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Growth Matters

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This article is based on **Growth matters but income levels matter more** which was published in The Hindu on 14/07/2021. It talks about the challenges facing economic growth and ways to achieve a high growth rate.

After the **Covid-19** shock economic growth has been showing a downward trend and private investment and demand has also been decreasing.

In the context, India needs a sharp revival of demand for which higher per capita incomes are necessary.

However, there are several challenges needed to be tackled in order to increase the demand and economic growth rate.

Some Observations About Economy

- The agriculture sector continued its impressive growth performance, reiterating that it still remains as the vital sector of the economy, especially at times of crisis.
- The manufacturing sector continued its subdued growth performance, failing to emerge as the growth driver, with production interruptions due to localised lockdowns to be blamed.
- The contraction in trade (-18.2%), construction (-8.6%), mining (-8.5%) and manufacturing (-7.2%) is a matter of concern as these sectors account for the bulk of low-skilled jobs.

Challenges Confronting Economic Growth

- **Rising unemployment rate:** According to the Centre for Monitoring Indian Economy (CMIE), in May 2021, India's labour participation rate at 40% was the same as it was in April 2021. But, the unemployment rate shot up to 11.9% from 8%.
    - A stable labour participation rate combined with a higher unemployment rate implies a **loss of jobs** and a fall in the employment rate.
    - According to CMIE, over 15 million jobs were lost in May 2021, higher than the 12.3 million in November 2016, the month of demonetisation.
- **High Informality:** Job losses bring out the high informality and vulnerability of labour in India as of the total jobs lost during pandemic were of daily wage earners.This challenges inclusive growth and higher economic growth potential of the country.
- **Low Business Confidence:** Business confidence index (BCI), from the survey by the FICCI, has fallen down severely. **Purchasing Managers Index (PMI)** has also slipped to a 10-month low indicating that the manufacturing sector is showing signs of strain with growth projections being revised lower.

    Both BCI and PMI slipping down indicates that the overall optimism towards 2021-22 is low, which could **impact investments and cause further job losses**
- **Weak Demand:** With household income being severely impacted and past savings being already drawn on during the first wave of **covid-19 pandemic,** demand conditions are weak.

Issues With India's Policy Response

- There has been **less direct action by the government** to support the vulnerable to alleviate their hardships.
- The bulk of the **policy measures are supply side measures** and not on the demand side.

    In times of financial anxiety, what is needed is direct state spending for a quick demand boost.
- Large parts of all the stimulus packages announced till now would work in the **medium term** (not immediate). These include policies related to the external sector, infrastructure and manufacturing sector.
- The use of credit backstops as the main plank of policy has limits compared to any direct measure on the demand side as this could result in poor growth performance if private investments do not pick up.
- Further, the credit easing approach would take a longer time to multiply incomes as lending involves a lender's discretion and borrower's obligation.

Way Forward

- **Sharp Revival in Overall Demand:** Growth recovery depends on demand recovery. Increased demand will come only with increased saving and increased income levels.
    - Investment, especially private investment, is the "key driver" that drives demand, creates capacity, increases labour productivity, introduces new technology, allows creative destruction, and generates jobs.
- **Export Promotion:** External demand looks robust as India's exports touched USD 32 billion in May 2021, 67% higher than in May 2020 indicating that global demand rebound is fast.
    - Also Export finance can be provided to exporters.
- **Increasing the MGNREGA funding and expanding to Urban areas:** The **MGNREGA** programme has proved to be a bedrock of support in the normal times and during times of difficulty (like Covid-19) and it will be a good idea to expand the scheme to urban areas.
- **Transfer of Cash benefits:** A meaningful cash transfer can restore confidence in these families. Money in the hands of people can provide an immediate sense of security and confidence, which is the cornerstone to restoring economic normalcy.
    - It will raise the consumption and demand of the economy and can bring back the virtuous cycle in play.
- **Use of technology:** With rising internet penetration, governments should collaborate with industry leaders to create online tutorials in local regional languages to impart knowledge and skills to all.
- **Promoting labour-intensive sectors** such as gems and jewellery, textiles and garments and leather goods.

Conclusion

Focusing on growth rates has its merits in the long term as achieving higher income levels require sustained growth for longer periods.

India is slowly but surely on the path to economic recovery and investment is the way to sustain this growth momentum.

Drishti Mains Question

Direct action through government policy response to create demand is the ideal way to sustain the growth momentum. Comment.