Sambhav-2023

Day 83
Question 1: What is the potential Gross Domestic Product (GDP). Discuss its determinants. Also mention the factors which constrained India in achieving its potential GDP. (250 words)

Question 2: Inclusive growth is sine qua non for sustainable economic growth. Illustrate. (150 words)

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Approach / Explaination / Answer

Answer 1

Approach

- Give a brief introduction about Potential Gross Domestic Product.
- Highlight the determinant factors on which Potential Gross Domestic Product depends.
- Mention the factors which are acting like a constraint on achieving potential GDP in India.
- Write a holistic and effective conclusion.

Introduction

- The **potential Gross Domestic Product (GDP)** refers to the highest level of output **(goods and services)** that an economy can produce **without generating inflation.**
- It is a **theoretical concept** that represents the **maximum level of output** that an economy can achieve in the **long run**, given its available **resources, technology,** and **potential for growth.**
- The **potential GDP** is often used as a **benchmark to gauge** the actual level of output in an economy, and to measure the extent to which an economy is operating at or above its potential.

Body

- **The potential Gross Domestic Product (GDP) is determined by several key factors, including:**
    - **Labor force**: The size and quality of the labor force is one of the most important determinants of potential GDP. A growing and well-educated labor force can increase the economy's potential for growth and productivity, while a declining labor force can limit the economy's potential for growth.
    - **Capital stock:** The amount of physical capital, such as buildings, machines, and equipment, in an economy affects the economy's potential for growth. The accumulation of capital can increase the potential for productivity and output, while a lack of investment in

    capital can limit the economy's potential for growth.
    - **Technological progress:** Technological advancements can increase the potential for growth and productivity by improving the efficiency of production processes, increasing the quality of goods and services, and reducing the cost of production.
    - **Natural Resources:** The availability of natural resources, such as land, minerals, and energy, can impact the economy's potential for growth. If these resources are abundant and easily accessible, the economy's potential for growth can increase, while a lack of resources can limit the potential for growth.
    - **Economic Structure:** The composition of an economy's industries and the distribution of economic activity can impact the economy's potential for growth. For example, if an economy has a strong manufacturing sector, it may have a higher potential for growth than an economy that relies heavily on agriculture or services.
    - **Policy environment:** Government policies, such as tax and regulatory policies, can also impact the economy's potential for growth. Policies that support investment and innovation can increase the potential for growth, while policies that stifle investment and innovation can limit the potential for growth.
    - **Demographic factors:** Demographic factors, such as population growth, aging, and migration, can also impact the economy's potential for growth. For example, a rapidly aging population can limit the potential for growth by reducing the size of the labor force, while a growing and youthful population can increase the potential for growth.
- **There are several factors that have constrained India in achieving its potential Gross Domestic Product (GDP) growth:**
    - **Infrastructure:** India faces significant infrastructure challenges, including inadequate transportation systems, energy shortages, and limited access to modern communication and technology. These constraints limit the country's ability to attract investment, increase productivity, and stimulate economic growth.
    - **Regulatory Environment:** India's complex and bureaucratic regulatory environment has been a major constraint to the country's economic growth. This includes regulations that limit foreign investment, slow the process of starting a business, and restrict the flow of goods and services across borders.
    - **Agricultural productivity:** Despite being one of the world's largest agricultural producers, India's agricultural sector is characterized by low productivity, outdated technology, and poor infrastructure. This has limited the sector's potential to contribute to economic growth and has resulted in persistent food security challenges.
    - **Education and skill development:** The quality and relevance of education and skill development programs in India have not kept pace with the changing needs of the workforce. This has led to a shortage of skilled workers and a mismatch between the skills of the workforce and the needs of the economy.
    - **Political stability:** Political stability is a key factor in attracting investment and promoting economic growth. India has faced political instability and policy uncertainty in recent years, which has reduced investor confidence and limited the country's ability to attract foreign investment.
    - **Corruption:** Corruption remains a persistent challenge in India, affecting the delivery of public services, the business environment, and economic growth. The corruption has a direct impact on the economy by reducing investment, slowing down economic activity, and distorting market competition.

Conclusion

Potential GDP is determined by the quantity and quality of available resources, technological progress, and the efficiency of the production process. Understanding potential GDP is essential for policymakers as it provides a benchmark for determining the economy's growth potential and determining the appropriate monetary and fiscal policies to promote sustainable economic growth. Accurately estimating potential GDP is challenging, and different methods may yield different results. However, it is widely recognized as a valuable tool for understanding the underlying trends and dynamics of an economy and making informed decisions that can positively impact the overall well-being of a society.

Answer 2

Approach

- Write a brief introduction about inclusive growth.
- Describe the importance of inclusive growth in sustainable growth.
- Write a holistic and effective conclusion.

Introduction

- **Inclusive growth** refers to an **economic growth** that is both **rapid** and **broad-based, benefiting** all segments of the **population, particularly** the most **disadvantaged** and **vulnerable.**
- It is considered a **sine qua non,** or **essential condition**, for **sustainable economic growth** because it ensures that the benefits of economic progress are widely shared and that no one is left behind.

Body

- The push for economic growth in recent decades has led to substantial increases in wealth for large numbers of people across the globe. But despite huge gains in global economic output, there is evidence of exacerbating inequalities and volatility.
- According to the Oxfam Report, in India, the top 1% holds 51.53% of the national wealth, while the remaining 99% make do with almost 48%.
- Inclusion and economic growth go hand in hand, and one leads to another and both lead to a sustainable future.
- The concept of sustainable development was described by the 1987 Brundtland Commission Report as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”
- Inclusive economic development will include poor, vulnerable, marginalised, women, youth and people from every stratum of society in economic activity for a sustainable future.
- **Women:** Women account for 49.5 % of the population of the country and their inclusion in the workforce and economic activities (presently only 19%) will greatly contribute to the growth and sustainability of the economy. It will lead to fulfilment of Sustainable Development Goal (SDG) 5 and 10.
  - The initiatives like Maternity Benefit Act and Janani Suraksha Yojana to compensate women’s workforce loss is a step towards sustainable economic growth.
- **Farmers:** In India, approx. more than 50% of the population is dependent on agricultural activities. Inclusivity of farmers in the value chain, value addition with adequate skill is prerequisite for food security for the nation and achievement of SDG 2 in particular and SDG1 in general.
  - Bringing millets among the popular diet by International Millet year, will benefits farmers of dry prone regions and economic inclusivity among farmers itself.
- **Youth:** The youth age group 15-35 years account for 66% of India’s population (as per ILO). This population indicates the demographic dividend in India, which will last till 2055-56.
  - Inclusion of youth in a country's economic journey by providing them with skills and employment (by schemes like PMKVY or Skill India Mission) will contribute greatly to long term sustained economic growth. A skilled and capable youth can strive to achieve almost all the SDGs and especially SDG 8.
- **Tribal:** In India tribes are the poorest among the poor. Their inclusion in the mainstream economy with skills. Their development by respecting the cultural and social sentiment can increase India's workforce more than 5%. It will increase social and cultural sustainability. The sustainable lifestyle of tribals is a learning chapter for the world to achieve the SDG.
  - The schemes like Eklavya Model Residential Schools for education to tribal youth and Skill development program like GOAL (Going Online as Leaders) will provide them their proportional share in the growth of pie and bring an inclusive society.
- **Small Businesses:** There are more than 60 million small businesses in India.
  - Formalization of all the firms in economic, legal, Labour norms will not only lead to welfare of all the stakeholders but also achievement of SDG 8, 9 and 10.
  - The initiatives like viable gap funding and credit link subsidies create a preferable environment that will let small businesses thrive along with great conglomerates.

- **Regional Inclusivity**: Uneven progress of development in India leads to a mega industrialised region at few places but others left from the development journey of India. Holistic and inclusive regional development will make India vibrant and flourished with strong institutions and peace. It will help India to achieve SDG 16 and 17. And will prevail for future prosperity.
    - In inclusive economic development the share of development must reach to every individual.

Conclusion

Therefore, Sustainability and inclusive growth can't be achieved in isolation, and they supplement each other. In this way, economic inclusion will lead to financial, social, cultural, political and environmental sustainability.

Goal 8 of Sustainable Development Goals specifically aims to promote inclusive and sustainable economic growth. We should work together toward expanding opportunities and reducing vulnerabilities with the hope to ensure sustainable economic growth for all, leaving nobody behind to achieve "Sabka Sath, Sabka Vikas, Sabka Vishwas" for New Inclusive India.