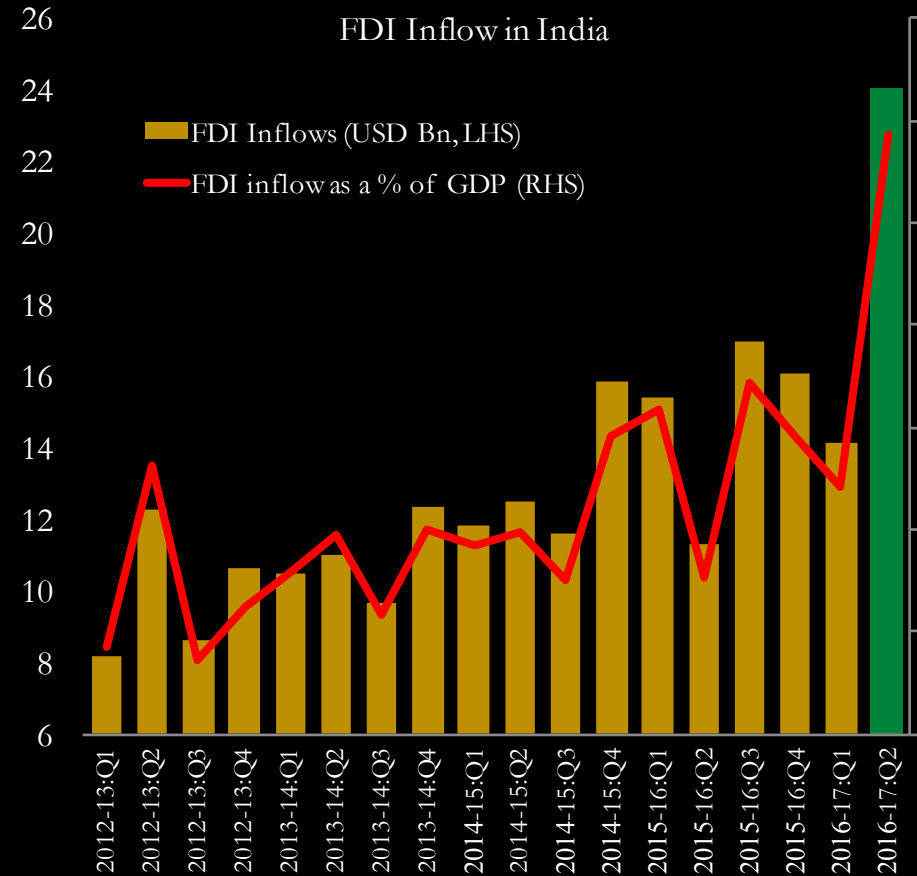
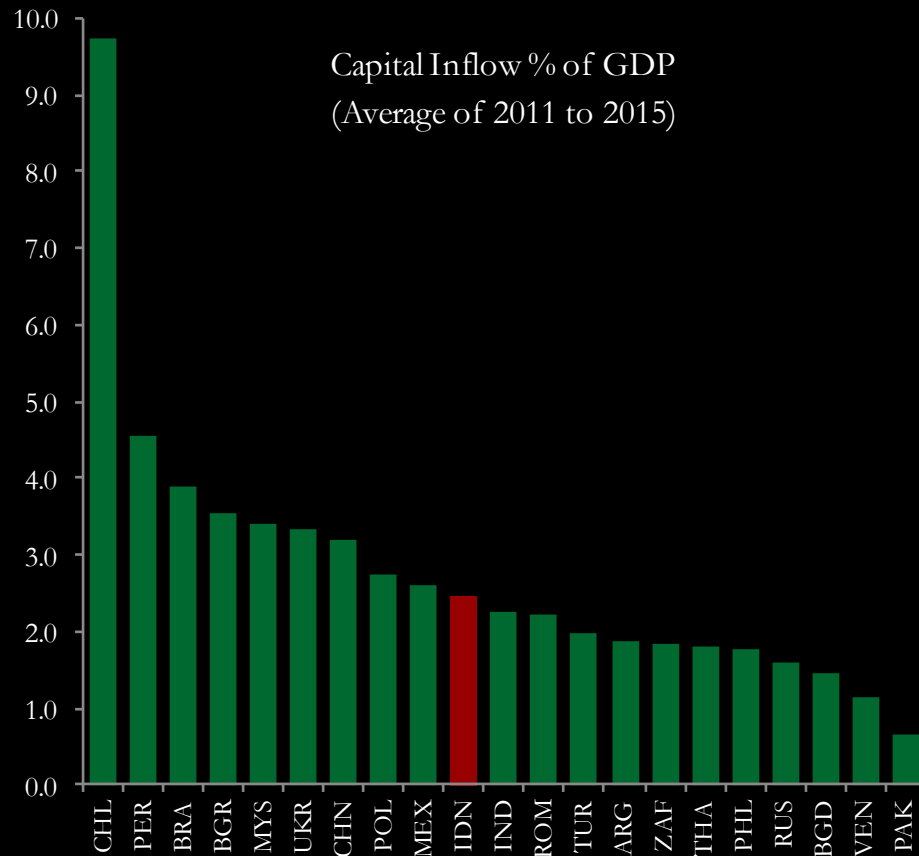
# Openness to trade



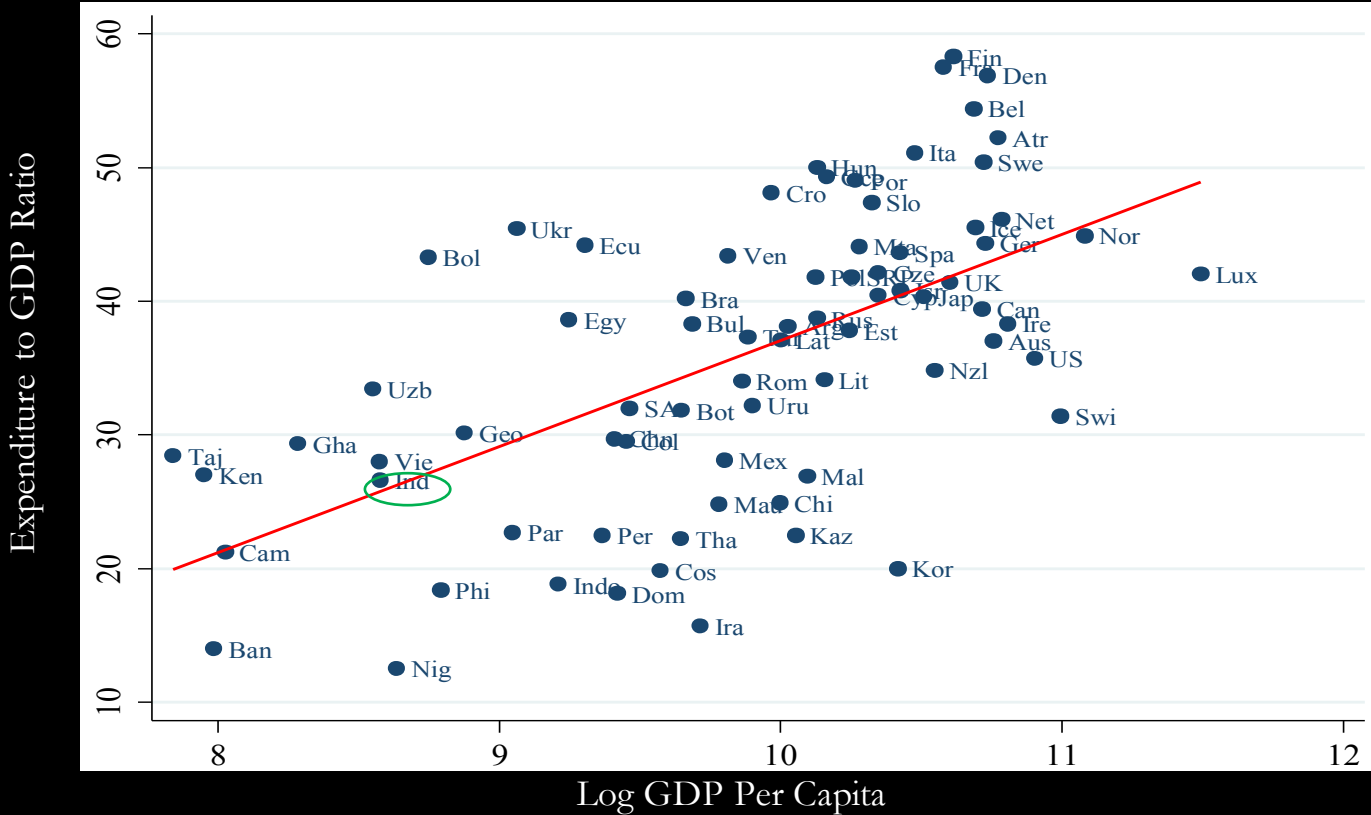
Trade to GDP and Log Population



# Openness to foreign capital

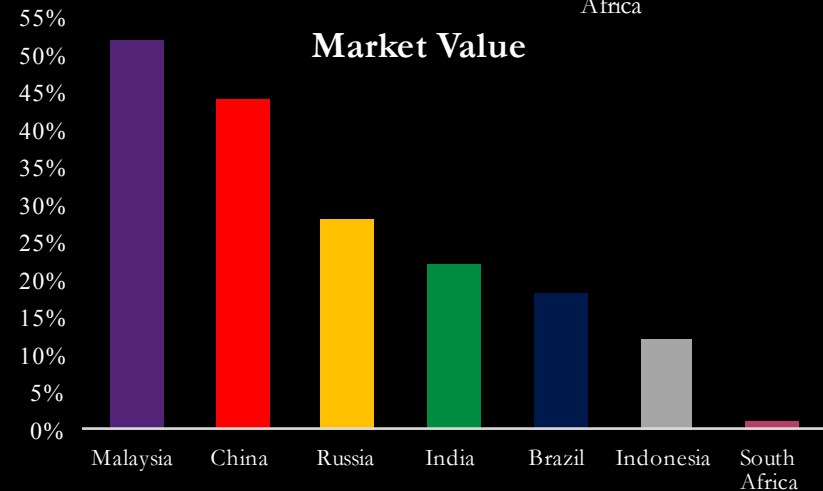
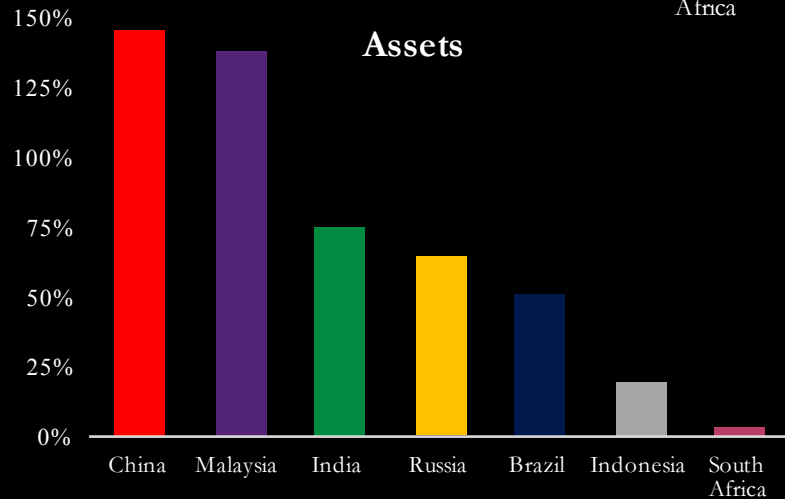
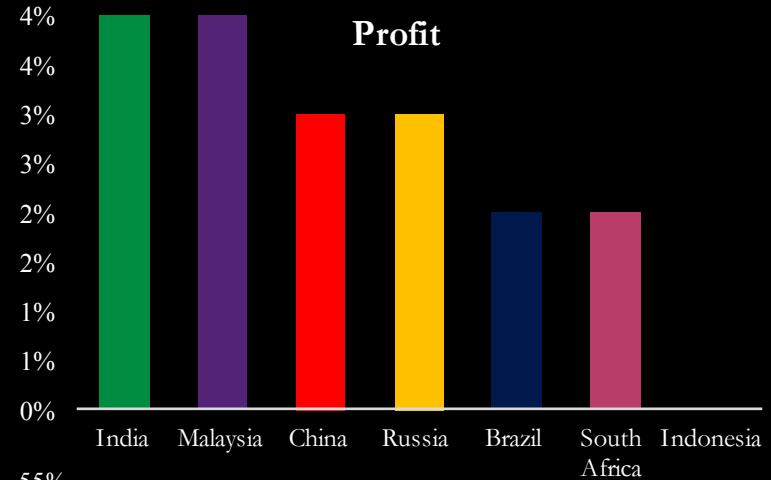
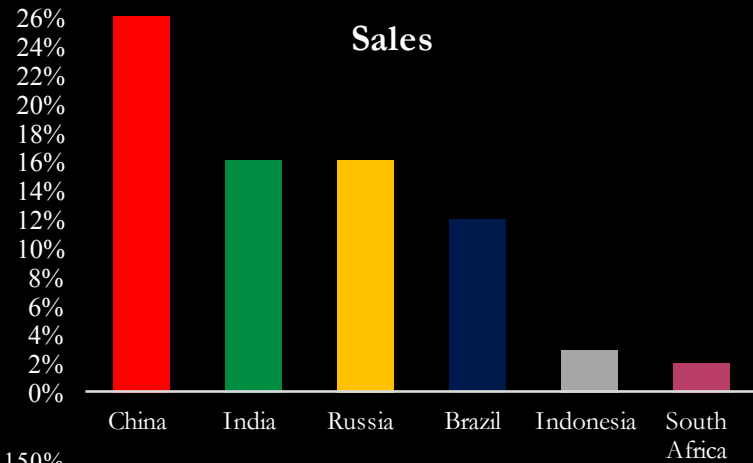


# Size of government: Macro

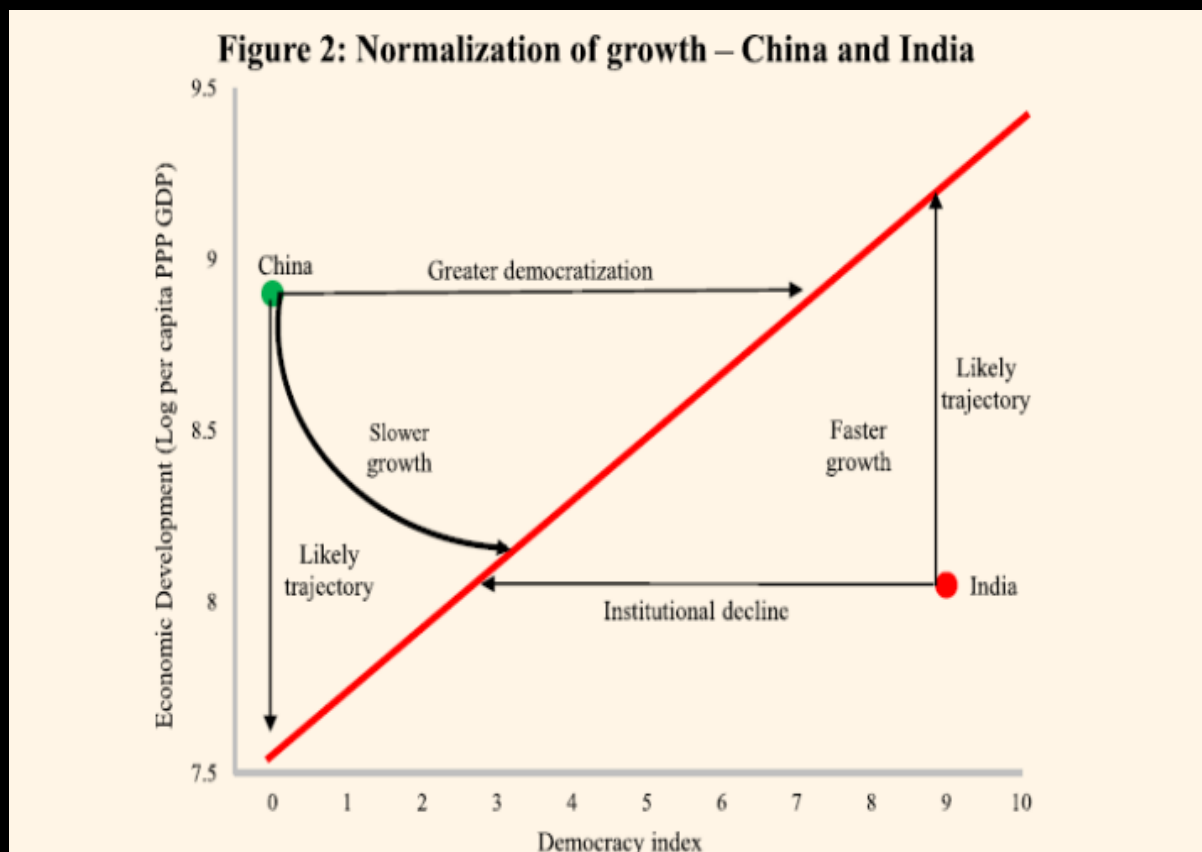




# Size of government: Micro (public sector enterprise share of GNI)



# India's future trajectory



# *1. Ambivalence about: Embracing private sector and protecting property rights*

- Retrospective actions
- Strategic disinvestments
- Agriculture: Essential Commodities Act, export substitutions
- History
- Licence-quota-permit Raj and the stigma of the private sector
- From crony socialism to crony capitalism

## *2. From Socialism without Entry to Capitalism without Exit*

- Dismantling the ‘Licence-Quota-Permit Raj’: But mostly on entry not exit.
  
- Exit difficult across the board
  - NPAs/infrastructure
  - Fertilizer
  - Agriculture
  - PSBs
  - Civil aviation
  - Disinvestment

### *3. Inefficient Redistribution*

- Aggregating over major subsidies and 6 major programs, about 15-25% of central government subsidies goes to bottom 40% of population
- JAM and DBT: Eliminating leakage and duplication but changes in prices facing consumers limited to petroleum products
- Fertilizer subsidy (0.7% of GDP)
- GST experience: Few political voices for low and simple rates

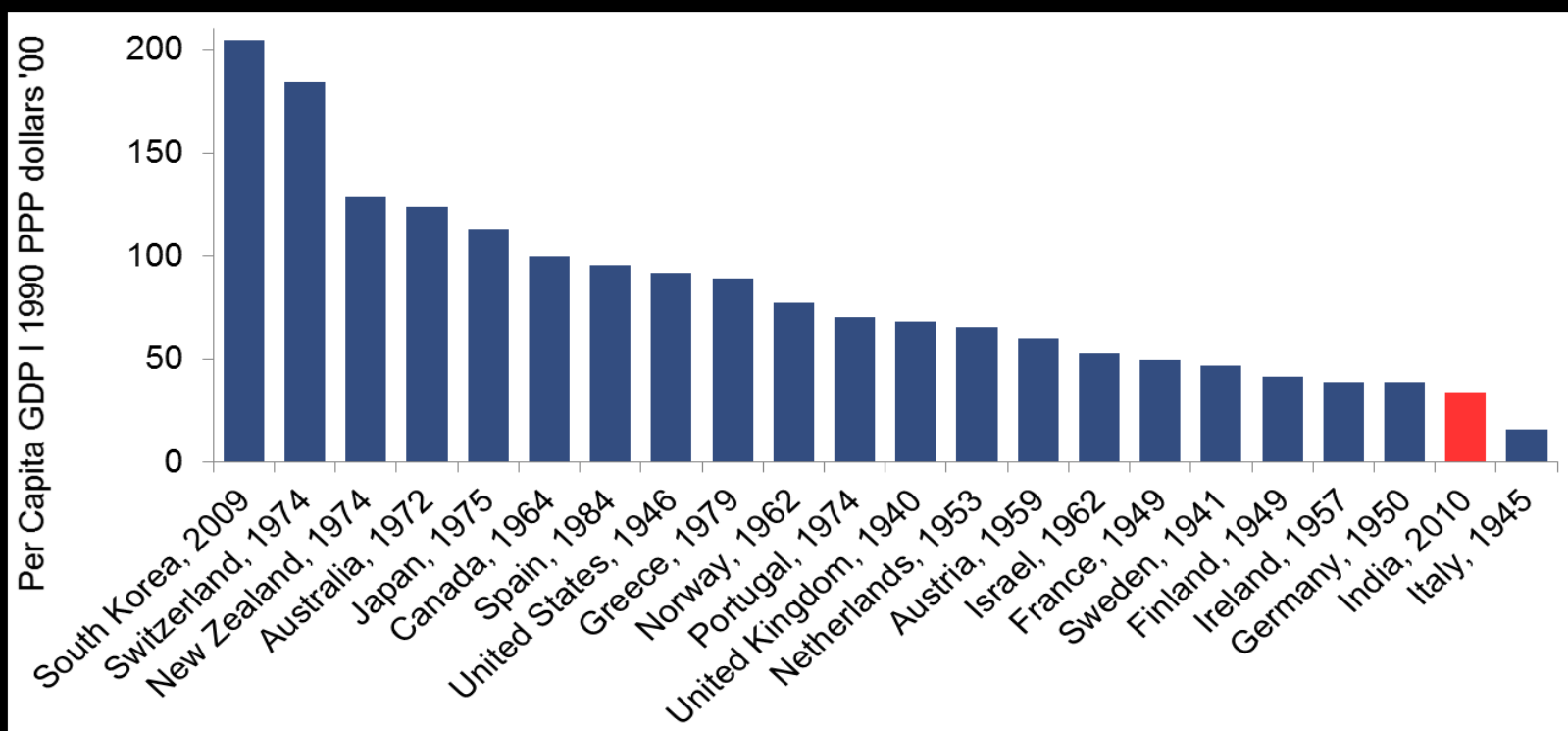
## *4. State Capacity / Delivering Essential Services*

- Flailing State
- Health and education outcomes poor
- Weak regulatory effectiveness
- Competitive federalism visible in attracting investment and easing cost of doing business but..
- Little evidence of competitive federalism in delivering essential services (health and education)

# *Precocious' development model : Premature pressures to spend*

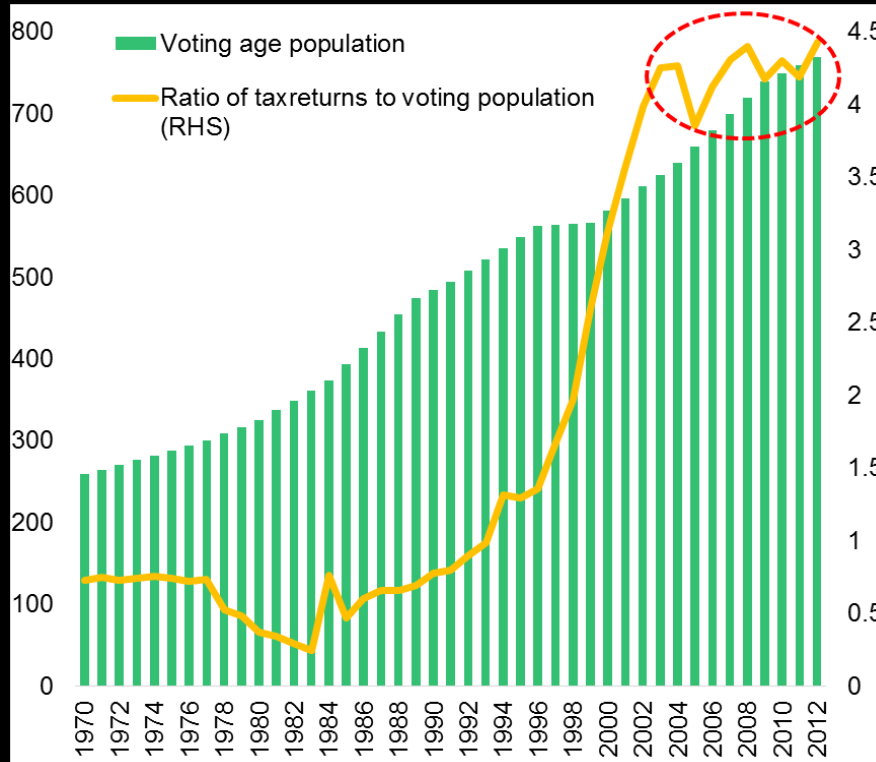
Income level at which country governments spent 27% of GDP

(what India spent in 2010)



# *Precocious' development model : Low tax base*

Voting age population (million) and ratio of tax-returns to voting population (Per cent)



Number of taxpayers to voting age population (Per cent)

