

To tackle the Indian economy's woes, create more jobs

The Indian economy's health is not good. Economic growth decelerated to a three-year low of 5.7% in the June quarter of 2017-18. In the same quarter, the current account deficit hit a four-year high of 2.4% of gross domestic product (GDP). Industrial production grew by a meagre 1.2% in July 2017 compared to a year earlier. Investment demand growth has declined from 7.4% to 1.6% over the last year. Clearly, the economy is not doing well. What should the government do to cure it?

With the patient in pain, the government is moving into high gear to administer relief. With elections less than two years away, the patient must be made to feel better quickly. Several short-term measures for providing income relief at the bottom of the pyramid may be rolled out—a boost to construction activities in low-cost housing and rural roads, more expenditure under the Mahatma Gandhi National Rural Employment Guarantee Act, etc. The drag of non-performing assets (NPAs) in the banking system may also be eased.

However, these pain-relievers will not cure the patient's serious ailment. Though growth has been high in the past two decades, touching even 9% per annum in some years, the Indian economy has been ailing. Inequality has been increasing fast: India is becoming one of the most unequal societies in the world. A cause of this is that the growth of productive jobs and dignified livelihoods is not keeping pace with the growth of the population and its aspirations. By many measures, the Indian economy has one of the poorest employment elasticities in the world. This disease cannot be curbed by short-term palliatives. Fundamental causes must be addressed, and holistic treatment is necessary.

The lack of skills for decent jobs is one of the causes of slow growth in employment, but it is only one. Therefore, a vigorous treatment of it alone has resulted in only 10% of the persons trained by this government's (and the previous one's) focused drive to skill millions finding employment. There is alarm that automation technology will reduce jobs in the future and industry bodies have urged the government to prepare for "Industry 4.0". The recent World Bank report "Trouble in the Making? The Future of Manufacturing-Led Development" should bring policy-makers back to reality. It estimates that only 2% to 8% of jobs in developing countries will be threatened by automation in the foreseeable future. The real risk, the bank's report says, is that "countries will lose out on jobs that are never created". Therefore, attention to the impact of automation on jobs in the future is like preparing the patient for a disease he has not yet got, while the disease he presently has is not diagnosed and treated.

Why are jobs not being created in the Indian economy? And what treatments are required to enable it to generate more jobs and livelihoods faster (and not merely grow faster)? These are the questions that must urgently engage India's policy makers, even while they administer short-term boosts and pain-relievers to the economy.

The generation of many more jobs in the Indian economy requires growth of more enterprises that will enable people to convert their "labour", i.e. the work of their hands and minds, which are the only assets that many have, into incomes; and if their incomes are sufficient and they can save, into financial assets. Therefore, we need more enterprises that engage people as their principal resource. They are required in many sectors, especially the rural, non-farms sector. They are steps on an escalator to progressively build capabilities of people and enterprises, picking them up from where they are, to take them up to more sophisticated levels.

Unfortunately, such enterprises are despised by many economists because they are not productive—that is, they use too much labour, and because they are too tiny and informal to

connect with the formal economy. No doubt these enterprises will benefit by being plugged into the formal economy. It will enable them to obtain finance, access to markets, and to technology more easily. However, ill-conceived thrusts to force formalization on to them (as demonetisation and the introduction of good and services tax have turned out to be), can kill the patient with too much medicine given too fast.

Administering any strong medicine too fast, without first understanding, and then sensitively monitoring its effect on the whole body, often results in the patient becoming worse off. Perhaps India's policymakers also applied the medicine of free trade too fast with the big bang reforms of the 1990s. Inverted duty structures came about from which consumer-facing assemblers benefited. It also made consumers happy with the variety of international branded products they could buy. However, India's capital goods and machinery production sectors suffered. Whereas India and China were comparable in the strengths of their machine-building capabilities in the early 1990s, now China's capital goods sector is over 50 times larger than India's, and India imports a huge amount of capital goods from China.

The Indian economy is suffering from a combination of two diseases: a laissez faire approach to industrial and trade policies since the 1990s, and knotted-up administration. Many more enterprises that employ labour, as well as more industries with technological depth, are required to improve the health of the Indian economy. A clutter of branded schemes with catchy acronyms will not heal the patient.

"Systems thinking" is essential for stimulating sustainable growth. The effects of policies that may be good for one part of the system must be understood before they are implemented in other parts. Otherwise, they can become "fixes that backfire", as the vigorous skilling mission had become, as well as the rush to demonetise, and some of India's free trade agreements too. Moreover, a "whole of government" approach is required for coordinated implementation at several levels, at the Centre, in the states, and on the ground—which will truly make it easier to do business in India.

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