



## Having growth, eating it too

**MK VENU** Posted online: Thu Jan 20 2011, 02:56 hrs

A robust debate has ensued among economists online largely triggered by Amartya Sen's provocative statement to the Financial Times that the "Indian fixation" with surpassing China's rate of economic growth is "stupid". Sen's stated position is: stop worrying about growth and focus on social programmes that directly target poverty, malnutrition and so on. This will eventually create conditions for higher growth.

Of course, Jagdish Bhagwati has disagreed with Amartya Sen and argued that a focus on accelerating growth is important to lift millions from poverty, even while retaining targeted social programmes which supplement the positive effects of a reforms-led high-growth strategy. Bhagwati has also said that spending on social programmes is not a novel idea, but had always been a part of our development agenda since Independence. However, social spending was suboptimal in the initial decades because there was low growth, and therefore low incomes, which did not create enough tax revenues for the government to spend.

Many economists agreed with Bhagwati's basic point, that it is only by pursuing a strong reforms-led growth strategy that the government can create enough tax revenues to fund social-sector programmes like NREGA, the right to food, and so on.

Of course, there are as many economists on the email group who swear by Amartya Sen's logic that an excessive focus on growth takes the attention away from social-sector programmes. Interestingly, other liberal (though not neoliberal) Western economists like Martin Wolf of the Financial Times wonder why such an obvious proposition is still a matter of debate in India! Wolf added his bit to this discourse by saying higher "growth and incomes are a necessary condition for better state-funded welfare, more jobs and so on. This is simply not debatable." Abhijit Banerjee of MIT helpfully deconstructed the core of this debate: he says governmental capacity to do anything new is always limited (think of Obama) and all the more so when the state is weak. So there "can be" some trade-off between a greater emphasis on growth — on "growth-oriented reforms" — and a special focus on social-sector spending. So how does the government prioritise its reforms, whether purely growth-oriented or aimed at creating higher social capital?

For instance, a predominant focus on food security and right to education, though very critical, will have a sustained effect on poverty and growth in the medium-term. On the other hand, more obvious and focused GDP-oriented reforms like converting land use for industrial purpose might create higher growth, but may not attack poverty in the short-run, as the vast unskilled working population cannot be absorbed by modern industry, says Banerjee. So, he implies, we might be caught in a chicken-and-egg situation here.

However, in practice, there are ways to get around the problem Banerjee has posed. Appropriate partnerships in civil society can marry pure growth-oriented strategies with creating new skills and higher employment. Though belatedly, some states with high growth rates and reasonably good human development indices are pursuing more creative strategies to directly link GDP growth to employment in meaningful ways. Gujarat has just launched the ambitious Gujarat Livelihood Promotion Company (GLPC), which seeks to connect over a million new rural workers to industrial projects in three to five years.

The idea is simple. The GLPC will act as a nodal agency to bring bank finance to several thousand self-help groups (SHGs) in rural and semi-rural business hubs. These SHGs will be given training by companies that will also end up sourcing labour-intensive goods and services from these workers. The idea is for companies to train the workers to suit their buying requirements.

Companies like Reliance Industries, ITC, Tata Motors and Godrej, are all signing MoUs with GLPC. This public-private partnership (PPP) is expected to generate over 12 lakh jobs over the next three to five years. The Future Group owned by Kishore Biyani (known for its Big Bazaar retail chain) has chosen to make Gujarat the hub of its backward integration and procurement.

Similarly, denim company Arvind Mills will sign a Rs 98 crore MoU for providing 50,000 livelihoods in the area of decentralised production systems for apparel and garments in backward talukas involving SHGs. Tata Motors will be inking a Rs 150 crore MoU for creating 25,000 livelihoods by linking SHG members to rural transportation activities.

Indeed, if this and similar projects being conceived in other states take off in the next three to four years, it could answer the many questions raised by eminent economists with regard to the trade-off between driving real GDP growth and creating appropriate levels of social capital through policy intervention.

India needs to evolve its own employment enhancing strategies within the context of its political economy. There is one peculiar characteristic that separates our economy from other similar ones around the world. Over the last decade, nearly 45 to 50 per cent of all new employment generated in India is in the self-employed sector. Such a high level of self-employed persons has not been seen in other industrialised economies.

This is possibly happening because technology-driven manufacturing does not absorb as many workers now due to higher levels of automation. This tends to decelerate job growth in organised manufacturing. Therefore, we end up having such a high number of the self-employed, mostly in low-productivity services jobs.

The idea is also to integrate some of the self-employed into the organised manufacturing chain. There is still scope to create an organic link between more labour-intensive manufacturing and rural workers through institutionalised SHGs where the state agencies and businesses participate equally.

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