

# Understanding Indian Growth Episodes

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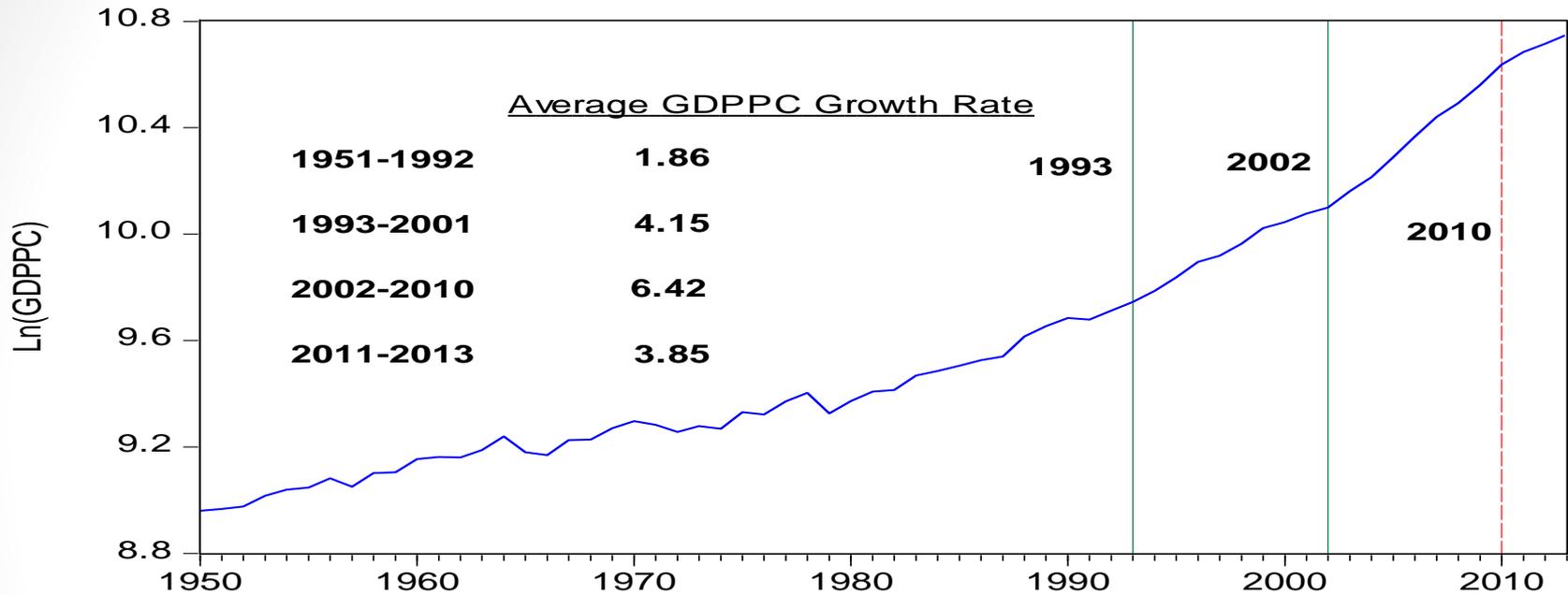
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# India's Growth Accelerations and Slowdowns



Three complete growth episodes (1951-1992, 1993-2001, 2002-2009) and a fourth ongoing episode (2010 -)

Growth accelerations in 1993 and 2002 and a growth slowdown in 2010

# CASE 1

THE GROWTH ACCELERATION OF  
1991

# The Economic Outcome

- India's per capita GDP grew at 1.85 % during her first growth episode (1950 to 1992)
- However, there were distinct differences in decadal growth rates within this period
- The 1960s and 1970s were periods of weak economic growth (1.49 % and 0.84 % per annum)
- In the 1980s, there was a recovery in the growth (3.19 % per annum)
- The recovery was not sufficiently strong to count as a growth acceleration
- **In the first growth transition** that we will focus on, the per capita growth rate went up from 1.86% in the first episode to 4.15 % in the second episode (1993 to 2002)

## Political Space

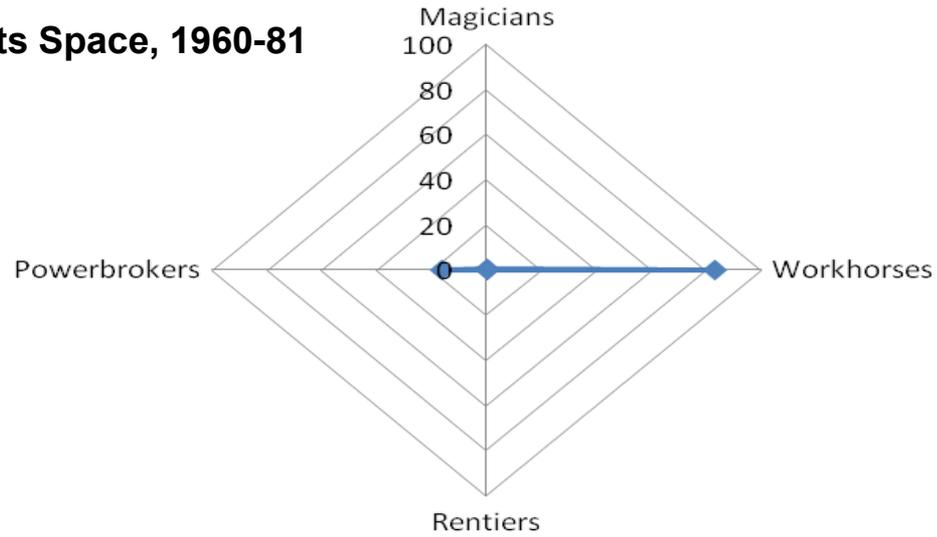
PERIOD	POLITICAL COMPETITION	IDEOLOGY
1951-66	The Indian National Congress (INC) ruled with very large majorities under Nehru	Political Class strongly influenced by Socialist Ideology
1967-1975	Indira Gandhi and the rise of internal and external opposition to the Congress	
1975	Indira Gandhi declared a national emergency, suspending some democratic rights for two years	
1977	Indira Gandhi rescinded emergency and called for elections. The Congress was defeated and the first non-Congress government led by the Janata Party came to power	
1980	Indira Gandhi returned to power	
1984	The assassination of Indira Gandhi. The Congress Party under Rajiv Gandhi won with an overwhelming majority.	
1989	The Congress suffered an embarrassing defeat, and a coalition of parties, led by the Janata Dal, formed a minority government with outside support from Bharatiya Janata Party (BJP)	
<b>GROWTH ACCELERATION IN 1991</b>		
1991	Congress came to power in a minority government	Main Political Parties strongly influenced by Pro- Market Ideology
1996-98	Unstable governments: Bajpai... Dave Gowda...Gujral...Bajpai	

# The Political Dynamics That Led To The Growth Acceleration

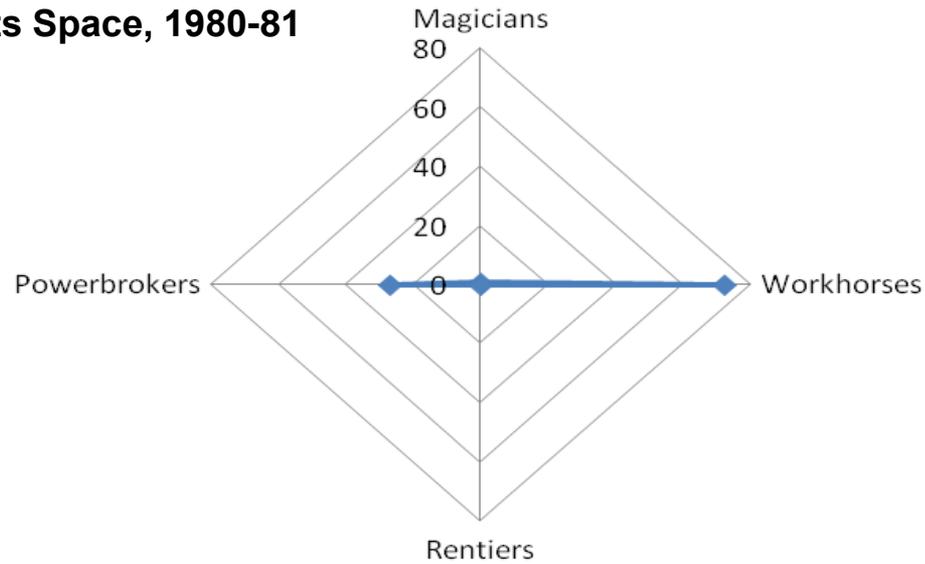
- A dominant party – the Indian National Congress – ruled India from independence to 1989 (except for a brief period in the late 1970s)
- However, the dominance of the Indian National Congress gradually eroded over time
- There was a clear evolution of India's political system from a dominant party to minority governments towards the end of the growth episode
- In terms of ideology, the period from 1950 up to 1980 can be characterized as pro-socialism
- After 1980 however, the socialist ideology was sacrificed due to the political compulsions of the Congress Party, which faced increase political competition

# Rent Space

India's Rents Space, 1960-81



India's Rents Space, 1980-81



# Politics, Rents, Deals and Growth

- In spite of the dominance of the Congress Party during the early parts of the episode, the deals space was disordered during this period.
- There was very little mutual confidence between the government and business sector, leading to a lack of trust by the business sector on the deals that the state might offer to them.
- Why did a disordered deals environment result in a dominant party political system?
- We argue that there were three reasons for this:
  1. The pro-socialism economic ideology of the ruling elites, inspired particularly by the Soviet example, left very little room for strong state-business relationship
  2. The political dominance of the Congress party meant that they did not need to turn to the business class for resources
  3. The rent-thick part of the economy (only power-brokers ) was small
- Not surprisingly, the disorderliness of deals during this period resulted in low private investment and growth in the fifties, sixties and seventies

## Politics, Rents, Deals and Growth (continued)

- From the eighties onwards, political competition, the rent space, the deals space and growth outcomes, all started changing
- Following the first non-Congress government in 1977, Indira Gandhi realized that the complete dominance of the Congress party was over.
- Needing new allies and resources for fighting elections, she supported a growing alliance between the political and economic elites and hence, state-business relations started becoming more collaborative and ordered.
- The Indian state clearly signalled to big domestic capitalists its intention to credibly commit to an environment where private enterprise would be supported and growth-enhancing policies followed.
- This led to a closed deals environment and increase in the share of the power-broker sector
- As a result, there was a significant increase in private investment and growth
- However, the industrial base of big domestic capitalist was not very large and hence, this closed ordered deals environment led to a nascent growth spurt that did not transform to a boom.

# Politics, Rents, Deals and Growth (continued)

- In the nineties, the political space continued to be competitive with one Congress government and three non-Congress governments
- In the ideological sphere however, a significant change took place over the nineties that cut across all political divide. It was the acceptance of pro-market development strategies
- This led to the adoption of economic liberalization and market friendly reforms in 1993
- Although the reforms focussed on changing the rules of economic activity, it also had profound impact on the deals world.
- In particular, the abolition of (i) industrial licensing and (ii) import licensing removed both disorder (bureaucratic discretion) and closed-ness (limited entry) in the deals environment.
- Thus institutionally, the country transitioned to an open and ordered deals environment in a large number of sectors
- As a result, private investment shot up and so growth accelerated very strongly

# CASE 2

THE GROWTH SLOWDOWN AFTER 2010

# The Economic Outcome

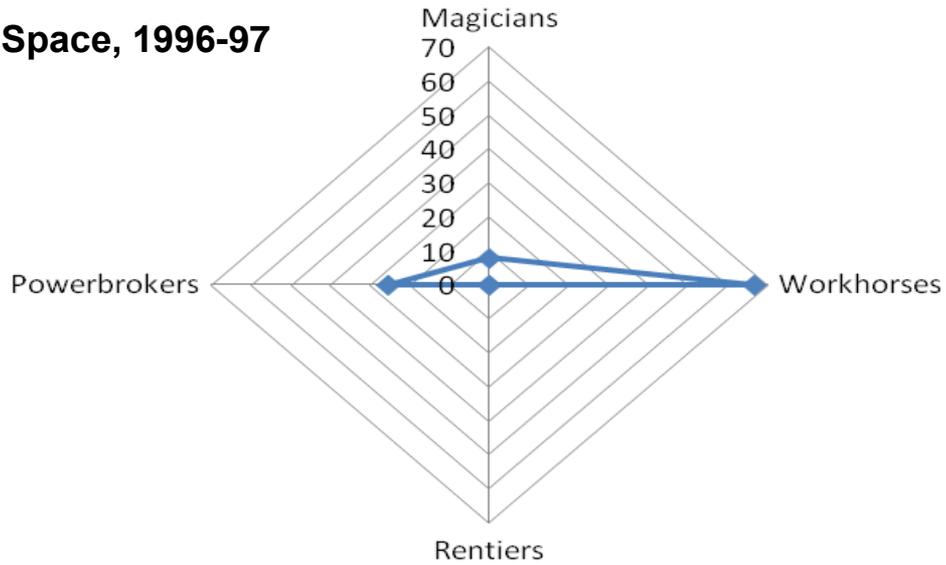
- India's per capita GDP grew at 6.42 % during the third growth episode (2002 to 2010) (it was 4.15 % during the second growth episode)
- An important characteristic of this episode was the very high growth in rent-thick sectors like large construction, telecommunication, real estate and mining.
- Together with steady growth in the other sectors, this growth surge led to the high growth rates during this episode
- However, there was a clear slowdown in the growth rates after 2010-11
- Although there was a partial revival after 2013, growth rates have not gone back to the highs of the third episode

## Political Space

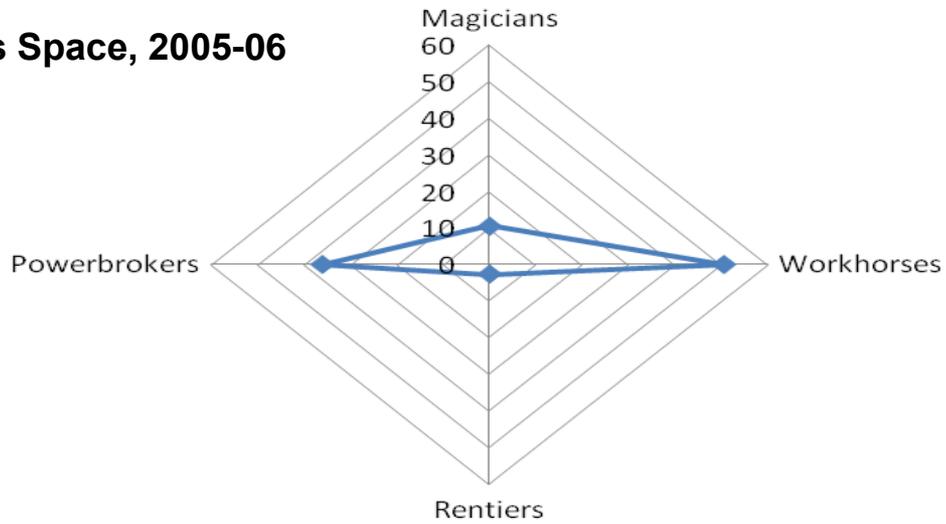
PERIOD	POLITICAL COMPETITION	IDEOLOGY
1991	Congress came to power in a minority government	Main Political Parties strongly influenced by Pro-Market Ideology
1996-98	Unstable governments: Bajpai... Dave Gowda...Gujral...Bajpai	
1999	Alliance Governments: NDA - I (15 parties)	
2004	Alliance Governments: UPA - I (19 parties)	
2009	Alliance Governments: UPA - II (18 parties)	
2011	Nationwide Anti-Corruption Movement against the Government	
<b>GROWTH SLOWDOWN IN 2011</b>		
2014	Alliance Governments: NDA - II (23 parties; BJP Majority)	

# Rent Space

India's Rents Space, 1996-97



India's Rents Space, 2005-06



# Politics, Rents, Deals and Growth

- During the third episode, the political space underwent another change, from a minority government to coalition governments with large number of alliance partners.
- This led to very strong vertical distribution of power, resulting in a shift to a very weak Dominant Party
- The rent space exhibited two distinct trends
  - The open and ordered sectors continued to grow steadily
  - Simultaneously, in a number of NEW natural resource using sectors there was a shift from a disordered deals world to a closed ordered deals world (Neo Power-brokers and Rentiers). This happened due to two reasons.
    1. Increase in global commodity/natural resource prices (Global Factor)
    2. Increase in demand for infrastructure (real estate, large construction, telecom etc.) following growth in second episode (Feedback Loop from Growth)

## Politics, Rents, Deals and Growth (continued)

- This led to a very high growth in these ‘high-rent’ sectors– mining (iron/coal), telecommunication (spectrum) real estate (land) – and construction mega-projects (land)
- The combination of a weak Dominant Party and the emergence of rent-thick sectors led to ideal conditions for Closed and Ordered deals combined with rent-sharing in these new sectors
- Together with the steady growth in the other sectors, these closed ordered deals led to a growth spurt in these sectors. This led to another growth acceleration in the third growth episode.
- Soon however, the Closed and Ordered deals started exhibiting signs of “Crony Capitalism”, Political Corruption and Political Rent-seeking
- The political settlement leading to the closed ordered deals in high rent sectors began to unravel during the last growth episode (2010 - )

## Politics, Rents, Deals and Growth (continued)

- This was due to (temporary) horizontal redistribution of political power with the rise of new coalitions (such as a Pro-landowner coalition (Singur/Posco) and a Pro-urban coalition (Anti-Corruption))
- The court cases, media furore and political movements like the Anna Hazare movement are all symptomatic of this
- These new coalitions challenged the old political settlement
- This pushed the institutional space back to a disordered deals world. The court judgements etc. Led to policy paralysis and institutional paralysis.
- All of this led to lower investment and slowdown of growth after 2010.

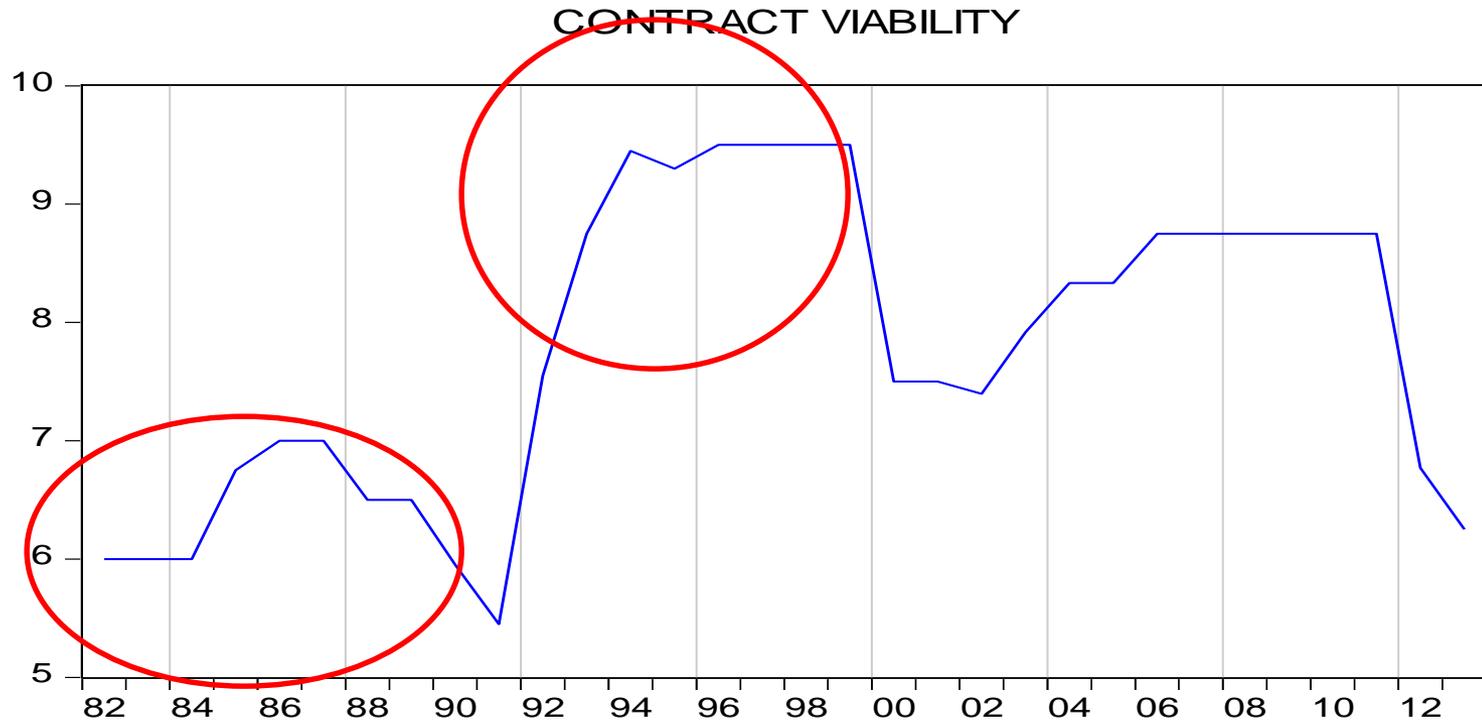
## Concluding Remarks

- The two growth transitions discussed above highlight the value of our growth framework
- Both examples are good arguments for analysing growth, not in terms of long-term averages, but in terms of episodes that differ from each other not only in terms of average growth rates, but also in terms of underlying political, economic and institutional structures
- The first case described above highlights how the combination of changes in political settlements and economic ideology of political elites can lead to growth accelerations
- The second case highlights how political feedback effects can quickly lead to disorderly-ness in the institutional environment and this can lead to a growth slowdown
- This analysis provides a strong justification for understanding the 'Politics of Growth'

**THANK YOU**

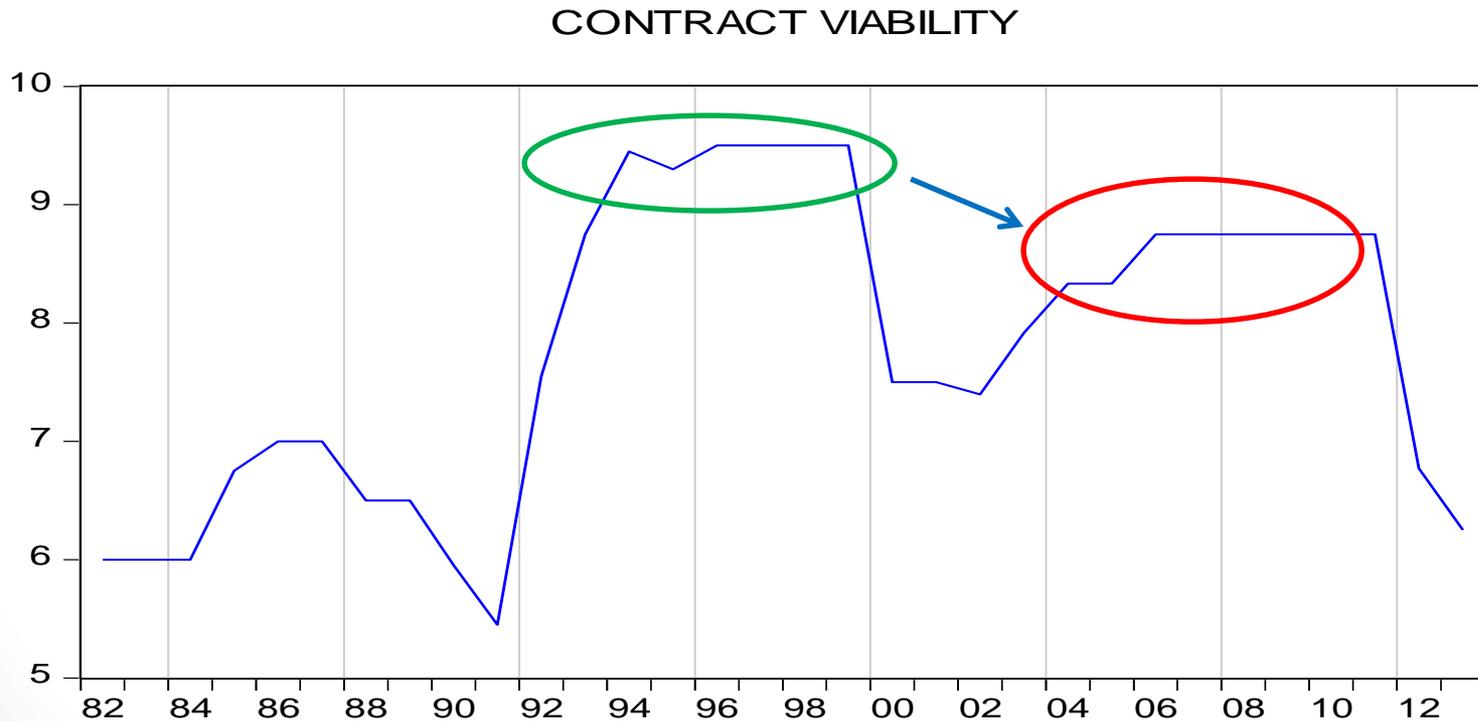
# The Deals World

(Investors' Perception of Contract Viability  
with lower scores imply higher risk, ICRG data)



# The Deals World: Closed Order

(Investors' Perception of Contract Viability  
with lower scores imply higher risk, ICRG data)



# The Deals World: Move towards Disorder

(Investors' Perception of Contract Viability with lower scores imply higher risk, ICRG data)

