

Barking Up The Wrong Tree

Today's economic debate is misguided, it's job growth not GDP growth that matters

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Economics is indeed a strange discipline. Sample this. "A larger fall in imports than in exports contributed substantially to growth in GDP in the latter of the financial year." So a fall in exports and imports contributed to growth as long as net exports are

it may be, but most economists have accepted this quasi-mystical—without blinking an eyelid—explanation for GDP growth at a time when public and policy attention is focused on account of too many and internal inconsistencies in the more important and simple is how this growth, at whatever cost, is employment generation.

Pressed to report that question in ongoing debates on GDP growth, employment, unfortunately, it seems to figure as a priority for policy makers. This lack of focus on employment in a country of the youngest population in the world is simply incomprehensible.

The commentary on the latest numbers has been unable to bring confusion on whether the economy is in its recovery phase or not. With the fact that growth was visibly weaker in the first half of 2014-15 compared to the second half, it can be reasonably said that overall economic weakness is prompting RBI to revise its forecast for 2015-16 downward from 7% in the second bimonthly report issued yesterday.

The economy needs a strong stimulus given by a combined dose of fiscal and monetary easing. Latest data show that as much as 10% of annual expenditure has been spent in a single month of April 2015. This demonstrates a welcome resolve to increase capital expenditure, reflect-



ing an improvement in governance across the board but specially in ministries such as surface transport which accounted for a major chunk of the expenditure in April. Moreover, this has been supplemented by further monetary easing with RBI announcing a 25 basis points cut in the repo rate yesterday. This combined stimulus is most welcome.

The need for sustained stimulus is evident when one looks in some detail at both consumption and investment data. Consumption continues to display continued weakness especially in rural demand. Here again CSO data seems at variance with trends from other sources.

Normally, growth in private final consumption expenditure (PFCE) is closely correlated with growth in corporate income and sales. This is not surprising as both are two sides of the same coin. This correlation has curiously snapped during the last financial year with CSO data showing a rising trend in PFCE, in contrast to corporate sales that have plunged. This is inexplicable. Imports

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have not covered this supply-demand gap as they have pretty much collapsed.

The investment scene is somewhat better. CMIE data shows new project announcements are rising, projects abandoned are declining and projects under implementation are just beginning to perk up. The major fly in the ointment is the sharply declining rate of growth of credit off-take by corporates from commercial banks, which has plunged to below 4%. Investment, thus, is a mixed

picture. It will hopefully improve if public capital expenditure is sustained.

Therefore, it's not surprising that we get very mixed signals about the state of the Indian economy. Corporate pessimism exists simultaneously with official effervescence which, let us admit, sometimes verges on the irrational.

Real estate suffers from anaemic demand and sluggish growth. Exports have declined for five months continuously and core sector growth remains weak. The best one can say is that there are signs of recovery, which need to be nurtured and reinforced. They certainly do not warrant any complacency.

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Rising employment opportunities are the only sure guarantor of a better life and higher welfare for ordinary people or Modi's neo-middle class. Employment signifies inclusion through empowerment and not entitlements. To expand employment as rapidly as possible must surely be this government's topmost priority.

In this context it is ironical that for a country faced with a very serious demographic challenge, credible official data on employment are still produced by NSSO, which releases its 'thin' and 'thick' rounds once in two and five years respectively. The annual labour data produced by the labour bureau is, from all accounts, quite worthless.

As pointed out in India Labour Report of the Institute of Human Development, the quality of unemployment does not correspond to ground realities because 'self-employed' is used as a residual category to include all those who are unemployed or underemployed. Regular and credible data on employment is a critical policy input. Should Niti Aayog not be charged with producing credible labour market data, if not also a plan for maximising employment in India?

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