

Is India's High Growth Sustainable?



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March 8, 2007



Related Questions

- What is India's sustainable growth rate (or potential output path)?
- Is India overheating?



Ways of Answering the Question

- Structural Econometric Model (SEM)
- Time Series Analysis (TSA)
- Growth Accounting (GA)
- Input-Output Analysis (IOA)
- Expert Judgment (EJ)



Some Estimates

- K. Donde and Mridul Saggar (1999, RBI, TSA) – 6.3%
- S. Dhal (1999, RBI) – 6.5% (IOA), 8-10% (SEM)
- Dani Rodrik and Arvind Subramanian (2004, GA) – 7 %
- Arvind Virmani (2005, EJ) – 7%
- T.N. Srinivasan (2006, EJ) – 8%
- Shankar Acharya (2007, EJ) – 7%
- Goldman Sachs (2007, GA+TSA) – 8.4%

Each estimate has assumptions and qualifications



The Issues

- Data quality – what is actually happening (aggregate and components)?
- Behavioral parameters – what are likely responses of agents to policy and exogenous changes?
- Political economy – what policy changes are likely, feasible?

Effects of relaxing constraints: An example

	Relative growth factor	Growth rate (base 7 percent)
Electricity, gas & water supply	1.0108	8.16
Iron, steel and ferro-alloys	1.0049	7.52
Non-ferrous basic metals	1.0037	7.40
Other services	1.0031	7.33
Other transport services	1.0028	7.30
Railway transport services	1.0020	7.21
Coal and lignite	1.0018	7.19
Trade	1.0016	7.17
Miscellaneous manufacturing	1.0016	7.17
Inorganic heavy chemicals	1.0013	7.14

1998-99 data

Growth effect of increasing efficiency of sector by 5%



Is India Overheating?

- If the consensus is right, India is growing 1-2 percentage points faster than it can sustain.
- Are the measures already taken sufficient for a soft landing?



Foundations of sustainable growth

- Institutional reform
 - Civil service
 - Intergovernmental transfers
 - Tax assignments
 - Tax administration
 - Budgeting and accounting
 - Legal frameworks and procedures

Unglamorous and slow