THE HINDU businessline.

The present growth crisis in perspective

PREMIUM

Updated - March 12, 2018 at 01:44 PM.

The pursuit of 'inclusive growth' while ignoring governance has badly affected the economy.

BY NILANJAN BANIK

"Are we in for a shocker?" read the headline of a popular online business portal in India. This apprehension pertained to the dismal growth of India's national income and its implications.

The picture that emerges by looking at growth and development patterns since 1993-94 is interesting. It can be divided into two phases:

the pre-UPA phase, where the focus was on growth, without too much of a policy focus on the social sector. This led to a political backlash against 'India Shining'.

Now, we are faced with a rather contrary situation after nearly a decade of UPA rule, where the focus on inclusive growth has led to a climate of large-scale leakages and the perception of a governance deficit. What do the numbers, then, say?

INCLUSIVE GROWTH

India's economy grew at 5.5 per cent in the April-June quarter of 2012, which is lower than last year's corresponding figure of 8 per cent. Break it down into sectors: agriculture grew at 2.9 per cent, manufacturing at a dismal 0.2 per cent, and services at 6.9 per cent, compared with 9.3 per cent a year ago. Savings are falling, and so is investment.

In 2004, the Congress-led United Progressive Alliance (UPA) Government came to power after defeating the BJP-led National Democratic Alliance (NDA) Government. A popular perception explaining the ouster of the then ruling NDA Government was its inability to check rise in income inequality. Although the economy grew by 8.5 per cent in 2003-04, income inequality was also growing. The Gini coefficient (measuring the extent of income inequality) increased from 0.28 in 1993-94 to 0.3 in 2004-05 for the rural areas. For the urban areas, it increased from 0.33 in 1993-94 to 0.37 in 2004-05.

The NDA Government was brought down by the perception that it did not do much for the 'have-nots' — those who fell behind during the course of economic reforms.

The UPA Government was quick to identify this inequality problem, and began several market interventions. Schemes such as Pradhan Mantri Gram Sadak Yojana (PMGSY) and Mahatma Gandhi National Rural Employment Guarantee Scheme Act (MGNREGA) are examples of labour-market intervention. Intervention in education and health came in the form of Sarva Shiksha Abhiyan (SSA) and the National Rural Health

Mission (NRHM). Capital-market intervention through microfinance came up in a big way. The idea behind all these interventions was to make the growth process inclusive.

The interventions resulted in improvement in baseline development indicators (measured primarily in terms of income, health and education). During the Eighth Plan (1992-96), the GDP growth rate increased to 6.5 per cent from 5.5 per cent during the eighties. During the 10th Plan (2002-06), the GDP growth rate further increased to 7.7 per cent. Similarly, literacy rates and infant mortality rates have also improved.

At a pan-India level, literacy rates increased from 65.4 per cent in 2001 to 74.0 per cent in 2011. The figure for the infant mortality rate was 71.7 for 1,000 live births for 2001, and 58 for 1,000 live births in 2008.

And, there has been a reduction in poverty. Measured in terms of headcount ratio, the number was 36 per cent in 1993-94, and 27.5 per cent in 2006-07. The UPA Government was rewarded. It was re-elected as the single largest party in 2009. Drawing a lesson from the past two general elections, the UPA Government thought the best way to win the approval of the masses was to continue focusing on the social sector. However, spending on all these activities runs up a big bill, which is fine provided the money is spent efficiently. However, if the outcomes are not efficient, it points to corruption in the system.

GOVERNANCE DEFICIT

The impact evaluation of any government project is riddled with several limitations. Assessing the usefulness of any government-funded development programme can be challenging because of the lack of adequate resources for evaluation, low sample sizes, lack of baseline indicators, lack of control groups and non-representative sampling. This challenge is further enhanced by the lack of strong field teams, technical expertise in data collection and capacity-building effort.

To take the case of SSA, there has been a rise in literacy and gross enrolment ratios (at the primary level), which has been attributed to the programme. But these achievements do not tell us whether the quality of education has improved, and whether that is due to physical infrastructure or other factors.

Likewise, the PMGSY programme is meant to provide rural connectivity by constructing all-weather roads. Connectivity is expected to contribute to economic activity, providing more opportunities for employment, trade, access to schools and hospitals, and growth within the rural economy. But to attribute these economic and social effects only to sq. km of rural roads being built would not be correct.

Hence, it is possible to argue that although development indicators have improved, money is not being well spent. Add to this, corruption and poor implementation of government-run programmes, and you have a new 'governance bug' (just as the bug was 'India Shining' in the pre-UPA days) in the making.

BUDGET DEFICIT

Scams such as that related to the NRHM in Uttar Pradesh, and the 'questionable' quality of services being provided, especially in health and education, raise governance-related questions. The thousands of crores being misspent on these development activities only add to the burgeoning fiscal deficit.

Just before the UPA took over in 2004, fiscal deficit was 3.8 per cent. Now, things are different. During fiscal 2011-12, although the Ministry of Finance wanted to limit the fiscal deficit to 4.6 per cent, it eventually shot up to 5.9 per cent. For the fiscal 2012-13, the Government plans to borrow Rs 5.69 trillion to further its development agenda. This borrowing is based on the assumption that the economy will grow at 7.6 per cent, with a lower inflation of 6.5 per cent. We all know this is unlikely to happen with growth slipping and inflation spinning out of control. What we might be left with is more inflation, less growth and greater levels of dissatisfaction over governance (the governance bug, in other words).

Scams, policy paralysis and the lack of appropriate reforms have brought down GDP growth. This is contrary to the trend in the decade that ended in 2004, where the emphasis was more on growth than development, causing socio-economic distortions.

Now, governance has suffered in the pursuit of development.

(The author is professor, Institute for Financial Management Research, Chennai.)