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IT'S MORE THAN INFLATION

It would seem that the economy in India is besieged. Economic growth has slowed down to below 5 per cent. The fiscal deficit of the Government is worrisome. The balance of payments situation is unsustainable, for we cannot live beyond our means indefinitely. Confidence, the great intangible, is collapsing. Tangibly, domestic investment has dropped, stifled by eroding confidence and rising interest rates. From abroad, short-term investors have fled, and long-term investors are reluctant to come. The exchange rate volatility and the plummeting rupee suggest that a crisis is imminent.

But the real concerns of the people lie not in macroeconomic esoterics. Inflation or the rate of price rise has been close to double-digit levels for three years. The consumer price index has moved up faster than the wholesale price index—which is rising again after a brief lull—while inflation in food and necessities is even higher. And this inflation has hurt people, particularly the poor. The skyrocketing prices of food in an obviously abundant monsoon are a serious problem.

The people's concerns about the economy extend much beyond inflation. The three decades from 1980 to 2010 witnessed the most rapid economic growth since independence, at 6 per cent per annum in GDP and 4 per cent per annum in GDP per capita. But this did not lead to a commensurate improvement in the living conditions of a large proportion of our population. The reasons are clear enough.

The most important reason is jobless growth. During the 2000s, the proportionate increase in employment in agriculture and manufacturing has been less than one-tenth the proportionate increase in output. This is our biggest failure which shows that inclusive growth is mere rhetoric. The NREGA is at best a safety net but transfer payments in perpetuity cannot provide a sustainable solution to this problem. Employment creation is the only institutional mechanism that can mediate between economic growth and human development or social progress.

It is no surprise that the substantial increase in aggregate income attributable to growth has been distributed in an unequal manner. There is a steady increase in consumption inequality. Insofar as the rich do much of the saving, the increase in income inequality is greater. And the share of the richest 1 per cent of the population in national income has increased even more. The benefits of growth have accrued largely to the super-rich and the growing urban middle class.

The increase in inequality has meant that growth has led to less poverty reduction than it would have if income distribution had remained unchanged. And poverty persists. Setting aside the debates about poverty lines or estimates, it is clear that the number of poor people in 2013 is much larger than the total population of India in 1947. And, in 2010, more than one-third of the world's poor lived in India.

Such a medium-term perspective highlights the persistent, yet mounting, crises embedded in jobless growth, rising inequality and persistent poverty.

A long-run view reveals the quiet, almost silent, crises in agriculture, infrastructure and education. There is a crisis in agriculture that runs deep. Farmers' suicides and Maoist movements are just symptoms. The agricultural sector accounts for less than one-sixth of GDP but more than two-thirds of our people depend upon it directly or indirectly for their livelihoods. The difference in GDP per capita is massive. The inequality in terms of social opportunities is even greater. Yet, there is little cognition of this in the public discourse.

Infrastructure is dismal. The physical infrastructure, whether roads, power or transport, is poor and inadequate. The story is much the same for social infrastructure, whether education, healthcare, sanitation or even drinking water. In this milieu, neither economic growth nor human development is sustainable.

There is a quiet crisis in education. Educational opportunities are simply not enough and what exists is not good enough. It is impossible to realise the potential demographic dividend without creating capabilities in our young population. Indeed, the spread of education in society is at the foundations of success in countries that are latecomers to development. In this critical domain, the Government is asleep at the wheel.

The focus now is on the impending macroeconomic crisis. There is a need for deft macro-management of the economy. But stabilising the balance of payments and the rupee, while absolutely necessary, is not sufficient for broader economic well-being. The underlying crises in the economy are manifold and complex. The formidable challenge is that each of these crises, which might surface or implode in different time horizons, need to be addressed here and now. Unless this is done, economic growth is bound to be constrained if not stifled. The government that assumes office in May 2014 has its task cut out.

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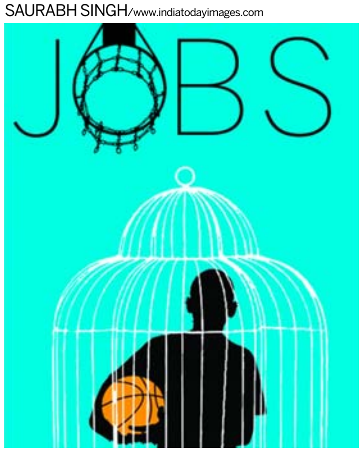

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