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Sector: Economy

GDP Growth - At What Cost

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If reforms in India have to have widespread social support thereby ensuring the survival and continuity of the reform process, significant investment in agriculture and expenditure in social welfare by both the central and state governments is required. The current optimistic economic outlook provides the government with additional revenue but the will appears to be weak to invest in the social sector. Higher outlays on agriculture and the social sector can ensure the continuity of the reform process.

Government's stated objective growth with equity

"Growth" says P. Chidambaram, India's finance minister, "is the best antidote for poverty", in his Budget 2006-2007 speech to Parliament. With India's GDP growth rate of 7.5% in FY2005, manufacturing growth of 8.1% and with FY2006 economic growth of 8.1% and manufacturing growth of 9.4%, the assault on poverty and unemployment would appear to be successful. Revising the Tenth Plan GDP growth rate to 10% from the earlier 8%, the finance minister has stated that "the government is determined to take the country to that high growth path. Growth will be our mount; equity will be our companion; and social justice will be our destination." (Union Budget 2006-2007 Speech).

Poverty Declines but Unemployment Increases

In the battle against poverty, the government had claimed that the population in poverty fell from 36% in 1993-94 to 26% in 1999-2000. In that period GDP growth rate averaged 6.5% per annum. The incidence of poverty is estimated by the Planning Commission on the basis of sample surveys on household consumer expenditure conducted by the National Sample Survey Organisation (NSSO). The latest surveys relate to the 55th round conducted in 1999-2000 and no official estimates of poverty are available since FY2000[1]. The 55th round was controversial on account of the change in methodology for data collection regarding their consumption and as a result of which its results were not comparable with the results of earlier rounds.

Despite the NSSO's claim of a poverty reduction, other NSSO's surveys on employment and unemployment highlighted the increase in unemployment that raises questions about the government's claim on poverty alleviation. The NSSO's 60th Round Survey on Employment and Unemployment conducted in January-June 2004 revealed that the unemployment rate went up sharply between 1993-94 to 2004. On the basis of current daily status (unemployed on an average in the reference week), during the period, unemployment rates for males increased from 5.6% to 9% in rural India and from 6.7% to 8.1% in urban areas. Unemployment rate for females in rural areas was even worse with the unemployment rate increasing to 9.3% from 5.6% and in urban areas to 11.7% from 10.5%. While unemployment has increased in both urban and rural areas, the latter has been particularly adversely affected.

Exhibit 1: Unemployment rates for 50th round (1993-94) and 60th round (Jan-June 2004) of the NSSO

Round	Rural CDS		Urban CDS	
	Males	Females	Males	Females
50th (1993-94)	56	56	67	105
60th (2004)	90	93	81	117

Unemployment rates (number of persons {or person days} unemployed per 1,000 persons {or person days})
Current Daily Status (CDS)
Source: Economic Survey 2005-2006

[1] *The next official estimates of poverty will be based on NSSO 61st round of large-scale sample survey conducted in 2004-05, results of which would be released in 2006.*

The increase in unemployment in a period of respectable GDP growth (6.2% per annum) reveals that economic growth is not the panacea for unemployment. To measure the relationship between GDP growth and employment, the Planning Commission calculates the employment elasticity between NSSO surveys. Employment elasticity refers to the percentage growth in employment for each percentage point growth in GDP e.g. 1% of GDP growth results in 1% increase in employment, employment elasticity is 1. Employment elasticity is thus an indicator of what extent the type of economic growth is job creating.

The Planning Commission calculated the employment elasticity of growth for the period between the 3 NSSO surveys (1983, 1993-94 and 1999-2000). In the first period (1983 to 1993-94), employment elasticity was 0.52 - employment grew at half the rate of GDP, in the second period (1993-94 to 1999-2000), employment elasticity reduced significantly to 0.16 i.e. employment grew at less than one-sixth the GDP growth. It is apparent that the type of economic growth since the mid 1990s has been less job creating than the economic growth prior to 1993-94.

Exhibit 2: Employment, Employment of Growth per annum and Employment Elasticity

Employment	Employment Growth	Unemployment rate		Employment Elasticity	GDP Growth
1999-2000	1993-94 to 1999-2000	1999-2000	1993-1994	1993-94 to 1999-2000	1993-94 to 1999-2000
Mn	% per annum	%	%		% per annum
336.73	1.07	7.32	5.99	0.16	6.7

Source: Economic Survey 2002-03

The rise in unemployment and the reduction in the employment elasticity of growth can be attributed to the neglect of agriculture. There has been negligible growth in agricultural employment (0.02% per annum by CDS during 1993-94 to 1999-2000). Agriculture is the largest employer and accounts for 56.7% of employment in 1999-2000 (60.4% in 1993-94).

Crisis in Agriculture

Despite agriculture accounting for the bulk of employment, the government (particularly state governments) neglected this critical sector. Agricultural GDP which had grown at 3.1% per annum in 1985-1997, decelerated to 1.6% in 2002-2006. Agriculture is a state government subject and the states have reduced investment in rural infrastructure and expenditure on welfare programmes. As a result, agricultural GDP stagnated, food grain production declined and unemployment increased in rural India.

Exhibit 3: Annual Average Growth Rate (at constant prices)

5Year Plan	GDP growth (%)	Agriculture & Allied Sectors (%)
7th Plan (1985-1990)	6	3.2
Annual Plan (1990-92)	3.4	1.3
8th Plan (1992-97)	6.7	4.7
9th Plan (1997-2002)	5.5	2.1
10th Plan (2002-07)		
2002-03	3.8	-6.9
2003-04 (P)	8.5	10
2004-05 (Q)	7.5	0.7
2005-06 (A)	8.1	2.3

P:Provisional, Q:Quick estimates, A:Advance estimates
Note: Growth rates prior to 2001 based on 1993-94 prices and from 2000-01 onwards based on new series at 1999-2000 prices
Source: Economic Survey 2005-2006 p155

To revive a high employment generating sector like agriculture, the government should have significantly increased investment. Instead, total state and central expenditure in agriculture stagnated at 0.9% of GDP from FY2003 to FY2006BE and expenditure on irrigation marginally improved from 0.99% to 1.06% in the same period. Despite claims of concern, the government is unwilling to invest more than 2% of GDP to revive the agricultural sector.

Exhibit 4: Centre and States Expenditure on Agriculture and Irrigation

Rsbn	FY2003	FY2004RE	FY2005RE	FY2006BE	FY2006RE	FY2007BE
Agriculture						
Centre	36.2	43.5	55.9	72.4	68.4	82.0
States	176.7	179.3	230.1	233.2	na	na
Total	212.9	222.8	286.0	305.6	na	na
To GDP (%)	0.9	0.8	0.9	0.9	na	na
Irrigation						
Centre	6.1	5.7	6.8	8.8	7.5	9.6
States	239.6	257.8	324.1	361.5	na	na
Total	245.7	263.5	330.9	370.2	na	na
To GDP (%)	1.0	1.0	1.1	1.1	na	na
Agriculture + Irrigation	458.6	486.3	616.9	675.8	na	na
To GDP (%)	1.9	1.8	2.0	1.9	na	na

Na not available
Source: Union Budgets & Reserve Bank of India

Investment in agriculture had stagnated and it is visible in the decline in food grain production. Total food grain (rice, wheat, coarse cereals and pulses) production for FY2006 is expected to be 209.3mn tones, although it is 2.3% growth over FY2005, it remains below 213.46mn tonnes achieved in FY2004.

Decline in per capita availability of food grain

Another indicator that contradicts the decline in poverty is the per capita availability (proxy to consumption) of food grain. According to the National Institute of Nutrition, individuals require a minimum of 157kgs of cereals per year per capita. The average for a healthy population should be higher than this norm, but the per capita availability of cereals in FY2004 was 156 kgs, 1kg less than the minimum. As the Indian average is below the minimum, it implies that a significant part of the population is consuming far lower than the national average. More significantly, the per capita net availability of food grains declined from 493.7 grams for the 3 year average ending FY1991 to 464.8 grams for the 3 year average ending FY2004. The stagnation/decline in food grain availability per capita in a time frame of 14 years is a cause for concern as per capita GDP had continued to grow in that period. The figure for food grain availability, moreover is based on the unrealistic assumption that the proportion of food grain going to feed requirements of livestock and poultry has not risen over the years whereas the population of livestock has risen rapidly (in advanced countries total food grain requirements are much higher as feed requirement of livestock and poultry are much greater).

Exhibit 5: Per capita net availability per day of Food grains

Per day (grams)	Cereals	Pulses	Total
FY89	452.6	41.9	494.5
FY90	435.3	41.1	476.4
FY91	468.5	41.6	510.1
FY92	434.5	34.3	468.8
FY93	427.9	36.2	464.1
FY94	434.0	37.2	471.2
FY95	457.6	37.8	495.4
FY96	442.5	32.7	475.2
FY97	466.0	37.1	503.1
FY98	414.2	32.8	447.0
FY99	429.2	36.5	465.7
FY00	422.7	31.8	454.5
FY01	386.2	30.0	416.2
FY02	458.1	35.4	493.5
FY03	408.5	29.1	437.6
FY04	427.4	35.9	463.3

Source: Economic Survey 2005-2006 p S-21

India Slipping According to Human Development Index

The Human Development Index (HDI), published annually by the United Nations, ranks nations according to their citizens' quality of life rather than by a nation's conventional economic figures. The criteria for calculating rankings include life expectancy, educational attainment, and adjusted real income. In India's case, in the period 2000 to 2003, India's rank has fallen to 127 from 124 in 2000. More importantly, countries like Bangladesh, Pakistan and Nepal have been able to improve their ranking in this same period.

Exhibit 6: India's global position on human and gender development

Country	Human Devt Index (HDI)		HDI Rank	
	2000	2003	2000	2003
Norway	0.942	0.963	1	1
Australia	0.939	0.955	5	3
Sri Lanka	0.741	0.751	89	93
China	0.726	0.755	96	85
Indonesia	0.684	0.697	110	110
India	0.577	0.602	124	127
Pakistan	0.499	0.527	138	135
Bangladesh	0.478	0.520	145	139
Nepal	0.490	0.526	142	136
Mozambique	0.322	0.379	170	168
Niger	0.277	0.281	172	177

Source: UNDP cited in Economic Survey 2005-2006

In critical socio-demographic parameters like under 5 mortality deaths and infant mortality deaths, although India has improved from 1990 to 2003, countries like Bangladesh and Nepal which were worse than India in 1990 have bettered India by 2003.

Exhibit 7: India's global position in terms of socio-demographic parameters

Country	Life Expectancy	Under 5 mortality rate		Infant mortality rate		Maternal mortality rate
	Yrs	(per 1,000 live births)		(per 1,000 live births)		(per 100,000 live births)
	2000-05	1990	2003	1990	2003	2005
China	71	49	37	38	30	56
India	63	123	87	80	63	540
Nepal	61	145	82	100	61	740
Pakistan	63	128	103	96	81	500
Sri lanka	74	23	15	19	13	92
Bangladesh	63	144	69	96	46	380
South Asia	63	126	91	84	66	NA

Source: UNDP cited in Economic Survey 2005-2006

The problem in India's socio economic situation could be attributed to the lack of investment in India's social infrastructure; combined central and state government expenditure in social (education and health) expenditure has declined from 6.25% of GDP in FY2001 to 5.81% in FY2006BE. While expenditure in health has marginally increased, education and others had declined.

Exhibit 8: Trends of social sector expenditure by Centre & State Governments.

Rsbn	FY2001	FY2002	FY2003	FY2004	FY2005RE	FY2006BE
Expenditure on social sector (Rsbn)	1,318	1,378	1,452	1,569	1,869	2,052
Education	670	681	725	769	898	992
Health	280	286	315	348	415	477
Others	368	412	412	452	556	582
% of GDP						
Expenditure on social sector	6.25	6.04	5.92	5.68	5.98	5.81
Education	3.17	2.98	2.95	2.78	2.87	2.81
Health	1.32	1.25	1.28	1.26	1.32	1.35
Others	1.74	1.80	1.68	1.63	1.78	1.64

Source: Economic Survey 2005-2006 p205

The socio-economic conditions in India reveal that despite reasonable GDP growth, benefits have not been widely distributed, a small segment of the population is driving and enjoying the economic growth of India.

Why does inequality matter? First, the demand for industrial goods remains restricted. Secondly, as seen in the May 2005 election results, the non-inclusive nature of growth had led to widespread disillusionment with the reform process. The United Progressive Alliance (UPA) government's decision to sharply hike expenditure in health, education and rural employment must been seen in this light. However, in the absence of corresponding measures by the state governments which bear the main responsibility for the social and agricultural sector, the centre's increases will have little effect.

Recently China whose GDP's growth rates are the envy of all developed countries has witnessed a violent, popular backlash in the rural areas. If such an outcome is to be avoided in India, then the centre and state governments have to invest significantly in agriculture and welfare, improve its governance and prevent leakages in the system. The state has already withdrawn from investing in capital assets as successive union budgets have demonstrated (see Union Budget 2006-2007:Short on Expectations 28 February 2006 and Central Government Capital Expenditure on the Wane, 11th April 2005) as it expects the private sector and foreign investment to invest in infrastructure. The current economic environment of high growth is an opportune time for investing in social infrastructure for achieving the goal of growth with equity.

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Stock Ratings		Absolute Returns	Stock Ratings		Absolute Returns
Buy	:	> 25%	Market Performer	:	0 - 15%
Out Performer	:	16 - 25%	Under Performer	:	< 0%