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Indian Economy Since 1980: Examining the Trends of Growth and Polarization

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Abstract

This study examines the trends of economic growth and polarization in the Indian economy from 1980-81 to 1999-2000, with a focus on sectoral dynamics and income distribution. The analysis reveals that while the secondary sector, particularly manufacturing and industry, showed notable growth and structural improvements during the 1990s, the primary sector, including agriculture, faced declining growth rates. The tertiary sector, encompassing services such as finance, education, and healthcare, demonstrated moderate growth, although not statistically significant. Employment elasticity data highlights the varied performance of different sectors, with agriculture showing fluctuating growth, manufacturing and electricity sectors experiencing initial strong growth followed by tapering, and the construction sector displaying significant volatility. The overall GDP growth remained stable, indicating a balanced yet slow economic progression. These findings underscore the complexity of economic development in India and the need for targeted policies to enhance sectoral growth, labor absorption, and reduce regional disparities. The study provides insights into the challenges and opportunities within the Indian economy, emphasizing the importance of sustained reforms and investments to foster inclusive growth.

Keywords: Indian Economy, Economic Growth, Sectoral Dynamics, Income Distribution.

1. INTRODUCTION

Since the 1980s, the Indian economy has experienced substantial changes that are evident in the growing polarization and disparities in the growth trajectories of its various sectors. Significant changes in policy, such as globalization, structural reforms, and economic liberalization, occurred between 1980–1981 and 1999–2000. These changes together had an impact on the state of the economy. During this period, the economy shifted from being mainly agrarian to having a more diversified structure, with significant growth in the industrial and services sectors.

Increased income inequality and geographical differences have resulted from the advantages of the overall economic expansion not being spread equally across the population and regions. Agriculture, forestry, and fishing, which comprise the primary sector, were confronted with diminishing growth rates, whereas manufacturing and industry, which comprise the secondary sector, had strong growth as a result of industrialization and liberalization policies. Though inconsistently, the tertiary sector—which include services like banking, education, and healthcare—saw growth as well.

An analysis of India's economic development over the past three decades uncovers an astounding fact: several development indices have stayed stuck at extremely subpar levels.If many parameters were not stable, there would be no reason for alarm; rather, their steady values represent a significant and increasing amount of unrelieved pain...The rate of increase in the national income has been stuck at a pitiful mean of roughly 3.5% for 32 years. With this pace, India remains at the bottom of the list of 104 countries ranked by the rate at which per capita income is growing, at number 71. Now think about the conversation, fifteen years later. T N Srinivasan intervened in a public discussion over development policy and supported his claims with an analysis of India's most recent economic performance:

Out of 113 countries, only eight topped the 5.8% growth rate that occurred between 1980 and 1990. Only nine out of 131 countries saw growth rates greater than 6.1 percent between 1990 and 1998...Poverty didn't start to significantly decline until the 1980s, when growth picked up speed.

This tendency seems to have persisted following the 1991 crisis and reform. Due to the fact that the (traditional) economic reforms implemented in 1991 have increased economic development and have a long-lasting positive impact on poverty reduction, researchers are optimistic that further acceleration of growth would result in the rapid eradication of poverty. In the same debate, Deepak Lal made the following argument: "The argument regarding India's poverty figures simply reflects the fact that rapid growth has not occurred or has not been sustained to make a significant dent in poverty." The stagnant changes have not significantly increased the growth rate. According to some calculations I've done, by 2006 the poverty ratio might drop from its present rate of more than 30% to little over 5% if China's growth rate increases to the 9–10% level that it has experienced.

These opinions show how, over the past 20 years, professional perceptions of India's economic performance and prospects have drastically changed, particularly in international circles.1. Recently, Vijay Kelkar expressed a similar opinion, saying, "There is, in fact, some evidence that the growth rate in India has shown some acceleration during the nineties." "The economy stands at the crossroads as we enter the new century," he continued. Either the "business as usual" path, which leads to ongoing poverty and the low-growth trap, or the high road, which entails swifter reforms, will lead to prosperity."

2. LITERATURE REVIEW

Kuriakose, F., & Iyer, D. K. (2020). Automation has an impact on the macro-level employment structure as well as the micro-level salary levels. Job polarization is the preservation of high- and low-skilled employment while automating "middle-skilled" activities that need repetitive cognitive and manual applications. This study looks at the characteristics of employment polarization in India between 1983 and 2012, while the country's industrial industry was automating. Utilizing de-identified data from the National Sample Survey Office, the study looks at supply-side variables like the type of work and the availability of educated labor. Three observations are made in the study. First, technology's skill bias and theoretical expectations are the reasons behind the formal manufacturing sector's growing need for highly qualified labor. Second, the migration of farm laborers to low-skilled manufacturing industries like textiles and construction indicates that the conventional manufacturing sector is struggling to find these groups jobs. Third, middle-skilled workers are being forced out of middle-skilled jobs and into relatively low-skilled manufacturing and service positions due to an oversupply of secondary and tertiary educated individuals.

Nagaraj, R. (2000). What has become of the middle class in the US during the past few decades, given the rise in income inequality? This question is not addressed by the aggregate inequality indices. We analyze the US income distribution and track the effects of inequality on the middle class using Relative Distribution methods and the ASEC-CPS dataset. Our observations support the Pew study from 2016, which found that between 1998 and 2018, a typical polarization profile evolved, with a large number of middle-class families moving towards the bottom end of the income distribution. Additionally validated is the theory that the US middle class began to erode during the Reaganomics era. Additionally, there is some preliminary evidence for intersectionality—that is, the idea that gender, class, and race interact to create a vicious cycle that disadvantages people. Anti-polarization and comparatively more equal growth strategies are needed to offset these tendencies.

Motiram, S., & Sarma, N. (2014). Polarization is one topic that academics who study inequality and conflict have been paying close attention to lately. We use consumption expenditure data to evaluate polarization in India during the last approximately thirty years. We demonstrate that during the 1990s, there has been an increase in bipolarization as well as multidimensional polarization (on multiple dimensions: rural–urban, state, and region). This is a reversal of an earlier tendency (in the 1980s) in the case of bipolarization. Overall, our findings imply that growing inequities have been linked to India's rapid growth since the 1990s. We compare the trends in inequality and polarization and discover some commonalities as well as disparities. We also demonstrate how distinct insights can be gained by studying polarization. Therefore, our findings highlight the significance of researching polarization separately from traditional inequality.

Kohli, A. (2007). India's economy has expanded at a pace of approximately 6% per year on average over the last 25 years. The generally accepted claim that the Indian state's adoption of a pro-market approach is to blame for this acceleration of growth is unconvincing for two reasons: first, the higher growth rate started more than ten years before the liberalizing 2reforms in 1991, and second, industrial growth has not risen since 1991. Rather, India's economy has expanded quickly as a result of the government's emphasis on growth since roughly 1980 and its gradual acceptance of Indian capital as its principal ally in power. This pro-business expansion agenda is probably going to have negative political and distributional effects.

3. GROWTH AND POVERTY REDUCTION

Table 1: Trend Growth Rate of GDP and Its Principal Sectors, 1980-81 to 1999-2000

Sector	1980-81 to 1990-91	1980-81 to 1999-2000	Dummy Variable Sign	Significance
Primary	4.3	3.3	-	Not significant
Secondary	6.0	6.9	-	Significant**
Tertiary	6.5	7.4	-	Not significant
GDP	4.7	4.7	-	Not significant
GDP#	6.5	6.3	+	Not significant

Growth in the primary sector, which is made up of forestry, fisheries, and agriculture, decreased from 4.3% in the first period to 3.3% in the second. The statistical analysis of this decline, which is represented by a negative dummy variable sign, suggests that the growth rate change may not be statistically significant or stable over time.

Manufacturing and industry comprise the secondary sector, which grew at a somewhat faster rate in the second period (6.0% to 6.9%). Here, the observed increase in growth is noteworthy and may imply major structural changes or improvements in the industrial sector during the 1990s, as suggested by the statistically significant negative dummy variable sign (**).

The growth rate of the tertiary sector, which include services like banking, healthcare, and education, increased from 6.5% to 7.4%. The dummy variable sign is negative and statistically not significant despite this positive shift, suggesting that although there was growth, it might not have been strong enough or persistent enough to be classified as a major trend.

Between the two eras, the GDP growth rate overall stayed constant at 4.7%. The dummy variable's sign is negative and not significant, indicating that growth was steady throughout the course of the previous 20 years with no appreciable variations.

Finally, the growth rate dropped somewhat from 6.5% to 6.3% when taking a look at a more comprehensive measure of GDP (referred to as GDP#). Additionally, the positive dummy variable sign in this case is statistically not significant, indicating that any changes in this GDP growth indicator are likely to be small and not suggestive of a noteworthy trend.

There was a noticeable increase in the secondary sector, a decrease in the primary sector, and a marginally better performance in the tertiary sector. The GDP growth rate was mostly constant overall, while there were slight changes in the overall GDP metric. These results demonstrate the dynamic and heterogeneous performance of several sectors of the Indian economy during the relevant two decades.

4. TRENDS IN INCOME DISTRIBUTION

Since the majority of the labor works for themselves in the unorganized sector, which accounts for over 90% of the workforce in developing economies, there is no data on the distribution of personal income. The distribution of consumption is a commonly used proxy. As previously mentioned, between 1977–1978 there has been a slight increase in the value-based per capita consumption of the poorest half of rural India. However, because the production of inferior grains has dramatically decreased, they are now forced to eat more expensive cereals like wheat and rice, which hasn't helped their nutritional status.

Table 2: Employment Elasticity of Output, by Industry

1-Digit Industry Group	1977-78 Over 1972-73	1983 Over 1977-78	1987-88 Over 1983	1993-94 Over 1987-88
Agriculture	0.51	0.50	0.27	0.55
Mining	0.92	0.66	0.80	0.35
Manufacturing	1.05	0.69	0.36	0.38
Electricity	1.64	0.76	0.76	0.53
Construction	0.35	1.01	2.43	0.02
Transport, storage, and comm.	0.74	0.91	0.38	0.60
Trade, hotel, and restaurants	-	0.74	0.57	-
Services	0.8	0.92	0.51	0.67
Services including trade	-	0.40	0.74	-
Total	0.63	0.57	0.34	0.50

The information supplied shows how different industry sectors in India have changed over time, from 1972–1973 to 1993–1994. The growth of the agriculture sector was moderate and erratic; it decreased from 0.51 in 1977–1978 over 1972–1973 to 0.27 in 1987–1988 over 1983, then increased to 0.55 in 1993–1994 over 1987–1988. Mining fell steadily, reaching 0.35 in 1993–94 over 1987–88 and 0.92 in 1977–78 over 1972–73. At 1.05 in 1977–78 over 1972–73, manufacturing showed robust beginning development; however, this rate dropped off to 0.38 in 1993–94 over 1987–88. The power industry grew at a significant rate at first, 1.64 in 1977–1978 over 1972–1973, but this growth eventually declined to 0.53 in 1993–1994 over 1987–1988. The most volatile industry was construction, where growth peaked in 1987–1988 over 1983 at 2.43 but fell to 0.02 in 1993–1994 over 1987–1988. The sectors of transportation, storage, and communication grew moderately, recovering somewhat to 0.60 in 1993–94 compared to 1987–88. During the available periods, trade, hotels, and restaurants exhibited moderate growth, while the services sector continued to grow steadily with a minor rebound in the latter part of the period. The same pattern of initial growth, a downturn, and subsequent recovery was seen in the total growth rate for all sectors combined, underscoring the complexity of India's economic progress throughout these years.

5. CONCLUSION

The Indian economy from 1972-73 to 1999-2000 showed diverse sectoral growth patterns, with the secondary sector leading in notable growth and structural changes. The primary sector, including agriculture, forestry, and fishing, experienced a decline in growth rates, possibly due to structural challenges and limited modernization. The secondary sector, including manufacturing and industry, showed a notable increase in growth rates, particularly during the 1990s. The tertiary sector, including services like finance, education, and healthcare, also exhibited growth, but not statistically significant. Overall GDP growth remained stable at 4.7%, indicating a balanced yet slow economic progression. Employment elasticity data showed varied performance across different sectors, with agriculture showing fluctuating and modest employment elasticity, mining experiencing a consistent decline, manufacturing and electricity showing strong initial growth, and construction showing the most volatility. The transport, storage, and communication sectors exhibited moderate and relatively stable employment elasticity, while trade, hotel, and restaurant sectors showed moderate growth. Overall, the stability in GDP growth suggests a balanced economic progression, necessitating continued reforms and investments to sustain and accelerate growth across all sectors.

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