

1. Tale of Twists

Context:

- For India to gain from its population, the growth story needs to shift from megacities to medium-sized centres

Background:

- Indian economy has taken intriguing twists and turns as regards structural transformation and growth.
- Some reflect the great leap India has already made, others promise a huge potential in the future.
- But, India's growth engines are concentrated in its megacities. China has shown a more even spatial growth pattern—much like the US, its engines of growth have shifted to medium-size cities.
- **Lack of physical and Human Infrastructure**, which limits production possibilities and market access of all but a handful of dense clusters, has resulted in **lopsided spatial development in India**.
- This would **restrain future trends in economic growth, and Job Creation**. Thus, policy makers must scale up investments in basic infrastructure services—transport connectivity, seamless mobility, all-weather roads, etc—in medium-size cities.

Distorted Land Markets:

- Is capital, labour, or land at the root of the banking problem India faces? Conventional theory argues that labour markets are more distorted than other factor markets.
- Evidence, however, indicates that land markets are more so. Less efficient firms access more land compared to more productive firms.
- Since **access to bank loans is disproportionately tied to land**, capital also gets misallocated. Both, land and capital misallocation, are worse than labour misallocation—this is at the root of the triple-balance-sheet problem. Impacts of factor market distortions:
- Factor market distortions have resulted in huge spatial disparities in access to finance across states.
- Access to bank loans is significantly higher in states like Gujarat, Punjab, and Haryana, which access more than 90% of the bank loans to manufacturing enterprises
- It is much lower for states like Bihar and UP, which are future growth drivers, and could hugely benefit from their demographic dividend.

- **The best-known distortion in factor market is the “missing middle”, where a handful of billionaires coexist with millions of small enterprises.**
- It is estimated that factor market misallocation alone has reduced India’s productivity growth by 2% a year
- If India improves factor market allocation to US levels, it will experience a 60% increase in productivity.

Female Labour Force Participation – Future Growth Driver:

- **Future growth-driver will be increased female labour force participation through reduced discrimination and wage difference, and practices promoting women into leadership and Managerial Roles.**
- India’s structural transformation and market liberalisation have not reduced gender disparity. Access to land and capital for female-dominated enterprises remains much lower. **Increased investment in physical and human infrastructure is needed to unleash gender as a new growth driver.**
- Due to the nature of household responsibilities, India’s poor infrastructure has greater adverse effects on women. Poor transport infrastructure in villages, as well as social norms impose constraints on women’s mobility, and safety.

Services Sector Growth:

- India’s structural transformation would do well to gain insights into the spatial growth patterns of the modern services sector.
- Technology has digitised services without compromising on quality. Trade in services has been the fastest growing component of world trade in the last two decades.
- While modern services have attracted a lower profile in India’s development discourse relative to manufacturing, they can offer several advantages over the latter.
- They create many more jobs, and contribute more to productivity growth. They also employ more women, and are less likely to despoil the environment
- They are less vulnerable to protectionism, and are not tied to big cities, growing rapidly in medium-sized cities like Bangalore and Hyderabad.
- Services could be the new growth engine promoting inclusive spatial development in secondary cities.

Conclusion:

- A shift towards a middle-class society is already occurring. Growth, education, home ownership, and better economic security are causes and consequences of an expanding middle class, which has the potential to increase to 1 bn in the future.
- India's middle class has the potential to rise more rapidly compared to China's since Indian households will benefit more from future growth given the prevailing distribution of Income.

