ASK AN ECONOMIST

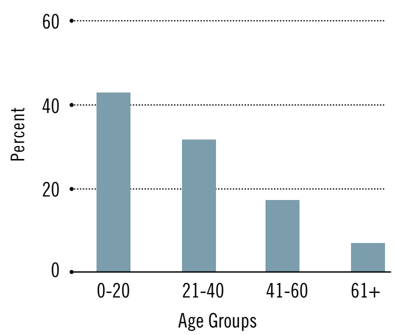
B. Ravikumar is an economist and vice president at the Federal Reserve Bank of St. Louis, where he has worked since 2011. The native of India has degrees in physics, electrical engineering, industrial engineering and economics. His research currently focuses on macroeconomics, international trade and economic development. He is the co-editor of the *Journal of Economic Dynamics and Control* and is the associate editor of the *European Economic Review.* He is also a visiting professor of economics at Washington University in St. Louis. For more on his research, see http://research.stlouisfed.org/econ/ravikumar.

B. Ravikumar

Q: What are the obstacles and potential opportunities for economic growth in India?

A: There are two main obstacles. The first is labor regulations. Developing economies usually transition from agriculture to manufacturing. But the transition in India has been to the service sector. This is due in part to labor regulations. For instance, a firm with 100 or more workers has to seek permission from the government to reassign the workers to different tasks, to lay off workers or to close the firm. Such regulations impede large-scale manufacturing operations that could employ thousands of workers producing unskilled-labor-intensive products. As a result, the movement of workers from agriculture to manufacturing is practically nonexistent. This is evident in the share of labor force in agriculture in India: It is almost 50 percent. That is a large number.

India: A Young Populace



SOURCE: 2011 Census of India Population Enumeration Data. See www.censusindia.gov.in/2011census/population_enumeration.aspx.

The second is infrastructure. This is a well-known problem. Decades of underinvestment have left the country with dire deficits in critical areas, such as railways, roads, ports, airports, electricity and water. In the World Economic Forum's Global Competitiveness Report for 2013-14, India ranked 85 out of 148 countries for infrastructure.

The opportunities are extensive. The first one, which people usually are aware of, is that India is well-equipped with talent in science and engineering. The second, not so well-known, is the size and age distribution of the consumers. The chart above depicts the age distribution of the population. Just to give you some perspective, there are more than 600 million people in India aged 25 or younger. How big is that? Well, if you added up the entire populations of the U.S., Mexico and Canada, you wouldn't come to even 500 million. So, India is a big market. And this, of course, will be the working-age population in the next few decades, when these millions will be not only earning but also spending. These are potentially good opportunities not only for India but also for U.S. firms that sell consumer goods abroad.

To overcome the obstacles and take advantage of the opportunities, India has to be more efficient at managing its resources. Economists use total factor productivity (TFP) to measure such efficiency. A country with a high TFP produces more with a given amount of inputs, such as capital and labor, than does a country with a low TFP. The economic reforms since 1991 have indeed increased India's efficiency. Before the reforms (1960-1991), TFP growth accounted for 15 percent of GDP growth, but between 1991 and 2011 TFP growth accounted for almost 25 percent of the GDP growth. So, the prognosis based on TFP looks promising for India's future.

LETTERS TO THE EDITOR

This is in response to President James Bullard's column in the April 2014 issue, titled "The Rise and Fall of Labor Force Participation in the U.S." Read the column, at www.stlouisfed.org/publications/re/pastissues/?issue=2014/2.

Dear Editor:

His views on the labor force participation (LFP) rate touched on a subject frequently in the news this year: Where is our economy headed, and where are the workers?

Economists have been analyzing data on workforces for a long time; so, please forgive me if I oversimplify or connect less important items to the changes in the LFP rate, items like increased high school dropout rates, failed educational systems, growth of our prison population, and increased mergers and acquisitions.

According to reports:

- The U.S. now ranks near the top of the list of advanced economies when it comes to high school dropout rates.
- Too few of our students are achieving at a level to make our country competitive internationally. Proficiency in reading and math are either falling or falling behind the proficiency rates in competing countries.
- The federal prison population has grown by 800 percent since 1980. The result is overcrowding, budget busting and early release.
- Some manufacturers are bringing their work back to the U.S. after having moved overseas years ago. However, some are complaining that they can't find enough Americans with the right training to work in their plants anymore.

John Foote, retired from Washington University in St. Louis, McDonnell Center for Space Sciences

This is in response to "The Liquidity Trap: An Alternative Explanation for Today's Low Inflation," which also appeared in the April 2014 issue.

Dear Editor:

This was such a good read! Thank you!

Matthew DeBow of Rumson, N.J., who works in marketing for a software company

We welcome letters to the editor, as well as questions for "Ask an Economist." You can submit them online at www.stlouisfed.org/re/letter or mail them to Subhayu Bandyopadhyay, editor, *The Regional Economist,* Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442.