

Commonwealth of Australia 2013

**ISBN 978-1-74037-460-6**

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, the work may be reproduced in whole or in part for study or training purposes, subject to the inclusion of an acknowledgment of the source. Reproduction for commercial use or sale requires prior written permission from the Productivity Commission. Requests and inquiries concerning reproduction and rights should be addressed to Media and Publications (see below).

*This publication is available from the Productivity Commission website at www.pc.gov.au. If you require part or all of this publication in a different format, please contact Media and Publications.*

**Publications enquiries:**

Media and Publications

Productivity Commission

Locked Bag 2 Collins Street East

Melbourne VIC 8003

Tel: (03) 9653 2244

Fax: (03) 9653 2303  
Email: maps@pc.gov.au

**General enquiries:**

Tel: (03) 9653 2100 or (02) 6240 3200

**An appropriate citation for this paper is:**

Panagariya, A. 2013, *Indian Economy: Retrospect and Prospect*, Richard Snape Lecture, Melbourne, 6 November 2013, Productivity Commission, Canberra.

The Productivity Commission

The Productivity Commission is the Australian Government’s independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission’s independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

Further information on the Productivity Commission can be obtained from the Commission’s website (www.pc.gov.au) or by contacting Media and Publications on (03) 9653 2244 or email: maps@pc.gov.au

Contents

Foreword v

References 1

Indian Economy: Retrospect and Prospect 1

Why Growth Works 3

Why Redistribution Without Growth Cannot Go Far 4

The Lost Decades of 1950 to 1980 6

Why Growth Failed to Materialize 8

The 1980s: A Modest Turnaround 12

Reforms Takeoff 13

Accelerating Growth and Declining Poverty at Last 16

Alas, Reforms Stall and Growth Falters Again 20

Looking Ahead: India in the Global Economy in the Next Fifteen Years 22

Industry versus Services and World versus Domestic Markets 24

In Conclusion 26

Richard Snape Lecture Series

**2013 Indian Economy: Retrospect and Prospect**

*Professor Arvind Panagariya, Columbia University*

**2012 The Future of the Multilateral Trading System**

*Pascal Lamy, Director-General, World Trade Organization*

**2011 The Political Economy of Reform in Mexico**

*Dr Roberto Newell, President, Mexican Institute for Competitiveness*

**2010 The Challenges for Trade Policy in a Dynamic World and Regional Setting: An Indonesian Perspective**

*Dr Mari Pangestu, Minister of Trade, Republic of Indonesia*

**2009 China’s Policy Responses to the Global Financial Crisis**

*Professor Yu Yongding, Chinese Academy of Social Sciences*

**2008** **Latin America in the Global Economy: Challenges and Opportunities**

*Dr Vittorio Corbo,* [*Governor*](http://en.wikipedia.org/wiki/Governor) *of the* [*Central Bank of Chile*](http://en.wikipedia.org/wiki/Central_Bank_of_Chile) *2003–2007*

**2007** **Economic and Regulatory Reforms in Europe: Past Experience and Future Challenges**

*Professor Patrick Messerlin, Director, Groupe d’Economie Mondiale*

*Institute d’Etudes Politiques de Paris*

**2006** **The World Economy in the New Millennium: A New Golden Age?**

*Deepak K. Lal, James Coleman Professor of Development Studies*

*University of California Los Angeles*

**2005** **Will Asian Mercantilism Meet its Waterloo?**

*Martin Wolf, Associate Editor and Chief Economics Commentator*

*Financial Times*

**2004** **Spreading Prosperity and Resisting Economic Divergence:   
The Significance of Richard Snape’s Academic Legacy**

*Dr* *Anne O. Krueger, First Deputy Managing Director*

*International Monetary Fund*

**2003** **40 Million Aussies? The Immigration Debate Revisited**

*Max W. Corden, Emeritus Professor of International Economics*

*Johns Hopkins University*

# Foreword

Richard Snape capped a long and distinguished career as Professor of Economics at Monash University with a new and accomplished career at the Industry Commission, and then as Deputy Chairman of the Productivity Commission. In the eight years that he spent at the Commission before his untimely death in October 2002, he played a pivotal role in overseeing our research program, as well as participating in major public inquiries.

This is the eleventh in a series of lectures in memory of Richard Snape. With Richard’s own interests and high standards in mind, the lecture series elicits contributions on important public policy issues from internationally recognised figures, in a form that is accessible to a wide audience.

This year’s Lecturer, Arvind Panagariya is Professor of Economics and Jagdish Bhagwati Professor of Indian Political Economy at Columbia University. Professor Panagariya has a distinguished academic career and has also served as Chief Economist at the Asian Development Bank as well as holding other positions at the World Bank, the International Monetary Fund, the World Trade Organisation and the United Nations Conference on Trade and Development.

In his presentation, Professor Panagariya provides a critical assessment of policy approaches to economic growth and development in post-independence India – the world’s largest democracy. As he points out, the policy lessons from India’s experience – such as the importance of outward oriented, pro-market reforms – can apply to all developing countries seeking prosperity within a democratic framework.

I am grateful that Professor Panagariya was able to take time out of his busy schedule to come to Melbourne to deliver the Richard Snape Lecture for 2013.

Peter Harris

Chairman

October 2013

Richard Snape 1936 – 2002

Richard Hal Snape was Deputy Chairman of the Productivity Commission and Emeritus Professor of Monash University. He was a Board Member of the Australian Research Council, Fellow of the Academy of the Social Sciences in Australia and a Distinguished Fellow of the Economic Society of Australia.

Professor Arvind Panagariya

Arvind Panagariya is Professor of Economics and Jagdish Bhagwati Professor of Indian Political Economy at Columbia University. He is also the Director of the Program on Indian Economic Policies at Columbia. He was previously Chief Economist of the Asian Development Bank and has also worked with the World Bank, IMF, WTO, and UNCTAD. He holds a Ph.D. degree in Economics from Princeton University. In March 2012, Panagariya was awarded Padma Bhushan, one of the highest civilian honors India confers in any field.

Professor Panagariya has written or edited a dozen books, including *India: The Emerging Giant* which was listed as a ‘top pick’ in 2008 by the *Economist* magazine. The *Economist* has described his latest book (with Jagdish Bhagwati) *Why Growth Matters* as ‘a manifesto for policymakers and analysts.’ His articles have appeared in leading economics journals including the *American Economic Review*, *Quarterly Journal of Economics* and the *Review of Economic Studies*.