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FASHIONING THE FRAMEWORK OF A NEW INDIA

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

The Indian economy is going through a severe crisis: a slowdown as well as a structural crisis. In the words of the former Chief Economic Adviser, Arvind Subramanian, it is headed towards the ICU. Almost all sectors of the economy are in decline: the rate of growth of the national GDP has declined to 5.0%, and may go down further; the construction sector, one of the fastest growing sectors so far, is growing at 3.3% this year; agriculture is growing at 2.1% while the auto sector is declining continuously in absolute terms.

The Micro, Small and Medium Enterprises (MSME) sector too has declined, in turn raising the burden of non-performing assets of the banking sector as well as non-banking financial institutions. Also, exports have been declining in recent years, raising the crisis of current account deficit. Credit from banking and non-banking sectors has been declining in the last few years; the Financial Stability Report of the Reserve Bank of India (2019) says that it is unlikely to increase in the next nine months.

These developments have had an adverse impact on the bottom 30%-40% of the population. The incidence of absolute poverty, which has been falling since 1972-73, has increased to 30% (4% jump). As the Human Development Report (2019) has shown, more than 44% of the Indian population is under the multi-dimensional poverty line. The poorest 50% population at present owns only 4.1% of the national wealth, while the richest 10% people own 73% of the total wealth in India (Suisse Credit 2019). India has 15.2% population malnourished (women 15%) as against 9.3% in China. And 50% of the malnourished children in the world are in India. India’s global hunger rank has gone up to 112 while Brazil is 18, China is 25 and South Africa, 59. In the field of education as per a UN report (2015), overall literacy in India is 74.04% (more than the 25% are totally illiterate) against 94.3% in South Africa, 96.6% in China and 92.6% in Brazil. Almost 40-45% population is either illiterate or has studied up to standard 4. Given the quality of education in India, the overall population is very poorly educated, with the share of ‘educated unemployment’ rising by leaps and bounds.

It needs to be realised that when exports are declining, the economy will have to depend on domestic demand for growth. It is no more feasible for the top 20-25% population to continue growing without depending on the demand from the bottom 40-45% population. There is thus a strong reason now for the economy to increase effective demand of this bottom 40-45% population at least to continue growing — to reach a $5-trillion economy by 2024.

However, this crisis needs to be viewed differently: a major reason for the crisis is that the growth process has marginalised the bottom 40-plus% of the population in the sense that they do not get a fair share of the economic growth, and are more or less deprived of productive employment with a decent income. These people have been treated as beneficiaries to whom some cash/kind grants are thrown at, but they have not been used as active participants in the growth process. Their potential has not been promoted.

Though the bottom population depends on the government for basic health and elementary education (and also for access to higher educational opportunities), the government spends just 1.4% of GDP on health (against the norm of 4-6% of GDP) and 3% of GDP on education (against the norm of 6-8% of GDP). As a result, these people are left hardly literate and sick, with poor nutrition and high morbidity. They are incapable of acquiring any meaningful skills or participating actively when new technology is spreading in the rest of the economy. This suboptimal use of the labour force in the economy is not likely to enable India to achieve optimal growth with proper use of the national resources — the labour force.

One important lesson for policymakers is this: a major solution to the present crisis is to go in for inclusive growth. Here, inclusive growth does not mean only including all sections of the population in the growth process as producers and beneficiaries; it also means “shared prosperity”. Since India has already committed to sustainable and inclusive growth at the UN General Assembly, India is definitely obliged to implement inclusive growth. This should be our “New India”.

Under the “New India” the main requirements are as follows: To start with, to improve the capabilities of the masses as well as their well-being by expanding productive employment opportunities for them. The main steps to expand productive employment for all in the economy should be made up of: a process of inclusion — expanding quality of basic health for all and ensuring quality education to all, which will by itself generate large-scale employment in the government; having a well-educated and healthy labour force will ensure high employability; such people will be able to participate actively in the development process; having a well-educated labour force will help start-ups and MSMEs, in turn triggering a cycle of more productive employment in the economy.

This will also improve the global competitiveness of our production units. Employment guarantee schemes such as the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) will also increase employment. Following the economic logic of R. Nurkse and A.O. Hirschman, assets generated under MGNREGA will expand capital formation in the economy, thereby raising the labour-absorbing capacity of the mainstream economy.

Such a strategy has multiple advantages: First, it will raise incomes and the well-being of those who need it most urgently. Second, it will raise effective demand rapidly, which is so badly needed in the economy today to raise economic growth. Third, growth will be equitable and sustainable.

The discussion had important implications for the Union Budget: need to raise expenditure on health to at least 5% of GDP and expenditure on education to at least 6% of GDP; to push up infrastructural development to enhance capabilities and opportunities of the masses and not just to promote corporate units; to promote agriculture by raising investment in agriculture and not just cash transfer (cash transfer provides relief to them no doubt, and does not raise productivity of agriculture which needs large public investment); and to facilitate credit flow particularly continuous working capital, to labour intensive sectors. Unfortunately, these steps are missing in the recent national Budget.

Finally, how does one raise resources to increase new public investments in the selected sectors mentioned above, especially when public revenue is declining and the claims on public resources are rising? One major strategy is to raise direct taxes, both capital tax and wealth tax. Our experience in the past has shown by following crony capitalism, i.e. providing tax cuts and extra incentives and concessions to the corporate sector, exports increased and also our national GDP no doubt. But this growth does not much percolate to the poor. This is because during the growth process due to special treatment to corporate sector, the political economy radically changed in favour of the rich who are never willing to be taxed to raise government revenue to a level that it is enough to promote the capabilities and the well-being of the marginalised and the excluded.

On the other hand, the unholy alliance between the government and the corporate sector also does not allow them to worry about the poor. Consequently, taxing the rich has to be a major strategy to raise government revenue. Second, if the public expenditure on raising capabilities is treated as social investment rather than social welfare, policymakers will be willing to spend on this capital formation. And, finally, there was no sound economic reason to control fiscal deficit ratio. Sound macroeconomics never supports this.

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