

Why Is India the Most Rapidly Growing Economy in the World?

by
Dale W. Jorgenson
Harvard University

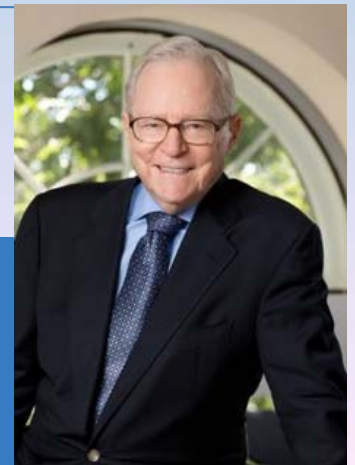
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The World Economy:

Growth or Stagnation?

Edited by Dale W. Jorgenson,
Kyoji Fukao, and Marcel P. Timmer



Major Trends in the World Economy

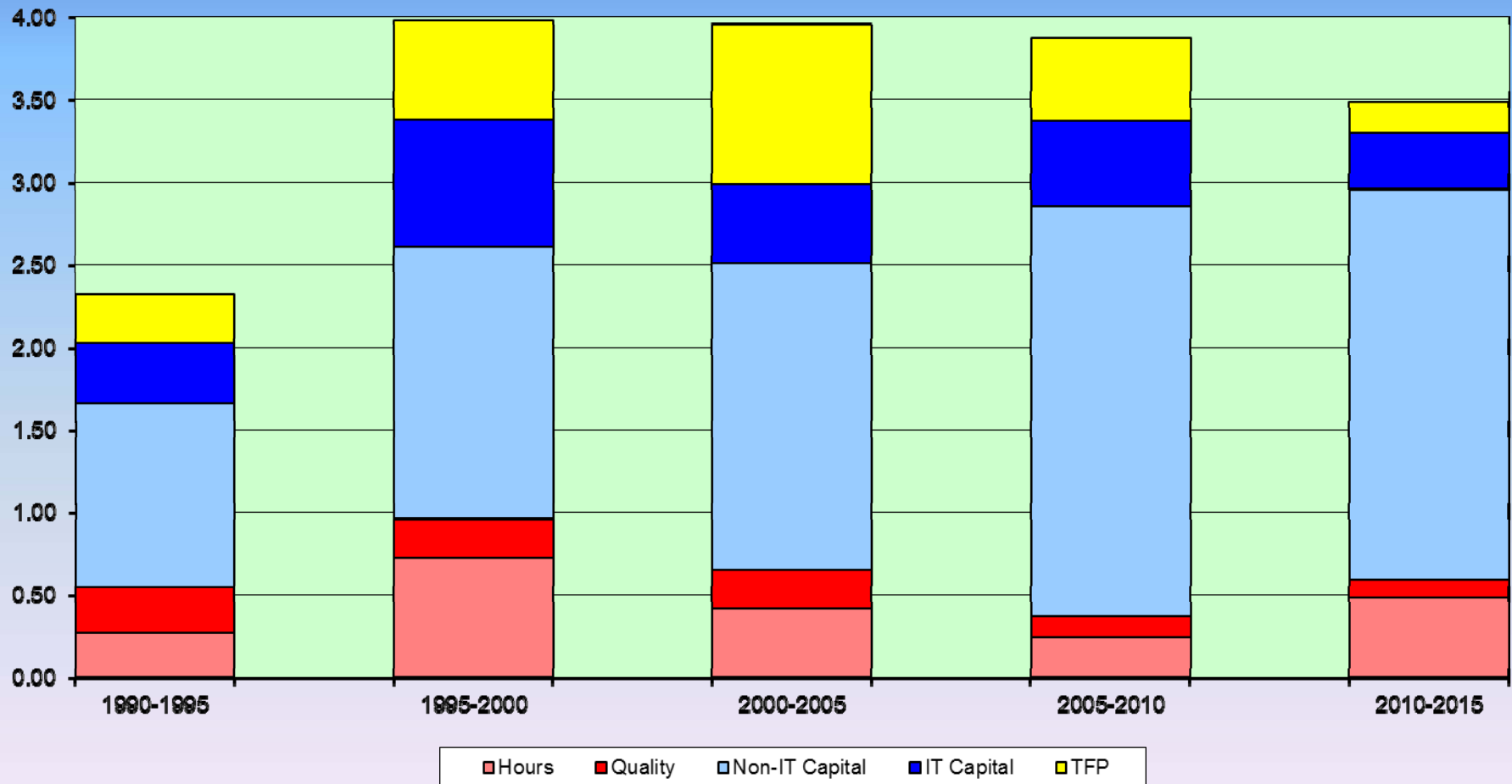
The Growth of the World Economy Has Accelerated Since 1995 and Become Much More Turbulent.

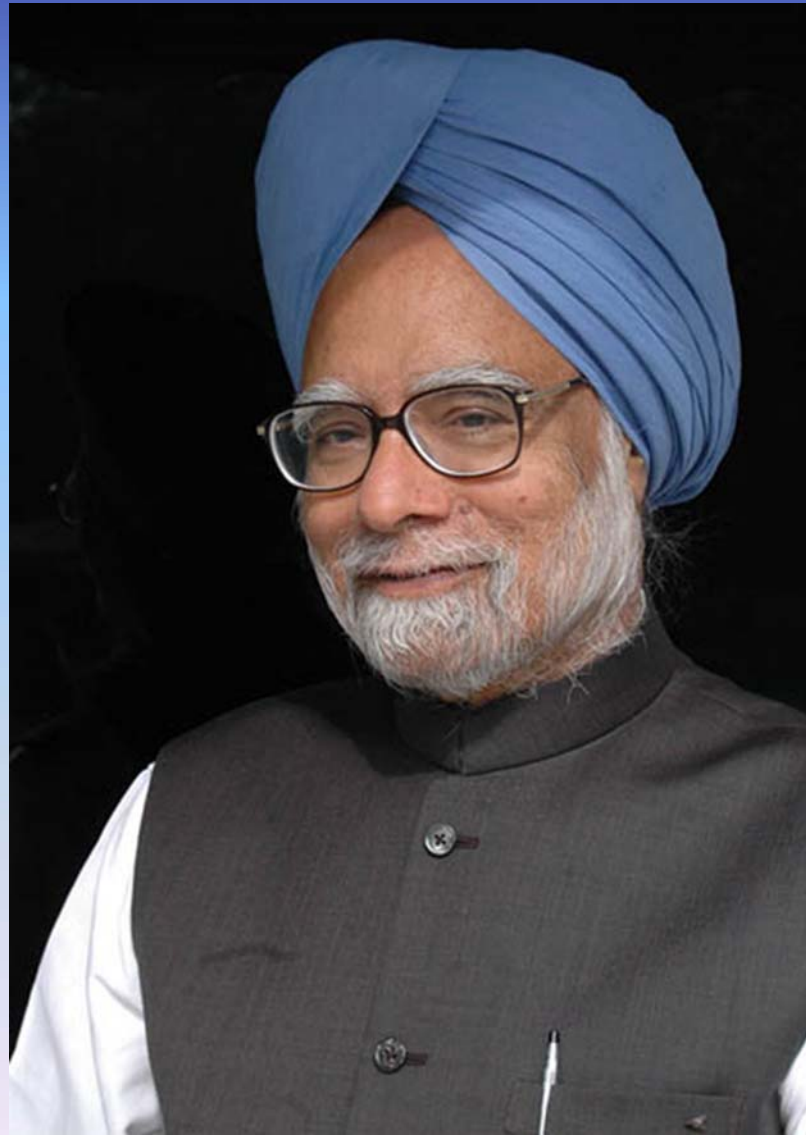
The Balance of the World Economy Is Shifting from the Advanced Economies of the G7 to the Emerging Economies of Asia, Especially China and India.

The Transformation of the World Economy has Led to a New World Order, Led by China, the U.S., India, and Japan.

Economic Performance of the World Economy

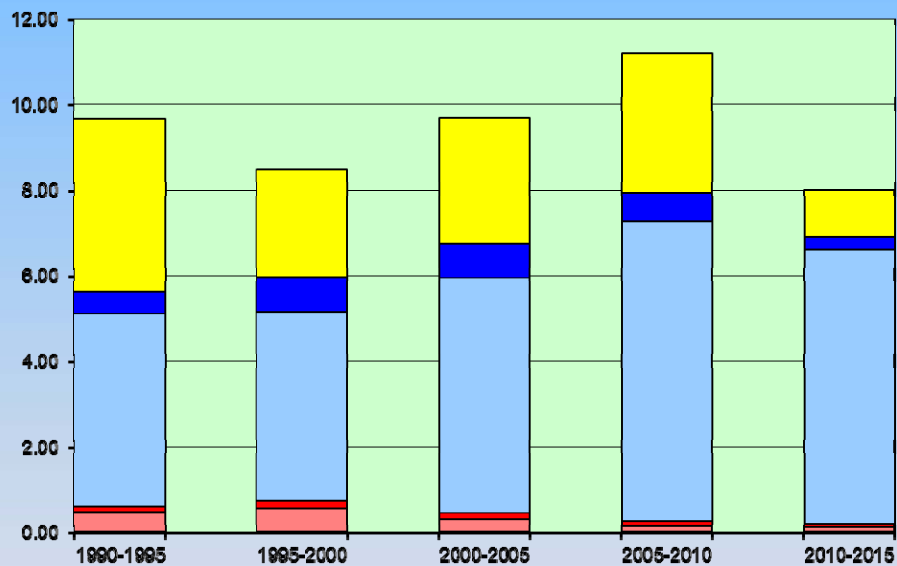
Average annual growth rates, weighted by the income share.



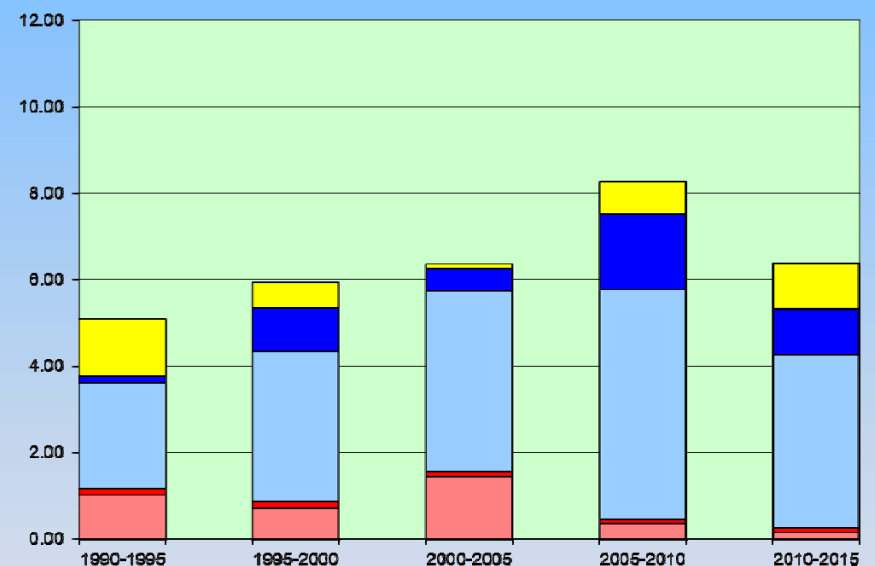


Economic Performance of China and India

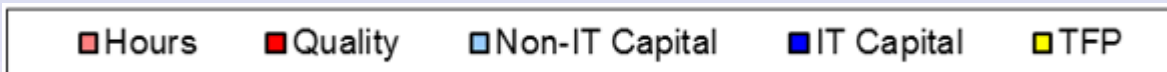
Average annual growth rates, weighted by the income share.



Sources of Chinese Economic Growth



Sources of Indian Economic Growth



Projecting the Growth of the World Economy

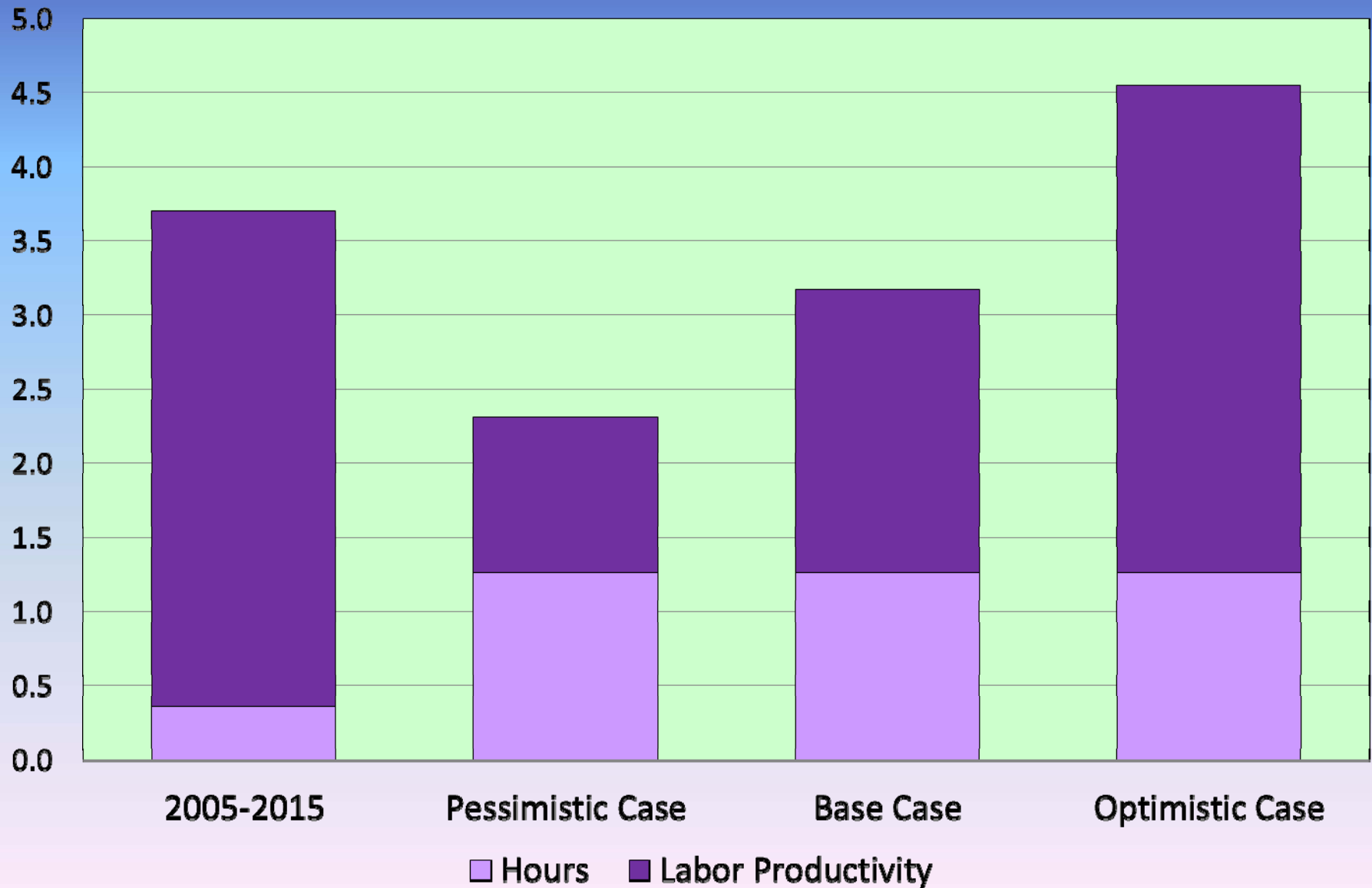
Future Demography: Population Projections for the World Economy Are Available from the United Nations. Labor Input Growth Includes the Growth of the Labor Force and Growth of Labor Quality Due to Changes in Composition by Age, Gender, and Educational Attainment.

Future Productivity: Productivity Projections for the World Economy Can Be Derived from Past Trends in the Development of Information Technology and Non-Information Technology.

Future Output and Capital Input: We Derive Output and Capital Input Projections from Future Trends in Demography and Productivity. Future Productivity Growth Is the Main Source of the Substantial Uncertainty in These Projections.

Range of World Output Projections

Annual percentage growth rates



Outlook for the World Economy

The Growth of the World Economy Has Accelerated since 1990 and This Acceleration Will Continue for 2015-2025.

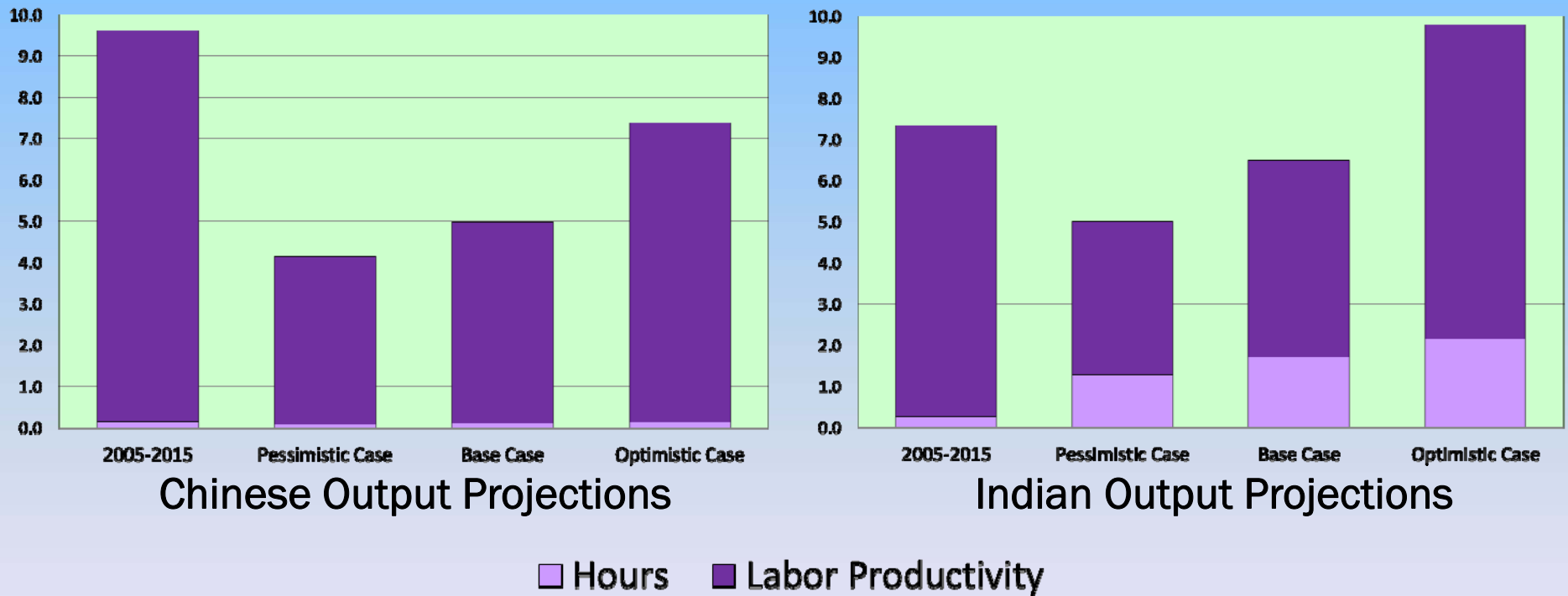
Average Labor Productivity Growth for the World Economy in 2015-2025 Will Slow Relative to 2005-2015.

Growth of Hours World for the World Economy in 2015-2025 Will Accelerate Relative to 2005-2015.

Future World Economic Growth Will Be Subject to Substantial Uncertainty.

Range of Output Projections for China and India

Annual percentage growth rates



Outlook for China and India

Future Chinese Economic Growth: Our Projection Is for a Substantial Slowdown from Nine Percent Growth for the Past Decade, 2004-2014, to a Sustainable Growth Rate of Five Percent for the Next Decade, 2014-2024. This Is Well Below Official Chinese Projections.

The Major Downside Risk for the Chinese Economy Is for Financial Distress Due to Unmanageable Levels of Debt. The Upside Potential of the Official Projections Would Require Major Financial and Fiscal Reforms Yet to Be Undertaken.

Future Growth of the Indian Economy: Our Project Is a More Modest Slowdown from the Growth of the Past Decade, Almost 7.5 Percent Annually, to a More Sustainable 6.5 Percent Annually in the Coming Decade.

The Downside Risk for the Indian Economy Is Failure to Restore Fiscal Balance and Maintain Control of Inflation. The Upside Potential of India's Favorable Demographic Trends Depends on Labor Market Reform and Greatly Increased Integration with the World Economy.

Building a Policy Framework for Sustained Economic Growth

Create a National Market for Goods and Services.

Privatize Public Enterprises and Deregulate Industrial Activity to Enhance Competition.

Reform Monetary Policy and the Regulation of Financial Services.

Reduce the Elaborate System of Employment Protections to Create Employment

Maintaining External Stability

India's External Position is Consistent with Fundamentals and Reserves Are Adequate.

India Should Continue to Rely on Exchange Rate Flexibility As a Shock Absorber.

India Faces a Challenge in Increasing Exports.

New Opportunities May Be Created for Free Trade Agreements.

Consolidating the Fiscal Position

Fiscal Consolidation Has Paused, But the Allocation of Government Expenditure Has Improved

Achievement of Fiscal Targets Has Been Postponed, But Will Probably Be Reached.

The Main Policy Objective Is to Implement the Goods and Services Tax in 2017.

The Goods and Services Tax

The Goods and Services Tax is a Value Added Tax That Will Replace Indirect Taxes at the National and State Levels on April 1, 2017.

Passage of the Tax at the National Level Required a Constitutional Amendment in 2016.

Revenues Will be Shared between the National and State Governments.

Exports will be Exempt from the Tax, While Imports Will be Subject to the Tax at the Same Rate as Domestically Produced Commodities.

The Reserve Bank of India Adopts Flexible Inflation Targeting

A Monetary Policy Framework Agreement (MPFA) Was Signed between the RBI and the Government of India on February 20, 2015.

The CPI Inflation Target Is Four Percent by the End of 2016-7.

Monetary Policy Is Set by the Monetary Policy Board, According to the Amended RBI Act of May 14, 2016.

The Policy Rate Was Reduced by 75 bps during 2015-6 and 25 bps during 2016-7.

Banking and Financial Regulation in India

Basel III Was Implemented by the Reserve Bank of India (RBI) for Banks in India on March 27, 2014.

Commercial Banks are Regulated by the Department of Banking Regulation of RBI.

Non-Banking Financial Intermediaries are Regulated by the Department of Non-Banking Supervision of RBI.

The Financial Stability Unit of RBI Is Charged with Macro-Prudential Regulation of Financial Institutions.

The RBI Is Committed to Harmonization of Prudential Regulation Across Various Segments of the Financial Sector.

Indian Economic Policy: Summary

The Goods and Services Tax Will Contribute to the Creation of National Markets for Goods and Services.

National Markets for Goods and Services Can Be Made More Competitive by Privatization of Public Enterprises and Deregulation of Industrial Activities.

Flexible Inflation Targeting and a Unified System of Financial Regulation Will Strengthen the Financial Sector.

The Great Challenge That Remains is to Develop Labor Markets That Will Create Employment and Sustain Economic Growth.

Why Is India the World's Most Rapidly Growing Economy?

India's Economic Performance Has Steadily Improved Since the Beginning of Reforms Around 1990. In 2015 India Became the Most Rapidly Growing Major Economy in the World, Overtaking China.

By Continuing the Program of Economic Reforms India's Outstanding Economic Performance Can Be Maintained for the Next Decade and Beyond.

Stable Financial Markets Will Result from Improved Regulation and the Creation of National Markets for Goods and Services Will Provide an Important Stimulus to Growth.

Efficient Labor Markets Will Be Essential for Realizing the Benefits of Favorable Developments in India's Demography.