

Indian Economy: Shooting Star or Marathon Winner?

India has yet to complete two years of 9% growth and already two extreme views have formed. The optimistic one is that we are already growing at 9% per annum and must aim for 10 to 12%. The pessimistic one, that this is an unsustainable cyclical bubble, as reflected in the rising inflation rate. Both miss the key issue, which is one of *long run sustainability of fast catch-up growth*. Neither macro-cycle analysis nor saving rate accounting provides an answer to this issue. Fortunately the history of post-war growth across the World does provide some clues.

Over a decade ago four economists published a paper that shocked development optimists. They found that a high average growth in one decade was no guarantee that a country would grow at a relatively high rate in the next decade. Inter decadal growth was almost uncorrelated (0.15)! The average country had episodes of high growth and then reverted back towards the mean. Another group of economists, looking at the remarkable performance of the 'East Asian countries,' found an exception to this result. Several countries in East and South East Asia had broken this jinx, so they dubbed these economies as the "East Asian Miracle" economies.

A lot more data has accumulated since then, though only up to 2003, and it is useful to revisit this issue. Analysis of the new data for average per capita GDP growth of all countries for each decade since 1950 confirms, with modest variation, the basic mean reversion of the growth process across the world over five decades. The two decade correlation has declined from 0.26 for 50s & 60s to 0.15 for 70s & 80s and is 0.18 for 80s & 90s. The last two are about the same as found in the pioneering study and suggests that a small fraction of countries are able to sustain high growth for two decades. Most of the high growth economies of the fifties were shooting stars with growth reverting to mean in the next decade (50s -70s correlation of 0.07). Since the 60's however, an increasing proportion of countries seem to be able to sustain growth for a third decade, as suggested by the growth correlation of 0.12 for 60's & 80's and 0.21 for 70's & 90's. The correlation between growth in the sixties and nineties is again almost zero (0.06) indicating that virtually all the high growth economies of the sixties had disappeared from the high growth firmament by the nineties, being unable to sustain this rate for more than three decades.

The best sustained performance of each country is found by calculating all possible 10, 20 and 30 year compound annual average per capita GDP growth rates and picking the maximum for each period. The mean cross country (median) value of this maximum was 4.8% (4.3%) for a single decade, 3.3% (3.0%) for two decades and 2.4% (2.4%) for three decades. More importantly, while 15% of the countries had a decade in which they achieved an average per capita growth of more than 7.5%, only 4.5% (2%) of countries had a twenty (thirty) year period during which they achieved this average.

How does India's performance compare? India's highest average per capita growth rate for one, two and three decades were 4.9%, 3.8% and 3.5% respectively, placing India above the mean for all categories. However, in the three categories 41%, 39% and 29% of countries respectively performed better than India. As we have shown in several papers since 1990, the situation has improved steadily since 1980. The same data set shows that for the 24 year period 1980-2003, India with an average per capita growth rate of 3.7% ranked in the top 14%. If we exclude small and tiny countries, it was in the top 11% at 10th position. These facts indicate that India is not a shooting star, but a long distance runner! But does it have the stamina to win a marathon that can take half a century (even for a high growth economy), to move from low income to high income?

This requires a re-examination of the growth performance of the Asian countries that have beaten the odds, i.e the 'Asian miracle economies,' which initiated reforms in the sixties and seventies. India's growth acceleration in the 1980s resembled that of the Asian miracle economies both in terms of the change in policy regime and in the magnitude of growth acceleration. All these economies have, sustained *higher* rates of growth for *longer* periods than India has done. A detailed analysis of the Indian economy shows that the nineties reforms have put the economy on a rising growth trend that makes it possible for the Indian economy to close this growth gap.* It suggests that given our entrepreneurial capabilities, we can sustain an average per capita growth of around 6% ± 0.5% (7.5% GDP) for 15 years till 2025, assuming that the average pace of policy reform seen during the past two decades is maintained. It also shows that a higher average growth rate of 7% to 7.5% (8.5-9% GDP) is possible for the next five years despite the termite eaten wooden frame (not rusted steel frame) of India. Such a performance would put us in the 10 top *long run* growth performers in history. One must caution, however,

that reactionary steps and anti-reform measures, facilely labeled as reform, can undermine even the very realistic possibility of 6% per capita GDP growth during the next two decades.

Sustaining a rate of 7.5% (9% GDP) for the next 15 years, or equaling the long run performance of frontrunners Japan and China (8.6% and 7.8% per capita for 30 years), requires an improvement in the quality of governance, our greatest handicap. To become marathon champions we need deep and fundamental reform of government (e.g. making police and legislatures criminal free), a redefinition of Government's role to take account of limited managerial capabilities, skills, expertise and resources, and a sharper focus on things that only government can and *must* do (e.g. operational town planning vs. building construction).# One is hopeful! The odds appear better than even!

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* Propelling India from Socialist Stagnation to Global Power: Growth Process & Policy Reform, Academic Foundation, 2006 ; "Policy Regimes, Growth and Poverty in India: Lessons of Government Failure and Entrepreneurial Success"!, Working Paper No. 170, ICRIER, October 2005.
See also, <http://www.ncaer.org/downloads/lectures/NBER-NCAER.html>.

See, "A New Development Paradigm: Employment, Entitlement and Empowerment," Economic and Political Weekly, Vol. XXXVII No. 22, June 1-7, 2002, pp. 2145-2154 and "Lessons Of Government Failure: Public Goods Provision And Quality of Public Investment," Working Paper No. 2/2006-PC, Planning Commission, February 2006.
