India's Development Aspirations: A Macroeconomic Perspective

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Abstract

The paper reviews India's macro-development experience since 1980 and conducts a growth decomposition exercise. Our analysis reveals that the post-liberalization growth pick-up in India was mostly due to capital accumulation. Total factor productivity (TFP) growth remained tepid throughout and actually becoming negative post-2016. We show that at comparable levels of economic development countries like China and Korea grew much faster which was mostly sparked by rapid TFP growth. To understand India's growth challenge better we formalize a three-sector model with factor market and output market distortions. Using counterfactual exercises on the calibrated model, we find that labor market wedges signicantly reduced aggregate output in India by distorting production away from Industry and Services. The measured output loss due to labor market wedges is over 30 percent. We also conduct projections for India in 2047. Unfortunately, even under the most optimistic TFP growth assumptions, the projected GDP of India falls well short of the $30tn target. Our results underscore the importance of ushering in labor market reforms and easing business conditions urgently.

Keywords: India, macro-development, 2047 GDP target

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