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Economic development in India over the last four decades: 1981-82 to 2023-24 - An Evaluation

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Abstract

The gross national income of India (at market price), in constant price, increased by six times over a thirty-year period between the Census years of 1981 and 2011. During the next ten-year period of 2011 to 2021, the gross national income increased by 1.7 times, that is to say, it nearly doubled. This forty-year period of 1981 to 2021 also saw a big structural change in the Indian economy. While the paper discusses these structural changes in the economy, it highlights the significant increase in gross domestic savings and the consequent increase in gross capital formation over the years.

Keywords

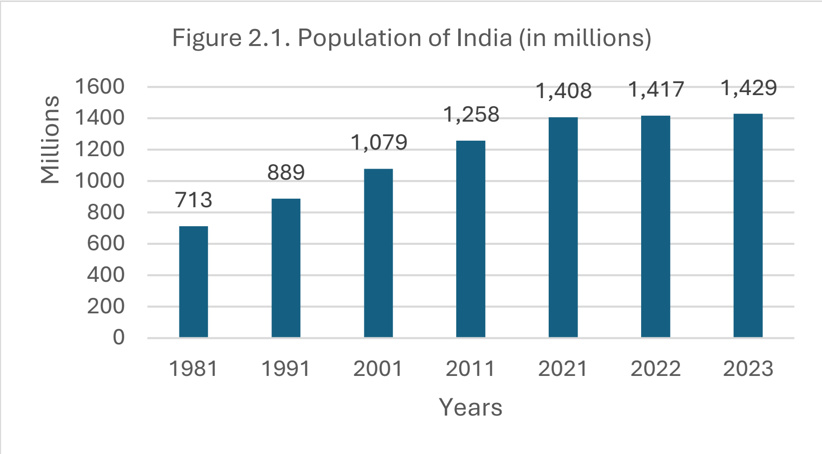
share of different sectors in GDP, economic liberalisation, aggregate demand, gross domestic savings, gross fixed capital formation, k-pattern of growth, income inequality, basic income transfer.

1.**Introduction**

Higher number of vehicles on the road, newer dwelling areas, high rise buildings and more number of shopping malls and restaurants are easily noticeable today in the urban areas of India. The gross national income of India (at market price), in constant price, increased by six times over the thirty-year period of 1981 to 2011. During the next ten-year period of 2011 to 2021, the gross national income increased by 1.7 times, that is to say, it nearly doubled.

How do we explain this development in terms of broad economic indicators over the last forty-fifty years, and has this growth been inclusive? This is the subject matter of this paper. The paper is broadly divided into four sections of: (a) economic development in the three decades beginning from 1981 to 2011, that is, between these two Census years, (b) economic development in the last decade, that is, between 2011-12 and 2023-24, (c) savings and investment in the Indian economy over the last four decades and (d) the dilemma of growing inequality in the economy.

A major development during this period has been the increase in the country's population that went up from around 71crores in 1981 to 125 crores in 2011 and further up to 142 crores in 2023 (Figure.1.1). Population growth has indeed been a contributory factor in the economic development of the country. It has played an important role on both the supply side and the demand side. As it is the source of labour, both skilled and unskilled, it has been instrumental in the production of various goods and services. Greater number of earning members in the society - than before - have similarly pushed up demand for all kinds of products in the market.



Source: World Development Indicators, United Nations.

2. Economic Development over the period: 1981 to 2011

This thirty-year period from 1981 to 2011 saw a big structural change in the Indian economy. While the national income increased significantly over this period, the respective shares of agriculture, industry and services in the 'gross value added' (in constant price) changed significantly. The share of "agriculture" declined sharply from 35.86 per cent of 'Gross Value Added' (GVA) in 1981-82 to 14.4 per cent in 2011-12 (Table 2.1).

The share of "services" comprising a wide spectrum of economic activities such as telecommunication, transportation, trade, banking and finance, hotels and restaurants, on the other hand, went up from 37.49 per cent of GVA in 1981-82 to 58.7 per cent in 2011 12. The share of "industry", however, remained more or less, the same at around 25-28 per cent of GVA. (Table 2.1).

Table 2.1 Share of different Sectors in GVA, at constant (2004-05) prices

(in %)

	1981-82	**2011-12**
1.Agriculture	35.86	14.40
2.Industry	25.10	28.20
3.Services	37.49	58.70
Source: National Accounts Statistics (various issues), NSO, Government of India.		

2.1 Share of "agriculture" in GVA and agricultural output during this period

Agriculture is essential for supply of food grains, fruits and vegetables, milk and meat products etc. for the ever-increasing population. The much lower share of "agriculture" in 'Gross Value Added' (GVA) in 2011-12 compared to 1981-82 does not, however, imply that agricultural output declined over this thirty-year period. Foodgrains production actually increased over this period from 89.8 million tonnes in 1981-82 to 198.8 million tonnes in 2011-12 (Table 2.2).

Table 2.2. Area, Output and Yield of Rice and Wheat during 1980-81 and 2011-12

	1980-81	2011-12
1. Agricultural Output	(in million tonnes)	
Rice	53.5	105.3

Wheat	36.3	93.5
Total	89.8	198.8
2. Cultivated Area	(in million hectares)	
Rice	40.01	44.0
Wheat	22.3	29.9
3. Yield Per Hectare	(in Kgs.)	
Rice	1303	2312
Wheat	1630	3131
4. Minimum Support Price	(Rs. Per quintal)	
Rice	Rs.105	Rs,1080, for paddy
Wheat	Rs. 54	Rs. 1283
Source: Economic Survey (various issues), Ministry of Finance Government of India.		

Production of rice and wheat, the two major food grains in the country increased over this thirty-year period. Output of rice went up from 53.5 million tonnes in 1980-81 to 105.3 million tonnes in 2011-12. Likewise, wheat output went up from 36.3 million tonnes in 1980-81 to 93.5 million tonnes in 2011-12. The country was, therefore, able to feed its higher population on its own all these years.

Equally important to note is that this increase in food grains output was more due to higher productivity (yield per hectare) rather than increase in the area under cultivation. As such, while area under cultivation of rice and wheat increased by ten and thirty per cent over this period, that is, by around four million hectares for rice and by around seven million hectares for wheat, yield per hectare for both rice and wheat went up by hundred per cent over this thirty-year period.

2.2 Share of 'industry' in 'Gross Value Added' (GVA)

The share of 'industry' in GVA remained more or less the same at around 25-28 per cent of GVA between 1981-82 and 2011-12. The industrial sector comprises "manufacturing", "mining", "electricity, gas and water supply" and "construction". The respective shares of each of these four sub-sectors under 'Industry' during 1981-82 and 2011-12 is shown below (Table 2.3).

Table 2.3. Share of different sub-sectors under 'Industry' in GVA,
at constant (2004-05) prices

(in %)

	1981-82	2011-12
Manufacturing	16.9	16.3
Mining	2.3	2.1
Electricity, Gas &Water Supply	0.8	1.9
Construction	5.1	7.9
Total	25.1	28.2
Source: National Accounts Statistics (various issues), NSO, Government of India		

The "manufacturing" sector – having the highest share under 'Industry' – instead of increasing declined from 16.9 per cent of GVA in 1981-82 to 16.3 per cent in 2011-12. The share of "mining" also remained at the same level at two per cent of GVA. In absolute terms, however, net value addition in both "manufacturing" and "mining" went up significantly during this period.

In comparison to "manufacturing" and "mining", the other sub-sectors of "construction" and "electricity gas and water supply" performed better and their share in GVA consequently increased.

While the share of "construction" in GVA increased from 5.1 per cent in 1981-82 to 7.9 per cent in 2011-12, the share of "electricity, gas and water supply" increased from 0.8 per cent of GVA in 1981-82 to 1.9 per cent in 2011-12.

2.2.1. 'Economic Liberalisation' of 1991

This period was witness to "the economic liberalisation" of 1991 (and the subsequent five years) when wide ranging reforms were introduced in the 'industrial', 'trade', fiscal' and 'financial' policies of the country[1]. The Balance of Payments (BOP) crisis of 1990-91 was the trigger to these reforms. Under the 'industrial policy reforms', major sectors of manufacturing such as steel, heavy engineering, shipbuilding, telecommunications and power generations were thrown open to the private sector. Industrial licensing, for setting up an industry, was dispensed with and the Monopolies and Restrictive Trade Practices Act was amended to increase the threshold limits of investment. In retrospect, it helped mobilise much larger financial resources for investment from within the country and from outside than would have been possible otherwise.

Regarding 'the trade policy reforms', similarly, "import controls" on industrial raw materials, intermediates and capital goods were withdrawn. Pioneering research at the Bureau of Industrial Costs and Prices (BICP) had showed earlier that the Indian industry required free access to best capital equipment and cheaper raw materials to remain competitive in both domestic and global market. "Peak tariff", that is, tariff over two-third of the imported goods into the country was likewise gradually reduced from 150 per cent to 10 per cent over the next five years. The devaluation of Indian rupee undertaken in two quick successions during 1991 moderated in some measure the adverse impact of this sharp reduction in import duties.

In the realm of 'financial sector reforms', the "statutory liquidity ratio" (SLR) – requiring commercial banks to invest a certain per cent of their deposits in government securities – was reduced as it was found to be one of the contributory factors for the higher interest rates charged by banks from their borrowers (including industry). The banking sector was, furthermore, opened to the private sector. The office of 'Controller of Capital Issues' under the Ministry of Finance was also abolished and was replaced by the Securities and Exchange Board of India (SEBI) in 1992.

The Investors, henceforth, did not have to seek the prior permission of the Ministry of Finance for raising resources from the stock market. Foreign Institutional Investors (FIIs) were permitted to register and invest in the Indian stock market, subject to an overall ceiling on investment and a ceiling on investment for each individual FII in a particular company's shareholding. The Central Public Sector Enterprises (CPSEs) were assured of greater autonomy and the Government decided to no longer 'take-over' sick private sector enterprises for their revival. The 'Navaratna CPSEs', henceforth, could augment investment (within a threshold limit) without seeking prior permission of the Government.

With a view to reduce the rising interest liability on the Union Budget every year, the 'fiscal policy reforms' focussed on gradually reducing the fiscal deficit of the Government. Quite obviously, this implied keeping a check on public expenditure. It further aimed to increase the income tax base in the country through introduction of 'presumptive tax' and imposition of tax on agricultural incomes. Some of these reform measures were also part of the IMF conditionalities for grant of loan to India for overcoming the BOP crisis of 1990-91.

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[1] A detailed account of 'the economic liberalization of 1991' in India is provided in the book: 'The Market That Failed: Neoliberal Economic Reforms in India', LeftWord Books, New Delhi (2006) authored by C. P. Chandrasekhar and Jayati Ghosh.

2.3 Share of 'services' in GVA

The big increase in the share of 'services' in the GVA appears to have been steered by the growth of "information technology" (IT) and "telecommunication" in the country. Along with "trade, hotels and transportation", their share in 'services' went up from 17 per cent of GVA in 1981-82 to 27 per cent in 2011-12. The share of "real estate, business services, banking and finance" likewise went up from 8 per cent of GVA in 1981-82 to 18 per cent in 2011-12. "Community, social and personal services", which include "health" and "education" did not, however, increase in the same magnitude and continued to remain in the range of 12-13 per cent of GVA (Table 2.4).

Table 2.4 Share of different components under Services in GVA, at constant (2004-05) prices

(in %)

	1981-82	2011-12
Trade Hotels, Transportation &Communication	17	27
Financing, Insurance, Real Estate, Business Services	8	18
Community, Social and Personal services	12	13
Total:	37	58
Source: National Accounts Statistics (various issues), NSO, Government of India.		

2.4 Aggregate Demand in the economy (1981-82 to 2011-12)

Aggregate demand in the economy comprising "private consumption", "government spending", "investment" and "net exports" also underwent a big change over this period. Table 2.5 below shows the share of the main components of aggregate expenditure (aggregate demand) as per cent of total expenditure in the two selected years of 1981-82 and 2011-12.

An analysis of Table 2.5 and Figure 2.2 below shows that the share of 'private final consumption expenditure' (PFCE) declined over the years from 77.17 per cent of aggregate expenditure in 1981-82 to 57.07 per cent in 2011-12. The share of 'gross fixed capital formation' (GFCF) or 'investment', on the other hand, went up from 18.94 per cent of aggregate expenditure in 1981-82 to 35.52 per cent in 2011-12. The compound annual growth rate (CAGR) of GDP has henceforth been consistently higher than during the earlier years.

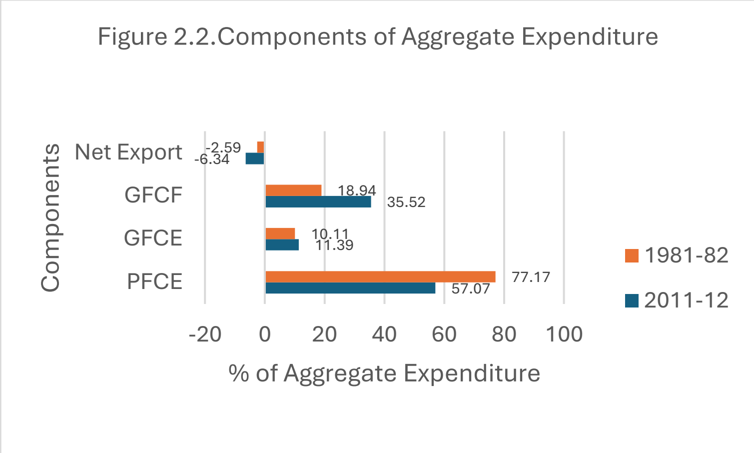
Table 2.5 Different components of Aggregate Expenditure, at constant (2004-05) prices

(as % of total expenditure)

	1981-82	2011-12
1. Consumption (Private Final Consumption Expenditure)	77.17	57.07
2. Government Spending (Government Final Consumption Expenditure)	10.11	11.39
3. Investment (Gross Fixed Capital Formation)	18.94	35.52
4. Net export (Export- Import)	(-)2.59	(-)6.34
Source: National Accounts Statistics (various issues), NSO, Government of India.		

Whereas investment ('gross fixed capital formation'), in earlier years, came more from the public sector, the private sector investment as per cent of GDP overshadowed the public sector investment in later years (Table 4.1). Government spending or 'government final consumption expenditure' (GFCE) remained more or less the same in these two years at 10.11 per cent and 11.39 per cent of total expenditure respectively.

'Net export' (export – import) in the negative also recorded a big increase from (-) 2.59 per cent of aggregate expenditure in 1981-82 to (-) 6.3 per cent in 2011-12 (Figure 2.2). India's dependence on crude oil import operates as leakage on 'aggregate expenditure' and consequently lowers the growth rate of GDP. The country is, moreover, ever vulnerable to hikes in international price of imported crude oil.



Source: National Accounts Statistics.

3. **Economic Development in the last decade: 2011-12 to 2022 -23**

The economy underwent further structural change in the last decade, that is, between 2011-12 and 2022-23. The respective changes vis-a-vis the per cent share of the different sectors in GVA during 2011-12 to 2022-23 were, however, small compared to the changes in the per cent share of the different sectors in GVA during 1981-82 to 2011-12. Only 'Industry' showed some significant increase from 28.2 per cent of GVA in 2011-12 to 30.20 per cent in 2022-23 (Table 3.1).

Table 3.1 Share of different Sectors in GVA

(in %)

	2011-12	2022-23
1.Agriculture	14.4	15.3
2.Industry	28.2	30.2
3.Services	58.7	54.4
Source: National Accounts Statistics (various issues), NSO, Government of India.		

3.1 Structural change in the Indian economy: 2011-12 to 2022-23

The share of "manufacturing" in the GVA under 'Industry', however, continued to remain the same as before at around 16 per cent despite the various governments in power trying to increase its share in GVA to 25 per cent (Table 3.2). The share of "electricity, gas and water supply" and "construction" (covering roads and highways) and belonging to the infrastructure sector marginally increased between these two years. While the share of the former went up from 1.9 per cent to 2.4 per cent, the share of the latter went up from 7.9 per cent to 8.8 per cent of GVA between 2011-12 and 2022-23.

Table 3.2 Share of different Sub-sectors under 'Industry' in GVA

(in %)

	2011-12	2022-23
1. Manufacturing	16.3	16.9
2. Mining	2.1	2.1
3. Electricity, Gas &Water Supply	1.9	2.4
4. Construction	7.9	8.8
Industry (Total)	28.2	30.2
Source: National Accounts Statistics (various issues), NSO, Government of India		

The share of 'services' in the GVA, however, declined from 58 per cent in 2011-12 to 54 per cent in 2022-23 (Table 3.3). Further analysis of the different components of the services sector shows that the share of "trade, hotels, transportation and communication" declined from 27 per cent of GVA in 2011-12 to 18.3 per cent in 2022-23. The share of "financing, insurance, real estate and business services", on the other hand, increased from 18 per cent in 2011-12 to 22.9 per cent in 2022-23. Here again, the big increase came from the expansion of "real estate" and "business services" (e-commerce) that saw a big growth in the country consequent to the COVID pandemic.

Table 3.3 Share of different components under 'Services' in GVA

(in %)

	2011-12	2022-23
1. Trade Hotels, Transportation &Communication	27	18.3
2. Financing, Insurance, Real Estate, Business Services	18	22.9
3. Community, Social and Personal services	13	12.5
Services (Total)	58	54.4
Source: National Accounts Statistics (various issues), NSO, Government of India.		

3.1.1 Food grains availability in the economy

Food grains availability in the country further improved during this period. The production of rice went up from 105.3 million tonnes in 2011-12 to 136.8 million tonnes in 2022-23. The production of wheat likewise went up from 93.5 million tonnes in 2011-12 to 112.9 million tonnes in 2022-23. This increase in production was brought about by both increase in 'area under cultivation' and increase in 'productivity per hectare' of these two crops. The 'minimum support price' (MSP) of these two crops have been generally raised over the years, which incentivised higher production of these crops in the successive years (Table 2.4).

Table 2.4. Area, Output and Yield of Rice and Wheat, during 2011-12 and 2022-23

	2011-12	2022-23
Agricultural Output	(in million tonnes)	
Rice	105.3	136.8
Wheat	93.5	112.9
	198.8	249.7
Cultivated Area	(in million hectares)	
Rice	44.0	47.6
Wheat	29.9	31.2
Yield Per Hectare	(in Kgs.)	
Rice	2312	2815
Wheat	3131	3293
Minimum Support Price	(Rs. Per quintal)	
Paddy	Rs,1080	2183
Wheat	Rs. 1283	2275
Source: Economic Survey (various issues), Ministry of finance Government of India.		

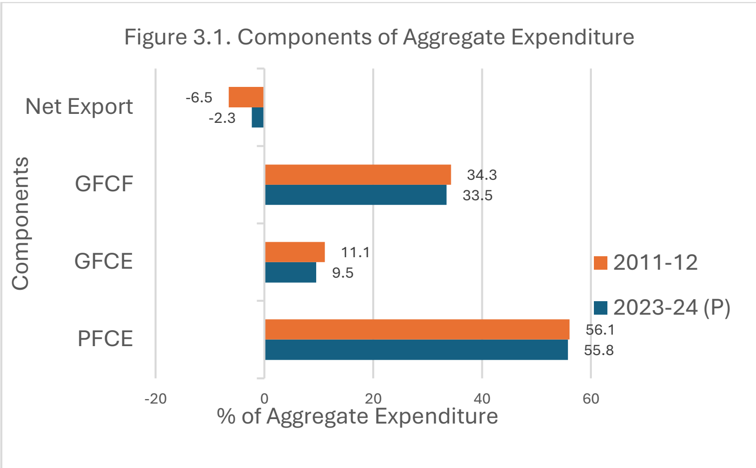
3.2 Aggregate Demand (Expenditure) in the economy (2011-12 to 2023-24)

Analysis of aggregate expenditure between 2011-12 and 2023-24 shows very little change in consumption or investment in the economy (Table 3.5 and Figure 3.1). While 'private final consumption expenditure' (PFCE) remained at around 55 per cent of aggregate expenditure, 'gross fixed capital formation' (GFCF) remained in the vicinity of 34 per cent. 'Net exports', however, showed an improvement as it declined from (-) 6.5 per cent of GDP in 2011-12 to (-) 2.29 per cent in 2023-24.

Table 3.5 Different components of Aggregate Expenditure,
At constant (2011-12) prices

(as % of total expenditure)

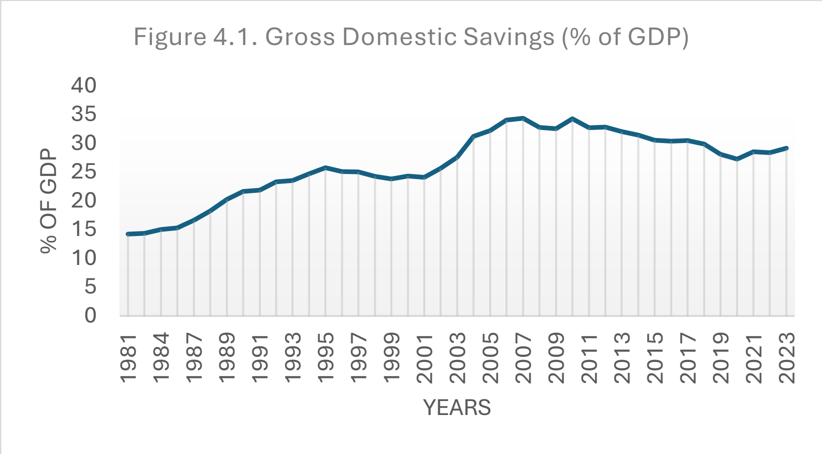
	2011-12	2023-24 (P)
1. Consumption (Private Final Consumption Expenditure)	56.11	55.80
2. Government Spending (Government Final Consumption Expenditure)	11.10	9.50
3. Investment (Gross Fixed Capital Formation)	34.3	33.50
4. Net export (Export- Import)	-6.54	-2.29
Source: Economic Survey (various issues), Ministry of Finance, Government of India. P= Provisional.		



Source: National Accounts Statistics.

1. Savings and Investment in the Indian economy

This period witnessed a significant increase in both 'gross domestic savings' and 'gross capital formation' in the economy. 'Gross domestic savings thus went up from 16.8 per cent of GDP in 1981-82 to 34.6 per cent of GDP in 2011-12 and has remained in the range of 30-32 per cent of GDP since then (Figure 4.1). Likewise, 'gross capital formation as per cent of GDP went up from 19.8 per cent in 1981-82 to 34.3 per cent in 2011-12 and has remained above 30 per cent in all the subsequent years (Table 4.1). Higher savings and higher investment have been the major drivers of economic growth in the country. The year wise increase in 'gross domestic savings' in India is shown in Figure 4.1 below.



Source: World Development Indicators, United Nations

A perusal of Table 4.1 below, furthermore, shows that while "private corporate savings" has been increasing over the years and went up from 1.3 per cent of GDP in 1981-82 to 9.5 per cent of GDP in 2011-12 and further up to 11.2 per cent of GDP in 2023-24, "public sector savings" has been declining over the years and came down from 4.4 per cent of GDP in 1981-82 to 0.6 per cent in 2023-24. Household savings, on the other hand, increased from 11 per cent of GDP in 1981-82 to 23.6 per cent in 2011-12 **but declined to 18.4 per cent in 2023-24.** Demonetisation of Rs.500/- and Rs.1000/- notes - *consequent to the announcement by the Government in November 2016* - is said to have led to this decline (Parthapratim Pal, 2024). It may be worthwhile examining further the reasons for the same.

Table 4.1 Gross Domestic Saving and Gross Capital Formation,
at constant (2011-12) prices as % of GDP

	Gross Domestic Savings				Gross Fixed Capital Formation		
Year	Households	Private Corporate Sector	Public Sector	Total	Private Sector	Public Sector	Total
1981-82	11.0	1.3	4.4	16.8	9.8	10.1	19.9
2011-12	23.6	9.5	1.5	34.6	27.0	7.3	34.3
2022-23 (P)	18.4	11.2	0.6	30.2	23.8	7.0	30.8
Source: Economic Survey (2023-24), Ministry of Finance, Government of India. P=Provisional.							

'Gross domestic savings', in turn, is the sum total of 'household savings', 'private corporate savings' and 'public sector/government savings. In simple terms, each of these components of 'gross domestic savings' may be defined as follows:

1. Household savings = Household Income – Household Expenditure
2. Corporate (private + public) savings / Retained Profit =
   [Total Revenue – Total Cost]- Payout to shareholders (dividends, bonus share)
3. Government savings = Public Revenue (tax & non-tax) – Public Expenditure

Household savings are the major contributors to 'gross domestic savings' in India. Indian households are observed to keep their savings in the form of either 'physical assets' (e.g., gold, real estate) or 'financial assets' (e.g. bank deposits, stocks and debentures, provident fund and insurance fund etc.). The households make their choice for either of the two options depending on the expected returns. While 55 to 60 per cent of 'household savings' have been generally kept in physical assets, 40 to 45 per cent of 'household savings are kept in the form of 'financial savings.

All policy initiatives need to be taken to step up further the 'financial savings of households as these are readily available for investment in comparison to 'physical savings. Corporate savings have shown an encouraging trend over the years, and these could further increase if the economy does well (Table 4.1). Government savings can also go up provided the tax and non-tax revenues go up, and these are more than the increase in government expenditure. The 'financial savings of households', 'corporate savings' and 'government savings together constitute the pool of savings that is parked with the intermediary institutions such as the banks, pension and provident fund organizations, insurance corporations and mutual fund bodies who, in turn, loan out to investors and other borrowers.

2. Growing inequality in the society

Despite economic development in the country over the last four decades, the growth in the economy has been far from being inclusive. Income inequality has been on the rise, which only shows that only a few sections of the society have benefitted from economic growth. While the average share of income of the bottom fifty per cent of the population declined from 20.24 per cent of national income in 1980-81 to 13.25 per cent in 2011-12, the average share of income of top 10 per cent of the population went up from 34.69 per cent of national income in 1980-81 to 56.74 per cent in 2011-12 (Table 6.1).

Table 6.1. Average Share of Income by Economic Group in India

Year	Average Share of Income of Bottom 50% of people	Average Share of Income of Top 10% of people	Average Share of Income of Top 1% of people
1980-81	20.24	34.69	9.87
1991-92	19.08	38.75	13.26
2001-10	16.26	47.37	19.42
2011-20	13.25	56.74	21.74

Source: World Inequality Database, India.

The "economic liberalisation" ushered in 1991 benefitted greatly the large private corporate sector. Higher growth of the IT and telecommunication (ITC) sectors - with much higher salaries of employees than others - during this period also contributed to income disparity amongst the middle class. Public expenditure on welfare measures by the state, during this period, has been much below the desired levels. As a result, the income disparity in the society has only increased. The following observations sum up this predicament:

> '*While demand expands rapidly for various up- market goods for the rich, demand for the basic necessities of life hardly expands....... we have state-of the-art corporate run expensive hospitals, nursing homes and spa for the rich, but not enough money to control malaria and tuberculosis which requires inexpensive treatment'* (Bhaduri, 2010).

3. Concluding Remarks

While focus has to be on ushering higher growth in the economy together with higher savings, higher investment, better governance (e.g., universal public education, universal public health facilities and 'ease of doing business') and infrastructure development, there is a need to investigate the K-pattern of growth to understand why some sectors have been growing faster and the other sectors are getting left behind. In great measure, this is the reason behind the growing disparity between agriculture and industry, between industry and services and between rural and urban areas.

The rural-urban disparity in the country has resulted in large scale migration from rural areas to urban areas. This calls for policy interventions to increase productivity in 'agriculture' itself, that is, to increase productivity in the agricultural subsectors of animal husbandry, fishery and horticulture besides crop husbandry leading to higher incomes in the rural areas. Such a policy intervention may require higher public investment in major and minor irrigation, flood control, assured power supply, better public transportation, provision of extension services and necessary support for agricultural marketing.

Development of forests similarly can serve the twin objectives of income and employment generation for the tribal population. It would increase the green cover in the country and help reduce the impact of global warming. Forests can also help mitigate the increasing incidence of floods in the different regions of the country. Development of orchards could be integral to the policy of afforestation in these regions. Public sector outlay in the country has, however, been far too low for afforestation and needs to go up.

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