Growing Like India: The Unequal Effects of Service-Led Growth
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Outline

➢ Question and summary

➢ Contribution

➢Comment 1. Mechanisms

➢Comment 2. Looking ahead: Alternative counterfactual

➢Comment 3. Looking ahead: Catching up in convergence

Question and summary

➢ 2 views: service sector vs development
1. Consequence
2. Cause

➢ Multisectoral spatial equilibrium model, applied to India
  ➢ 1987-2011

➢ Main result: Important role for View2 = service-led growth
  ➢ accounts for 1/2 of the structural transformation
    ➢ share of "consumer" services employment would have increased by 8 pp (instead of 15 pp)
  ➢ 1/3 of increase in "economic well-being"

➢ Unequal effects
  ➢ Across space
  ➢ Income distribution

Terrific paper

- Important question
- Elegant theory
- Calibrated to data

Most comments: forward looking/future work

Comment 1. What are the mechanisms?

- What drove the increase in productivity in "consumer services"

  <u>FUNDAMENTALS</u>
  - Logistics
  - Technology
  - Internet/mobile
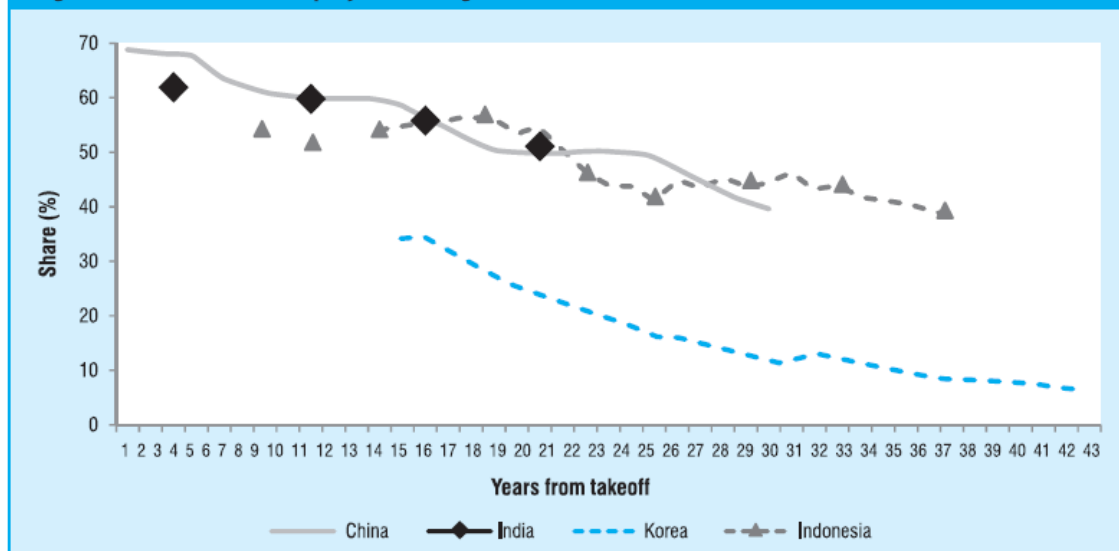 - Digitalization
  - Media

  <u>MISMEASUREMENT?</u>
  <u>Bosworth, Collins, and Virmani, 2006-07)</u>
  - Underestimation in
    - Increase in price of services, and overestimation in real growth: <u>Deflator issue?</u>
    - <u>Employment?</u>
      - Measurement of employment in services
        - Large informal sector, informal jobs
        - Role of construction
  - Other data issues
    - Improvements in "quality"
    - Agriculture
      - Beyond farming (Barrett, et. al. 2022)
    - Rural/urban
      - Higher wage growth in smaller cities (Hasan, 2023)
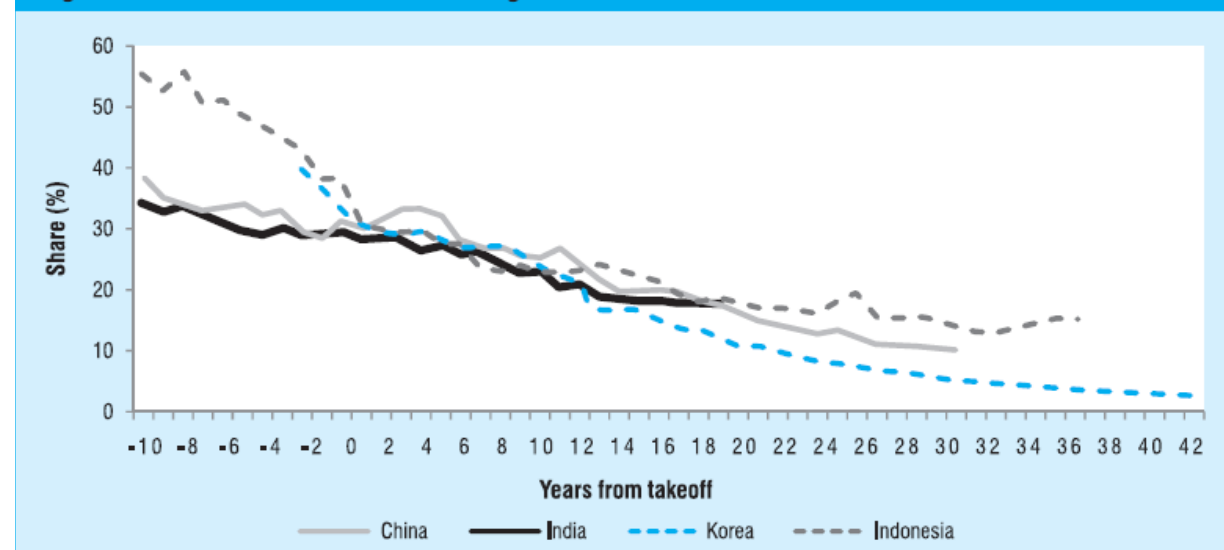
Comment 2: Alternative counterfactual

Figure 2.9a: Share of Employment in Agriculture - Years From Takeoff

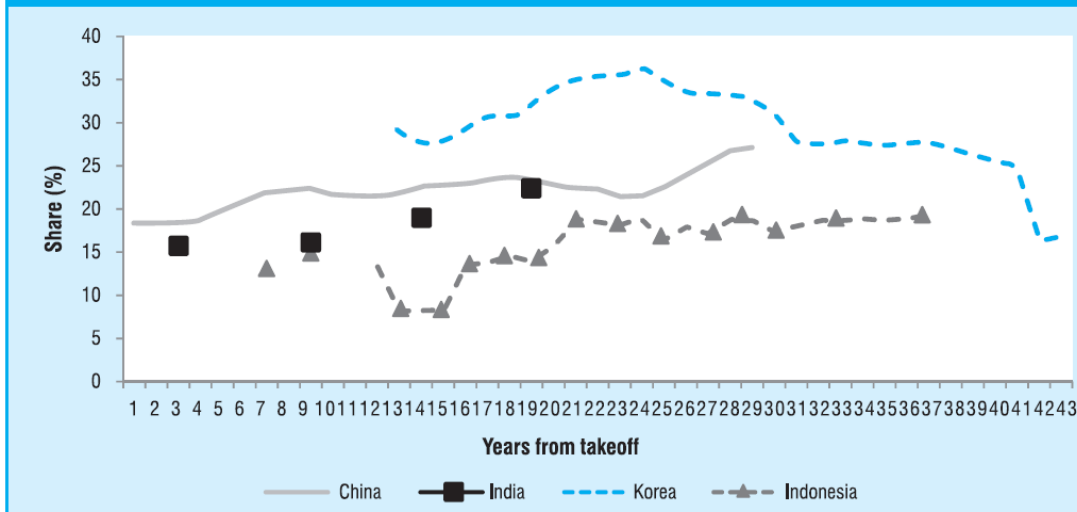Figure 2.9b: Share of Value Added in Agriculture - Years From Takeoff

Sources : World Bank (2012) and authors' calculations.
Note :Takeoff year 0 is defined as 1979, 1991, 1973, and 1967 for China, India, Indonesia, and Korea respectively.

"Seizing the Demographic Dividend", Economic Survey, 2012-13.

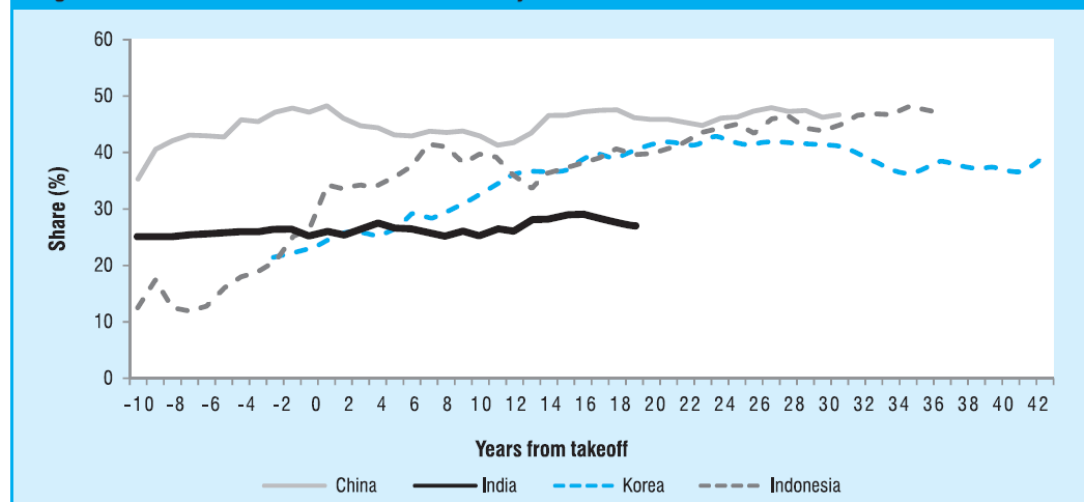# Comment 2: Alternative counterfactual (contd.)

Figure 2.10a: Share of Employment in Industry - Years From Takeoff

Sources : World Bank (2012) and authors' calculations.
Note ; Takeoff year 0 is defined as 1979, 1991, 1973, and 1967 for China, India, Indonesia, and Korea respectively.

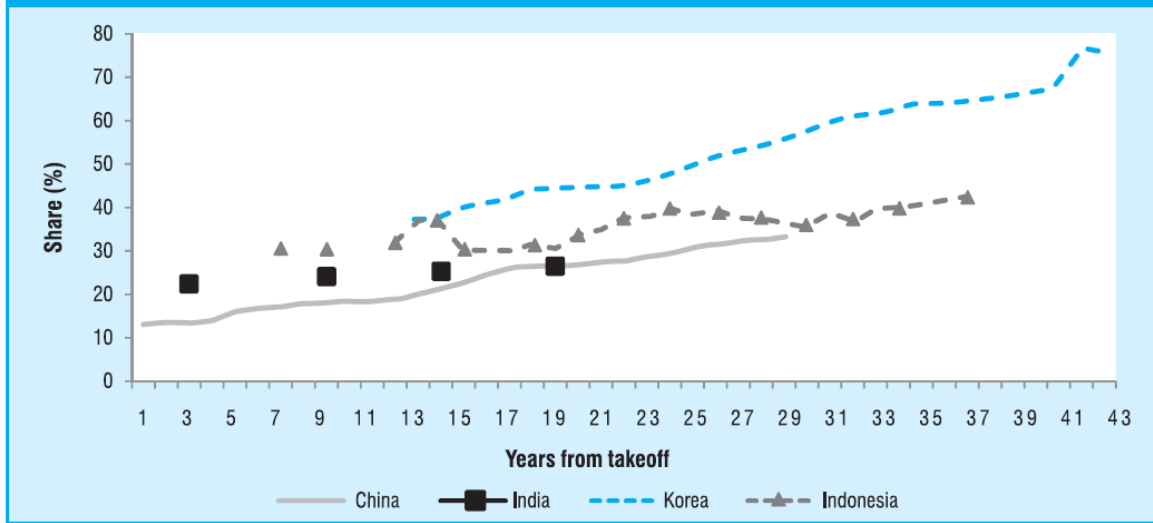Figure 2.10b: Share of Value Added in Industry - Years From Takeoff

Sources : World Bank (2012) and authors' calculations.
Note : Takeoff year 0 is defined as 1979, 1991, 1973, and 1967 for China, India, Indonesia, and Korea respectively.

"Seizing the Demographic Dividend", Economic Survey, 2012-13.

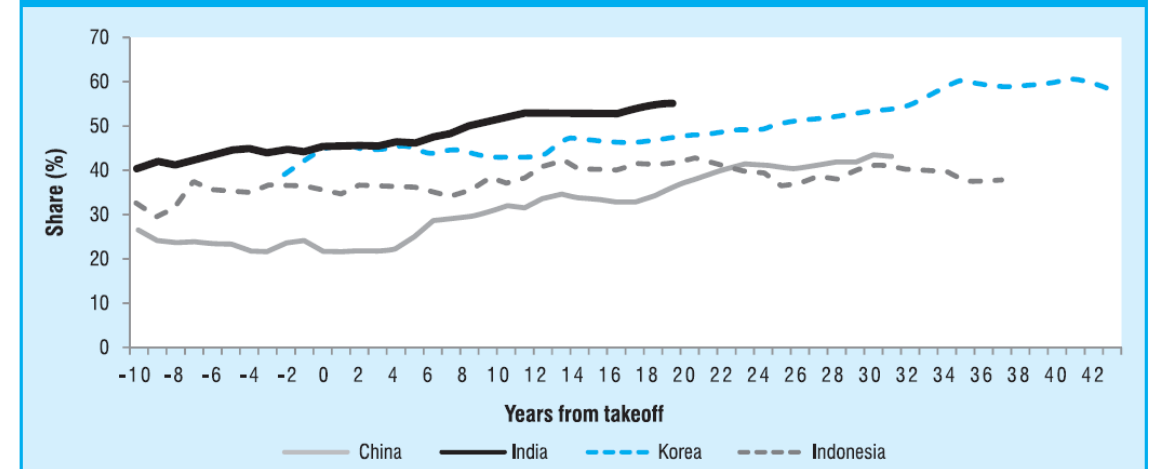# Comment 2: Alternative counterfactual (contd.)

Figure 2.11a: Share of Employment in Services - Years From Takeoff

Sources : World Bank (2012) and authors' calculations.
Note : Takeoff year 0 is defined as 1979, 1991, 1973, and 1967 for China, India, Indonesia, and Korea respectively.

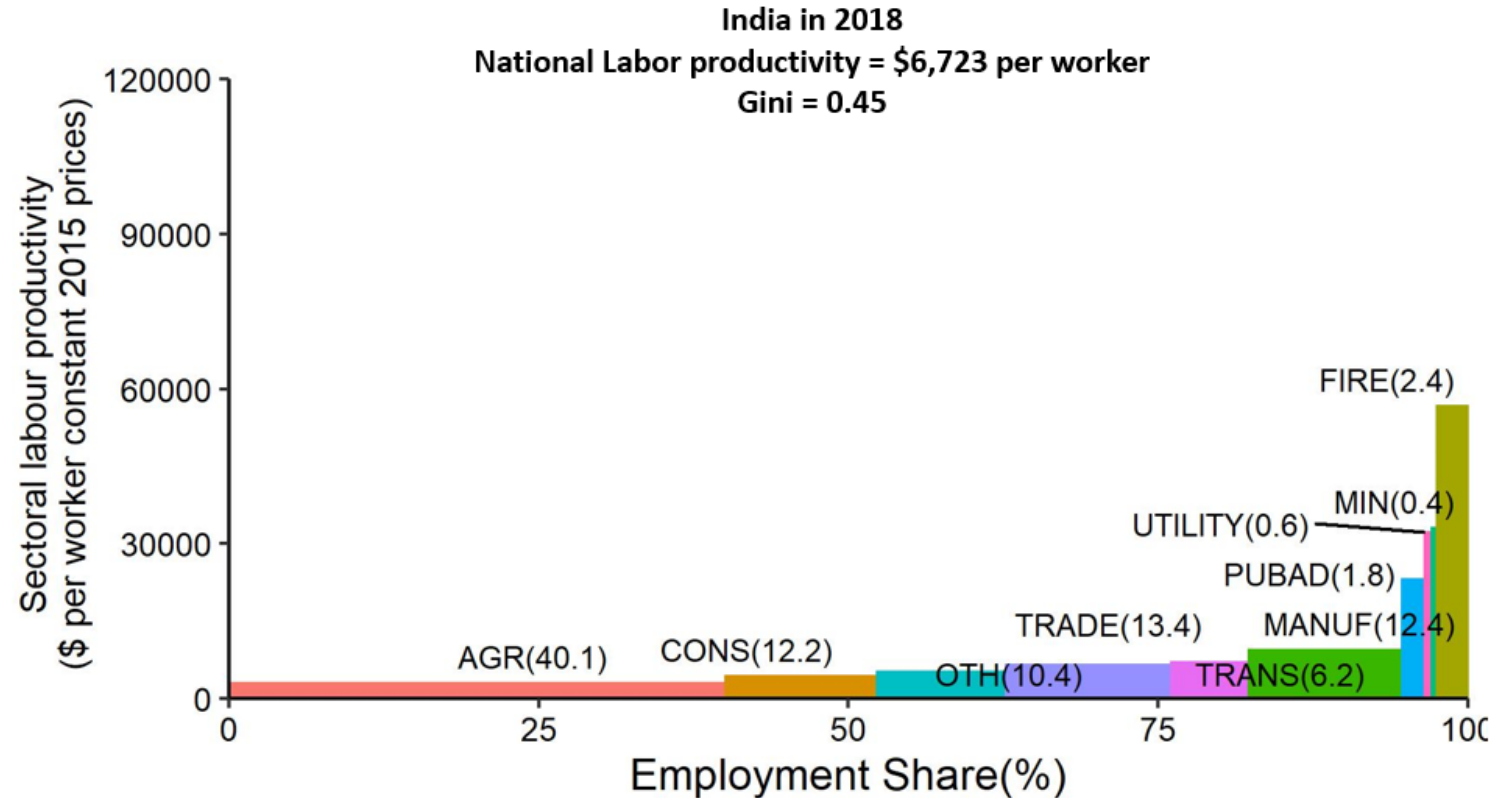Figure 2.11b: Share of Value Added in Services - Years From Takeoff

Sources : World Bank (2012) and authors' calculations.
Note : Takeoff year 0 is defined as 1979, 1991, 1973, and 1967 for China, India, Indonesia, and Korea respectively.

"Seizing the Demographic Dividend", Economic Survey, 2012-13.

Employment share and productivity in services

India in 2018
National Labor productivity = $6,723 per worker
Gini = 0.45

Sectoral labour productivity ($ per worker constant 2015 prices)

FIRE(2.4)
MIN(0.4)
UTILITY(0.6)
PUBAD(1.8)
TRADE(13.4)   MANUF(12.4)
AGR(40.1)   CONS(12.2)
OTH(10.4)
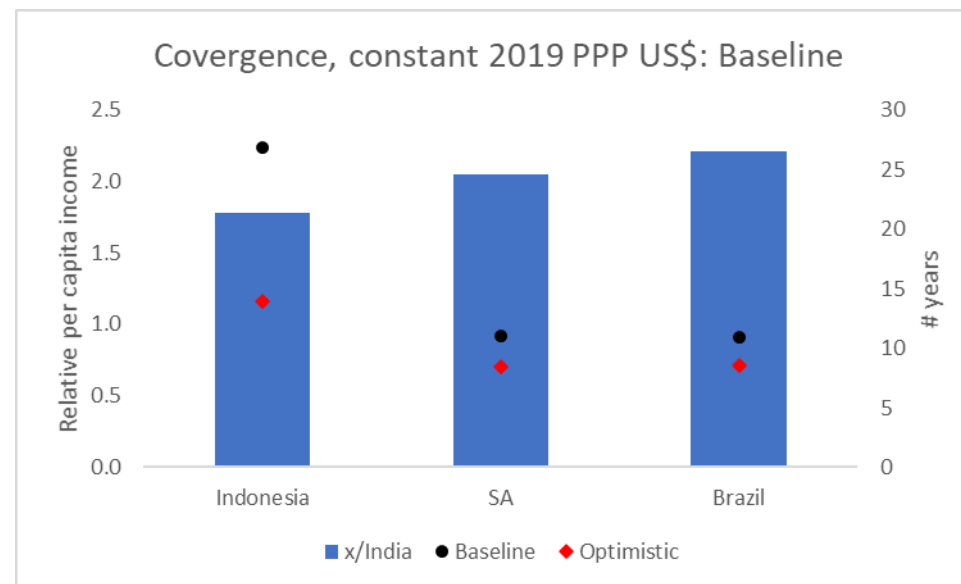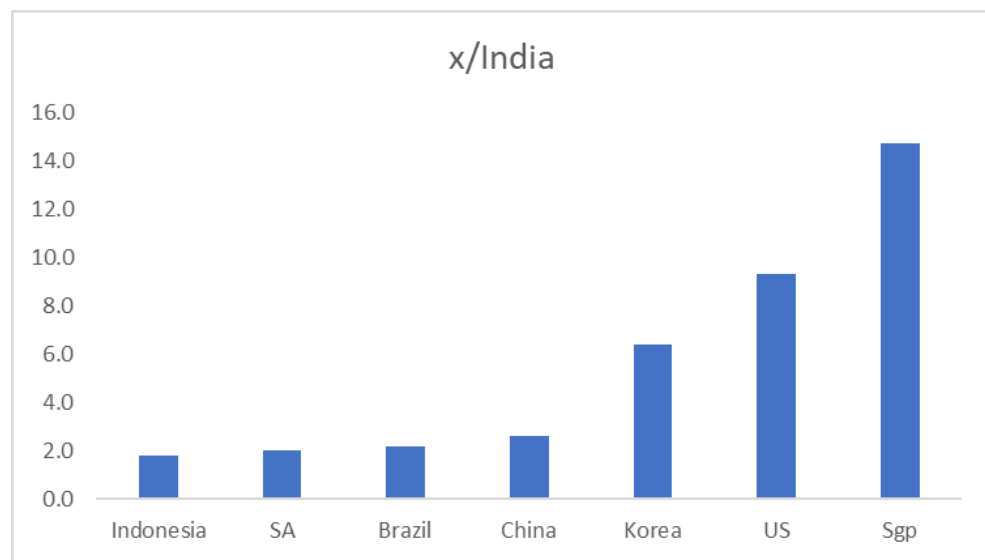TRANS(6.2)

Employment Share(%)

Source: PLFS 2018-19 survey data (current weekly status) and national accounts.
Note: Includes all types of worker (self-employed, regular wage workers, and casual wage workers)

Hasan, 2023

Summarizing

- Unlike conventional wisdom, India does not have more people in agriculture than other countries at similar stages of development. Share has been shrinking at similar pace.

- Per capita income growth has actually not benefited as much from inter-sectoral migration
  - Industry is creating low-productivity jobs
  - High productivity services is not creating enough jobs

Comment 3. Catching up in convergence

Overall

- Terrific paper

- Mechanisms

- Going forward
  - Alternative counterfactuals, cross country data
  - Has structural transformation been enough?