

Growth Rates under the NDA Government

Jayati Ghosh and C.P. Chandrasekhar

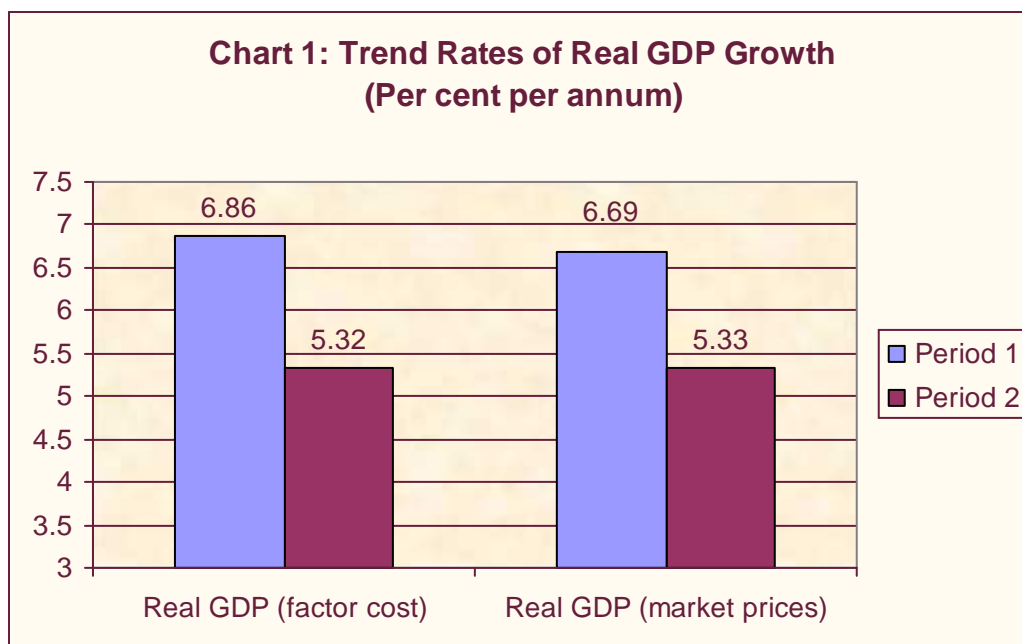
The economic performance of the NDA government since it came to power is an issue fraught with controversy. The spin doctors of the BJP, the major party on the currently ruling coalition, have decided that high economic growth is a major achievement of the NDA, and this has been emphasised in the electoral campaign thus far.

But even the growth performance claimed by the current government has been contested by critics, who claim that the most recent claims made, of more than 8 per cent growth in the current year, are because of the low economic activity in the previous year due to the drought and its effects on agricultural production. In this context, it is worth examining the growth patterns of the previous years in more detail.

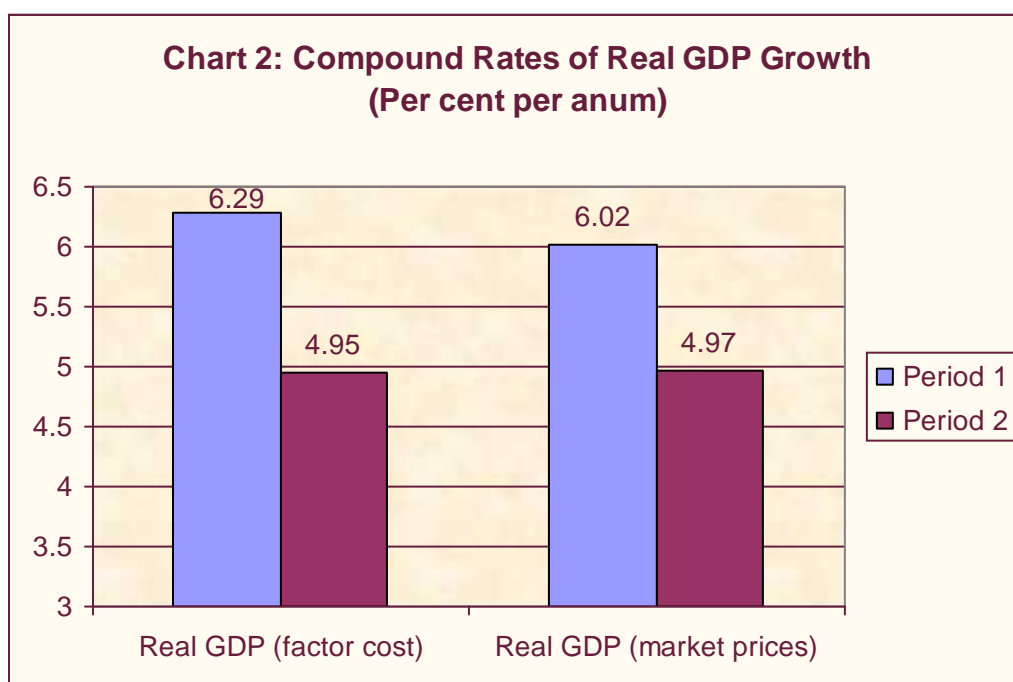
It seems premature and possibly irresponsible to base economic arguments on any estimates for the current year, which after all is still continuing, and for which any projections are likely to be subject to very major revisions. Therefore, we conduct an exercise based on data up to 2002-03, for which reasonably reliable official series exist.

In order to assess the performance of the NDA government in terms of various economic growth indicators, we look at two periods: the six-year period preceding 1 April 1998, and the six-year period after 1 April 1998. For convenience, we will refer to these as Period 1 and Period 2. This allows us to assess the performance of the NDA government (Period 2) compared to its immediate predecessors in the form of the United Front and Congress-led governments (Period 1).

Chart 1 indicates the trend rate of growth of GDP (at both factor cost and market prices) over the two periods.

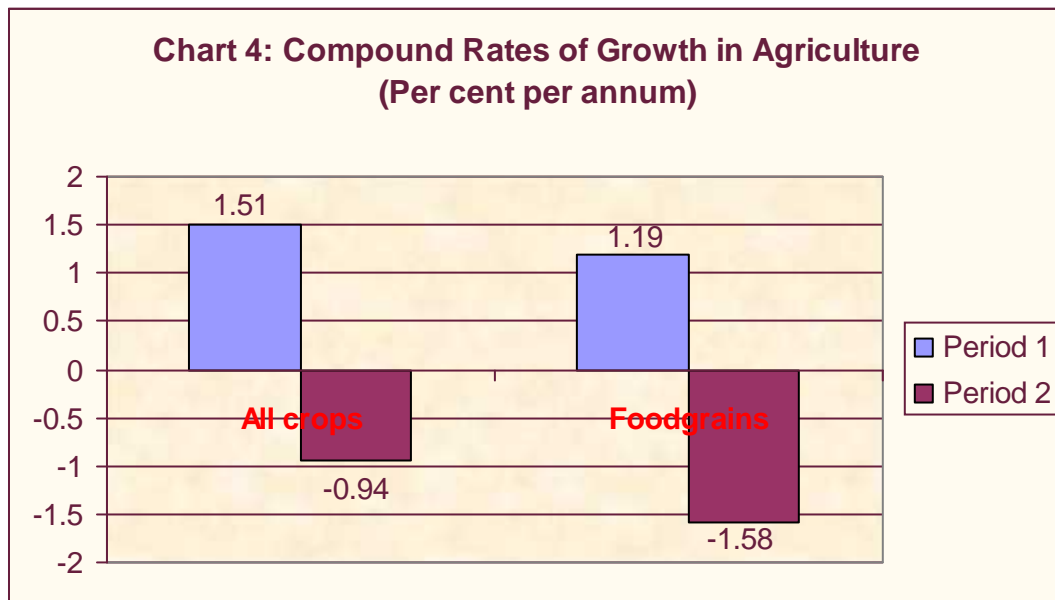
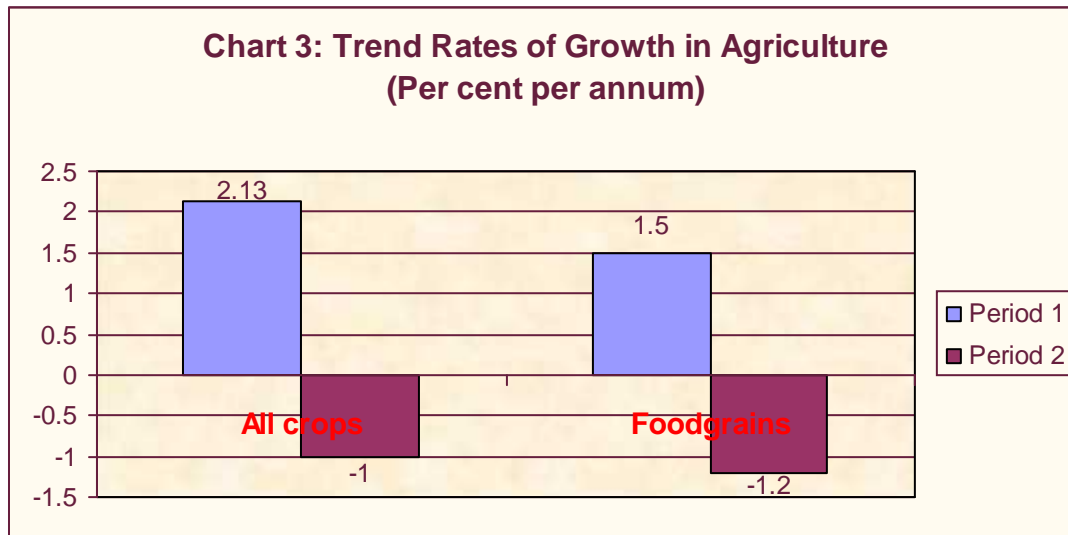


However, since some analysts may find the trend rate problematic given that the periods under consideration are each only of six years duration, Chart 2 provides the compound rates of growth for the same periods, based on the initial and end years.



It is obvious that by both measures, growth of national income decelerated quite substantially in Period 2, that is, under the NDA government. In fact, the period from April 1998 until March 2003 appears to have experienced a deceleration of growth compared to the earlier fifteen year period as well.

Of course, it could be argued that the aggregate growth estimates are affected by the poor performance of the economy in 2002-03 because of the bad monsoon which adversely affected agricultural production. This is certainly very evident in Charts 3 and 4, which show the trend and compound rates of growth of production of all crops and of foodgrains in particular.

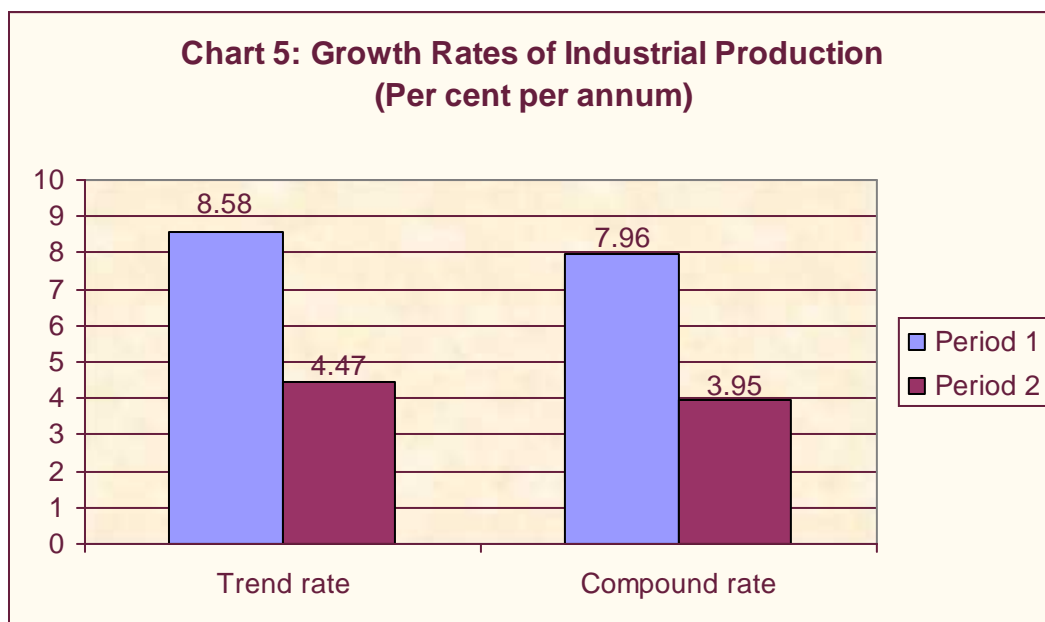


Growth of agricultural production was actually negative during this period, mainly because of the drought-induced collapse in production in the last year. Indeed, the

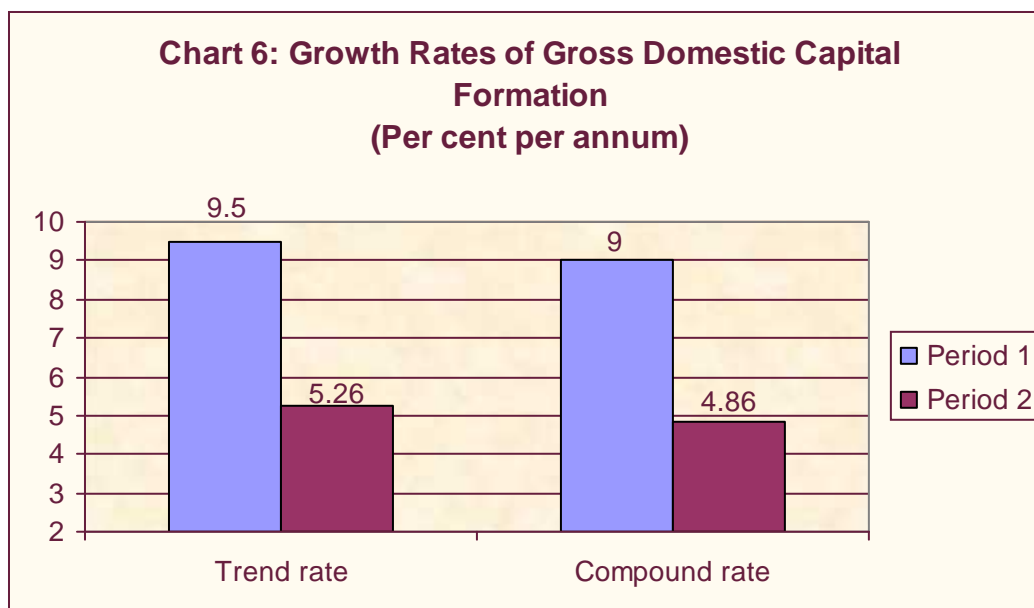
apparently fabulous recovery of the current year, which has been cited so much in government and ruling party handouts, is essentially nothing more than the reflection of the recovery of agriculture consequent upon a very good monsoon.

This brings home the unfortunate reality that the Indian economy is still heavily dependent upon the monsoon, which can still create major changes not only in agricultural output but also in aggregate economic activity. This is despite the much increased external openness of the economy, which has now been exposed to international trade and capital flows more than ever before. It also undoes some of the claims made by the votaries of such policies, that economic liberalisation had unleashed such animal spirits in the economy that agriculture was no longer of macroeconomic significance and that the growth impetus of the economy is no longer affected by it.

Even in industrial production, the slowdown of the second period is very marked. Chart 5 indicates a sharp deceleration of the index of industrial production, by both trend and compound rates of growth. This cannot be blamed on the last year alone; the entire six-year period indicated sluggish expansion of industrial output.



Why has this happened? Some clues can be gleaned from the pattern of aggregate investment, described in Chart 6 in terms of the rates of growth of real gross domestic capital formation. Such investment increased at a reasonable rate in the earlier period, above 9 per cent per annum in real terms. However, in the second period (the tenure of the NDA regime) the increase in investment had slumped to only around 5 per cent per annum.



Even this low rate of increase is of dubious significance, since both public and private corporate investment stagnated or even declined over this latter period. Indeed, such increase as did occur in capital formation after 1998 came about mainly because of household sector capital formation. This is determined in the national accounts as a residual, and essentially reflects increases in domestic construction activity.

Investment declined because public investment has stagnated or declined under the NDA regime. Despite the recent promises of national highway expansion and other such indicators of material prosperity, the NDA government has spent less (in real per capita terms) on productive investment for infrastructure and economic growth, than any government in independent India.

It is well known that in India, as in almost all other developing countries, there are strong positive linkages between public and private investment. Typically, high rates of public investment call forth and enable more private investment activity.

However, the policy makers of the NDA appeared to believe that they could further reduce the amount of productive public expenditure and expect private entrepreneurs to take up the slack and increase aggregate investment. Obviously, this was not likely to happen in the absence of any other major positive stimulus. So it is not surprising that the NDA's tenure has been associated with lower rates of growth of industrial production and economic activity generally, than the preceding period.

This is not to deny the rapid growth that has definitely occurred in certain sectors in this period, such as telecom and IT-enabled services. However, these sectors are still extremely small, and their admittedly extraordinary growth (reflecting the effects of rapid worldwide technological change as well) has occurred over very low bases. Further, such growth as has occurred has not been enough to counteract the effects of deceleration,

stagnation or even decline in the larger, more important industries and in agriculture and many other services.

Indeed, the bulk of economic activity over this period did not show much acceleration, certainly when compared to the earlier period. This is in conformity with other indicators such as employment generation, especially in the organised sectors, which also indicate stagnation or insufficient expansion.

These basic arguments are not changed even if the most current year's data are included. For example, consider the effects of incorporating the projected GDP growth of 8.4 per cent in 2003-04 (which is what the CSO's advance estimates suggest). Even this gives a compound rate of growth of real GDP at market prices of 5.8 per cent per annum in the period from April 1998, compared to 6.3 per cent in the earlier period. The trend rate of growth is also lower than in the previous period, even if the current year's high estimate is included. However, it is worth reiterating that using the current year's estimates is extremely problematic, since such advance estimates are typically revised quite drastically and therefore can be quite misleading.

So the official figures suggest that whatever else may be the NDA's strengths, successful macroeconomic management is not among them. This is evident in the slack that remains in the economy in the form of high unemployment and underemployment, wasteful build-up of reserves through allowing unnecessary capital inflows that are not being productively used, and of course through the appalling waste of public food stocks that were exported away at below BPL prices when hundreds of millions within the country remained hungry. But it is even apparent in the aggregate growth performance, which unfortunately has not been anywhere near as impressive as the current government's propaganda would have us believe.