GDP Recovery Inadequate

This editorial is based on **Latest GDP estimates** which was published in The Indian Express on 07/06/2023. It talks about the momentum of the underlying drivers of growth is not strong enough and there is need to address the challenges.

For Prelims: GDP, MGNREGA, GDP Per capita, **investment-to-GDP ratio,** Purchasing Power

For Mains: Challenges of economic growth, formalisation of informal sector**,** Inclusive growth

India's latest **GDP** estimates **have exceeded even the most optimistic projections**, leading to upward revisions of economic growth estimates for the ongoing financial year. India's GDP estimates indicate a recovery from the depths experienced during the pandemic.

However, the **recovery is not adequate** with **challenges persisting in rural demand, manufacturing performance, household expenditure, informal sector's growth, investment patterns, depressed household expenditure**, and economic loss pose challenges to the country's growth prospects. Resolving these contradictions is crucial for achieving sustainable and balanced economic growth.

Why is GDP Recovery Challenging?

- **Subdued Rural Demand despite Agricultural Growth:**
    - **Rural markets lagging:**
        - Despite robust growth in the agricultural sector, **rural demand remains subdued**, with volume growth in rural markets remaining sluggish.
    - **Per capita earnings weighed down:**
        - Increased engagement of workers in the farm sector results in lower per capita earnings.
    - **Poor performance of the non-farm sector:**
        - The non-farm sector, which contributes significantly to rural household incomes, is possibly faring poorly.
        - Work demanded by households under **MGNREGA,** though fallen below as observed during the Covid years, remains well above the pre-pandemic levels.
        - In 2022-23, 8.76 crore individuals worked under the programme, as compared to 7.88 crore in 2019-20, and 7.77 crore in 2018-19.
- **Industrial Sector Slowdown and Manufacturing Performance:**
    - **Industrial Sector Slowdown:**
        - The industrial sector, especially manufacturing, has significantly slowed down.
        - Manufacturing sector **growth for the full year was a mere 1.3%,** despite a turnaround in the fourth quarter.
- **Rise in Informal Sector Employment within Non-Farm Sector:**

    - **Informal Sector Employment:**
        - The share of workers engaged in proprietary and partnership enterprises (informal sector firms) within the non-agricultural sector has increased **from 68.2% (2017-18) to 71.8% (2021-22).**
        - The rise in informal sector employment contradicts government efforts to formalize the economy and boost employment opportunities.
- **Investment Activity and Current Account Dynamics:**
    - **Healthy Investment Growth:**
        - Investment activity experienced healthy trend, with the **investment-to-GDP ratio reaching 29.2%** (2022-23).
    - **Household Sector Driving Growth:**
        - Two-thirds of the increase in the investment ratio was driven by the household sector, followed by the public sector and private sector firms.
    - **Possibility of Current Account Surplus:**
        - The recent GDP data suggests the potential for a current account surplus or a minimal deficit, indicating weak investment demand relative to savings.
- **Depressed Household Expenditure and Impact of Inflation:**
    - **High-end Spending vs. Overall Household Expenditure:**
        - Spending on high-end goods and services has grown, while overall household expenditure remains depressed due to subdued spending by lower and middle-income households.
    - **Low Income Growth:**
        - Limited opportunities for productive employment and low-income growth contribute to suppressed household expenditure.
    - **Inflation's Erosion of Purchasing Power:**
        - Steady inflation erodes the purchasing power of households, constraining consumption.
- **Economic Loss and the Uneven Recovery:**
    - **Real Growth Shortfall:**
        - Compared to the pre-pandemic trend growth, the Indian economy's real growth remains lower than current levels, signifying an economic loss.

What are Key Drivers of Economic Growth?

- **Investment:**
    - Investment in physical infrastructure, machinery, technology, and human capital is a key driver of economic growth.
    - It leads to increased production capacity, efficiency, and innovation, resulting in higher productivity and output.
- **Technology and Innovation:**
    - Technological advancements and innovation drive economic growth by improving productivity, creating new industries and markets, and enhancing competitiveness.
    - Investments in research and development (R&D) and technology adoption contribute to economic expansion.
- **Human Capital Development:**
    - Education, training, and skill development are essential drivers of economic growth.
    - A well-educated and skilled workforce is more productive, adaptable to new technologies, and capable of driving innovation and entrepreneurship.
- **Trade and Globalization:**
    - International trade and globalization play a significant role in economic growth.
    - By expanding markets, facilitating specialization, and promoting access to resources and capital, trade can enhance productivity, drive economic efficiency, and create employment opportunities.
- **Infrastructure Development:**
    - Adequate infrastructure, including transportation, communication, energy, and sanitation, is crucial for economic growth.
    - Well-developed infrastructure reduces transaction costs, facilitates the movement of goods and services, and attracts investments.
- **Institutional Framework:**

    - A strong and efficient institutional framework is vital for economic growth. It includes the rule of law, property rights protection, transparent governance, efficient legal systems, and a business-friendly environment that fosters entrepreneurship and investment.
- **Macroeconomic Stability:**
    - Maintaining macroeconomic stability through sound fiscal and monetary policies, low inflation rates, and exchange rate stability is critical for fostering an environment conducive to investment, trade, and economic growth.
- **Entrepreneurship and Innovation:**
    - Entrepreneurial activities and innovation drive economic growth by creating new businesses, products, and services, generating employment, and fostering competition and market dynamism.

What are the Possible Solutions?

- **Boosting Rural Demand:**
    - Enhance the non-farm sector in rural areas through **targeted policies** and initiatives to **stimulate growth and employment opportunities.**
    - Improve infrastructure and connectivity in rural regions to attract investments and promote economic activities.
    - Increase **access to credit and financial services** for rural households and entrepreneurs to encourage entrepreneurship and small business development.
    - Implement measures to bridge the income gap between the farm and non-farm sectors, ensuring equitable distribution of economic benefits.
- **Reviving the Manufacturing Sector:**
    - Implement sector-specific policies to incentivize manufacturing, such as **tax incentives, simplified regulations, and ease of doing business** reforms.
    - Encourage **innovation, research and development,** and technology adoption in the manufacturing sector to enhance productivity and competitiveness.
    - Strengthen **skill development programs** to address the skill gap in the labor force and align it with the requirements of the manufacturing industry.
    - Facilitate public-private partnerships and collaboration to attract investments and promote industrial growth.
- **Formalization of the Informal Sector:**
    - Introduce policies and programs to promote the formalization of informal sector enterprises, such as providing access to finance, simplifying registration procedures, and offering incentives for compliance.
    - Enhance the **social security net for workers in the informal sector** to improve their income security and overall well-being.
    - Foster an **enabling environment for informal enterprises to transition to the formal sector** by providing business development support, training, and access to markets.
- **Addressing Income Inequality and Boosting Household Expenditure:**
    - Implement progressive taxation policies to redistribute income and reduce wealth disparities.
    - Enhance social welfare programs and safety nets to provide support to low-income households and vulnerable groups.
    - Increase investment in education and skill development to empower individuals and improve their employability.
    - Combat inflationary pressures through effective monetary and fiscal policies to protect the purchasing power of households.
- **Monitoring and Evaluation:**
    - Establish robust mechanisms to monitor and evaluate the effectiveness of implemented policies and interventions.
    - Regularly assess the impact of policy measures on key economic indicators and make necessary adjustments to ensure desired outcomes.
    - Encourage research and data-driven decision-making to inform policy formulation and

implementation.

Drishti Mains Question:

Discuss the key challenges faced by the Indian economy in achieving sustainable and inclusive economic growth.

UPSC Civil Services Examination Previous Year's Question (PYQs)

Prelims:

Q1. Which of the following can aid in furthering the Government's objective of inclusive growth?(2011)

1. Promoting Self-Help Groups
2. Promoting Micro, Small and Medium Enterprises
3. Implementing the Right to Education Act

Select the correct answer using the codes given below:

(a) 1 only
(b) 1 and 2 only
(c) 2 and 3 only
(d) 1, 2 and 3

Ans: (d)

Exp:

- Inclusive growth is a concept that advances equitable opportunities for economic participants during economic growth with benefits reaching every section
- of society.
- This concept expands upon traditional economic growth models to include a focus on the equity of health, human capital, environmental quality, social
- protection, and food security.
- Promoting Self-Help Groups, MSMEs, and implementation of the Right to Education Act, all aid in furthering inclusive growth.
- Therefore, option (d) is the correct answer.

Q2. Consider the following statements: (2017)

1. Tax revenue as a percent of GDP of India has steadily increased in the last decade.
2. Fiscal deficit as a percent of GDP of India has steadily increased in the last decade.

Which of the statements given above is/are correct?

(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

Ans: (d)

Exp:

- Tax revenue as a percentage of GDP has not steadily increased in the last decade instead it has remained almost steady around 10-13%. Hence, statement 1 is

- not correct
- It provides common procedures for registration of taxpayers, refund of taxes, uniform formats of tax return, common tax base, and a common system of classification of goods and services that will lend greater certainty to the taxation system.
- It will boost export and manufacturing activity, generate more employment and thus increase GDP with gainful employment leading to substantive economic growth; but it is not necessary that it will enable India to overtake China in the near
- future. Hence, statement 3 is not correct.
- It might decrease Current Account Deficit (CAD) by boosting exports and bringing more FOREX.
- But, it is not necessary that there will be drastic change in the reduction of CAD. Hence, statement 2 is not correct.
- Therefore, option (a) is the correct answer.

Mains:

Question: Despite Consistent experience of high growth, India still goes with the lowest indicators of human development. Examine the issues that make balanced and inclusive development elusive. **(2019)**
