THEIR VIEW

India at 75: A less poor but more unequal nation with too few jobs

Independent India turning 75 calls for celebration as much as reflection on the uneven outcomes of our development path

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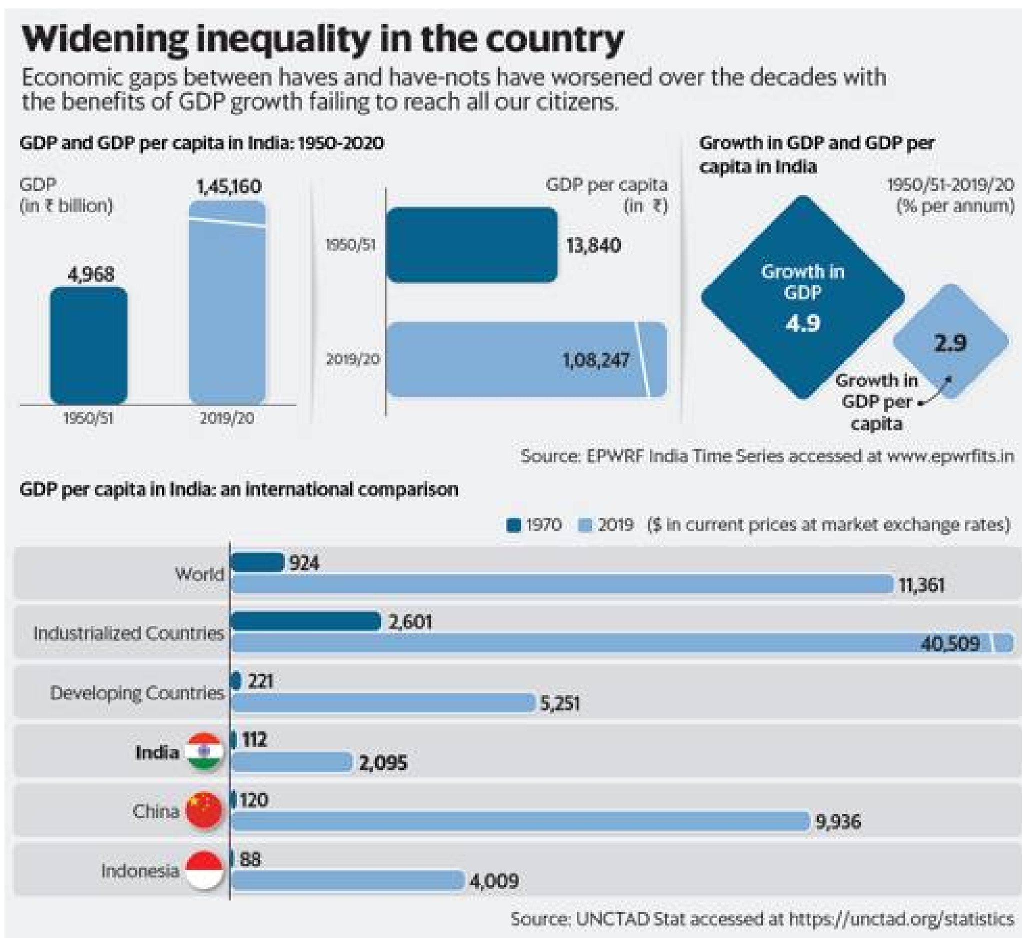

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Independent India turns 75 on 15 August. It is a time for celebration. But such occasions are also a time for reflection and introspection.

During the period 1950-51 to 2019-20, for which evidence is available, in real terms, growth in GDP was 4.9% per annum while growth in GDP per capita was 2.9% per annum. Thus, over seven decades, GDP multiplied by just over 29, doubling every 14 years, while GDP per capita multiplied by almost 8, doubling every 24 years. This provides a sharp contrast with the period 1900-01 to 1946-47 during the colonial era, when national income growth was 1% per annum and per capita income growth was 0.2% per annum. At these growth rates, national income would have doubled in 70 years, while per capita income would have doubled in 350 years! Political independence, which restored economic autonomy and enabled India to pursue its national development objectives, made the change possible.

In comparison with other countries during the post-colonial era, this performance was not as good as that of East or Southeast Asia, and it was not as bad as that of Africa. It was average. A comparison between the three Asian giants—India, China and Indonesia—at similar levels of development when they attained political independence in the late 1940s, is instructive. Between 1970 and 2019, using national accounts statistics compiled by the United Nations, per capita income as a proportion of that in industrialized countries rose from 4.3% to 5.2% in India, 4.6% to 25% in China and from 3.4% to 10% in Indonesia, while their per capita income as a proportion of that for the world economy rose from 12% to 18% for India, 13% to 87% for China and 10% to 35% for Indonesia.

Economic growth in India has been associated with unequal outcomes that have created divides between regions, sectors and people. The west and south of the country have surged ahead, while the east and north have lagged behind, widening the gap between richer and poorer states. Over the period 1950-51 to 2019-20, the agricultural sector's share in GDP fell from 58% to 15%, whereas the share of the rural population (dependent directly or indirectly on agriculture) in our total population decreased from 85% to 65%, so that the ratio of GDP per capita in the agricultural sector to that in the non-agricultural sector dropped from one-half to one-tenth, leading to a massive rural-urban divide. Modest growth during 1950-1980 was associated with a steady decline in economic inequality between people. But rapid growth since 1980 has been associated with a dramatic increase in economic inequalities. For India, the *World Inequality Report* estimates that in 2021, the share of the top 1% in national income was 21.7% and that of the top 10% was 57.1%, while that of the bottom 50% was only 13%. Similarly, the top 1% held as much as 33% of total wealth and the top 10% held 65% of total wealth, while the bottom 50% had a mere 6% of total wealth. This enormous rich-poor divide places India among the highest-inequality nations in the world.

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Rapid economic growth in India, starting 1980, did lead to a substantial reduction in absolute poverty. Yet, the scale of absolute poverty that persists is striking. Poverty reduction could have been much greater were it not for rising inequality. Lost livelihoods during the covid pandemic probably accentuated the problem. Although poverty lines and poverty estimates are always a source of contention, the number of poor people in India in 2022, perhaps 20-25% of our population, might be close to the total population of India in 1947.

Economic growth can be transformed into meaningful development only if it brings about an improvement in the living conditions of people. For the poor, their daily lives are a struggle. Malnutrition—particularly among children and women—persists, hunger and destitution are common, child labour is a necessity for many, shelter is makeshift or absent, access to educational opportunities is sparse, and healthcare is neither available nor affordable. And sustainable livelihoods for the poor remain a distant dream.

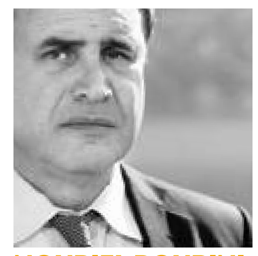
A big failure of the development process in India since independence is that economic growth has not led to commensurate employment creation. The number of jobs created in any year are nowhere near enough to absorb the increment in the workforce, let alone the mounting backlog of the unemployed. Underemployment has always existed. Open unemployment is rising. Youth unemployment, particularly among the educated, is alarming. The problem is more of a treadmill than a time bomb. Even so, it is essential to recognize that employment is not only a source of growth, but also a means of mobilizing our most abundant resource—people—for development. Just as important, employment is the only sustainable means of eradicating poverty and mitigating inequality.

As we celebrate the past 75 years, flying the national flag in every home, let us also think about our people for whom little has changed in their lives, with a resolve to ensure that poverty and illiteracy do not exist 25 years from now when we celebrate the first centenary of our independence from colonial rule.

MINT CURATOR

From the Great Moderation to anxiety over Great Stagflation

The world is unlikely to escape stagnant growth and high inflation



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Too many factors of moderation have reversed in recent times ISTOCKPHOTO

The world economy is undergoing a radical shift. The decades-long Great Moderation is over. Coming after the stagflation of the 1970s and early 1980s, it was characterized by low inflation in rich economies, relatively stable and robust economic growth, with short and shallow recessions, low and falling bond yields, thanks to a secular fall in inflation, and sharply rising values of risky assets. This period is usually explained by central banks' move to credible inflation-targeting policies after the loose monetary policies of the 1970s and governments' adherence to relatively conservative fiscal policies. But, more important than demand-side policies were positive supply shocks that upped potential growth and reduced production costs, thus keeping inflation in check.

During the post-Cold War era of hyper-globalization, China and other emerging economies integrated with the world economy, supplying it with low-cost goods, services, energy and commodities. Large-scale migration from the global south to the north kept a lid on wages in advanced economies, technological innovations reduced costs and relative geopolitical stability allowed for an efficient and secure allocation of production to low-cost locations.

But the Great Moderation started to crack during the Great Recession and was then hit by covid. In both cases, inflation initially remained low, given demand shocks, and loose monetary, fiscal and credit policies prevented deflation. But inflation is back, rising sharply, owing to a mix of both demand and supply factors. On the supply side, the backlash against globalization has gained momentum. Public anger over stark inequalities also has been rising, leading to more policies to support workers that are now contributing to a spiral of wage-price inflation. Making matters worse, renewed protectionism has restricted trade and the movement of capital. Political tensions are driving a process of re-shoring. Political resistance to immigration has curtailed the global movement of people, putting upward pressure on wages. Strategic considerations have further restricted flows of technology, data and information. And new labour and environmental standards, important as they may be, have hampered production.

This balkanization of the global economy is deeply stagflationary, and it is coinciding with demographic ageing, not just in developed countries, but also in large emerging economies such as China. Because young people tend to produce and save, whereas older people spend down their savings, this trend also is stagflationary.

The same is true of today's geopolitical turmoil. Now that the US dollar has been fully weaponized for strategic purposes, its position as the main global reserve currency may begin to decline, and a weaker dollar would add to the inflationary pressures. A frictionless world trading system requires a frictionless financial system. But sweeping sanctions have thrown sand in this well-oiled machine, making trade costlier.

Climate change is also stagflationary. Apart from its disruptive effects, the drive for decarbonization has led to underinvestment in fossil-fuel capacity before investment in renewables has reached the point where they can make up the difference. Pandemics caused by zoonotic viruses will also be a persistent threat.

Finally, cyberwarfare remains an under-appreciated threat to economic activity and even public safety. Firms and governments will either face more stagflationary disruptions to production, or they will have to spend a fortune on cybersecurity. Either way, costs will rise.

On the demand side, loose and unconventional monetary, fiscal and credit policies have become not a bug, but rather a feature of the new regime. Between today's surging stocks of private and public debts and the huge unfunded liabilities of pay-as-you-go social-security and health systems, both the private and public sectors face growing financial risks. Central banks are thus locked in a 'debt trap': any attempt to normalize monetary policy will cause debt-servicing burdens to spike, leading to massive insolvencies, cascading financial crises, and fallout in the real economy. With governments unable to reduce high debts and deficits by spending less or raising revenues, those that can borrow in their own currency will increasingly resort to the 'inflation tax': relying on unexpected price growth to wipe out long-term nominal liabilities at fixed rates.

As in the 1970s, persistent and repeated negative supply shocks will combine with loose monetary, fiscal and credit policies to produce stagflation. Moreover, high debt ratios will create the conditions for stagflationary debt crises. During the Great Stagflation, both components of any traditional asset portfolio—long-term bonds and equities—will suffer, potentially incurring massive losses.

MY VIEW | BEHAVIOUR BY BRAIN

Humility can help close a big gap in strategic decisions

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I was part of the team that launched Rexona deodorant in India. The main business objective of this brand launch way back in 1995 was to build a new category in the personal grooming segment. The communication strategy of Rexona deodorant was carefully crafted to make people aware of their body odour problem, communicate the importance of using a deodorant directly on one's underarm and not on one's clothes. How successful was our attempt?

Apocrine glands in the underarm of every human produce a secretion whose disintegration in the presence of perspiration causes an odour. So body odour is a biological reality. But there is a sad truth: 27 years after Rexona's launch, the deodorant category still hasn't taken off in India. Despite all communication efforts, not just the ordinary consumer but even more knowledgeable industry researchers can't tell the difference between a deodorant and a perfume. Are today's marketing and advertising brains any better in influencing human behaviour?

Today, digital marketing is an integral part of many a brand strategy. The main source of income of all leading internet companies is advertising revenue. Among the most sought-after professionals in today's job market are those who can figure out the algorithms that are deployed by these internet majors and find innovative ways to make their clients' brands stand out in the clutter. Data analytics firms have been developing strategies to aim the right advertisement at the right time at the right target audience. But how successful are digital marketers in their persuasion job?

In 1996, when banner advertisements first started, the click-through rate was 44%. By 2018, this had come down to a mere 0.46%. So, over the years, there was a truly dramatic reduction in the ability of digital advertising to influence human behaviour. Even after a consumer has clicked on a product title, what's placed in an online shopping cart need not get bought. Studies show that the cart abandonment rate for even essential items like groceries is more than 60%. Of every 400 people who enter a digital store, all that today's top tech-marketing minds manage to influence is the behaviour of one person.

This massive failure to persuade humans is a reality in many policy decisions too. The recent covid pandemic provides the most recent example. The best brains in the world helped discover a vaccine for the disease in record time and developed an efficient supply chain to make it available even in the remotest of villages. But policymakers were clueless about how to persuade even educated people who had seen pandemic-related deaths around them to walk across to the nearest health centre and get vaccinated.

Tomorrow, another pandemic could hit the world. The scientific community will be confident of finding solutions to tackle it. But how many human behaviour experts are confident of effectively managing human behaviour in such an event?

We must accept our ignorance of actual human behaviour before we can advance our understanding

An inability to effectively understand and influence human behaviour is the biggest lacuna in business and policy decisions. Many persuasion professionals refuse to acknowledge this bare fact. Instead, they organize award functions on the beaches of Cannes and Goa every year to celebrate their false belief that they are doing a great job of understanding humans and persuading us to shift our behaviour. The popularly held belief that all we need to know about human behaviour has already been discovered should be demolished. Instead, it would be best if an awareness of ignorance prevails among those working in the field of human behaviour. As Professor Stuart Firestein of Columbia University reminds us in his book *Ignorance: How it Drives Science*, ignorance and not knowledge is the true engine of science.

Two significant projects announced in 2013—the Human Brain Project (HBP) by the European Commission and the BRAIN (Brain Research through Advancing Innovative Neurotechnologies) Initiative by the Obama administration—were bold new initiatives focused on revolutionizing our understanding of the human brain, the source of all human behaviour. The HBP project, with a $1.3 billion kitty, and the BRAIN Initiative that has spent close to $950 million till 2019, halfway through its time frame, are pursuing an audacious goal: of building something that can simulate the human brain within 10 years.

After a difficult start, the HBP project has made good progress. One of the most significant milestones of the BRAIN project was its release of a profile of molecular identities of more than 1.3 million mouse brain cells and anatomical data from 300 mouse brains—among the largest such characterizations till date. But both these projects are far from achieving their stated aim—developing a comprehensive understanding of the human brain, which comprises 86 billion neurons and 100 trillion synapses. This is also a stark reminder of the huge distance one has to travel to fully understand the conundrum called human behaviour.

With advancements in the fields of Artificial Intelligence and huge leaps in computational power, it will become easier to unravel the complexities of the human brain. But a sense of ignorance—" I do not know much about human behaviour'—must get reinforced in the minds of professionals working in the area. The humility that emanates from this feeling will act as the fuel needed to further our knowledge about human behaviour and help us close today's biggest lacuna in business and policy decisions.