

1. Fix The Fundamentals First

Context:

- ▶▶ India's GDP growth rate has slowed down to 5 per cent in Q1 of FY20 and is expected to be around 6 per cent or below in this financial year. This recent slow down leads to job losses in the many of the sectors particularly in automobile sector.

Causes for the Slow Down:

- ▶▶ Former RBI governor Y V Reddy mentioned recently, a **combination of cyclical and structural factors** have been responsible for the slowdown. One example is the auto sector.
- ▶▶ There seems to be a **collapse of aggregate demand in the economy**. **Global uncertainties** have also added to the problem.
- ▶▶ Besides these, there are structural issues like **physical infrastructure development, raising human capital and revival of rural economy**.
- ▶▶ In a recent book Dani Rodrik discuss two challenges faced by countries like India. The **“structural change challenge”** is focused on moving resources from traditional low-productivity activities into modern, more productive industries or activities. Second is the **“fundamentals challenge”** relates to development of broad capabilities such as infrastructure and human capital.

How to Revive Economy?

- ▶▶ In the present context, some kind of **pump priming** from the government is necessary to take care of both cyclical and structural factors. This can be done without compromising much on fiscal deficit targets.
- ▶▶ **Disinvestment, reducing non-merit subsidies, removing exemptions, increasing tax base and shifting from revenue to capital expenditures** are some of the measures for raising government investment.
- ▶▶ The government fast tracking public capex, encouraging PSEs to invest more and trying to clear the pending bills for the corporate sector and MSMEs.
- ▶▶ The announcement of Rs 100 lakh crore over five years for infrastructure by the government is an important measure.
- ▶▶ However, details on how to get finance, the roles of public and private investment, and the contract structures like PPPs are not clear. **The Vijay Kelkar committee's recommendation on PPPs** would be useful here.

- ▶▶ The **private sector's role** is equally important. Spending on infrastructure will have multiplier effects in the overall economy including stimulating private investment, aggregate demand and jobs.
- ▶▶ **NSS employment data** shows that shares of **agriculture, industry and services** in total employment were **44 percent, 25 per cent, and 31** percent respectively in 2017-18. But the share of **manufacturing employment** was **only 12 per cent**. There is a need for rise in infrastructure investment, structural reforms in land acquisition and a favorable exchange rate for exports to revive the manufacturing sector which showed 0.6 per cent growth in Q1.

How to get Sustained Higher Growth?

- ▶▶ The second structural issue is **raising human capital for higher growth. Health and education** achievements are essential for human capital. We have great quality dichotomy in both these sectors.
- ▶▶ There are islands of excellence that can compete internationally in education while vast majority of them churn masses of children with poor learning achievements and unemployable graduates.
- ▶▶ **The NITI Aayog says that only 2.3 per cent of Indian workers have Formal Skill training** compared to 70 to 80 per cent in other countries. Promotion of technology and knowledge economy will add to growth. One can't have a "demographic dividend" for growth with low human capital. In order to have structural change from agriculture to non-agriculture and from the unorganized sector to the organized sector, education and skill development are needed. **Women's labour participation** rates have been low and declining. Raising women's human capital and participation rates can improve economic growth. We may also not achieve high human capital and productivity with **40 per cent of our children suffering from malnutrition.**

Importance to Rural Economy:

- ▶▶ We can't expect demand to increase **as 70 per cent of our population lives in rural areas** and has stagnation incomes and wages. There is a need for revival of the rural economy with infrastructure investment and structural reforms. **Agricultural marketing reforms** should be a priority. For better price discovery, agriculture has to go beyond farming and **develop value chains comprising farming, wholesaling, warehousing, logistics, processing** and retailing. Agricultural exports should be promoted with various policies.

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- ▶▶ Similarly, rural infrastructure and water management are other priorities. Stimulus and structural reforms can raise farmer's prices and wages and rise in demand for manufacturing and services.

Way Forward:

- ▶▶ Both immediate and long-term structural reforms are needed to achieve sustainable 7 per cent to 8 per cent economic growth.
- ▶▶ The centre has to work closely with states similar to GST council for achieving higher growth.

