Economy must run faster to address socio-eco problems

C RANGARAJAN

FORMER CHAIRMAN OF THE ECONOMIC ADVISORY COUNCIL TO THE PM AND FORMER GOVERNOR, RBI

INDIA'S ECONOMIC JOURNEY started with Independence. Many people do not realise that India's economic progress in the first half of the twentieth century under British rule was dismal. During these five decades, India's annual growth rate was just 0.9%. With population growing at 0.83%, per capita income remained almost flat. Immediately after Independence, growth became the most urgent concern for policymakers.

The dominant view in the literature on development economics in the 1950s and 1960s was that the government had an important role to play and that it should undertake activities that would compensate for 'market failure'. The literature also emphasized the benefit of a coordinated and consistent set of investment decisions.

It is this line of reasoning that led most developing countries, including India, to formulate economy-wide plans. Though India adopted a mixed economy, the mix was tilted heavily towards state, at least incrementally. However, by the 1970s, it was becoming clear that the model we had chosen was not delivering. But our policymakers refused to recognize this. It was around that time China made a big change.

It was the crisis of 1990–91 that compelled the policymakers to turn to an 'idea whose time had come'. The break with the past came in three important directions - first to dismantle the complex regime of licences, permits and controls, second to reverse the strong bias towards state ownership and third to abandon the inward-looking trade policy.

ATMANIRBHAR SHOULD NOT RESULT IN PURE IMPORT SUBSTITUTION. AN OPEN ECONOMY WITH SOME LIMITATIONS IS STILL THE BEST ROUTE TO FOLLOW

Trends in growth

India's average growth till the end of the 1970s remained modest with the average growth rate being 3.5%. However, on several parameters, there were noticeable improvements, such as the literacy rate and life expectancy. There was breakthrough in Agriculture after Green Revolution.

The industrial base was also widened. The Indian economy did grow at 5.6% in the 1980s. But it was accompanied by sharp deterioration in the fiscal and current account deficits and the economy faced the worst crisis in 1991–92.

Between 1992–93 and 2000–01, GDP at factor cost grew annually by 6.20%. Between 2001–02 and 2012–13, it grew by 7.4% and the growth rate between 2013–14 and 2019–20 was 6.7%. The best performance was between 2005–06 and 2010–11 when GDP grew by 8.8%, showing what the potential growth rate of India was. During this period, the investment rate reached the peak of 39.1% in 2007–08. However, the growth story suffered a setback after 2011–12.

The decline in growth rate which started well before the advent of Covid-19 should make the policymakers reflect and introspect. The growth performance since 2012–13 is a bit difficult to interpret. The introduction of a new series on national income with the base 2011–12 has raised many controversies. After good performance in 2015-16 and 2016-17, growth started declining and touched the level of 3.7% in 2019–20. In fact, this period is marked by a sharp decline in gross fixed capital formation rate from 33.4% of GDP in 2012–13 to 28.8% in 2019–20.

The economic impact of Covid-19 is largely because of the actions taken to contain the spread of Covid-19 such as the lockdown. The net result has been a decline in growth rate by 6.6 per cent in 2021 and a rise in growth rate by 8.7% in 2021–22. The economy is virtually where it was in April 2020. We have lost two years. The decline in output is even greater when looked at from the trend rate of growth.

2022–23 could have been the first normal year after Covid-19. However, the economic impact of Russia-Ukraine war can be severe, if it continues for long. The sudden surge in crude oil prices can severely affect our BOP and the current account deficit can rise to 3% of GDP or even higher. Perhaps, we should settle for a growth rate of 7% in 2022-23.

Challenges and opportunities

Post Covid-19 and post the Russia–Ukraine war, there is need to lay down a clear roadmap for India's future development. Initially, we need to raise the growth rate to 7% and then follow it up with a growth rate of 8 to 9%. We have shown that in the past we can have a growth rate of 8 to 9% over a sustained period of six to seven years. What is needed is to raise the investment rate steadily back to around 33% of GDP.

India's future growth path cannot be unidimensional. We need a strong export sector, both of goods and services. We also need a strong manufacturing sector domestically both with a view to meeting the domestic demand as well as providing employment to a wide cross section of talent. Our own 'sunrise industries' will be different from those of other countries. The rapid pace of globalization that we saw since the beginning of the 1990s will slow down for a variety of reasons. Atmanirbhar should not result in pure import substitution. That is neither economically sound nor is it desirable. An open economy with some limitations is still the best route to follow.

We need to raise the savings and investment rates rapidly and keep the ICOR around 4 which is a reflection of the efficiency with which we use capital and labour. Growth is the answer to many of our socio-economic problems. In terms of growth, we have a long way to go. We need to run faster.