

The “Hindu Rate of Growth”: Then and now*

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For a large part of the dirigiste period, the gross domestic product of the Indian economy grew at a rate of around 4 per cent per annum or less, which, though an improvement compared to the colonial era that had witnessed virtual stagnation, was not very impressive. This low steady growth over a prolonged period of time was facetiously referred to as the “Hindu rate of growth” by many economists (perhaps because with this rate an eternity would be required for any noticeable social transformation). After an acceleration in GDP growth starting in the 1980s and sustained subsequently as the dirigiste regime was substituted by neoliberalism, the economy’s growth rate has again started slowing down, prompting the former RBI governor Dr Raghuram Rajan to suggest recently that we are perhaps slipping back into an era of the “Hindu rate of growth”.

The fact that the growth rate of the economy was slowing down even before the pandemic is undeniable; and so is the fact that the recovery after the pandemic, which of course had meant a sharp drop in output, has been quite feeble. All this would lend support to the view that the economy is slipping back to a state of comparatively low growth. But our point here is not to assess statistically how the current growth rate compares with that of the dirigiste era, and whether it can be legitimately called the “Hindu rate of growth”, using the term only to denote a statistical phenomenon; it is to underscore the fact that there is a fundamental difference between the comparatively low growth-rate of the earlier period and that of the current period.

To appreciate this difference one must draw a distinction between a “supply-constrained system” and a “demand-constrained system”. In the latter case, the output in any period is determined by the level of aggregate demand; and likewise the time-sequence of this output across periods, i.e., its growth rate, is determined by the growth rate in the level of aggregate demand. In no period is output constrained by either the full capacity use of the available stock of equipment, or the full employment of the available work-force, or by the shortage of critical inputs like foreign exchange or foodgrains. In other words, output in a demand constrained system is well below its potential determined from the supply side; and this is so in every period. By contrast, in a supply-constrained system output in any period is given by the maximum feasible level given by supply-side constraints; and the growth rate is the maximum feasible, given the growth over time of the binding constraint.

As the Polish Marxist economist Michal Kalecki had pointed out long ago, classical capitalism is a demand-constrained system while classical socialism is a supply-constrained system; the former is always characterised by a “slack” in the sense of a simultaneous existence of idle capacity, unemployment and the easy availability of foodgrains and foreign exchange, while the latter has no such “slack”, and hence no waste of resources that a “slack” implies.

Though the dirigiste period in India was characterised by the development of capitalism from within the so-called planned economic regime, planning itself meant that the economy was not demand constrained. The Indian economy in the dirigiste period was not synonymous with classical capitalism, which came into existence only

with the introduction of neoliberal “reforms”. It was free of any “slack”, since the emergence of any “slack” was followed immediately by an increase in demand stimulated by higher public expenditure, especially public investment, through a larger fiscal deficit if necessary; there were no constraints on the fiscal deficit imposed by international finance capital, since the economy had strict capital controls which made it free of any arm-twisting by international finance capital. The constraints on public investment and on the overall growth rate of the economy arose on the supply side, specifically because of the limitations of foodgrain availability (which could not be overcome through imports because of the dearth of foreign exchange). The economy was always characterised by a certain rate of inflation arising from incipient excess demand in the foodgrain market. But there was no “slack”, and hence no waste, in the economy.

By contrast, the neoliberal period has been characterised by the existence of a perennial “slack”, which cannot be eliminated because the government that can do so is constrained in its expenditure by a shortage of financial resources arising from limits not only on taxing the rich, but also on the fiscal deficit; both of these limits are imposed by globalised finance. Almost throughout the neoliberal period, the economy has been saddled by idle capacity, massive unemployment, huge unsold foodgrain stocks, and also large foreign exchange reserves (built up through the inflow of foreign financial investment). Thus while the economy during the dirigiste period was a supply-constrained one, the economy during the neoliberal period has been a demand-constrained one. The neoliberal period therefore has seen a perpetual existence of waste which is irrational.

But that is not all. The rate of growth of per capita demand for foodgrains depends upon two factors: the per capita rate of growth of GDP, and what is called the average income elasticity of demand for foodgrains, which depends upon the distribution of income across classes, with a rise in income inequality having a dampening effect on the demand for foodgrains. Between the dirigiste period and the neoliberal one, the rate of growth of the supply of foodgrains has not increased; if anything it has been slightly lower. It follows therefore that if earlier there was always a shortage of foodgrains while now there are huge stocks of them, then it must be that the rate of growth of the demand for foodgrains has come down between then and now. But since the rate of growth of per capita GDP is estimated to have increased between then and now, the only reason that the rate of growth of the demand for foodgrains could have decreased is because income inequality has increased significantly during the neoliberal period compared to the dirigiste one.

It thus follows from the fact that the dirigiste period was supply-constrained (primarily through a shortage of foodgrains) while the neoliberal period has been demand-constrained, that there must have been a significant increase in inequality in the latter compared to the former. And this is exactly what figures show. To take just one example, Piketty and Chancel estimate that the share of the top 1 per cent of the population in national income had declined in the post-independence period, reaching a low of 6 per cent in 1982, but has increased since then to reach 22 per cent in 2014-15 (the latest year for which estimates are available). This last figure represents the highest level in the entire period since 1922 when the income tax was introduced for the first time (all these estimates are based on income tax data and hence are available only for the period after 1922). This result is so overwhelming that no matter what

reservations one may have about Piketty and Chancel's methods of estimation, one can scarcely doubt its veracity.

Thus even if the economy is once again experiencing a so-called "Hindu rate of growth" now as it had done earlier, the economy now is demand constrained as distinct from being supply-constrained that it had been earlier; and it is characterised by a significant increase in inequality now compared to earlier.

There is however an additional factor here. In a demand constrained system if growth slows down, then in the absence of an exogenous stimulus such as an acceleration in the global growth rate, it keeps slowing down; the initial slowdown entails a rise in the degree of unutilised capacity and this has the effect of further lowering the rate of investment and hence the rate of growth. The so-called "Hindu rate of growth" earlier could be a sustained phenomenon, but the so-called "Hindu rate of growth" now cannot be sustained for long; it would cause a further slowdown, in which case with the increase in inequality that has already occurred and is also likely to continue, the conditions of the working people will become even worse.

Raghuram Rajan was concerned about the fact that the economy would be getting back to the growth rate that it had experienced in the dirigiste period; but such getting back will be much worse for the working people than it had been earlier.

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