The Indian Growth Trajectory

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At the current juncture, where a number of macroeconomic concerns are plaguing the Indian economy ranging from rapid depreciation of rupee and resultant increase in current account deficits, increased inflationary pressures and declining services and manufacturing growth, a revival would be possible by greater emphasis on employment-generating growth

THE TRAJECTORY of India's economic growth has been commended across the globe for almost a decade now with the country's average annual growth rate of GDP ranging between 6-8 per cent every year. However, at the current juncture, India's growth bonhomie has slowed down, for more than a year now, as a consequence of several domestic and global economic factors. In the context of the declining trends in the growth rate, it has been argued by a section of the academia that since the spate in Indian growth rates was not based on the kinds of stimuli and methods of financing that have characterised the growth of some other more successful Asian economies, the Indian resilience to the global economic crisis is over. On the other hand, the government and the policy establishment within the country has been issuing statements assuring that the declining growth rates are just a one-off phase and would soon be reversed. A part of the blame has been placed with the Reserve Bank of India's reluctance to cut interest rates that were raised to combat inflation. But the more fundamental explanations being offered are the poor performance of the global economy and the difficulty of pushing ahead with more 'reform' in India's heterogeneous polity.

In the context of India, the argument of inadequate reform is without much substance, given the spate of economic reforms that have taken place since early 1990s in all areas of policy and success. Simultaneously, in terms of the impact of the global recession, India should be less affected compared to other similarly placed economies due to its significantly lower trade integration with the developed countries.

Growth: Sectoral Composition

Although the infamous and low "Hindu rate of growth" was transcended as far back as the 1980s, India's growth story had picked up after 2003-04. As is evident from Figure1, The GDP growth rates were fluctuating in the initial years of reforms; however, India registered unusually high growth rates in GDP between 2003-04 and 2007-08. The growth rate reached a peak of 9 per cent around 2005-2008. However, the rates dipped slightly in 2008-09 during the global financial crisis to return back to its high in 2009-10. Unfortunately, this could not be sustained and since 2011-12, the growth rates have dipped to nearly half of what it had been. Given such trends, it is important to look at the sectoral composition of the growth rates to understand the nature of the growth.

A closer look at the growth rates by sectors show that the period of high rate of GDP growth also coincides with high contribution to GDP by the service sector (Figure 2). On the other hand, while the manufacturing sector

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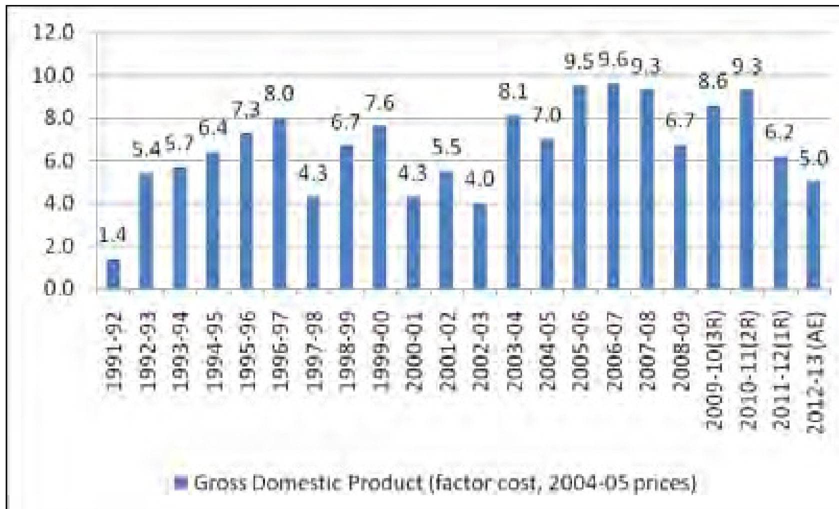
growth rate in the early 1990s averaged at 3-4 per cent per annum and increased to almost 7-8 per cent during the high growth period, the contribution of manufacturing to GDP shows an evident stagnation and a decline after 2010-11 (Economic Survey of India, 2012-13). The contribution of agriculture to GDP has been negligible, which is also reflected in the dismal growth performance of the sector. The annual average agricultural growth rates between 2003-04 and 2008-09 has been around 2 per cent. (Economic Survey of India, 2012-13). With the onset of reforms, the agricultural growth suffered a setback as a consequence of declining public expenditure in the sector and loss of its 'priority sector' status in the planning and policy paradigm.

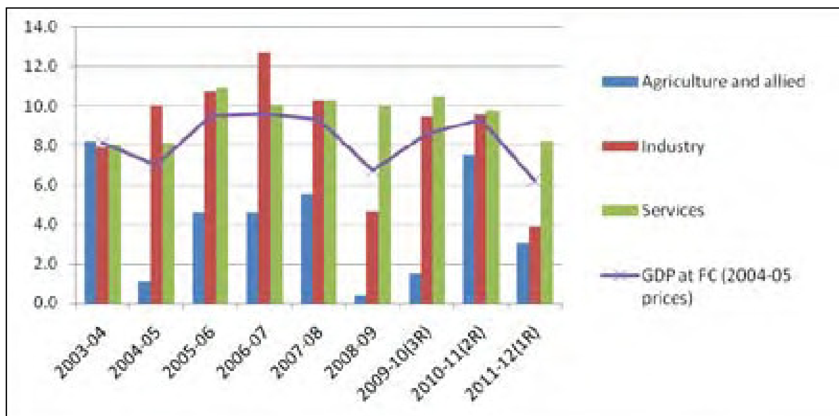
It is therefore, important to note here that while agriculture's contribution to GDP is negligible, it still forms the mainstay of majority of the population. The latest National Sample Survey (NSS) estimates on Employment and Unemployment Survey 2011-12, shows that almost 50 per cent of total employed are still engaged in agriculture. The largest contributor to GDP, i.e. the service sector (contributing nearly 32 per cent of GDP as per the National Accounts Statistics, 2011-12 estimates, CSO-GOI), hardly has 11 percent of the workforce engaged in the sector. Service sector here refers to Financial Services, Real Estate, Public Administration, Social and Community Services and other service activities (Employment and Unemployment Survey 2011-12 NSSO). With the inclusion of Trade and Transport sectors within the service sector, the share in GDP rises to almost 60 per cent and the share in employment stands at 26.9 percent by the same estimates.

Figure 1: Annual average rate of growth of GDP at factor cost at 2004-05 prices (in %)



Source: National Accounts Statistics, CSO,2013

Figure 2: Trends in Annual Average GDP Growth by Sectors (in %)



Source: National Accounts Statistics, CSO,2013

Growth and Employment: Links

Therefore, while the high GDP growth led by a surge in service sector has been a major characteristic of the Indian growth story, whether the growth has translated into employment generation requires a close look into the employment growth patterns. By the latest figures of the National Sample Survey (NSS) estimates on Employment and Unemployment Survey 2011-12, the overall rate of growth of employment has declined from nearly 3 per cent in 1999-00/2004-05 to 1.2 per cent in 2004-05/2011-12. There is an observed decline of the annual average overall employment growth rates in both rural and urban areas. The decline is sharper among the age cohort of 15-59, which is by definition, the working age group.

In terms of employment elasticity as well, the indicators do not present a favourable picture. Employment elasticity essentially measures the employment generating capacity of growth within a particular sector and is the ratio of employment growth rate to rate of growth of value added in the sector. Such exercises show that the total employment elasticity for the decade 1999-00 and 2009-10 hovers at a low rate of 0.2, thus indicating the overall lack of employment creating capacity of the GDP growth witnessed in India. Within the manufacturing sector, the employment elasticity has declined from 0.47 to 0.25 while for the services sector, it has although improved, but is substantially low at 0.28 over the two decades of 1993-94 and 2009-10 (Table 1). The financial services show high employment elasticity with respect to GDP but the total share of employed within the sector remains at less than 1 per cent (Employment and Unemployment

Survey 2011-12, NSSO). It is also known that the employment elasticity of service sector is low due to its intrinsic character, advanced use of technology and a resulting inability to absorb more labour, and therefore the onus of labour absorption lies on the manufacturing sector; but, given the declining elasticity of manufacturing employment associated with a stagnation in manufacturing sector's share in GDP, the rate of growth of employment in manufacturing has also stagnated at around 3 per cent by the latest count.

Given such patterns, it can be fairly assessed that high growth rates in GDP have not translated into adequate employment generation in India. In fact in the last two years, when the data speaks of a reversal in employment situation towards the better, the GDP growth rate has plummeted downwards as shown earlier. While such trends do not establish direct correlation between growth and employment, they do raise concerns about the inclusiveness of the growth process. Generation of sustainable livelihood forms the core of an inclusive growth process. From the employment figures, it is evident that such features have been missing from the Indian growth story. The features discussed in the Indian growth pattern shows ample potential for a default. While a decline in growth rates in the last two years does not signify the end to the 'success of Indian growth', it does mark an important juncture to revisit the 'trickle down' aspect of growth and analyse the 'inclusiveness' in the Indian growth trends. At the current juncture, where a number of macroeconomic concerns are plaguing the Indian economy ranging from rapid depreciation of rupee and resultant increase in Current Account Deficits, increased inflationary pressures and declining services and manufacturing growth, a revival would be possible by greater emphasis on employment-generating growth. ❑

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Table 1: Employment elasticity with respect to GDP

Sectors	1993-94 to 2004-05	1999-00 to 2009-10
Agriculture	0.26	-0.05
Secondary, of which	0.59	0.60
Manufacturing	0.47	0.25
Tertiary, of which,	0.43	0.30
Trade	0.61	0.30
Financial services	0.99	0.81
Community and personal services	0.06	0.28
Total	0.29	0.2

Source: Calculated from EUS, NSSO and National Accounts Statistics, CSO, Various Years

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