An Introduction to the Economic Survey 2012-13

The Economic Survey is the work of the dedicated staff of the Economic Division of the Department of Economic Affairs in the Ministry of Finance and some others outside it. Let me start by thanking them for their work, all done with hard deadlines and under enormous pressure.

There are three objectives for India that are echoed through much of the Survey. First, India has to revive growth, and that growth has to provide more decent jobs for the many millions who will join the labor force, even while reducing poverty. Second, India needs to shift from consumption to investment, that is, increase our savings especially government savings and household financial savings, even as we also increase corporate and infrastructure investment. Third, India needs macroeconomic stabilization – to bring down inflation, the fiscal deficit and the current account deficit. There are commonalities between some of these objectives, as also apparent tensions. For example, rebalancing towards investment can potentially raise growth as well as alleviate supply constraints, reduce inflation, and thus achieve macro stabilization. On the other hand, fiscal consolidation is often thought to be detrimental to growth in the short-run. However, this tension may only be apparent. Macroeconomic rigour may, in fact, lead to growth; cutting wasteful subsidies may reduce market distortions, shrink excess consumption, and increase confidence about government finances, all of which can help growth, even in the short-run.

The survey starts with an analysis of the causes of the recent slowdown. A number of factors are responsible. First, the boost to demand given by monetary and fiscal stimulus following the global financial crisis was large, even though the economy was already reaching the limits to its potential growth before the crisis. The resulting recovery from the crisis was strong and final consumption grew at an average of over 8 percent annually between 2009-10 and 2011-12. One consequence was strong inflation, and a powerful monetary response that also slowed consumption demand. Second, starting in 2011-12, corporate and infrastructure investment started slowing both as a result of policy bottlenecks as well as the tighter monetary policy. Unfortunately, even as the economy slowed, it was hit by two additional shocks: a slowing global economy, weighed down by the crisis in the Euro area and uncertainties about fiscal policy in the United States, and a weak monsoon, at least in its initial phase.

As growth slowed and government revenues did not keep pace with spending, the fiscal deficit threatened to breach the target. With government savings falling, and private savings also shrinking, the current account deficit – which is the investment that cannot be financed by domestic savings and has to be financed from abroad – also widened.

These are difficult times, but India has navigated such times before, and with good policies it will come through stronger. The way out lies in shifting national spending from consumption to investment, removing the bottlenecks to investment, growth, and job creation, in part through structural reforms, combating inflation both through monetary and supply side measures, reducing the costs for borrowers of raising financing and increasing the opportunities for savers to get strong real investment returns. The Survey lists a number of measures that have been implemented, as well as some that are needed.

Every recent Survey has had a special chapter, with this one's focusing on jobs (Chapter 2). Policymakers are usually attentive to short-run economic management issues. But the short run has to be a bridge to the long run. The central long-run question facing India is where will good jobs come from? Productive jobs are vital for growth. And a good job is the best form of inclusion. More than half our population depends on agriculture, but the experience of other countries suggests that the number of people dependent on agriculture will have to shrink if per capita incomes in agriculture are to go up substantially. While industry is creating jobs, too many such jobs are low-productivity informal and non-regular jobs in the unorganized sector, offering low incomes, little protection or benefits. Services jobs are relatively high productivity, but employment growth in services has been slow in recent years. India's challenge is to create the conditions for faster growth of productive jobs outside of agriculture, especially in organized manufacturing and in services, even while improving productivity in agriculture. The chapter calls for reforms, including the expansion of infrastructure, better and more effective regulation, and improvements in access to land and finance that would encourage the entry and growth of business enterprises. The chapter suggests that unless India undertakes these reforms, it will grow far below potential, and risks fiscal strains and social unrest as more and more people fall behind.

The rest of the Survey includes chapters on key aspects of the macro environment such as public finance, inflation, balance of payments, trade, agriculture, industry, services, and infrastructure, as well as chapters on the institutional and social environment, such as chapters on financial intermediation, human development, and sustainable development. The Survey is both an analytical document -- in that it tries to understand the current conjuncture in suggesting policy measures -- as well as a document recording data and government activities. It is both backward looking as well as forward looking. And it is of the government – in that most of the authors are government servants – but also distanced from the government in that it is meant to take a dispassionate view of the government's record over the past year and its policies going forward. These aspects of the Survey do not all sit easily together, nevertheless the authors of the survey manage the trade-offs every year. I hope you get as much out of it as I did.

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