

Indian Economic Development

Course Overview

By modern standards, India is a poor country with about a tenth the per capita income of the United States, Western Europe and Japan. There is, however, nothing deterministic or natural about poverty. Some countries grow wealthy, others fail. For instance, in circa 1960 Singapore's per capita income was about 5 times greater than that of India, in 2017 the ratio stood at 30. Similarly, India and China had roughly equivalent per capita incomes in 1980 but by 2017 China's per capita income grew to more than four times India's.

Why is India poor? The usual culprits are high population growth and low education. Economic history, however, suggests that population growth is not a detriment to economic growth, nor is education a prerequisite. In the eighteenth and nineteenth centuries, Western Europe experienced remarkable economic growth along with a growing population. And early economic growth began in societies with largely illiterate populations. In 1750 about 38% of Germans could read and write, the number among the French was 29%. Nor is India poor because of the lack of infrastructure, poor health facilities, or crop failures. High quality infrastructure and high crop yields are more consequences than causes of economic growth. Similarly, high quality health care and other improvements in standards of living are the concomitants—not the prerequisites—of economic growth. This course develops an understanding of the fundamental determinants of economic development.

The course begins with a primer to Price Theory and the notion of rational decision making. It then develops the idea of "specialisation and exchange" with an emphasis on the coordinating role of the price system. Using these tools, the course analyses Central Economic Planning in the first four decades after the British left India and the changes in economic policy since the 1990s.

I. The economic way of thinking

Audio [Don Boudreaux on Globalization and Trade Deficits](#)

Video [Milton Friedman on Trade](#)

Readings

- Bastiat, Frédéric. 1848. "The Seen and the Unseen".
- Becker, Gary S. 1993. "Nobel lecture: The economic way of looking at behavior." *Journal of Political Economy*, 101(3): 385-409.
- Buchanan, James M. 1987. "The constitution of economic policy." *Science*, 236(4807): 1433-1436.

Further Readings

- Stigler, George J., and Gary S. Becker. 1977. "De gustibus non est disputandum." *The American Economic Review*, 67(2): 76-90.
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II. Price theory: demand and supply

Audio [Russ Roberts on the Price System](#)

Video [Milton Friedman on Economic Freedom and the Price System](#)

Readings

- Varian, Hal R. 1999. "Intermediate Microeconomics", 5th Edition. W W Norton and Company. Chapters 1-6 and 29.

Further Readings

- Hayek, Friedrich A. 1948. "Individualism and Economic Order". The University of Chicago Press.
 - Friedman, Milton. 1962. "Price Theory". Reprinted by Routledge 2017.
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III. The market as a discovery procedure

Audio [Vernon Smith on Markets and Experimental Economics](#)

Video [Israel Kirzner on Entrepreneurship and the Market Process](#)

Readings

- Boudreaux, Donald J. "Information and Prices". The Library of Economics and Liberty.
- Hayek, Friedrich A. 1968. "Competition as a discovery procedure." Translated by Marcellus S Snow in 2002, Quarterly Journal of Austrian Economics, 5(3): 9-23.
- Read, Leonard E. 1958. "I, Pencil: My Family Tree". The Foundation for Economic Education.

Further Readings

- Hayek, Friedrich A. 1931. "Prices and Production". August M Kelly Publishers.
 - Kirzner, Israel M. 1997. "Entrepreneurial discovery and the competitive market process: An Austrian approach." Journal of Economic Literature, 35(1): 60-85.
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IV. Specialisation and exchange

Audio [Edmund Phelps on Mass Flourishing](#)

Video [Don Boudreaux on Comparative Advantage](#)

Readings

- Bauer, Peter. 2000. "From Subsistence to Exchange". Princeton University Press. Chapters I and IX.
- Smith, Adam. 1776. "An Inquiry into the Nature and Causes of the Wealth of Nations". Book 1 Chapters 1-3.

Further Readings

- Krugman, Paul R. 1987. "Is free trade passé?." Journal of Economic Perspectives, 1(2): 131-144.

- Bhagwati, Jagdish, and Thirukodikaval N. Srinivasan. 2002. "Trade and poverty in the poor countries." *American Economic Review*, 92(2): 180-183.
 - Panagariya, Arvind. 2019. "Free Trade and Prosperity: How openness helps developing countries grow richer and combat poverty". Oxford University Press.
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V. Population and economic growth

Audio [William Easterly on Growth, Poverty and Aid](#)

Video [Julian Simon on Economics of Population](#). All six parts.

Readings

- Bauer, Peter. 2000. "From Subsistence to Exchange". Princeton University Press. Chapters III and IV.
- Kremer, Michael. 1993. "Population growth and technological change: One million BC to 1990." *The Quarterly Journal of Economics*, 108(3): 681-716.
- Simon, Julian. 1996. "The Ultimate Resource 2". Princeton University Press. Chapters 3 and 26

Further Readings

- Becker, Gary S., Edward L. Glaeser, and Kevin M. Murphy. 1999. "Population and economic growth." *American Economic Review*, 89(2): 145-149.
 - Kuznets, Simon. 1967. "Population and economic growth." *Proceedings of the American Philosophical Society*, 111(3): 170-193.
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VI. Entrepreneurship and economic growth

Audio [Alex Tabarrok on Innovation](#)

Video [David Audretsch on Entrepreneurship and Economic Growth](#)

Readings

- Baumol, William J. 1996. "Entrepreneurship: Productive, unproductive, and destructive." *Journal of Business Venturing*, 11(1): 3-22.

- Holcombe, Randall G. 1998. "Entrepreneurship and economic growth." *Quarterly Journal of Austrian Economics*, 1(2): 45–62.
- Schumpeter, Joseph E. 1911. *Theory of Economic Development*. Routledge (1983 Reprint). Chapter III.

Further Readings

- Decker, Ryan, John Haltiwanger, Ron Jarmin, and Javier Miranda. 2014. "The role of entrepreneurship in US job creation and economic dynamism." *Journal of Economic Perspectives*, 28(3): 3–24.
 - Eliasson, Gunnar. 1991. "Modeling the experimentally organized economy: Complex dynamics in an empirical micro-macro model of endogenous economic growth." *Journal of Economic Behavior & Organization*, 16(1-2): 153-182.
 - Kerr, William R., Ramana Nanda, and Matthew Rhodes-Kropf. 2014. "Entrepreneurship as experimentation." *Journal of Economic Perspectives*, 28(3): 25-48.
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VII. Central economic planning

Audio [Lawrence H White on Economic Ideas and Policy](#)

Video [Milton Friedman on the Tyranny of Control](#)

Readings

- Lavoie, Donald. 1985. "National Economic Planning: What is left?". The Cato Institute. Reprinted by the Mercatus Center in 2016. Chapters 1-4.
- Friedman, Milton. 1981. "Market Mechanism and Central Economic Planning". The G Warren Nutter Lectures in Political Economy. The Thomas Jefferson Center Foundation.
- Leontief, Wassily. 1974. "What an Economic Planning Board Should Do." *Challenge*, 17(3): 35-40.

Further Readings

- Hayek, Friedrich A. 1945. "The use of knowledge in society." *The American Economic Review*, 35(4): 519-530.
 - Leontief, Wassily. 1976. "National economic planning: methods and problems." *Challenge*, 19(3): 6-11.
 - Wellisz, Stanislaw. 1971. "Lessons of twenty years of planning in developing countries." *Economica*, 38(150): 121-135.
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VIII. Central planning in India

Audio [William Easterly on Benevolent Autocrats and Growth](#)

Video [Thirukodikaval N Srinivasan on India and Globalisation](#)

Readings

- Friedman, Milton. "Indian Economic Planning". Reprinted in *Friedman on India*, Edited by Parth J Shah. 2000. Center for Civil Society.
- Rao, V K R V. 1952. "India's First Five-Year Plan-A Descriptive Analysis." *Pacific Affairs*: 3-23.
- Shenoy, Bellikoth R. 1955. "A note of dissent on the Memorandum of the Panel of Economists". Government of India.
- Shenoy, Bellikoth R. 1976. "Planned progress or planned chaos". Presented at the Mont Pelerin Society Meeting on 24 August 1976. Reprinted in *Planned Progress or Planned Chaos*, Edited by Mahesh P. Bhatt and S B Mehta. 1996. East and West Books.

Further Readings

- Bhagwati, Jagdish, and Sukhamoy Chakravarty. 1969. "Contributions to Indian economic analysis: A survey." *The American Economic Review*, 59(4): 1-73.
- Chakravarty, Sukhamoy. 1979. "On the question of home market and prospects for Indian growth." *Economic and Political Weekly*, 14(30/32): 1229-1242.
- Friedman, Milton. 1955. "A Memorandum to The Government of India". Reprinted in *Friedman on India*, Edited by Parth J Shah. 2000. Center for Civil Society.

- Rao, V K R V. 1964. "The Role of Public Enterprises in the Indian Economy." *Indian Journal of Public Administration*, 10(3): 412-426.
 - The Second Five Year Plan Document. 1956. Government of India.
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IX. Economic development in the central planning era in India

Audio [Robert Lucas on Growth, Poverty and Business Cycles](#)

Video [Deepak Lal on The Indian Economy](#)

Readings

- Dandekar, Vinayak M. 1988. "Indian economy since independence." *Economic and Political Weekly*, 23(1/2): 41-50.
- Shenoy, Bellikoth R. 1961. "Plan squeeze on Agriculture". *The Deccan Chronicle* (5 March 1961). Reprinted in *Planned Progress or Planned Chaos*, Edited by Mahesh P. Bhatt and S B Mehta. 1996. East and West Books.
- Srinivasan, Thirukodikaval N, and N S Narayana. 1977. "Economic performance since the Third Plan and its implications for policy". *Economic and Political Weekly*, 12(6/8): 225-239.
- Srinivasan, Thirukodikaval N. 1991. "Indian Development Strategy: An Exchange of Views". *Economic and Political Weekly*, 26(31/32): 1850-1852.

Further Readings

- DeLong, Bradford J. 2001. "India since independence: An analytic growth narrative." Working Paper.
 - Shenoy, Bellikoth R. 1977. "Economic growth with social justice". Submitted to Janata Party in 1977. Reprinted in *Planned Progress or Planned Chaos*, Edited by Mahesh P Bhaat and S B Mehta, 1996. East West Books.
 - Shenoy, Bellikoth R. 1975. "25 Years of Planning". Reprinted in *Theoretical Vision*, Edited by R K Amin and Parth J Shah. 2004. The Center for Civil Society.
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X. Deficit financing and central planning in India

Audio [Allan Meltzer on Inflation](#)

Video [Lawrence Reed on Money and Inflation](#)

Readings

- Bhagwati, Jagdish. 1956. "Deficit financing and economic development." *Indian Economic Review*, 3(2): 40-60.
- Shenoy, Bellikoth R. 1955. "Deficit Financing and Indian Economic Development". Reprinted in *Planned Progress or Planned Chaos*, Edited by Mahesh P Bhaat and S B Mehta, 1996. East West Books.

Further Readings

- Cerra, Valerie, and Sweta Chaman Saxena. 2002. "What caused the 1991 currency crisis in India?." *IMF Staff Papers*, 49(3): 395-425.
 - Ghatak, Anita, and Subrata Ghatak. 1996. "Budgetary deficits and Ricardian equivalence: the case of India, 1950–1986." *Journal of Public Economics*, 60(2): 267-282.
 - Mises, Ludwig. 1953. "The Theory of Money and Credit". Yale University Press. Part II Chapter XI
 - Sargent, Thomas J., and Neil Wallace. 1981. "Some unpleasant monetarist arithmetic." *Federal Reserve Bank of Minneapolis Quarterly Review*, 5(3): 1-17.
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XI. Economic reforms of the 1990s

Audio [Thomas Sowell on Economic Facts and Fallacies](#)

Video [The Commanding Heights](#). All three parts.

Readings

- Ahluwalia, Montek S. 2002. "Economic reforms in India since 1991: Has gradualism worked?." *Journal of Economic Perspectives*, 16(3): 67-88.
- Srinivasan, Thirukodikaval N. 1998. *Eight Lectures on India's Economic Reforms*. Oxford University Press.

Further Readings

- Lal, Deepak. 1987. "The political economy of economic liberalization." *The World Bank Economic Review*, 1(2): 273-299.
 - Lal, Deepak. 2000. "The Poverty of Development Economics", Second Edition. MIT Press.
 - Lal, Deepak, Rakesh Mohan, and I. Natarajan. 2001. "Economic reforms and poverty alleviation: A tale of two surveys." *Economic and Political Weekly*, 36(12): 1017-1028.
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XII. Indian economic policy and performance since 2000

Audio [Jagdish Bhagwati on the Indian Economy](#)

Video [Arvind Panagariya on Indian Economy's Outlook](#).

Readings

- Lal, Deepak. 2008. "An Indian economic miracle." *Cato Journal*, 28(1): 11-34.
- Srinivasan, Thirukodikaval N. 2003. "Indian economic reforms: A stock taking". Stanford Center for International Development, Working Paper No. 190.
- Panagariya, Arvind, and Jagdish Bhagwati. 2013. "Why Growth Matters: How economic growth in India reduced poverty and the lessons for other developing countries". Public Affairs. Part II (Chapters 7-12)

Further Readings

- Aiyer, Swaminathan S. 2016. "Twenty-Five Years of Indian Economic Reform". Policy Analysis The Cato Institute No. 803.
- Bosworth, Barry, Susan M. Collins, and Arvind Virmani. 2007. "Sources of growth in the Indian economy". National Bureau of Economic Research Working Paper No. 12901.
- Mazumdar, Surajit. 2008. "Crony capitalism and India: Before and after liberalization." Munich Personal RePEc Archive.
- Mazumdar, Surajit. 2008. "Investment and growth in India under liberalisation: asymmetries and instabilities." *Economic and Political Weekly*, 43(49): 68-77.

- Soo, Kwok Tong. 2008. "From Licence Raj to market forces: the determinants of industrial structure in India after reform." *Economica*, 75(298): 222-243.
- Panagariya, Arvind, and Govinda Rao. 2015. "The Making of Miracles in Indian States". Oxford University Press.
- "India's Growth Story Since the 1990s Remarkably Stable and Resilient". The World Bank Press Release.