Source : www.thehindu.com Date : 2022-08-15

RE-ENGINEERING THE DEVELOPMENT STATE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

Breaking free from the colonial stagnation, domestic output (GDP) grew annually at around three-and-a-half per cent during the first three decades | Photo Credit: AFP

Since Independence, India's economic growth has steadily accelerated, albeit from a low level, with moderating inflation rate. That was until about a decade ago. Breaking free from the colonial stagnation, domestic output (GDP) grew annually at around three-and-a-half per cent during the first three decades — pejoratively called the "Hindu growth rate". The annual growth increased to about five-and-a-half per cent in the next two decades and 7%-8 % during the 2010s. As the population growth rate declined annually, from over 2% in the 1960s to around one-a-half pre cent, income per head raised even further, reducing absolute poverty. With a moderate balance-of-payment deficit and modest share of external debt to total debt, as ratios of GDP, India — at first glance — witnessed "virtuous growth" in deepening democracy.

Not everyone, though, is convinced of such a positive story. The recent growth accelerations are reportedly predatory, snatching away meagre land and livelihood of the marginalised in the poorest States and the socially vulnerable, by plundering natural resources with the active connivance of state power. The growth is thus highly inequitable: many rich Indians joined the Forbes list of global billionaires due to the rise of crony capitalism, giving rise to the term 'Billionaire Raj'. India has moved from a moderately unequal country to one with extreme inequality (joining the Latin American league). Yet, invoking Kuznets' hypothesis, optimists may argue that India has a fighting chance to escape the extremes of wealth and deprivation to forge inclusive growth — with rapid growth providing tax revenue for social development.

However, the decade-long output deceleration in the 2010s with an unprecedented fall in the investment rate has put a question mark on the growth story (*Figure 1*). Expectedly, output slow-down (excluding the novel coronavirus pandemic years) has raised unemployment and poverty rates. Employment share in manufacturing declined last decade. The faulty gauges of official statistics have muddied the aggregate economic picture. But, undoubtedly, India seems to have veered away from the accelerating growth path. With declining investment rates, the economy is staring at deindustrialisation (in terms of output) with rising imports: from edible oil to industrial and electronic machinery (*Figure 2*). Not to mention the extreme long-term dependence on imported energy, with solar energy investment making modest headway.

Around 1990, India was "over-industrialised", with the manufacturing sector's GDP share above countries with similar income levels. India's import dependence was the least, excluding Eastern Europe and Russia. Three decades on, manufacturing is now under-sized, with the share of capital goods in industrial output shrinking from 20% in 1980-81 to 8.22% in 2011-12. The ratio for China, which was roughly comparable in the 1980s, has doubled to 30% during the same period. No wonder India has turned import dependent on China. The dependence amplified during the COVID-19 pandemic when China imposed export restrictions, compelling the Prime Minister to announce Atmanirbhar Bharat Abhiyan (or initiative) to reduce import dependence.

The planning era until the early 1990s, and the market-friendly policy regime after that, following the precepts of the "Washington Consensus" (operating for roughly equal lengths of time), have shaped the long-term outcomes. The policy regimes had their political underpinnings in their respective times. However, with China's assertive rise based on its economic strengths, renewed global dependence on (the old and new) natural resources, and the ongoing European

war in Ukraine, the unalloyed faith in the virtues of free trade and capital flows is now in question.

Closer home, while China and India followed market-friendly policies, China never lost sight of strategic planning to acquire global economic leadership. Both countries were at roughly similar levels of industrialisation when they opened up to international trade and finance over three decades ago. China is now the top industrial nation, contributing nearly a quarter of global manufacturing output, while India languishes at fifth position contributing just about 3%. Their recent border skirmishes have laid bare India's vulnerability to importing China's industrial raw materials; mobile phones and capital for the start-up industry have exposed India's dependent status.

After a decade-long output slow-down, deindustrialisation and waning of globalisation (as we knew it), India needs to re-assess its economic strategy. It may need to re-set the economic boundaries of the state and market or reimagine state-led industrialisation. Such reconsideration need not invite criticism of dirigisme or state capitalism of the yore but perhaps should be an opportunity for a more creative combination of government and private initiatives, based on recent global experience.

Consider the success of the U.S.'s "Operation Warp Speed" to develop and manufacture COVID-19 vaccines. Or the ongoing aggressive U.S. drive to reduce import dependence for semiconductor chips with massive state financial support. These illustrate mobilising national efforts under changing political contexts to insulate national economies from the vagaries of global politics.

After Independence, India stood out for its steady growth acceleration (along with China) — albeit from a low level. It abolished the colonial scourge of famines and reduced absolute poverty — in deepening democracy (however faulty) and maintaining territorial integrity in a multi-class/caste/ religion sub-continental country. During the last decade, however, the growth story has come off the rails with decelerating GDP, rising unemployment and poverty levels. This observation holds ignoring the devastating COVID-19 pandemic. The clarion call of self-reliance (Atmanirbhar Bharat) seems a far cry, with India decidedly moving toward a dependent development model, amidst a sharp rise in economic inequalities. In the 75th year of Independence, it is perhaps time to call out for honest soul searching to put the growth story back on the rails, setting aside political and ideological differences. The answer to an economic slow-down may lie in re-balancing the roles of the state and market in economic decision-making over the next quarter century — in line with current global practices, boldly facing emerging realities.

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