

Growth Cannot be Judged in Isolation

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Abstract

Economic growth is a multi-dimensional concept and is reflected in people's better standard of living, better food, clothing and housing, improved education, sanitation, medical facilities, better means of transport and communication and information technology, reduction in the level of poverty, hunger, unemployment and inequalities in distribution of economic and social power, increase in productivity with advancement of science and technology, carrying out innovation through research in different fields promotion of human skills, improvement in production functions, participation of less advantageous section of the society in decision making (no discrimination on the basis of cast, creed, religion, gender, place, religion, family background, ideology, fait , language etc.), empowerment of the needy section of the society, inclusive and sustainable growth (meeting the needs of not only present generation but also future generation without any sort of pollution of natural resources), distribution of gains on the basis of equity and justice, internal and external place etc. Exclusion of any section, place, religion, community, sector etc. does not carry the true spirit of growth. Growth rate must be far greater than that of the rate of growth of population. Economic and social stability is equally important. Indian economy is passing through a phase of economic slow-down amid the advantageous situation of demographic dividend and inflation. An attempt has been made to study these in relation to our values and value system.

Keywords: Inclusive and Sustainable Growth, Financial Stability, Value System.

INTRODUCTION

Economic growth implies an increase in GDP that is total monetary value of all final goods and services produced within the domestic territory of an economy at current prices by the normal residents in an accounting year. If this value is taken at some base prices, it is known as GDP at constant prices. Rate of economic growth is taken as a yearly growth at constant prices.

GDP = Gross Value added in an economy.

GDP = Total Sales + Change in Stock - Intermediate Consumption.

GDP = Private Final Expenditure on Consumption + Govt. Purchase of Goods & Services + Gross Domestic Private Investment + Net Exports.

GDP = Compensation of Employees + Operating Surplus + Mixed Income of Self Employed + Net Indirect Taxes + Consumption of Fixed Capital.

It is thought that with an increase in GDP, solution of such problems as poverty, unemployment and income distribution will be automatically solved in the long run when the benefits will trickle down to the poor in the form of increased income opportunities. Robert McNamara, then Governor of the World Bank, admitted in Feb 1970 the failure of GNP growth rate as an index of economic development in these words: In the developing world, at the end of the decade; malnutrition is common, infant mortality is high, life expectancy is low, illiteracy is widespread, unemployment is endemic and growing the redistribution of income and wealth is severely skewed. Thus

GNP = [GDP + Net Factor Income Received from the ROW] cannot be regarded as the true measure of economic development.

As per the report published in Daily Hindustan Times, Feb 16th, 2020, P.14 if we compare some indicators of growth with Bangladesh, following is the position:

Table 1: Comparison of some Indicators of growth of India and Bangladesh

S. No	Indicators	India		Bangladesh	
		Male	Female	Male	Female
1.	Life Expectancy	67	70	71	74
2.	Neo-Natal MR	22.73 Per Thousand Births		17.12 Per Thousand Births	
3.	IMR	29.94 in India		25.14 in India	
4.	Under the age of 5	38.69		30.69	
5.	Literacy Rate	66% (Girls above the age of 15)		71% (Girls above the age of 15)	
6.	Female Labour Participation	23% (8% drop in the last decade)		30%	

In India, women represent only 29% of the labour force. More than half of the work done in India is unpaid (almost it is informal). They comprise 40% of agricultural labour, they control 9% of land, nearly half of the India's women do not have a bank account and 60% of women have no valuable assets in their name. In addition they are the victims of violence with the rate of crimes against women at 53.9%. Gender inequality is a global concern.

The struggle for gender equality has understandably focussed on women- their health, their empowerment, their education. According to Nishtha Satyam, who heads United Nations women in India, Bhutan, Maldives and Sri Lanka - we missed the most critical pillar of change - men- we need men, who recognise that house work is equally a man's job. Better policies are necessary to cure gender inequality.

In 2018, India suffered over 2081 deaths from climate triggered extreme weather events with an economic loss of over \$37.8 billion. Delhi pollution reached an alarming level because A2I touched 494 on Nov. 3, 2019 - the most hazardous level since 2016. A blanket of smog covered Delhi and NCR and people complained of breathlessness. Untimely rains in March, 2020 are damaging the rabi crops. Pollution control efforts are hit because of lack of funds. Hence quest for gender equality and sustainable development are there.

LITERATURE REVIEW

The classical economists believe in the existence of an automatic free market in a perfectly competitive economy which is free from government interference. Full employment (all those persons, who are willing to work, able to work and qualified to work at current wage rate, find the job without any considerable delay) is a normal and natural position in the economy. It is the invisible hand which

maximises national income. All classicists regard capital accumulation as the key to economic progress. Only capitalists and landlords are capable of savings and the working class is incapable of saving because it gets wages equal to the subsistence level. Out of total production after paying rent to landlords and subsistence wages to the workers, the surplus goes to capitalists as profits (they are the incentives to investment). According to the classical, profits induce investment but profits do not increase continuously. They tend to decline when competition increases for larger capital accumulation among capitalists. The process of capital accumulation increases in population and wage bill continue till profits disappear altogether and ultimately a stage comes at a point, where there is a stationary stage.

Smith, Ricardo and Malthus all postulated an identical production function, which can be written as follows:

$$Y = f(K, N, L, S)$$

Output (Y) is a function of stock of capital (K), labour force (N), land (L) and the level of technology (S). Classical economists were aware of the role of entrepreneurs in production, yet they were assigned them any strategic position in their system.

Increase in Profit \uparrow \rightarrow Increase in Investment \uparrow \rightarrow Increase in capital formation \uparrow \rightarrow Change in technology for the better \rightarrow Increase in Wages \uparrow \rightarrow Increase in Labour Supply (Population Growth and Labour cost will reduce profit and as low down process)

According to Prof. B Higgins, "In the classical model the end result of capitalist development in stagnation. This stagnation resulted from the natural tendency of profits to fall and the consequent checking of capital accumulation. When this happens, capital accumulation ceases, population becomes constant and the stationary stage sets in".

Robert M. Slow of MIT gave a model of economic growth by introducing a new variable capital labour ratio $r = K/L$

$K = r L$ (but $L_t = L_0 e^{nt}$), where n is the rate of growth of population.

$$K = r \cdot L_0 e^{nt}$$

$$\begin{aligned} \text{Differentiating } \frac{dk}{dt} &= n r L_0 e^{nt} + L_0 e^{nt} \frac{dr}{dt} \\ &= L_0 e^{nt} \left[nr + \frac{dr}{dt} \right] \end{aligned}$$

$$I = \frac{dk}{dt} = sy, \text{ where } s \text{ is propensity to save}$$

$$Y = f(K, L)$$

$$Y = f(K, L_0 e^{nt})$$

$$Y = s f(K, L_0 e^{nt})$$

$$\frac{dk}{dt} = I = s y = s f(K, L_0 e^{nt})$$

$$\text{Hence } \left(nr + \frac{dr}{dt} \right) L_0 e^{nt}$$

$$= s f(K, L_0 e^{nt})$$

$$nr + \frac{dr}{dt} = s f\left(\frac{K}{L_0 e^{nt}}, 1\right)$$

$$\text{OR } \frac{dr}{dt} = s f(r, 1) - nr \rightarrow \text{Equation of Growth}$$

"The rates of change of capital labour ratio as the difference of two terms are representing the increment of capital and the other the increment of labour."

Hence for positive rate of change in economic growth the rate of capital accumulation should be greater than rate of change in the population capital.

Literature Gap

The Modi government's philosophy is Sabka Saath, Sabka Vikas, Sabka Vishwas → this means a sense of belonging to all citizens irrespective of their religion, region, caste and gender. Present economic slow-down has led to inadequate investment and a dip in demand (The domino effect is palpable in tax revenues, jobs and consumption). The target of India's GDP is 5 trillion dollar by 2024-25, requires a growth rate in two digits. A sharper focus on the environment and the climate crisis. Each citizen should be given a sense of belonging, because India has a sound potential and base for achieving the target of \$ 5 trillion economy. At present, both prices and unemployment are rising and this contradicts the validity of Phillips Curve. One after the other India is facing the problems of NPA^s and bad debts (a leading bank of size Rs. 3.5 lakh crore worth of total assets as of end Sept. 2019 was placed under a moratorium) and this requires a sense of protection to the depositors.

Some Studies

1. The UNDP studied 75 countries representing 80% of world's population found that 9 in 10 people - (including women) are biased against women. "The number shows new clues to the invisible barriers women face in achieving equality despite decades of progress"- Daily HT, March 07,2020.P.21
2. Capacity utilisation in Sept. 2019 was 69.1% - the lowest since June 2018 (Inventory and capacity utilisation survey Q₂ 2019-20 released on 7-2-2020)
3. Business expectation Index fell to 102.2 in December Quarter Q₃ (2019-20) lowest since 2009.
4. The net perception was found to be negative as RBI's Consumer Confidence Survey is still continues to show deterioration.

OBJECTIVES

1. To study the trend in growth are really reflecting a growth recession.
 2. To examine the basic nature of current economic slow-down.
 3. To analyse the philosophy of the government (Sabka Saath, Sabka Vikas, Sabka Vishwas) vis a vis trends in growth rates [inclusive and sustainable growth]
- A) $P_n = P_0 \left(1 + \frac{r}{100}\right)^n$, $r = 13\%$ deflating this at constant prices, it is still about 10%.
 $P_n = 5$ trillion dollar, $P_0 = 2.72$ trillion dollar and $n = 5$
- B) $P_n =$ Population after 5 years at the growth rate of 1.2% may background 142 crore when $P_0 = 134$ crore.

RESEARCH BACKGROUND

As per available research large numbers of stressed assets globally have a direct correlation with their absence of organisational strength revolving around leadership systems, processes, and governance clearly formulated strategic blue prints of business existence. Our banking system carries no where witness to adequately asses the proclaimed eligibility for growth by prospective borrowers with respect to their having adequate management capital = 1) Integrity of existence + 2) honesty of purpose + 3) organisational framework suffused with competent leadership systems, processes strategic blue prints + 4) executive capability with constant supervision. After PMC bank, there is a big tragedy at a leading private bank Yes Bank. According to Prof. Raghuram Rajan "The poor need the savvy politicians to help them navigate through rotten public services. The politicians need the corrupt businessman to provide the funds that allow him to supply patronage to the poor and fight elections. The corrupt businessman needs the politicians to get resources cheaply." (Quoted from Daily HT Sept. 19, 2018, P.6) Hence India's banking sector crisis of NPA and bad loans seems far from over. Problems of NPA and bad loans are mainly unethical but they are having their vast impact on the economy.

The outbreak of the novel Corona virus disease, COVID-19, which began in China in Dec. 2019, has spread rapidly around the world (cases have been detected in more than 75 countries). The cost of the protests because of stationing police, Para military and military forces are very high. There is of course, the direct cost associated with a security lockdown. But the indirect costs are arguably more

severe. These costs retard growth (otherwise money could have been invested in public and merit goods).

UP is planning a new population policy to control numbers and deny welfare benefits to those with more than two children. The natural resources gifted by nature to the mankind, under the earth, on the earth and above the earth have been mis-utilised. Natural calamities, pollution, environment, degradation, climate change, water crisis etc. are being faced all over the world.

Malthus after taking it for granted that population has a tendency of increasing at a faster rate than the means of subsistence; he thought of the forces which kept the population under limits.

Preventive Checks - (Present set up) Improve health services and increases the scope of reversible contraceptives.

Positive Checks - Otherwise natural calamities and man-made problems (Internal and External)

RESEARCH METHODOLOGY

The data used for the study is secondary in nature. The required data were collected from the blue prints produced by the govt. agencies or other authorised agencies in the private sector e.g. CMIE etc. standard journals and websites. The study covers the period of 10 years i.e. 2009-10 to 2019-20. The collected data has been analysed by using descriptive statistics and compound annual growth rate. Correlation analysis has been used to find out the relationship and then making a logical analysis on the basis of the fundamental principles of Economic Theory. Economics has not changed its basic nature that is; it is still a political economy.

ANALYSIS

Objective 1: To study the trends in growth are really a growth recession.

India became the fastest growing economy by achieving a growth rate of 8% in 2015-16 and 8.17% in 2016-17 at constant prices (2011-12) and this figure gave a confidence to make Indian economy an economy of \$5trillion by 2024-25. Our fundamentals (FDI inflow and foreign exchange) were quite strong during 2014-19.

Growth = Better standard of living of all the sections of society + provision of all necessary goods and services to the newly added population + preservation of natural wealth (climate, environment, air quality index, water, forest, mineral resources etc.).

The table 2 given below highlights the trends in Growth rate at constant prices during the period of 10 years from 2009-10 to 2019-20.

Table 2: The trends in Growth rate at constant prices during the period of 10 years from 2009-10 to 2019-20.

Year	Growth Rate (In Percentage)	Year	Growth Rate (In Percentage)
2009-10	7.86	2015-16	8.00
2010-11	8.50	2016-17	8.17
2011-12	5.24	2017-18	7.17
2012-13	5.46	2018-19	6.81
2013-14	6.39	2019-20	4.98
2014-15	7.41	2020-21	5.80

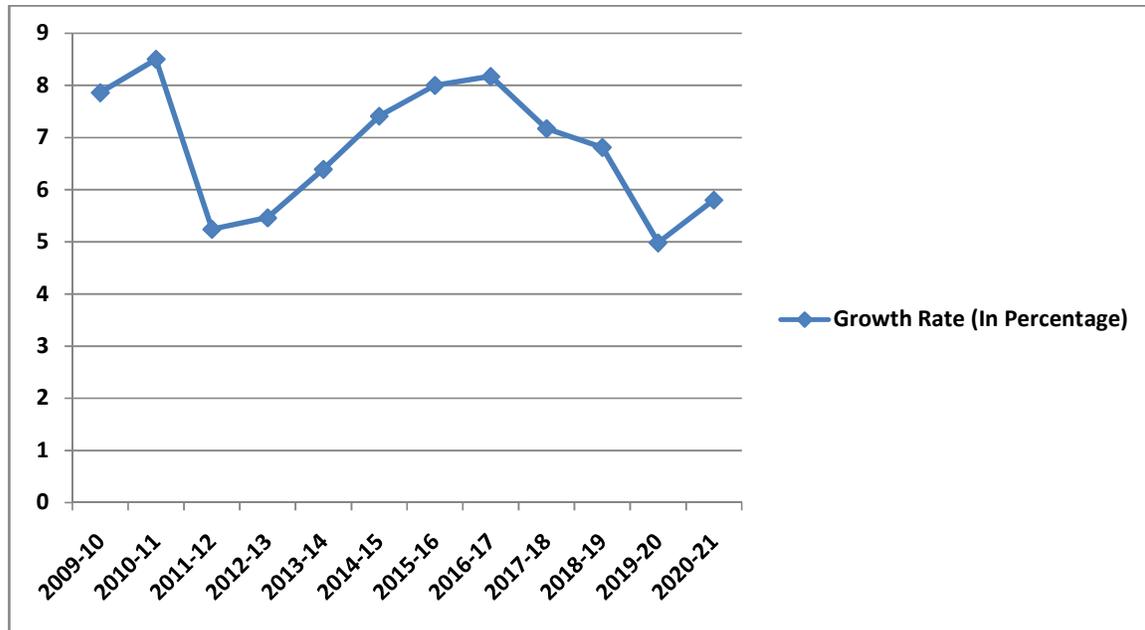


Figure 1: Growth Rate

The World Economic Situation and Prospects 2020 (WESP) report has also lowered the GDP growth estimate for India while expressing hope that combination of fiscal stimulus and financial sector reforms will help boost consumption. The IMF on 20-1-2020 slashed India's growth forecast by 1.3 percentage points to 4.8% for 2019-20. While RBI and India's Govt. Statistics Department have estimated at 5%, rating agency Moody's Investor service has projected growth at 4.9% for this fiscal year and for the year 2020-21, IMF has projected growth to 5.8%. The GDP rate released on 28-2-2020 for Q₃ ended December, has only served to muddy the economic narrative. GDP growth came to 4.7% which is higher than the 4.5% growth in Q₂ - growing narrative that the economy had bottomed out. Concerns about Corona Virus pandemic have already rolled global markets. Therefore Q₄ (2019-20) is likely to bear the brunt of this and there is a little chance of Indian economy showing a recovery.

The Fitch ratings on 20th December 2019 cut India's growth rate forecast to 4.6% and affirmed the country's sovereign credit ratings at the lowest in investment grade BBB- with a stable outlook. IMF in its Article IV consultation report on India released in Dec. 2019 said that Indian government should avoid a fiscal stimulus to boost the economy and instead opt for an easier monetary policy. Daily HT Business 21-2-2020, P, 19.

Aggregate demand in an economy = Consumption on demand + Govt. purchase of goods & Services + Gross Domestic Private Investment + Net Exports.

Since we have not been able to develop our competitive strength in the international market, our competitors have captured the market e.g. cotton textile by Bangladesh. Both private consumption and investment are decelerating. Hence

Aggregate Demand ↓ → Volume of Income, Output and Employment ↓ (Unemployment rate has also reached to a 45 years high). At the heart of the current slow-down, the cleaning of NPAs is also there and the problem is not yet over. The consumption expenditure survey clearly highlights the rural decline in consumption expenditure between 2011-12 and 2017-18. (Data published in Nov.2019)

The following chart is showing an interesting phenomenon which normally does not happen (when Policy Rate ↓, Projected Growth Rate ↑)

Table 3: Policy Rate and Projected Growth Rate

Months	Policy Rate	Projected Growth Rate
February 2019	6.25	7.4
April 2019	6.00	7.2
June 2019	5.75	7.0
August 2019	5.40	6.9
October 2019	5.15	6.1
December 2019	5.15	5.1

Source: Fighting on Economy Front by Roshan Kishore- Daily HT Business, Dec 31, 2019, P.12.

If we find out coefficient of correlation between X and Y, it comes out to be +.98 (a spurious correlation, because policy rate↓ Investment↑ Employment↑→Output = Income↑ - Growth Rate↑)

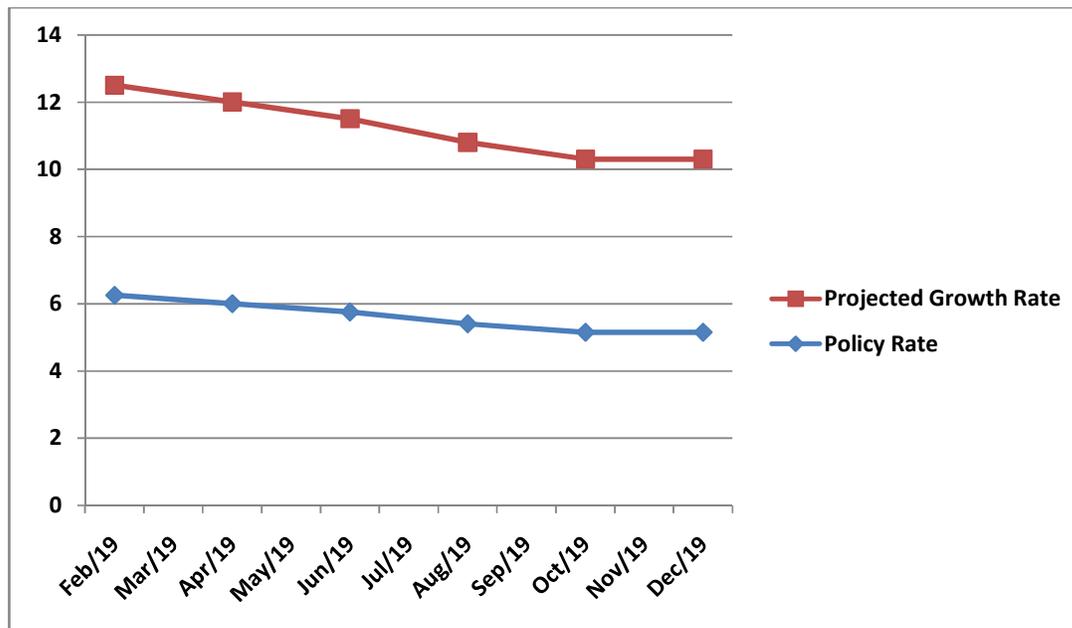


Figure 2: Policy Rate and Projected Growth Rate

But in India, domestic businesses have not been investing either and stagnation in investment is the strongest sign for growth recession. A UN Report releases on 17-1-2020 (Friday) said continued structural reforms are necessary to boost growth in India. The world economic situation and prospects report 2020 has also lowered the GDP growth estimate in India.

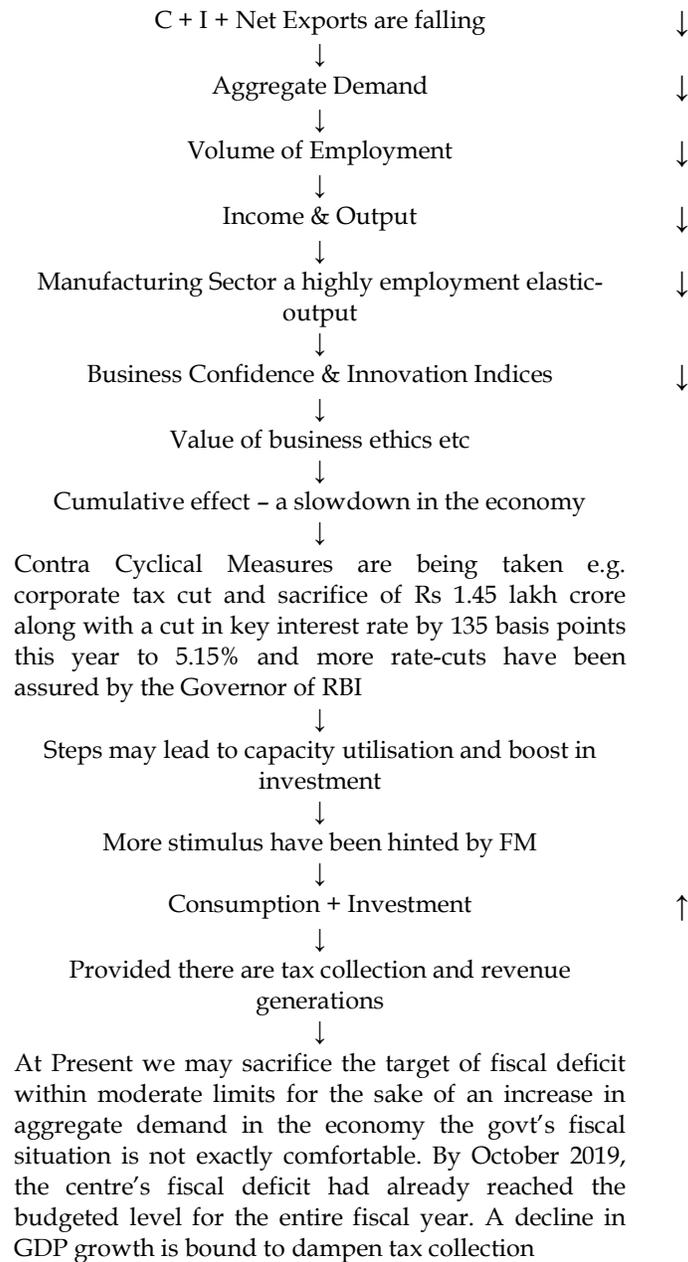
Objective 2: To examine whether the slow-down is cyclical or structural

In an uncontrolled and capitalistic economies there used to be business fluctuations found at regular intervals due to monetary and non-monetary factors. Macro economic variables like income, consumption, volume of employment, aggregate demand, aggregate supply, savings, investment, prices etc. behave changes like simple harmonic motions and these swings could create an atmosphere of optimism and pessimism among entrepreneurs, businessmen, investors etc. (risk and uncertainty bearers). From 2018-19 onwards, the demand is not coming because of slowdown in the earnings. Fresh investment in the last quarters of 2018-19 plunged to a 15 year low. Private sector projects are being stalled at all time high. New public sector projects fell at the lowest level in 14 years. Hence, sometimes there are supply shocks in the economy.

RBI's consumer Confidence Survey asks respondents about their perception on current incomes.

Net Perception = Those who thinks incomes have increased - Those who think they have decreased
[In percentage of respondents, it has gone down from 31.7 in September 2012 to 2.9 percent in July 2019]

The following chart explains the situation:



Objective 3: To analyse whether these growth trends are reflecting inclusive and sustainable growth

The concept of sustainable development is of recent origin, this term was used by world conservation of Nature and Natural resources (Land, Forest, Water, Mountain, Mineral, Environment, Climate) in 1980, it was commonly used and defined for the first time by the Bruntland report Our Common Future of the world commission on environment and development in 1987. The definition is “meeting the needs of present generation without compromising the needs of future generation”, sea level rise of several meters, major disruption to monsoon rains and river flows in India, risks for climate change, air quality index etc. are among the biggest global economic risks. Water available per Indian declines every year, monsoons is becoming erratic due to global warming and change in climate. In 2018, India suffered over 2081 deaths from climate-triggered extreme weather events with an economic loss of over \$37.8 billion (about three times the losses of 2017). While India’s population expected to rise to 1.7 billion by 2065, the majority of it urban, the demand for liveable cities will be shared to square with the development agenda. (Daily HT, 5th Feb, 2020, P.18- a write up authored by Varun Gandhi, Lak Sabha MP)

This year world economic Forum in Davos, Switzerland where world leaders and business leaders meet yearly to discuss presenting issues, focussed on climate change and inclusive capitalism. Global inequality is growing which rich a mass more wealth, the poorest remain so. India’s richest 10% control 74% of national wealth and only 1% command four times the wealth health by the poorest 70%. Indian women and girls put in 3.26 billion hours unpaid care work (something is done for love that is voluntary), thus they contribute Rs. 19 trillion yearly almost 10% of our GDP). Women in urban areas devoted 312 minutes on house work, while male spent 29 minutes a day (reflecting huge gender gap). Women do not feel safe at work place that is why 21.4 % labour participation is there for women in India. (Daily HT, Jan 30, 2020, P. 4)

India stands at the 54th position out of 200 economies evaluated in Bloomberg Innovation Index. UNS Happiness Report, India came in 140th in 2019, dropping seven places from 133 in 2018. Similarly following indices have also shown a dropping position of India.

Global Democracy Index (India’s position is 51 out of 167 countries dropping by 10 places. (Dated Jan 23, 2020)

Corruption Perception Index - 80th positions dropping by 2 steps. (Dated Jan 24-2020)

About more than 22% people of the total population find it difficult to make both ends meet, according to Govt. reports over 31 million people in the country were jobless, while over 24 lakh central and state govt. jobs remained vacant in the year 2018, because of employability (which depends on knowledge, understanding, application oriented skills for solving problems, soft-skills, confidence, creativity, communication, aptitude and attitude). The question of solving problems of poverty, unemployment and inequalities are still there after more than 72 years of our Independence. (HT Education Feb. 25, 2020, P. 4)

According to a study conducted by oxford and published in HT November 1st, 2018 P.20 improved nutrition, better sanitation, increased asset ownership are the factors responsible for poverty reduction to the tune of 270 million people during a period of 10 years from 2005-06 to 2015-16.

CONCLUSION

The Union Budget 2020-21 (Presented on 1-2-2020) offers an estimated Rs. 40,000 crore of tax concession to individual tax payers, following up its Sept. 2019 decision to offer Rs. 1.45 lakh crore of the same to company resorting to a straight forward budgetary stimulus to revive economy. It also increased government spending, the second way to deliver a budgetary stimulus, with a sharp focuses on capital expenditure or asset creation. Manufacturing activity expanded at its quickest pace in nearly 8 years in Jan 2020. Manufacturing Purchasing Managers’ Index (PMI) shot upto a near eight

year high off setting pressure from global equities (PMI recorded at 55.3 in Jan 2020 against 52.7 in December 2019 against 51.8 in April 2019). The basic purpose of the measures taken in the Union Budget 2020-21 is to spur spending so as to boost aggregate demand. The Monetary Policy committee in its meeting held on 6thFeb 2020 has taken care of inflationary pressure by keeping policy rates unchanged. But the economy is facing a great slow down primarily due to a second wave of the twin balance sheet crisis at banks. On the basis of two drivers of growth (size of the workforce and productivity) the 2010 could have been strongest decade of the first half of the century but it did not turn out that way. Demographic dividend could be reaped only when the shareholders are less. It is time to adopt two children norm strictly.

SUGGESTION

Growth is still not inclusive and sustainable. Indian core values are integrity, excellence, accountability, human dignity and rights of every person, to treat each person with fairness, compassion and decency etc. are to be remembered and followed.

There is a set of 17 goals that is the most serious problems affecting our world, are to be addressed by 2030 e.g. climate, inequality economic as well as many other counts, discrimination on the basis of place of residence, socio-economic status, governance and vulnerabilities to shocks, empower those who are left behind inclusive, farsighted and progressive policies. India's position is 58 so far as SDG Index is concern, a little beyond halfway. (Source – Report of World Urban Forum– Daily HT, Feb. 13, 2020, P.3)

ENDNOTES

1. Daily HT, Feb 16th, 2020, P.14.
2. Daily HT, March 07, 2020.P.21.
3. Daily HT Sept. 19, 2018, P.6.
4. Daily HT Business 21-2-2020, P, 19.
5. Daily HT Business, Dec 31, 2019, P.12.
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