

# THE SHAPE OF GROWTH MATTERS

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

While there are many refreshing improvements in [NITI Aayog's 'Strategy for New India @ 75'](#) from the erstwhile Planning Commission's plans, there are also concerns about some of the strategies recommended.

The intent to change the approach to planning from preparations of plans and budgets to the creation of a mass movement for development in which “every Indian recognises her role and experiences the tangible benefits” is laudable. The strategy affirms that “policymaking will have to be rooted in ground realities” rather than economic abstractions. It says that stakeholders have been consulted widely in preparing the strategy, which is also something that the erstwhile Planning Commission said. However, what matters is the quality of consultations. It will be worthwhile for NITI Aayog to get feedback from stakeholders on whether it has improved the process of consultation substantially or not.

A solution in search of a problem

The strategy emphasises the need to improve implementation of policies and service delivery on the ground, which is what matters to citizens. Its resurrection of the 15 reports of the Second Administrative Reforms Commission and recommendation that they must be implemented vigorously are welcome. The previous government had taken its eye off the ball. It did not put its weight behind the implementation of these well-thought-out recommendations, which had the endorsement of all political parties, by a Commission it had supported.

Employment and labour reforms, the second chapter in the strategy, have rightly been given the highest priority, which was not the case in the previous plans. Overall growth is also emphasised by NITI Aayog: “Besides having rapid growth, which reaches 9-10 per cent by 2022-23, it is also necessary to ensure that growth is inclusive, sustained, clean and formalised.” However, it is the shape of growth that matters more than size. The employment-generating capacity of the economy is what matters more to citizens than the overall GDP growth rate. There is no joy for citizens if India is the fastest-growing economy and yet does not provide jobs and incomes.

The growth of industry and manufacturing is essential to create more employment, and to provide bigger opportunities to Indians who have been too dependent on agriculture so far. Here, too, it is not the size of the manufacturing sector that matters but its shape. Labour-intensive industries are required for job creation. If the manufacturing sector is to grow from 16% to 25% of the GDP, which the strategy states as the goal, with more capital-intensive industries, it will not solve the employment problem. The strategy does say that labour-intensive industries must be promoted, but the overall goal remains the size of the sector. What one measures, one manages. Therefore, the goal must be clearly set in terms of employment, and policies and measurements of progress set accordingly. Indian statistical systems must be improved quickly to measure employment in various forms, formal as well as informal.

The strategy highlights the urgency of increasing the tax base to provide more resources for human development. It also says financial investments must be increased to strengthen India's production base. Managing this trade-off will not be easy. If tax incentives must be given, they should favour employment creation, not more capital investment.

A big weakness in the Indian economy's industrial infrastructure is that middle-level institutions are missing. Rather than formalising small enterprises excessively, clusters and associations of

small enterprises should be formalised. Small enterprises cannot bear the burden of excessive formalisation — which the state and the banking system need to make the informal sector 'legible' to them. Professionally managed formal clusters will connect the informal side of the economy with its formal side, i.e. government and large enterprises' supply chains. NITI Aayog's plan for industrial growth has very rightly highlighted the need for strong clusters of small enterprises as a principal strategy for the growth of a more competitive industrial sector.

The strategy on labour laws appears pedestrian compared with the ambitious strategy of uplifting the lives of millions of Indians so that they share the fruits of economic growth. It recommends complete codification of central labour laws into four codes by 2019. While this will enable easier navigation for investors and employers through the Indian regulatory maze, what is required is a fundamental reorientation of the laws and regulations — they must fit emerging social and economic realities. First, the nature of work and employment is changing, even in more developed economies. It is moving towards more informal employment, through contract work and self-employment, even in formal enterprises. In such a scenario, social security systems must provide for all citizens, not only those in formal employment. Indeed, if employers want more flexibility to improve competitiveness of their enterprises, the state will have to provide citizens the fairness they expect from the economy. The NITI Aayog strategy suggests some contours of a universal social security system. These must be sharpened.

Second, in a world where workers are atomised as individuals, they must have associations to aggregate themselves to have more weight in the economic debate with owners of capital. Rather than weakening unions to give employers more flexibility, laws must strengthen unions to ensure more fairness. Indeed, many international studies point out that one of the principal causes of the vulgar inequalities that have emerged around the world is the weakening of unions. The NITI Aayog strategy mentions the need for social security for domestic workers too. This will not be enforceable unless domestic workers, scattered across millions of homes, have the means to collectively assert their rights.

Third, all employers in India should realise that workers must be their source of competitive advantage. India has an abundance of labour as a resource, whereas capital is relatively scarce. Human beings can learn new skills and be productive if employers invest in them. Employers must treat their workers — whether on their rolls or on contract — as assets and sources of competitive advantage, not as costs.

The shape of the development process matters more to people than the size of the GDP. Development must be by the people (more participative), of the people (health, education, skills), and for the people (growth of their incomes, well-being, and happiness). How well India is doing at 75 must be measured by the qualities of development, as experienced by its citizens, along these three dimensions. GDP growth will not be enough.

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The inclusion of forest rights in its campaign helped the Congress in Madhya Pradesh and Chhattisgarh

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