

'India's main challenge will be finding jobs amid automation'

No elbow room: "Total debt as a percentage of global GDP has gone up. You are sort of stuck," says Lord Turner. Reuters

While the global economy is in a "much better position" than it was before last year, India's major challenge will be to find jobs for its working-age population which is forecast to increase from about 740 million to 1.3 billion by 2050, Lord Adair Turner, chairman of U.K.-based Institute for New Economic Thinking said in an interview.

Information and communications technology is driving an increasingly unequal world, Mr. Turner said. "For emerging economies such as Africa, a very rapidly growing working population is a major challenge. India is in an intermediate position."

Job creation is not expected to pick up in 2017 and 2018 and unemployment in India is projected to increase from 17.7 million in 2016 to 17.8 million in 2017 and 18 million next year, according to a UN Labour report released earlier this year. In percentage terms, unemployment rate will remain at 3.4% in 2017-18, according to the report.

2008 crisis

The former Chairman of the U.K.'s Financial Services Authority said that at least five decades before the financial crisis of 2008, there had been a surge in private debt. It went from 50% of global gross domestic product in 1950 to 170% in 2007, with most of that debt falling in the category of real estate — mortgage or commercial real estate, he said.

"That build-up of debt created a situation where more debt was created in real estate, which went up in value. This saw people borrow more money and banks said they can lend money as real estate is going up in value, so it is safe. It goes in this very powerful upward spiral and then it cracks."

"It is very important to take a global view of the debt overhang in the economy," said Mr. Turner, who was in Bengaluru to deliver the Azim Premji University's 'Resurrecting the Public' lecture series.

"The challenge we now have in this global economy is that the total amount of debt has not gone down. The total debt as a percentage of global GDP has gone up. You are sort of stuck."

The existing debt levels are only sustainable if interest rates are very low, he said. "But very low interest rates encourage people to create more debt which may create more problems in the future. We will see the U.S. Federal Reserve now increasing interest rates and maybe the Bank of England a bit. I think, as we get into 2020, we will see interest rates in Japan are exactly where they are today. Zero."

"In the eurozone, they are pretty much where they are, which is zero. I think in the U.K. they maybe more than 1% at the most and in the U.S. they may be at 2.5%. So in historical terms, they will still be very low. I don't think it will go higher than that without pushing the economy back into a recession and so there are some unanswered questions on how we deal with the situation."

U.S., China

After 2008, the U.S. and some European countries saw a significant number of households and

corporates having to deal with the situation and public debt in the U.S. and in China shot up, Mr. Turner said.

“Banks will lend to the real estate more so in the future as the information and communications technology don’t need much to invest. Look at how much Facebook had to invest to be worth about \$400 billion and compare to how much Henry Ford had to invest in machinery, and people had to invest in steel mills to produce the machinery.

“This is a world of huge wealth creation without much investment. In this scenario, it is not surprising that a large portion is towards real estate or consumer lending. I do not think we need to stop that. We need to recognise the dangers that come with that and manage the debt.”

If India has a large concentration of bad debt then “you end up with a festering problem which the free market is not capable of solving.”

“The free market has a group of people both from the borrower and the lending side who have personal incentives to let the problem roll over for a month or a year. Indian banking system could be as bad or good as any other system which means it will create a real estate boom or bust. I don’t think India is uniquely good at avoiding that.”

‘Industrial class’

“In India, the problem has been lending for large industrial class. That is different from what we advanced economics face. It is incredibly important too.”

Mr. Turner said: “The global economy is moderately in a good position for the next two years. But a lot of fundamentals are not addressed. Debt overhang is fundamentally not addressed. Alongside that we are likely to see an increasing effect of information and communications technology on the automation of jobs.

“I think that is probably what lies behind the extraordinarily low level of wage inflation in developed economies...You don’t see any wage pressure. I think it has something to do with the capacity [building] towards maintaining information technology.”

“We have to think of universal basic income and what public sector has to do with health, education, infrastructure and cities which are liveable for people of all income levels,” he said.

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