

The Indian economy needs a radical reset

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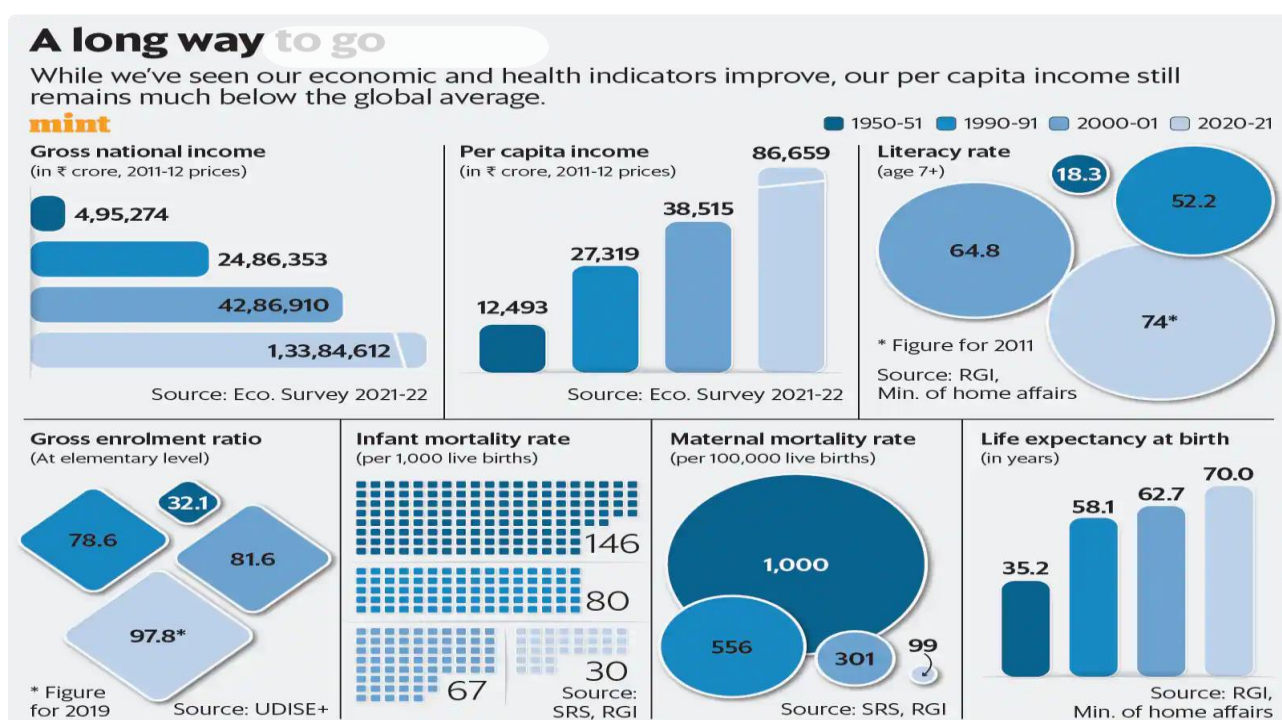
Sudipto Mundle

India's digital and green thrusts will help, as will geopolitical factors, but job generation and the state's role need sorting out.

Much has been written this past week about our achievements and failures of the past 75 years. It is a mixed picture. After stagnating for nearly 150 years during colonial rule, the standard of living started rising rapidly after independence. The average Indian is nearly 700% better off today than s/he was in 1950. Life expectancy has also doubled to 70 years during this period and literacy has gone up from just 18% to 74% (see charts). However, we have fallen behind many neighboring Asian countries, including Bangladesh, in terms of per capita income and many social indicators. Globally, India is the second most unequal country. Sad news just this week tells us that social inequality and untouchability are still entrenched. Finally, our biggest failure is high unemployment. Ajit Ghosh, an authority on employment issues, has estimated an unemployment backlog of 79 million workers including 50 million in disguised unemployment.

The political picture is also mixed. Contrary to widely held expectations, Independent India did not disintegrate because of its enormous cultural, religious and linguistic diversity. Our diversity has become a cause for celebration rather than disintegration. India is also the only developing country in the world that has sustained universal adult suffrage for 75 years.

However, critics now describe India as an "illiberal democracy", pointing to the spread of divisive, majoritarian politics and the growing tendency towards authoritarianism.



So our legacy of 75 years of independence is very mixed. What should be our priorities as we proceed to the 100th anniversary of Independence in 2047? On the political front, non-BJP parties are in power in a dozen major states. Also, anti-incumbency is giving way to pro-incumbency. Outgoing governments are being voted back to power. Presumably they are delivering, at least partially, on what voters expect of them. That gives us hope that India will remain a robust democracy, even if incomplete, with universal adult franchise and political competition based on performance. With that admittedly optimistic political assumption, let me turn to long-term priorities on the economic front.

Here is an interesting paradox. India is already the third largest economy in the world in terms of purchasing power parity. In nominal terms, it is the fifth largest after the US, China, Japan, Germany and the UK, at \$3.2 trillion. Yet, it is among the poorest 30% of the 218 countries listed by the United Nations, with a per capita income of \$ 2,277, only a fifth of the world average of \$11,000. Underlying this paradox is the huge challenge of unemployment mentioned earlier. To employ the 9 million persons joining the labour force every year and absorb the 89 million backlog of unemployment by 2047 we will need to generate some 12 million additional jobs every year. A very tall order when jobs are hardly growing and many of the existing jobs may soon disappear due to technical obsolescence. That is not all. The skill level of our workforce is extremely low, with barely 4% having any certified skills. We need a massive skilling programme to radically change the skill profile of our workforce.

No one knows how this challenge will play out over the next 25 years. But overcoming the challenge will clearly require a very radical transformation of the economy. A few helpful factors should be noted. First, 'services' is our largest sector and India is a major hub especially for IT-enabled services. This services-led pattern of growth will get a big push from the ongoing digital revolution. The transition from a fossil-fuel based economy to one based on renewable energy is another disruptive change. These changes could completely transform the nature of the economy. We need to be prepared for these changes. In particular, the skill profile of the workforce will need to be completely transformed. Third, strategic autonomy in foreign policy is especially helpful in the emerging geopolitical conjuncture. The world is increasingly wary of the rise of an assertive China, while India's rise is seen as benign and widely welcomed. India is even seen as a potential countervailing power. The consequent benefits in access to capital, technology and markets can be another major driver of change. There could be other disruptive changes not seen at present. So the Indian economy will be quite transformed by 2047, but whether all these changes will overcome the challenge of unemployment or exacerbate it remains an open question.

Finally, what should be the role of the state? As a developing country, our state capacity is limited. The central and state governments must develop their own capacity, focus their efforts on doing only a few essential things and do them well. These include pure public

services like security and national defence, effective delivery of justice and the rule of law, protection of the environment, building good infrastructure and the provision of merit services like social protection, basic education, public health, water supply and sanitation. In addition to these essential public services, the state also has to provide an appropriate regulatory framework that incentivizes the private sector to grow economic activities in agriculture, industry, services and trade.

This is already a tall order. Whether the state should additionally partner the private sector in the production and dissemination of scientific knowledge remains another open question.

These are the author's personal views.

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