

Why doesn't India Industrialize?-A Dynamic General Equilibrium Approach-

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April 17, 2010

Abstract

India's relative GDP per capita to the U.S. was 7.4 % in 2004 and has not caught up with the U.S..We address the question of why India has shown poor economic performance. We argue that the important factors were labor barrier for the organized sector, low spatial mobility rate and the government policy against the agricultural sector. In a three-sector neoclassical growth model, we find that those factors prevented the agricultural labor from moving out to a more productive organized sector, which resulted in economic underperformance.We also show that without only labor constraint for the organized sector, labor would have flowed from the agricultural sector and relative GDP per capita would have risen significantly up to 30% in 2004. We argue that this barrier is due to the caste system or the labor regulation.

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