

INDIA AND THE GLOBAL ECONOMIC MELTDOWN

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(Delivered on 29 October, 2009)



I am glad to have been invited to deliver the JIMS Distinguished Leader Lecture. Though, I did not have the opportunity to meet Late. Sh. Jagannath Gupta who left for his heavenly abode in 1980 at the prime age of 30 yet during the course of discussion with the founders of JIMS group of institutions, I have come to know that Sh. Jagannath Gupta had a highly noble and a lofty vision of transforming the Indian society through imparting quality management and technical education.

The responsibility of translating his dream into reality fell on his worthy sons who tirelessly strived to establish a group of educational institutions of excellence, popularly known as JIMS. Over the last 15 years, JIMS has emerged as a powerful and a highly visible brand in the education sector with total commitment to excellence in management education and research with a holistic concern for quality of Life, environment, society and ethics. It

is presently conducting PGDM (Full time Course) approved by All India Council for Technical Education, Ministry of HRD, besides being a leading business school of Guru Gobind Singh Indraprastha University, New Delhi. Further, I am very happy to know that all the hard work done by Jagannath Gupta Memorial Educational Society has culminated in the setting up of Jagannath University at Jaipur under the Private Universities Act of the State of Rajasthan. All these developments during a brief period of around 15 years indicate that JIMS has a highly bright and promising future as a group of institutions dedicated to nation building. The students studying at JIMS are equally fortunate to receive quality education and exposure which would equip them to confidently face the challenges and complexities of corporate Life and help them in understanding the deeper meaning of existence itself.

We have assembled for this Distinguished Leader Lecture at a time when the global economy has been facing highly turbulent times in terms of significant loss of national income across various countries, rising unemployment, falling standards of living both in developed and developing world.

The global financial crisis had some unfavorable impact on the Indian economy as well, reflected in lower rate of estimated economic growth of 6.5% during 2009-10, as against 9% achieved during the preceding four years, coupled with decline

A COMPENDIUM OF LECTURES DELIVERED BY EMINENT THOUGHT LEADERS

in private investment, dwindling capital inflows, shrinking foreign exchange reserves, weakening exports and a depreciating rupee during first nine months of 2009.

At one time, there were moments of anxiety regarding the stability and soundness of the Indian economic and financial system. The developments during the last one year have, however, validated the vision the forefathers of Indian economic planning had during 1950s when they accorded a prominent role to the public sector and effective regulation by the state.

Pandit Jawaharlal Nehru, the Prime Minister of India laid strong foundations of the Indian financial and industrial architecture which could withstand any global or domestic crisis. He envisaged a mixed economy in which the government would manage strategic industries, serving public interest and exercising a check on those private enterprises which are driven by mere profiteering and greed. Imagine the wide ranges of activities that the government supported in the earlier stages of development. While encouraging the construction of large dams, which Nehru called temples of modern India, irrigation works and generation of hydro-electricity, Nehru also launched India's programme to harness nuclear energy.

The soundness of our institutions and professionalism of our regulatory systems received worldwide applaud from various countries around

the globe and multilateral Institutions like World Bank, IMF, Asian Development Bank, UNDP, ILO etc.

In this background, I intend to share some of my thoughts on a few important challenges the Indian economy has to grapple with in the coming months and years.

The first and foremost challenge before the Indian society and economy lies in designing a growth strategy which will ensure that every Indian benefits from the development process and no one is bypassed. Everyone should have a say and stake in national progress and development. This is the real meaning of inclusive growth.

It is now well known that there is a marked acceleration of the growth trajectory. The growth rate which used to be around 3 percent during 1950 to 1980 increased to around 5-6 percent during 1980-2000. The significant break was achieved from 2004-05 to 2008-09 when the Indian economy grew at an average rate of 8.5% and per capita GDP at 6.9%. Even during the midst of global economic crisis which witnessed steep fall in International Trade and capital flows, the Indian economy managed to grow at 6.7% during 2008-09, next only to growth rate achieved by the Chinese economy.

It is not an ordinary achievement that we protect our growth story from derailment and that too through indigenous initiatives and innovations

at policy level, regulatory level at any level of corporate and common man.

At the same time, there are several areas of concerns around our growth story. This inter-alia include eradication of poverty, upgrading the physical and social infrastructure, providing access to education & health facilities, and creating large number of productive employment opportunities, both in rural and urban areas. I would like to emphasize upon the young minds that there is a direct relationship between unemployment, poverty, and consumption levels. In this context it would be pertinent to mention that the National Commission on Enterprises in the Unorganized Sector (NCEUS), in its reports, indicated that 77 per cent of the total population of the country in 2004-05, had per capita consumption expenditure of less than Rs. 20 per day and during 2007-08, consumption expenditure of 60.5 per cent of population was less than Rs. 20 per day. Malnutrition, as measured by the underweight children below 3 years, constituted 45.9 per cent. These are stark realities of Indian life crying for urgent solutions.

The government has been highly sensitive to these problems and has taken several measures. Some of the major social sector initiatives for achieving inclusive growth and faster social sector development and to remove economic and social disparities in the Eleventh Five Year Plan include the Bharat Nirman Programme, Mid-day Meal

Scheme, National Rural Health Mission, Jawaharlal Nehru National Urban Renewal Mission and the National Rural Employment Guarantee Scheme (NREGS). The Central government support for the social programmes has continued to supplement efforts made by the state governments.

Under NREGS, over four crore households were provided employment in 2008-09. This is significant jump over the 3.39 crore households covered under the scheme during 2007-08. Out of the 215.63 crore person-days of employment created under the scheme during this period, 29 per cent and 25 per cent were in favour of SC and ST population respectively. Around 48 per cent of the total person-days of employment created went in favour of women.

This has pushed up the prevailing wage rate in the rural areas and helped the poor in raising consumption of necessary items like food grains. The agriculture debt waiver and relief scheme implemented during 2008-09 was able to support demand and revive investment in the rural and agricultural sector.

Another major area of concern is the growing budgetary deficit of central and state governments. The recessionary conditions characterizing the world economy have imposed fresh burden on the finances of Indian government during the last two years. The gains of fiscal consolidation achieved during the earlier years (2004-2007) have been lost

due to excessive reliance on deficit financing for meeting government's contractual expenditure and for supporting the stimulus package designed by the government to give a big push to the economy during the slowdown.

The government announced in the period December, 2008 through February 2009, several fiscal, stimulus measures to spur domestic demand, which amounted to about 1.5% of GDP. It made available additional funds for critical rural infrastructure and social security programmes and authorized Rs. 100 billion of tax-free bonds for financing public-private infrastructure projects.

In December 2008, the government announced a general 4 percent cut in the central value-added tax rate (excluding petroleum products). For certain goods, the rate cut was further increased by 2%. In late February 2009, it lowered the service tax. Exporters will receive full refund of service tax paid with respect to their shipments. Moreover, the central government raised the borrowing limit for state governments from 3.0% to 3.5% of state GDP.

The fiscal responsibility law has been put aside temporarily. A sharp increase in the oil prices, pay revision, loan waiver, and expansion in the coverage of NREGA in 2008-09 resulted in an increase of the fiscal deficit of the centre as a ratio of GDP to 6%. With the States being allowed higher expenditure under stimulus package and taking into account off-budget liabilities, the total

government liabilities (fiscal deficit) for 2008-09 are estimated at 10.4% of Gross Domestic Product.

In contrast, during 2008-09 central government revenues grew by only 3.7% with shortfalls from corporate taxes and import duties, well before the near 25% increase in previous years was recorded.

The high fiscal deficit and growing stress on government finances led Standard & Poor's to downgrade India's long term sovereign debt outlook from "stable" to "negative", though the country retained a BBB-rating.

This clearly shows that very large doses of budgetary deficits are unsustainable and we have to work out a strategy to regain fiscal discipline through prudent measures.

I have no doubt that all these challenges are being addressed with urgency and dexterity required and the future of Indian youth is bright and promising. I will like to conclude my address by saying that India's economy is driven by only half of its working population. The other half is passive witness to what is happening in India. If the other half also becomes an active participant in the national transformation process, we can easily push our growth rate to over 10 percent or even higher.

