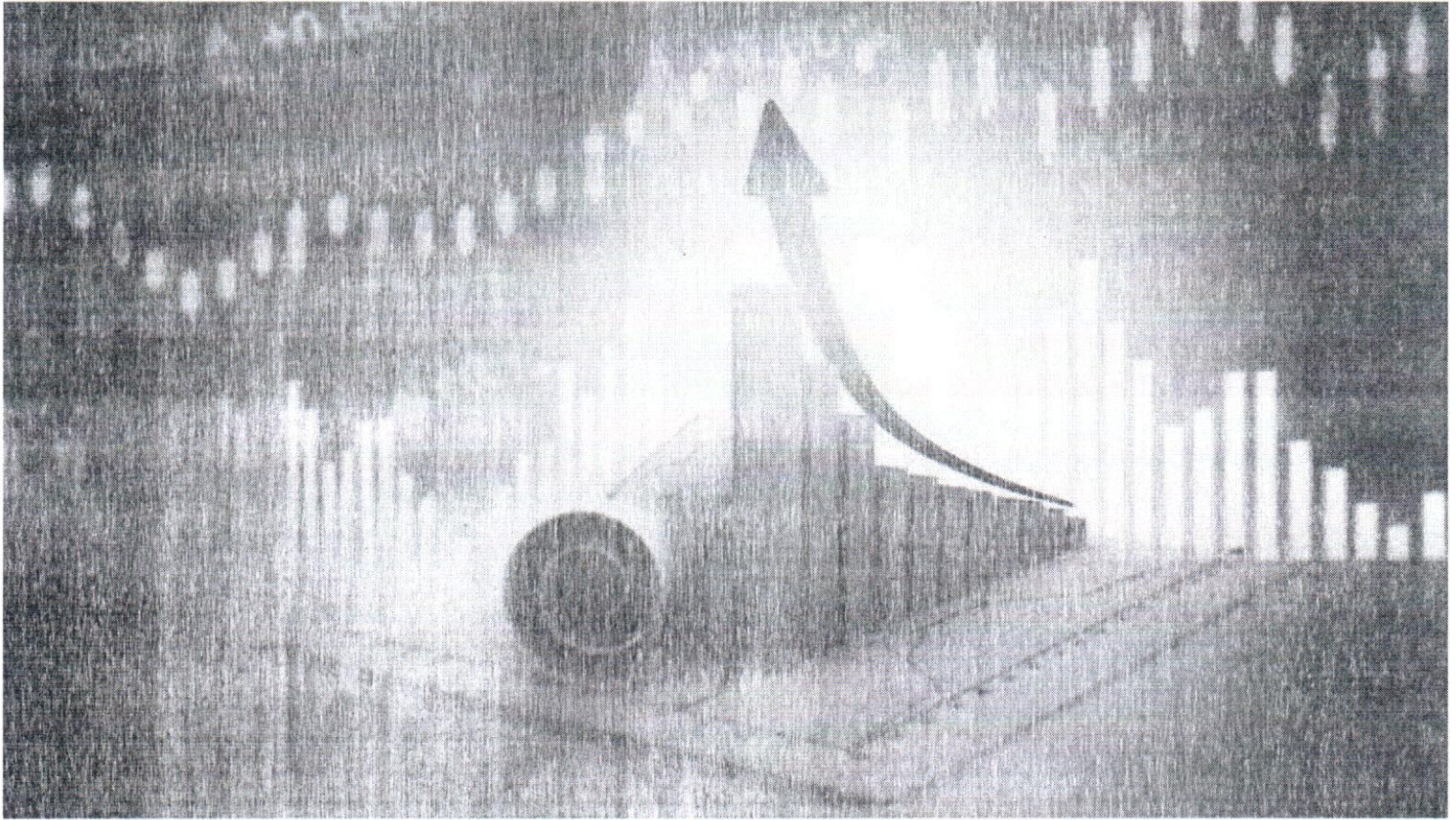


LEAD

Government's key agenda must be to accelerate growth

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Only a fast-growing economy can generate surpluses needed to create jobs and sustain social safety nets

Now that the general election is over, the time has come to pay serious attention to the economy. The national income numbers continue to be controversial. No serious policy decision can be taken with ambiguous numbers. Nevertheless, even with the new official numbers it is clear that growth is slowing down. As in the revised new base estimates, the growth rate in 2016-17 was 8.2%; in 2018-19 it was 7%. Accelerating economic growth must be on top of the agenda of the new government. It is only a fast growing economy that will generate the surpluses which are necessary to address many of our socio-economic problems and to provide social safety nets.

Decline in investment rate

For faster growth, what is critically needed is a higher investment rate. In current prices, the ratio of Gross Fixed Capital Formation to Gross Domestic Product has stayed low at 28.5% between 2015-16 and 2017-18. In 2018-19 it is estimated at 28.9%. In 2007-08, it was as high as 35.8%. In constant prices, the ratio, has, however, shown a smaller decline from the peak. It is true that for a time growth can come out of better utilisation of existing capacity. But for sustained growth, the ratio has to go up, and that too substantially.

There are several studies which indicate a fall in corporate investment. Every year the Reserve Bank of India (RBI) publishes a forecast of corporate investment. It uses the data made available by banks and other financial institutions on the phasing of capital expenditures of projects sanctioned by them. An article in the March 2019 issue of the RBI Bulletin says that in 2017-18, the capital expenditures of the corporate sector were estimated at ₹1,487 billion. There has been a steady decline from ₹2,050 billion in 2014-15. The industry-wise distribution of projects sanctioned by banks and other institutions in 2017-18 shows that the power sector accounted for 38.2% of the total expenditure. Pure manufacturing had only a small share. All these point to the urgent need to accelerate investment.

Reviving investment

First, much of public investment happens outside the Budget. In 2019-20, capital expenditures of the Central government to GDP are expected to be 1.6%. This ratio has not shown much change. The bulk of public investment comes from public sector enterprises, including the Railways. What is needed is for the government to interact with all public sector units and prepare a programme of public investment for 2019-20. Public sector units can take a longer-term view than the private sector. A strong public investment programme can be a catalyst of private investment. In a situation such as the present one, it can crowd in private investment. Second, there have to be sector- or industry-wise discussions between the government and industrialists to understand the bottlenecks that each industry faces in making investment and take actions to remove them.

Banks are under stress and the ratio of non-performing assets (NPAs) has risen. We need to resolve this issue as early as possible so that banks can get back to lending at a significant pace. In the absence of term lending financial institutions, banks provide both working capital and long-term loans. That is why resolving the issue of NPAs is critically important for larger flow of long-term funds. The government must infuse adequate capital into banks at one go. There are mechanisms such as resolution councils or committees which can help to resolve the NPA problem without the bank management coming under scrutiny of investigative agencies. Over the medium term we should consider reviving the setting up of separate long-term financial institutions, partly funded by government.

Jobs and growth

There has been great concern about the inability of the economy to generate adequate employment. Employment numbers have always been somewhat worrisome because of the presence of heavy underemployment in the country. Perhaps there has been some shift of employment from the unorganised to the organised segment. But this does not alter the overall situation. The answer to the problem of jobs is only growth. It is faster growth and faster investment which will generate employment. Of course the pattern of growth also counts. Some sectors such as construction are more labour intensive. Sectors such as IT and the financial system, which provided attractive employment to young educated entrants to the labour market in the past, have their own problems. But an improvement in the financial system may trigger some new jobs. Ultimately, it is overall growth which is key to more employment.

It is generally argued that growth will happen only if there is an adequate increase in demand. While this is true in relation to some sectors, there are many sectors including infrastructure where new investment will spur growth. In this context, the main concern is the slowdown in rural demand, which can affect the off-take of consumer goods. Agrarian distress, which is the cause of slowdown in demand, needs to be tackled on a priority. Where distress is due to a fall in prices, the best course of action is to resort to limited procurement so that the excess over normal is procured by the government. As far as increase in agricultural output in the short run is concerned, the monsoon is a big question mark. Nothing can be done about it except changing the cropping pattern depending on rainfall. But making available inputs such as seeds and fertilizers at an affordable cost must be the major task particularly of State

governments. Over the medium term, more attention must be paid to increasing agricultural productivity through consolidation of land holdings and spreading better techniques of cultivation. Improving marketing arrangements has been a neglected area.

Coming to the medium term, reforms have been moving in the right direction. The introduction of the Goods and Services Tax is a major step. But glitches still remain in its implementation. The government should get tax authorities, industrialists, traders and, particularly, exporters to sort out the issues together. The Insolvency and Bankruptcy Code was another significant step taken in the last few years. Even here there are some bottlenecks and the government must address them. Land reforms which enable entrepreneurs to buy land speedily have been suggested. Some steps in this regard have been taken in the past. Compulsory acquisition of land is the antithesis of competition and should be resorted to only in limited cases where public interest is involved. Labour reforms should wait until the economy has picked up steam and moved to a higher growth path. Only in these circumstances will there be less resistance. A lot more can be said on reforms. But the focus of this article is largely on what needs to be done to get the economy to a higher growth path soon. From this angle, while there is a case for some easing of liquidity, monetary policy should keep a watch on prices as there is no easy way to forecast the behaviour of crude oil prices or the monsoon.

Minimum income support

In the wake of electioneering, there was a lot of talk on social safety nets, more so on providing a minimum income to the poor. Any caring society should do this. But it also depends on the ability of the government to sustain it. The government should move in the direction of removing some of the subsidies and schemes which are similar in nature to minimum income, consolidate them, add to them what is fiscally feasible and provide the funds directly to the poor. The bigger problem is to define the 'poor' and, more particularly, identify them. But a move in this direction must be part of the agenda.

To conclude, besides economic factors, non-economic factors are also critically important to revive what are often described as 'animal spirits'. Investment today is based on expectations of future earnings. Thus it is an act of faith in the future. For this to happen, there must be social and political tranquillity.

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