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# THE SLOW CLIMB TO THE TRILLION ECONOMY PEAK

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Demographic Economics & Various Indexes

On Independence Day, the Prime Minister expressed confidence that India would be a $5-trillion economy in 2024, a line that has been picked up by ruling party leaders, Ministers and also senior government officers.

However, this is surprising as the impact of economic growth on major development goals — examples being improvement in education, health and overall human development/human capital formation; expansion in productive employment for all and environmentally sustainable development, etc — depends on the nature and composition of growth.

The economic growth experience in India in recent decades has shown that growth has had an adverse impact on all these developmental goals. To start with, Credit Suisse, for example, has shown recently that 1% of the wealthiest in India increased their share in wealth from 40% in 2010 to more than 60% in the last five years, and the richest 10% in India own more than four times wealth than the remaining 90%. That is, if we proceed on the same growth path, a large part of the increase in wealth and GDP will be claimed by the top 10% richest population in India. In other words, the top 10% will take away the lion's share of the $5-trillion incomes if and when we reach the target of $5-trillion economy.

Our growth experience so far shows that the rate of growth of employment has declined with increasing economic growth; we have now reached a stage where the economy is suffering from the highest ever unemployment rate. With rising population and, consequently, the labour force, India will soon experience demographic disaster rather than demographic dividend. The story of health and nutrition is also quite similar. The literacy rate has grown very slowly and according to the United Nations, India's literacy was 71.1% in 2015. India is now far behind many African countries such as Rwanda, Morocco and Congo in terms of literacy. According to the Annual Status of Education Report (ASER) 2018, about 70-74 % children (in the age group 6-14 years) go to school regularly; far fewer go to secondary school. The quality of education is far from satisfactory, if one is to read ASER 2018.

There is an urgent need for a quantum jump in public expenditure on education in order to fill wide gaps in infrastructure, training and retraining of teachers and to ensure a strong follow up on the quality of education. However, as against the norm of 6% of GDP, the government spend is around 4% of GDP on education. It is the same when it comes to the story of health, where the decline in malnutrition, particularly among women and children is very slow; against the norm of 3% of GDP, the government spends around 1.5% of GDP on health. Finally, in the process of growth in India, there has been a severe depletion and degradation of environmental resources. A recent Intergovernmental Panel on Climate Change report has warned India of the seriousness of climate change and its severe adverse impact on the environment and the livelihood of masses.

Another major concern about reaching the aim of a $5-trillion economy is that at present the economy is experiencing a severe slowdown; it would be very difficult to raise the rate of growth to reach $5 trillion in 2024 unless we focus on human capital formation and address the real reasons for the slowdown. As NITI Aayog has observed recently, the present crisis is the worst crisis India is facing since the Independence. The rate of economic growth, at 5%, is the lowest in the last few years. Also, the rates of savings and investment in the Indian economy have declined, as also exports and total credit. Among the major industries, the automobile industry is

experiencing continuous decline, which has led to the retrenchment of 3.5 lakh workers so far. Apart from the ancillaries of the automobile industry, many other industries are declining fairly rapidly too — examples are diamond cutting and polishing, textiles and garments, and several Micro, Small and Medium Enterprises (MSME).

All this has affected trading and business units. Agriculture is in crisis today on account of rising costs of inputs and low prices of produces, and low public investments in this sector. Again, agricultural real wages are in decline and non-farm wages are constant if not declining; urban wages are also declining in recent years. As a consequence of all these developments, there is a crash in the aggregate demand in the economy.

What is needed urgently is for the government to increase public expenditure in investing in agriculture — in infrastructure, inputs, extension, marketing and storage and training — and in providing profitable prices to farmers. It should also raise funds for the Mahatma Gandhi National Rural Employment Guarantee Act to push up demand by following a Keynesian approach.

It should raise public employment by filling all vacant sanctioned posts in the Central and State governments, which would be around 2.5 million jobs. The government should also regularise contract, casual and “honorary” jobs and make them regular jobs. Increasing additional jobs for ensuring basic health and good quality education up to secondary level to all so that any meaningful skill formation is possible should be another aim. Human capital formation will give a big push to start-ups and MSMEs. And, finally, the government should also focus on promoting labour intensive sectors such as gems and jewellery, textiles and garments and leather goods. The government should not worry about the fiscal deficit ratio as these measures will address the major problems of the economy.

What we witness, however, is that public expenditure is declining continuously in the last few years, As the Centre For Monitoring Indian Economy Pvt. Ltd. has pointed out, public expenditure has declined to the minimum in the last five years. Steps such as rolling back some budgeted tax proposals, providing a stimulus package to industries, raising foreign direct investment flows, reducing Goods and Services Tax to help industries are not likely to increase much aggregate demand in the economy. Also, reduction in repo rate by the Reserve Bank of India and asking banks to pass on reduced rates to customers, recapitalisation of banks by 70,000 crore to raise liquidity in the economy and other steps to ease credit flows to the economy are all supply side measures; the real problem is a crash in the aggregate demand.

Let us hope that the government looks at the weaker sectors and sections to get out of the crisis if not to improve their well-being.

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