‘India’s job creation engines must fire for rural populace’

Need to broaden jobs; but digital economy good enough to be replicated by rich nations

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India’s economy has the potential to grow at 7.8% on a sustained basis but, for that to happen, its employment generating engines need to be broader and more powerful. Canadian-American economist and Nobel laureate Michael Spence said in an interview on a visit to India. Spence, who co-chairs the Commission on Global Economic Transformation, a panel of 21 experts set up by New York-based think tank the Institute for New Economic Thinking (INET), said there are examples of some economies like China which have registered strong growth for several decades in the past but are now having to deal with a markedly different global economic situation, with geopolitical tensions, climate change and energy transition.

Underlying all these, he said, is a global pattern of declining productivity after the global financial crisis, which means expanding supply-side capacity is not going to be easy. India’s manufacturing sector needs to be geared to meet global demand, not just domestic demand, including by addressing issues such as land availability and the number of licences required for businesses.

With a growing economy, a large workforce and low dependency ratios, India is well placed to take advantage of its demographic dividend, he said.

Spence said that in India’s case there are certain things that are going very well but others that still need to be addressed.

“The digital side of the economy has been extremely well-designed and is important both from the point of view of inclusiveness of the financial system and efficiency. Government transfers now don’t have intermediaries,” said Spence.

“Still, a long-standing problem for India is whether the employment engines are both powerful and broad enough to employ large numbers of people in the rural areas. They need to be so in order for India to achieve the full growth potential,” he said.

“You can’t achieve the full potential if there’s a significant section of the population that’s not experiencing any kind of productivity growth and related income growth.”

In the case of China, Spence said private entrepreneurs are under-investing in that country amid instances of heavy-handed regulation and policy uncertainty and that restoring business confidence is something that cannot be done overnight.

“The bottom line is the Chinese economy is way less powerful. It’s a big economy, so they don’t have to grow at huge rates to have a big impact on the global economy, but they’re underperforming and that may last for a while. Then that affects pretty much everybody... certainly all of East and a good chunk of South Asia just because of the trade relationships,” Spence said.

“The bottom line is that China’s got a lot of things to get sorted out. They need a huge fiscal reform in China in addition to sorting out the housing mess,” he said.

“If I don’t think this is a permanent impairment of China’s long-run growth because underneath this they have invested heavily in really important growth drivers, intangible assets like human capital.”