4. India close to Hindu Rate of Growth: Raghuram Rajan

Prelims Syllabus: Economy

Mains Syllabus: GS-III Economics - Inclusive Growth & Issues, Issues relating growth and development, employment

Why in News?

- Former RBI Governor Raghuram Rajan has warned that India is "dangerously close to the Hindu rate of growth".

What is Hindu Rate of Growth?

- The "Hindu Rate of Growth" is a term used to describe the slow growth rate of the Indian economy between the 1950s and the 1980s.
- It was coined by the Indian economist Raj Krishna in the 1970s.
- During this period, the Indian economy grew at an average rate of around 3.5% per year, which was much lower than other developing countries like South Korea, Taiwan, and Hong Kong.
- The term is considered controversial as it suggests that the slow growth rate was a result of cultural or religious factors rather than economic policies and structural issues.
- However, the term is still used in academic and policy discussions to refer to the slow growth of the Indian economy during this period.

Features of Hindu Rate of Growth:

- The then features which led to the coining of this term were-
- **Low GDP growth rate:** The term refers to the period from the 1950s to the 1980s when India's economy grew at an average rate of around 3.5% per year, which was much lower than other developing countries.
- **Slow Industrialization:** The industrial sector was dominated by a few public sector companies, and the private sector was heavily regulated.
- **Stagnant Agriculture:** There was little investment in agriculture, and the sector was not given much priority in government policies.
- **License Raj:** India had a socialist economic model with heavy government regulation. The License Raj system required permits and licenses for businesses, creating a bureaucratic and corrupt system that hindered innovation and entrepreneurship.
- **Import Substitution:** India followed a policy of import substitution, where the government tried to develop domestic industries by protecting them from foreign competition.
- This led to a lack of competition, low quality of products, and high prices.
- Inefficient Public Sector: The public sector dominated the economy, but it was inefficient, unproductive, and plagued by corruption. Public sector companies were often overstaffed and poorly managed, resulting in low productivity.
- Lack of Foreign Investment: India was not attractive to foreign investors during this period, and there was little foreign investment in the economy. The government imposed strict controls on foreign investment, and the regulatory environment was not conducive to foreign investment.

Concerns flagged by Rajan:

- Rajan noted that India's economic growth rate had been declining even before the COVID-19 pandemic hit the country.

(a) Decline in GDP growth rate

- India's economic growth rate had fallen to 4.5% in the September quarter of 2019, before the pandemic hit in early 2020. During the pandemic, the Indian economy contracted sharply, with GDP falling by 7.7% in the 2020-21 fiscal year.
- The economy has rebounded somewhat, with the IMF forecasting GDP growth of 9.5% for the current fiscal year.

(b) Lower growth potential than hyped

- However, Rajan noted that India's potential growth rate is likely to be lower than in the past, due to factors such as an aging population, a decline in the working-age population, and sluggish investment.
- He also cited the country's poor performance on human development indicators, such as education and health, as a constraint on growth.

Key suggestions:

- Rajan called for measures to address the structural factors that are holding back growth, such as investment in infrastructure and education, and improving the ease of doing business in India.
- He also emphasized the importance of macroeconomic stability and maintaining fiscal discipline, to avoid inflation and currency depreciation.
- He also called for measures to address inequality, such as better targeting of subsidies to those who need them most.

Conclusion:

- Overall, Rajan's remarks suggest that India faces significant challenges in maintaining high levels of economic growth, and that structural reforms will be needed to address these challenges.