

# Is Inequality the Unstated Constraint on India's Growth?

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The study of economic growth in India has tended to be dominated by discussions on the effects of policies associated with liberalisation. Consequently, several other questions that are important to India's growth story have not received adequate attention. This paper looks at two such questions: How does India determine how much it must save for growth? And who bears the burden of these savings through constraints on their consumption? This paper seeks answers to these questions from the experience of the post-independence Indian economy. In the process, it captures the part that inequality has played in generating the savings required for India's rapid growth since the mid-1980s, a role that it is no longer in a position to play.

The economic policy discourse in India has tended to move in waves that overwhelm differences between major political parties. In the decades before 1991, it was not just the Congress that avowed socialism, but the Bharatiya Janata Party (BJP) too was launched as a party of "Gandhian socialism." The discourse was flipped in 1991, with the Congress announcing that the free market was an idea whose time had come, and the BJP's economic policymakers believing they were an even greater force of liberalisation. Among the consequences of this overwhelming tendency to swim with the tide is that several elements in India's longer-term growth story tend to be ignored. One such casualty is the role of consumption patterns in determining the course of India's growth patterns that bring out the critical role that inequality has played in generating India's post-liberalisation growth. An empirical look at the role of consumption in India's growth has been undertaken in this paper to find that gross inequalities in consumption have fuelled India's economic growth, but this process may have now reached the end of its tether.

## Consumption and Growth

Going with introductory lessons in macroeconomics, growth can be measured as investment times the output per unit of that investment. To use conventional terminology, growth is equal to investment divided by the incremental capital output ratio. Since a closed economy provides for investment through its own savings, we get the Harrod–Domar formulation, where the growth rate is equal to the rate of savings divided by the incremental capital output ratio (Domar 1946; Harrod 1939). As income can either be saved or consumed, the rate of savings can be stated as one minus the rate of consumption.

The Harrod–Domar equation then becomes,

$$g = (1-c)/v$$

where,

$g$  = growth rate

$v$  = incremental capital output ratio

$c$  = average rate of consumption in the economy

Staying within a closed economy, this formulation emphasises the fact that sustained savings generating growth are derived from patterns of consumption. In terms of overall growth, it brings to the fore the classic question that Ramsey raised in his seminal 1928 paper, "How Much of Its Income Should a Nation Save?" Assuming policymakers find an answer to that question, they can move on to ask how should the country go about achieving the levels of consumption that

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would allow for the desired levels of savings. Is it to be done by quantitative restrictions on consumption or by less intrusive measures that affect the propensities to consume and save? The picture is further complicated by the difference between the dynamics of individual propensities to consume and that of the average propensity to consume in the economy as a whole. In an accounting sense, the average propensity to consume in the economy as a whole is the mean of individual propensities to consume. But a reduction in this average can be achieved in two very different ways. There could be a general reduction in the propensity to consume of all individuals in the economy. In such a case, the dynamics of the propensity to consume in the economy as a whole would be the same as that of individuals in that society. But the same reduction in the propensity to consume in the economy as a whole could also be achieved without a change in individual propensities to consume. This would happen if there is a change in the distribution of income from those who have a higher propensity to consume to those who have a lower propensity to consume. In algebraic terms,

$$C = c_1y_1Y + c_2y_2Y + c_3y_3Y + \dots + c_ny_nY$$

$$C = \sum c_i y_i Y$$

where,

$C$  = Total consumption in the economy

$c_i$  = Propensity to consume of person  $i$

$y_i$  = Share in national income of person  $i$

$Y$  = National income

The levels of consumption in the economy are dependent not only on individual propensities to consume,  $c_i$ , but also on the distribution of income across individuals, as captured by the share of the individual in national income, that is,  $y_i$ . Individuals could reduce their propensity to consume, and save more, prompted by different aspirations. At relatively low levels of savings, the motive could be precautionary, one of saving for a rainy day (Ando and Modigliani 1963). At relatively higher levels of savings, the reduction in the propensity to consume could also be related with generating investment designed to improve incomes and consumption in the future (Abel 1990; Friedman 1957). But even if individuals do not change their propensity to consume, the overall levels of consumption can also be constrained by changing the distribution of income. The reduction in  $y_i$  can lead to individuals consuming less even if they do not want to do so. They could consume less simply because their income does not allow them to consume more. If individuals are ranked in terms of income, we may find those at the bottom of the income hierarchy consuming their entire income. As we move up the hierarchy, we could expect to find individuals who save primarily for a rainy day. As we move further up, we could expect to find individuals who save by investing in assets that they believe will increase income in the future. When the income of the poorest is constrained, the sum of their consumption will also be constrained, even if they continue to spend all their income on consumption. Conversely, if the share of the richest in total income grows, there would be an increase in savings in the

economy as a whole even if there is no reduction in the propensity to consume of this set of individuals.

One can thus distinguish between two types of effects on the share of consumption in the gross domestic product (GDP): the propensity to consume effect and the inequality effect. The propensity to consume effect is when the share of consumption expenditure in the GDP is altered by changes in the propensity of individuals, whether individually or in groups, to consume. The inequality effect is when the share of consumption expenditure in the GDP is altered by changes in the distribution of income.

The relative significance of these two effects in any given situation influences the larger question of who pays for growth. The question has an intergenerational dimension in the sense that the greater the savings of the current generation, the greater the growth and consumption of future generations. Cynics may see this as an intergenerational inequality since the present generation limits its consumption in order to generate growth that increases the consumption of later generations. But it would not be considered irrational, and may even be ethically pleasing, if the present generation consumes less to protect and increases the consumption of later generations. The issue of who pays for growth becomes more contentious when we consider who among the present generation must constrain their consumption in order to increase the overall savings that generate growth. If these savings are generated through the propensity to consume effect, all individuals in that economy would bear the burden of constraining current consumption in equal measure. But if the higher savings are generated through the inequality effect, the burden would fall on the poor. The reduction in overall consumption would be generated by reducing the income of those who, by the force of their lower incomes, are forced to consume less, even when they spend most, or all, of their incomes on consumption.

Relying on the inequality effect to generate growth is not just ethically displeasing. It is also not sustainable as an economic strategy. There is a point beyond which the income of the poor cannot be constrained. There will be a resistance that cannot be ignored by even the most insensitive of political regimes. At this point, savings and investment would tend to stagnate, with the corresponding dampening effect on growth.

### India's Experiments with Consumption and Growth

The Indian economy's response to the twin challenges of generating savings for growth, and distributing the burden of the resultant constraints on consumption has been, oddly enough, both consistent and varied. There has been a consistent effort to target the highest rates of growth that would be possible, along with the implicit increases in savings and investment. The justification for this approach has changed over time, from extreme poverty at the time of independence to the pursuit of global economic grandeur in more recent decades. While there has been considerable variation in government policy during this period—from quantitative

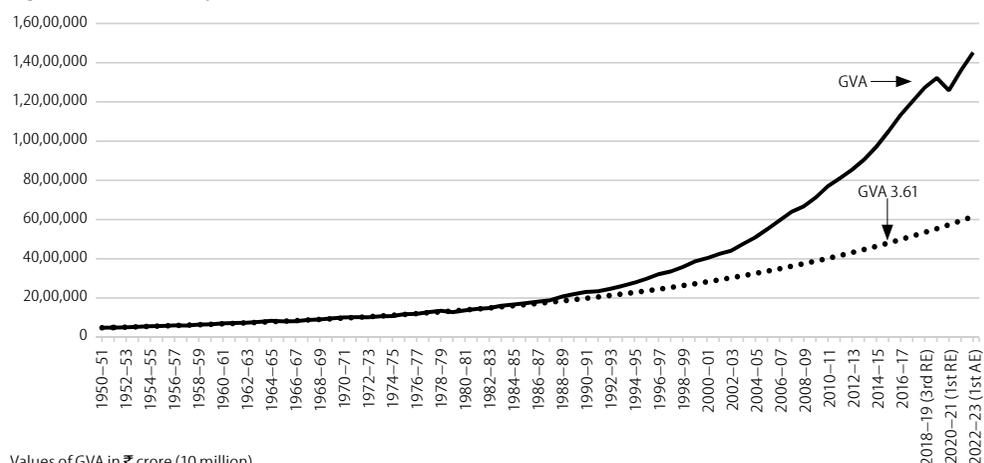
restrictions on consumption in the early decades after independence to import-friendly regimes in more recent decades—it is important to recognise that these policy variations are but responses to the different phases of a consistent growth story.

The consistency of the growth story may not be immediately evident in a rhetoric dominated by a distinction between the era before the reforms of 1991 and the period after that year. But if we are willing to look behind ideological curtains, the basis for the development in the second period was laid in the first. For convenience, we can treat this story as having begun with the efforts in the Second Five Year Plan to constrain consumption in order to create a platform for more rapid growth. *Approach to the Second Five Year Plan*, was clear that “For several plan periods to come, it is on the mobilisation of the effort rather than on the gains and returns arising therefrom that attention has to be concentrated” (Planning Commission 1957: 21). And this effort focused on developing an industrial base, which involved investing in heavy industry as well as educational institutions that produced a technical workforce. Since private industry was not believed to have the resources to invest in heavy industry, this task was given primarily to the public sector. A rapid growth of public sector heavy industry was to be achieved by limiting the resources spent on consumer goods. In addition, the infant-industry argument was used to justify the government building tariff and non-tariff barriers to ensure that there was very little competition either to the public sector or to the chosen private sector manufacturers who were assigned the task of manufacturing essential consumer goods. There were both very high tariffs as well as quantitative restrictions on the import of foreign consumer goods. These constraints on consumption were seen as a necessary sacrifice. *Approach to the Second Five Year Plan* argued that

a measure of sacrifice in the matter of consumption is inevitable while the economy is being strengthened at the base. The sacrifice diminishes as more power, more transport, and better tools, machinery, and equipment become available for increasing the productivity of consumer goods industries, and in the long run the community gets increasingly large returns. (Planning Commission 1957: 25–26)

In a purely empirical sense, it could be argued that a constrained consumption in the early decades of Indian independence did lead to substantial growth in later years. This is evident if we make a projection of growth rates that would have emerged if the rates achieved in the First Five Year Plan were continued and compare it with the actual growth rates. Based on the average of the annual growth rates in gross value added (GVA) in the years of the First Five Year Plan, we

**Figure 1: Actual and Projected Growth in GVA**



have projected a path in Figure 1 of a growth rate of 3.61%. After decades of being stuck at around the growth rate realised in the First Five Year Plan, the economy did, in the mid-1980s, begin to move significantly above the path laid out in the First Five Year Plan.

Several factors contributed to this delay in the shift to a higher growth path. The near-famine conditions of the mid-1960s ensured that resources had to be allocated for the green revolution (Varshney 1989; Chand 2003). There was also a severe mismatch between the response to the creation of a base in manufacturing and the response in the development of a technical workforce (Breman 1999). The response in manufacturing was constrained by the fact that the lack of competition contributed to a situation of higher prices and, consequently, a declining share of world exports (Nayyar 1987). The emergence of a technical workforce was more rapid, with India emerging as a cheap source of technical workforce by the 1970s. But, in the absence of jobs in India during that time, much of this labour migrated (Skeldon 1986). It was only when the communication revolution allowed the tapping of this workforce, even as they remained located in India, that the growth rates began to be significantly higher (Erumban and Das 2016). While there were also a number of other contributors to the spurt in growth achieved in the mid-1980s, a major role was played by the tapping of technical workforce, which was enabled by the technology-related educational institutions created through the strategy involving constrained consumption of the early decades of Indian independence.

The actual long-term growth of the Indian economy and its breakaway from the path based on growth rates in the First Five Year Plan suggest a distinct intertemporal difference in consumption. The generation prior to the 1980s faced severe constraints on their consumption. This contributed to the creation of the heavy industry and technical institutions, which generated the workforce base that enabled the later period of growth. While the growth in technical workforce may have played a greater role in tapping the communication revolution, its link with the heavy industry base should not be underestimated. This link is evident when we consider

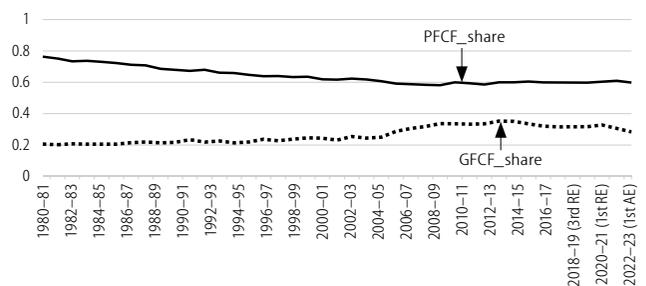
intergenerational differences. Those who gained employment in the public sector industries and banks were able to educate their children in state-supported educational institutions. The growth of technical workforce in India must then be seen as a consequence of the entire public sector-led growth strategy of the decades after Indian independence, rather than that of the investment in technical education alone. The low consumption strategy launched in the 1950s was, contrary to the currently popular narrative, one of the factors contributing to the rapid growth in GDP, and in consumption, just before and after the turn of the century.

When seen over the 70-year period from 1950 to 2020, as presented in Figure 1, it is tempting to see the drivers of the change in growth rates entirely in terms of policymaking. This would be in line with the popular narrative that would divide this period into the years before liberalisation in 1991 and the years after (Denoon 1998). The period of low consumption is attributed to the state-centric policy of the earlier years and the period of growth is seen as the result of market-friendly policy after 1991. In this perception, the links between the two phases are largely ignored. But as is evident in Figure 1, the shift in the growth path begins before 1991. In fact, it can be argued that among the factors contributing to the crisis of 1991, which prompted the liberalisation process, was a shift in the growth path. As the economy began to grow more rapidly, it needed more imports of manufactured inputs. Between 1980–81 and 1990–91, the trade deficit increased by as much as 82.34% (Ministry of Finance 2023).

The demand for specific imports was also influenced by the mismatch between the growth of the base of technical workforce and the base in terms of manufactured inputs. This was, arguably, most evident in the case of the export of computer software services. The limited success in the development of computer hardware within India (Lal 2001) ensured that the growth of the computer software services industry generated a demand for the import of computer hardware (Das 1995). The critical role of imports in the higher growth path, without a corresponding growth in exports, contributed to the emergence of a foreign exchange crisis (Cerra and Saxena 2002). The process of liberalisation, with its efforts to attract foreign capital, was a critical part of the response to this crisis (Balakrishnan et al 2000). The process of liberalisation can then be seen, at least in part, as a consequence of the economy breaking away from its older growth path, rather than being the sole prompter of change.

Even as the policies associated with liberalisation influenced the course of the economy after 1990–91, the process of change itself began earlier. India's growth story thus demands an analysis that is not confined to the responses to state policies. There are the larger processes of consumption, investment and growth over time, without in any way dismissing the role governments play in these processes. When we look beyond state policies, the budget day in July 1991 is no longer an all-explaining cut-off point. The focus shifts to the movement from the low growth phase of the Indian economy to its high growth phase. If we were to still seek a single cut-off

**Figure 2: Share of Private Consumption Expenditure and Gross Fixed Capital Formation in GDP, 1980 to 2020**



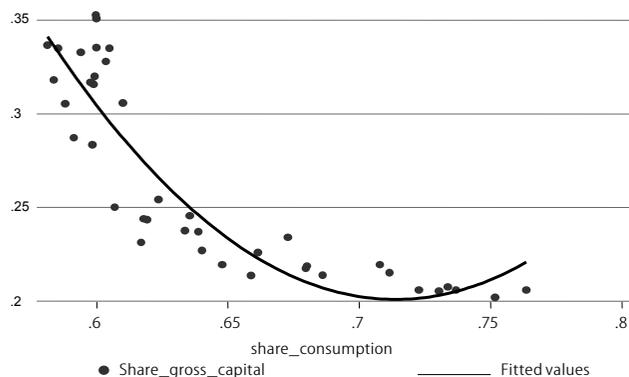
Source: *Economic Survey 2022–23*, Government of India.

point, it would have to be the year in which growth broke away from the long-term trend established in the First Five Year Plan. Figure 1 would suggest that this would be 1986–87. But such a cut-off point would not be without its difficulties. While the change may have been reflected in growth trends in that year, the communication revolution did not unfold in a single year. Policy changes, especially in tax laws, had also been initiated before the mid-1980s. A more complete picture of the high growth phase would then demand an earlier starting point, say 1980–81. Similarly, it could be argued that the features of the low growth phase did not disappear at any particular point of time. There were important features of this phase that remained at least till the crisis of 1991. A meaningful analysis of the low growth phase would then need to be extended till 1991. The low growth phase can then be marked as being from the beginning of the First Five Year Plan in 1950–51 till the crisis of 1990–91. The high growth phase would begin in 1980–81. The two phases would overlap in the 1980s, which could be treated as the decade of transformation.

The first step in the analysis of the later high growth phase is to recognise the changed context of the relationship between consumption and investment. In the period of quantitative restrictions on imports, along with very high tariffs, India was not very far from being a closed economy. Domestic consumption could be expected to have a clear inverse relationship with investment. In the period after the opening up of the economy, this did not need to be the case, with a potentially major role for foreign investment. In addition to foreign direct investment in industries located in India, foreign investment in the stock market also had indirect effects on overall investment within India. The inflow of funds from foreign institutional investors contributed substantially to the foreign exchange that enabled the imports that were necessary for investment (Rakshit 2006).

Foreign institutional investment in the stock market also raised the market capitalisation of individual companies, thereby improving their ability to borrow. The multiplicity of sources of investment makes it necessary to evaluate the extent of the influence of constrained private consumption on investment in this high growth phase. This is done by first simply tracing the changing shares of private consumption expenditure and gross fixed capital formation in the GDP over the period 1980–81 to 2020–21. The results of this exercise are presented in Figure 2. The precise relationship between the

**Figure 3: Impact of Share of Consumption on Share of Gross Capital Formation in GDP, 1980–2020**



Source: *Economic Survey 2022–23*, Government of India.

share of private consumption expenditure in the GDP and the share of gross fixed capital formation (GFCF) in the GDP is then captured through a regression. The results of the quadratic equation used to depict GFCF as a function of the private consumption expenditure are presented in Table 1 and depicted in Figure 3.

**Table 1: Impact of Share of Consumption on the Share of Gross Capital Formation in the GDP, 1980–2020**

Dependent Variable: Share of Gross Capital Formation	Coefficient	P-value
Shares of consumption in GDP	-11.42	0.000
Square of consumption share in GDP	8.00	0.000
Number of observations	41	0.000

Source: *Economic Survey 2022–23*, Government of India.

As can be seen in Figure 2, the share of private consumption expenditure in the GDP declines over time before stabilising at around 60% of the GDP in the years after 2008. The share of gross capital formation moves in the opposite direction. It grows till around the years when the share of private consumption stabilises and then tapers off before a modest decline.

The quadratic function that best fits the data shows a strong, statistically significant relationship between the share of private consumption expenditure in the GDP and the share of gross fixed capital formation in the GDP. As Table 1 tells us, the quadratic function that fits the data—with an  $r$  square of 0.81—shows the significant negative influence of the share of private consumption expenditure in the GDP on the share of the GFCF in the GDP. The graphic representation of this relationship, presented in Figure 3, highlights the fact that the influence of the share of private consumption expenditure in the GDP on the share of gross capital formation in the GDP declines at a decreasing rate before tapering off when the share of private consumption crosses the 70% mark.

The changing rate of decline could be attributed to the composition of savings at different levels of consumption. When individuals consume only a small proportion of their income, savings can also be of a magnitude that allows for direct or indirect investment in assets that contribute to capital formation. As incomes decrease and individuals have to consume more of their income, their savings may be in instruments like gold that do not lend themselves to easy conversion into

elements of capital formation. But as the share of consumption in income increases to even higher levels, these sections of the population save negligible amounts and hence have little influence on fixed capital formation. Figure 3 suggests that after the point where private consumption expenditure accounts for 70% of the GDP, other factors, rather than consumption, have a greater influence on gross capital formation. These factors could include state and foreign investment, elements that are not the focus of this paper. What we do need to do is explore the entire negative relationship between the share of private consumption in the GDP and the share of gross fixed capital formation in the GDP as captured in Figure 3. This requires a closer look at the distribution of the burden of constrained consumption across different sections of the population.

### Distribution of Consumption

The two distinct phases of India's growth—the low growth phase and the high growth phase—were also marked by two different approaches to inequality. The case for the public sector in the early decades of Indian independence was built into a larger narrative for a socialist pattern of society, a narrative that demands greater sensitivity to issues of inequality. On the face of it, *Approach to the Second Five Year Plan* was uncompromising in its commitment to reducing inequality. It not only called for the upliftment of the poor but also the reduction of the earning of the rich:

There are existing inequalities of income and wealth which need to be corrected and care has to be taken to secure that development does not create further inequalities and widen the existing disparities. The process of reducing inequalities is a two-fold one. It must raise incomes at the lowest levels and it must simultaneously reduce incomes at the top. The former is, basically, the more important aspect, but early and purposeful action in regard to the second aspect is also called for. (Planning Commission 1957: 33)

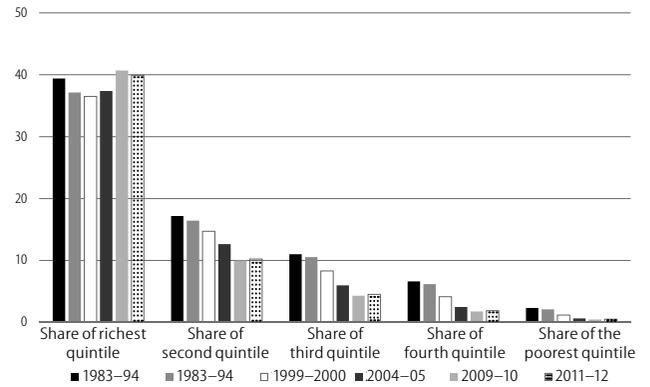
Despite this prominent place for the reduction of inequality, though, it did not have an explicit view on the distribution of the constrained consumption. This ensured that inequalities in consumption were not immediately addressed. It did not help that some aspects of the Second Five Year Plan contributed to a worsening of the economic conditions of the poor. The focus of the plan on heavy industry was so intense that little attention was paid to agriculture. The low productivity in agriculture was not addressed until it led to near-famine conditions in the mid-1960s. As a result, in the first decade after the second plan strategy was launched, the poor had taken the brunt of the burden of constrained consumption in the extreme form of a food crisis (Varshney 1989; Chand 2003). The crisis did ease after the green revolution that made its presence felt in the 1970s (Prahadachar 1983), but there was still little effort to evaluate the distribution of the burden of constrained consumption. There was some mention of the need to ensure that the employment generated by state investment must benefit the less privileged, but the workforce needed for a heavy industry-led strategy typically had to have a level of education that was beyond the reach of the poorest in India during the early decades of independence.

The reduction of inequality, as envisaged in *Approach to the Second Five Year Plan* was to be pursued primarily, if not entirely, through the distribution of the benefits of investment, growth, and development:

The benefits of economic development must accrue more and more to the relatively less privileged classes of society, and there should be a progressive reduction of the concentration of incomes, wealth and economic power. (Planning Commission 1957: 22)

The strategy in the Second Five Year Plan of removing inequality, not only by directing the benefits to the poor but also by targeting the very rich, gathered momentum in the years soon after that plan. As the benefits of the Second Five Year Plan were delayed, and only a limited portion of its benefits reached the poor, there tended to be a greater emphasis on limiting the gains of the rich. In 1971, the Constitution of India was amended to ensure that the privy purses, promised to the rulers of princely states when they joined the Indian union, were withdrawn (Dhabhai 2020). Other measures sought to merge the targeting of the rich with benefits to the poor. The nationalisation of 14 major banks in 1969 suited the anti-rich rhetoric of the *garibi hatao* (remove poverty) slogan of Prime Minister Indira Gandhi, and laid the foundation for cheap loans to the poor (Rath 1985). The focus on dramatic measures to target the rich, while continuing to find a role for state-supported private industry, did ensure that sections of the rich were unaffected, and may have even benefited, during these years. The rhetoric of being against the rich faded away

Figure 4: Percentage Share of Consumption in GDP



Source: National Sample Survey 1983–2012, Government of India.

after the process of liberalisation became the goal of government policy in 1991. There was a much greater emphasis on free enterprise, and removing inequality was no longer a favoured political slogan (Ahmed 2017). The focus shifted markedly from targeting inequality to the removal of poverty. The view that emerged, implicitly if not explicitly, was that the levels of inequality did not matter as long as large numbers of the poor were taken out of poverty (Dev and Ravi 2007). The distribution of the burden of constrained consumption receded further into the background.

With limited direct intervention by the government, the distribution of private consumption expenditure took on a

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pattern of its own. And this pattern was far from equitable, as can be seen from data on household consumption expenditure available in the National Sample Survey (NSS). The surveys have been carried out at irregular intervals, and it also does not help that the last data that has been released is for 2011–12. But as Figure 4 (p 45) shows, the data does have something to tell us. The picture emerges when we look at the share of each quintile of the population in consumption expenditure. We draw this picture by first ranking households in terms of their share of total consumption expenditure. We then divide the households into quintiles and calculate the share in total consumption of each quintile. This share is taken to the data on private consumption expenditure in national income data. This allows us to calculate the share of the consumption expenditure of each quintile in the total GDP. This exercise has been carried out for the six years in our time frame for which there were NSS 1983–84, 1987–88, 1999–2000, 2004–05, 2009–10, and 2011–12.

By definition, the share of the consumption expenditure in the GDP of each quintile (defined in terms of consumption expenditure) would decline from the richest to the poorest quintile. What is perhaps less expected is the sharpness of the difference between quintiles, a difference that has become more pronounced over time. As Figure 4 tells us, in 1983–84, the share of the consumption expenditure of the highest quintile in the GDP was twice that of the next quintile, and by 2011–12, it was four times the share of the next quintile. Relative to the consumption share of the third and fourth quintiles, the richest quintile's consumption share in the GDP was almost four and six times higher in 1983–84, respectively. In 2011–12, the richest quintile's consumption share increased to nine and 21 times the shares of the third and fourth quintiles, respectively. The most striking gap, however, is observed between the shares of the richest and the poorest quintiles' consumption in the GDP. In 1983–84, the share of the richest quintile share was 17 times the share of the poorest quintile, which rose to almost 77 times in 2011–12, pointing to a shocking increase in inequality between the poorest and the richest.

The change in the shares of private consumption expenditure over time also follows different patterns in each quintile. The share of private consumption expenditure in the GDP in the highest quintile tends to remain consistently above the 35% mark before crossing 40% in the NSS of 2009–10 and 2011–12. In all the other quintiles, the share of their consumption expenditure in the GDP follows a consistent decline. The burden of constrained consumption has thus fallen more heavily on the lower quintiles, and this unequal burden has increased over time. Since the poorer quintiles can be expected to have a higher propensity to consume, the constrained consumption, which contributed to the surplus for capital formation in India's high growth phase, was brought about not so much by a reduction in the propensity to consume, as by a distribution of income away from the poorest quintiles and to the richer quintiles, with the richest quintile getting the lion's share. The data suggests that the inequality effect on overall consumption has been greater than the propensity to consume effect.

Relying on the inequality effect comes up against a practical barrier. There is a point beyond which constraining the consumption of the poor is not politically viable, particularly in an electoral democracy. In India, this limit would appear to have been reached in 2008. It was in 2008 that the Mahatma Gandhi National Rural Employment Guarantee Act was extended to the whole of India. It guaranteed an employment of 100 days for each family that sought it, thereby setting a floor for the earning of each family. While the implementation of the act was not always perfect, it reflected a recognition that the incomes of the poor could not be pushed below a particular level. Once this level was reached, the overall consumption would not have the benefit of the inequality effect. At that point, any further constraining of consumption would have to come from a reduction in the propensity to consume of the richer quintiles. As Figure 3 shows us, this did not happen in India. The share of the consumption expenditure in the GDP of the richest quintile increased in the NSS of 2009–10 and dipped only slightly in the next NSS of 2011–12. As a result, the share of the overall private consumption expenditure in the GDP began to taper off, as can be seen in Figure 2.

### **Inequality and Growth**

Among the many differences within India's growth story, two aspects stand out: an intergenerational difference and an interpersonal difference. And there is a striking contrast in the approaches of policy to the two differences.

The intergenerational difference comes from the desire to grow more rapidly and generate the investment needed for the purpose. In the early decades of independence, during the low growth phase, there was an explicit recognition that the savings needed for this growth would involve constraining consumption. As severe restrictions were placed on consumption, plan documents presented this as a part of the price to be paid by the present generation for a successful future. Over the years, especially in the high growth phase, the need to constrain consumption has become less explicit. This is despite the emphasis on growth becoming, if anything, even more pronounced. While the low growth phase was accompanied by a prominent Indian role in international politics through the Non-aligned Movement, the high growth phase has moved into a rhetoric of India influencing the world because of its present or future economic power.

The rhetoric of economic power has gained strength from the fact that the savings from growth have not implied a reduction in the propensity to consume of the richest quintile of the population. Instead, it has been the result of income being shifted from the sections of the population that need to consume the most, if not all, of what they earn, to the sections that can afford to consume a much smaller proportion of their far higher incomes. The processes through which this inequality effect was brought about did vary between the low and high growth phases of India's growth story. In the low growth phase, the inequality effect was largely the consequence of ignoring agriculture, which at the time employed, by far, the largest section of the working population. In the high growth

phase, the inequality effect has been generated largely by ignoring issues related to income distribution. The concern for the poor, such as it is, has been confined to the debates on poverty as distinct from the larger, and growing, inequalities.

The slowing down in the rate of gross capital formation is an indication that the inequality effect has reached the end of its tether. It has become increasingly difficult to further increase inequality in order to generate the macroeconomic savings for growth. And alternative routes to increased investment are not clearly visible. While data on consumption expenditure is now over a decade old, there is little reason to believe that there has been a shift in the propensity to consume of the richest quintile of the population. This increases the dependence on foreign investment. While an analysis of trends in foreign investment is well beyond the scope of this paper, the overall GFCF figures do not suggest that foreign investment has been able to completely offset shortfalls in the rates of domestic saving.

The discourse on India's growth, especially in the high growth phase, has largely ignored issues of inequality. In the

process, it sidesteps the important question of who benefits from growth. There can be several narratives that allow keeping the issues of distribution of growth on the back-burner, including a focus on poverty rather than inequality. It could be argued that as long as faster growth reduces poverty, growing inequality is just a matter of unessential detail. But this tranquil discourse is now threatened by the answer to another inequality-related question: Who pays for growth? A focus on consumption and investment patterns makes it clear that the savings needed for India's high growth phase have come about by making the distribution of income more adverse. The savings in the economy as a whole have been generated by moving income away from those who are forced to consume most of what they earn. In other words, it is the poor who have borne the burden of constraining consumption for higher growth. The pressure on the consumption of the poor is reaching a point where it cannot be further constrained without severe political consequences. In the process, inequality is moving from being a cynical source of savings and growth to becoming a constraint on the growth of the Indian economy.

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