Double Digit Growth Indeed Possible

RBI should stay accommodative, fisc, expansive

Growth would appear to be recovering, with the economy growing 8.4% in real terms during July-September, over the like period last fiscal. That growth would push up the size of the economy a little under 4% above the size of the GDP in the like period of the pre-pandemic 2019-20. The good part of the story is that if the economy turns in a growth rate of a shade over 7% in the second half, the growth rate for the current fiscal could, indeed, touch double digits. That sounds good, but even if the economy grows 10% this fiscal, it would be 2% larger than the GDP of 2019-20. So, there is much work to be done, to accelerate growth.

That the ratio of gross fixed capital formation (GFCF) to GDP in current prices has crossed 28% for Q2 and that this is higher than for the first half of the current year suggests quickening of the pace of investment. The robust pick-up in the core sectors in October also bodes well.

The fact that the pace of vaccination picked up, even if with an avoidable delay, and vaccine productions are expanding enough to feed both domestic needs and export commitments spell good news on the pandemic front. Three new drugs for Covid, Merck's Molnupiravir approved for emergency use by the US FDA on Tuesday, and the other two expected to be approved soon, will also serve as powerful insulation of economic activity from the pandemic. India must step up efforts to mass-produce these drugs for the world at large, and not just for India, in order to enable sustained economic recovery in the world and to prevent endless mutations of the virus among unvaccinated populations.

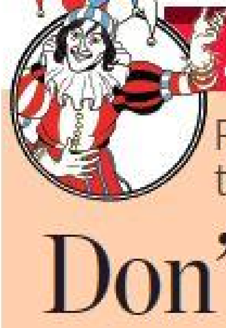
The RBI is coming under pressure from sustained upward trends in different measures of inflation and the hawkish pronouncements by the US Fed to abandon its accommodative stance. The RBI should continue to mop up liquidity that is sloshing around in the system without going to industry as credit, and would be well advised to continue with its accommodative stance. The government, on its part, should accelerate capital spending, both directly and via asset monetisation.

POCSO Gets Back Its Extracted Teeth

The Supreme Court's decision last month to overturn a narrow interpretation of Section 7 of the Protection of Children from Sexual Offences (Pocso) Act by the Bombay High Court corrects an egregious error. It will strengthen the legal framework for protection of children from sex crimes. The Bombay High Court had ruled that an offence under the Pocso Act called for direct skin-to-skin contact between the accused and the victim. This narrow interpretation of the law ignores intent, decriminalises assorted lewd acts on a juvenile without skin-to-skin contact, as well as verbal abuse or grooming for sex.

The apex court found that the Nagpur Bench's verdict ignored intent, which has been codified in the act on sexual offence against children. Courts, said the Supreme Court, are meant to clarify laws and not introduce ambiguity. Narrowing down the definition of sexual assault would not serve any purpose other than to embolden the perpetrator. The undermining and manipulation of a child by a sexual predator can be achieved through suggestions and determine the intent of the perpetrator. The broader interpretation of the law would take into consideration all verbal and non-verbal cues that would demonstrate the intent to commit a sexual offence against a minor, and offer minors a whole host of protections under law from any abuse. Having recognised that sexual offences are a wide category, it is critical to ensure that all judges are cognisant of the swathe of verbal and non-verbal actions that can help determine the criminal intent of the accused.

Sex crimes, particularly those involving children, are complicated and difficult to pin down. Therefore, to limit the scope of the judicial interpretation could result in miscarriage of justice.



JUST IN JEST

Replicate the conditions of places where talent is truly cherished and rewarded

Don't Treat Country Chicken as Daal

A roundabout way of denying the idea of 'brain drain' is to describe it as 'brain circulation'. Sure. You must be one of those who believes in the 'trickle-down effect' — on a global scale. There is nothing wrong with that. After all, death, another undeniable fact, is 'irrationalised' and its grief cushioned for those left behind in many cultures in many ways. You might as well pick hay while the sun doesn't shine. But one may be paddling up denial if one starts thinking that people leaving a place for greener pastures is good 'in the long run' for the place left behind — unless Nordic solitude and rust-belt hiking are your kind of things.

Instead, while putting up a brave front to the inevitable — people leaving for places where their talent is used and rewarded to its most — it would be swell if one could learn, even replicate, the conditions of the places that draw the best folk away from one's own backyard to the shiny, great yonder. Ghar ki murgi daal baraabar is not the best default position to take. It not only devalues the local chicken but also highlights the inability of our collective palate to differentiate between mediocre and murgh musallam. To enjoy manufacturing manholes or hub caps while celebrating some of 'us' being rewarded for their creativity, entrepreneurship or scholarship in other climes is being brain dead.

The latest GDP figures show India bounding ahead. But it's best to mind the elephants in the room

TWO HALVES TO Q2

Hello to a 7%+ Growth Decade

Krishnamurthy V Subramanian

India's Q2 GDP growth at 8.4% clearly demonstrates that the recovery that began last year has continued robustly. It, thus, becomes among the few countries that have recorded four consecutive quarters of growth amid a Covid-19 pandemic. As growth was already recorded in the Q3 and Q4 of the last fiscal, from Q2 2021-22, India's GDP in real terms has started consistently exceeding pre-pandemic levels.

As the economy has grown at 13.7% over the first half, India is likely to record double-digit growth this fiscal. This is noteworthy even when accounting for base effects. If base effects were believed in, then a priori, the V-shaped recovery in GDP growth that GoI predicted in September 2020 should have been expected by most. If it was not expected a priori by most, then thinking now that 'it is expected because of base effects' displays an avoidable inconsistency.

India will be among the few economies to rebound so strongly from the contraction last year due to Covid. This is accompanied by solid macroeconomic fundamentals as reflected in retail inflation below 5%, comfortable current account, and fiscal deficit that is less than peer economies. This performance is quite unlike the shambolic one India recorded following the 2007-08 global financial crisis. Myopic macroeconomic policy then delivered the triple whammy of double-digit inflation every month over 18 months, fiscal deficit 2.5 times that of peers, and an alarming current account deficit (CAD) touching 6%. Unlike the dubious distinction of being part of the 'fragile five' economies then, India now emerges strongest among all major economies.

Key patterns in the data provide optimism for the future. The ₹1.31 lakh crore GST collection in November reaffirms growth in consumption. The services sector has grown in double digits in both Q1 and Q2. While the new Covid variant Omicron must be watched closely, momentum in services represents an important leading indicator for future consumption. With significant room still available for expansion in services, GDP growth in subsequent quarters will stem both from production of services, and the consumption that it will foster in other sectors.

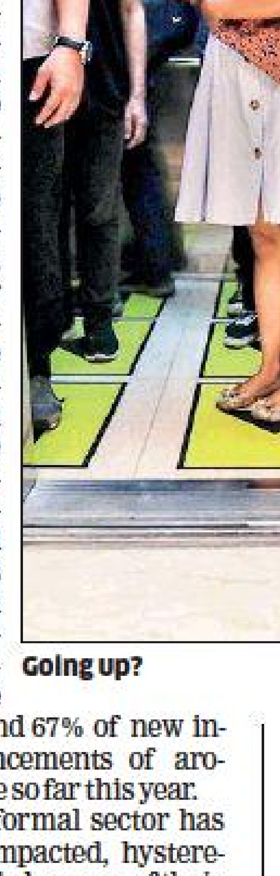
On the back of industry growing by 7% in Q2 and the eight core sectors growing by 7.5% in October, the Purchasing Managers' Index (PMI) for manufacturing has increased from 55.9 in October to 57.6 in November, the strongest improvement in 10 months. The London-based IHS Markit, which generates these indices, observed that 'accelerated rise in sales supported the fastest upturn in production for nine months. Companies scaled up input buying, which in turn led to the second-quickest accumulation in stocks of purchases… in 17 years.'

India's manufacturing sector growth during the 5-year period of 2015-19 has exceeded that of China. Such growth did not happen either in 2005-10 or 2010-15. Moreover, this success story has stemmed from reduction in input costs generated by policy focus on manufacturing, which makes the phenomenon more durable.

India's growth in subsequent quarters is unlikely to be hobbled by macroeconomic hysteresis, which corresponds to a negative economic shock potentially affecting growth in the medium to long run. To understand this, we need to analyse this phenomenon separately for the formal and informal sectors by accounting for the nature of their production.

The formal sector relies on both labour and capital, such as factories and equipment, for its production. Unlike labour, capital requires significant money to be invested upfront. Firms in the formal sector, therefore, borrow to invest in capital. When the negative economic shock from the pandemic affected their top lines, without prudent policy intervention, firms in the formal sector would have had to sell their capital assets to repay their debt obligations. So, minus policy intervention, the pandemic could have resulted in loss of productive capacity in the formal sector, with concomitant effects on jobs and, thereby, consumption.

However, as recent research shows, the reduction in the corporate tax rate in September 2019 combined with internal cost reductions provide the necessary financial cushion. So, formal sector firms avoided selling of productive assets and potential hysteresis. In fact, as these firms have deleveraged significantly, they are primed to invest, which is getting reflected in private investment. Private sector firms have contributed around 67% of new investment announcements of around ₹8.6 lakh crore so far this year.



Going up?

Though the informal sector has been adversely impacted, hysteresis there is unlikely because of their reliance on labour instead of capital. As labour supply in the informal sector is quite elastic, labour supply returns and earnings bounce back when the economy recovers. So, hysteresis from loss of productive capacity due to selling of capital assets is low in this sector. Overall, therefore, the loss of productive capacity is unlikely to be a substantial concern for future growth.

Finally, the sovereign's public spending on capital expenditure has kept strong pace with the first half of this fiscal, recording over 38% growth compared to last fiscal and over 22% growth compared to 2019-20. The 'crowding in' of private investment due to public capex will combine with the second-generation reforms to accelerate investment and generate productivity gains for the economy.

Taking all these factors into account, India is poised for growth in real terms of over 7% this decade.

The writer is chief economic adviser, GoI

Cross Fingers To Good News

Mythili Bhusnurmath

How does one read GDP numbers for Q2 2021-22? In keeping with Miles' Law — Where you stand depends on where you sit — the reactions from GoI and the Opposition to the data released on Tuesday were entirely predictable. Triumphalism from government, and murmurs about the shine lent to the numbers by base effects from the latter.

Is it possible to take a dispassionate view? As befits my tribe of 'on the one hand-but on the other' economists — about whom Harry Truman reportedly despaired, calling (in vain) for a 'one-handed economist' — there is good news and bad.

The good news is that at 8.4%, Q2 growth is well above most estimates, including the Reserve Bank of India's (RBI) 7.9%. Also, unlike in the comparable period last fiscal, when every sector, save agriculture and electricity, contracted, this time round, all did well. Two, in fact, have grown sequentially — financial services and public administration, the latter up 17.4% from 5.8% in Q1 2021-22, and a contraction of 9.2% in Q2 2020-21.

Together with the stellar growth of 4.5% recorded by agriculture, the ground seems to be laid for the much-hoped-for recovery, with nominal GDP for Q2 (₹35.73 lakh crore) finally surpassing the pre-Covid Q2 level (₹35.61 lakh crore). Add to that strong core sector growth (7.5%) in October 2021, improvement in gross fixed capital formation (GFCF), a.k.a. investment, strong growth in revenue receipts and better control over revenue expenditure, resulting in a fiscal deficit of just 36% of the budget estimate for 2021-22 against 120% of last fiscal's budget estimate, and it would appear GoI's cup of joy is overflowing.

Alas, there is a fly or two in the ointment. Just when we think we are out of the woods, there's a new threat — Omicron. As of now, we do not know whether this mutant strain will be as destructive of both economies and human lives as the earlier variant. But when the World Health Organisation (WHO) calls it 'very high risk', countries must sit up and pay heed.

Granted, a repeat of the 2020 lockdown is highly unlikely. But restrictions on mobility seem inevitable. These are bound to have an adverse consequence on economic growth, given the high share (60%) of the contact-intensive services sector in our GDP.

The other elephant in the room, about which there is much less uncertainty and is largely of our own making, is rising inflation. RBI's accommodative monetary policy served us well in the early days of the pandemic. But thanks to its tardiness in withdrawing excess liquidity, despite average inflation remaining above its target range last year, high inflation is here to stay. At 4.5%, consumer price inflation for October 2021 seems deceptively low. But it is only a matter of time before the impact of high wholesale price inflation (12.54%), the highest in five months, gets translated to higher retail prices.

In a scenario where traditionally low-inflation countries like the US and Germany are reporting inflation at a three-decadal high of close to 6%, and supply bottlenecks could possibly re-emerge, it is naïve to expect India will remain an outlier and be able to tame inflation, never mind brave talk of inflation being 'transient'.

Unfortunately, neither GoI nor RBI seems fully cognisant of the impending danger. Contrast this with the US. 'I'm here to talk about one of the most pressing economic concerns of the American people. And that is getting prices down, number one; number two, making sure our stores are fully stocked; and number three, getting a lot of people back to work while tracking and tackling these two above challenges.' That was Joe Biden speaking in Baltimore early November.

With US inflation hitting 6.2% in October, 'getting prices down', rather than growth, is now Biden's top priority. Both growth and inflation impact citizens. But while the impact of growth is indirect and usually skewed in favour of the better-off, high inflation impacts the poor disproportionately, as they do not have neither staying power nor access to social safety nets.

Given the nature of the beast, inflation finally will stall growth as well, as that is how the remedy — high interest rates — works. With a hike in US interest rates just months, if not days, away, India is in for troubled times. Even if we avoid the taper tantrum of 2013.

Let's not lose sight of why GDP numbers matter. As Tom and David Chivers point out in their book, How to Read Numbers: A Guide to Statistics in the News (and Knowing When to Trust Them), 'If the people in charge aren't careful, they can lose sight of the fact that the metric isn't what you really care about, but is a proxy for an often complex, multifaceted and hard-to-define — but nonetheless real — underlying quality which you do care about.'

In the context of GDP, the underlying real quality is human welfare. Something that GDP can never capture entirely, but the political leadership in a democracy ignores only to its peril.

At 4.5%, consumer price inflation for October 2021 seems deceptively low. But high wholesale price inflation (12.54%) will soon lead to higher retail prices

MANAGEMENT

Just Deal and Deliver the Projects

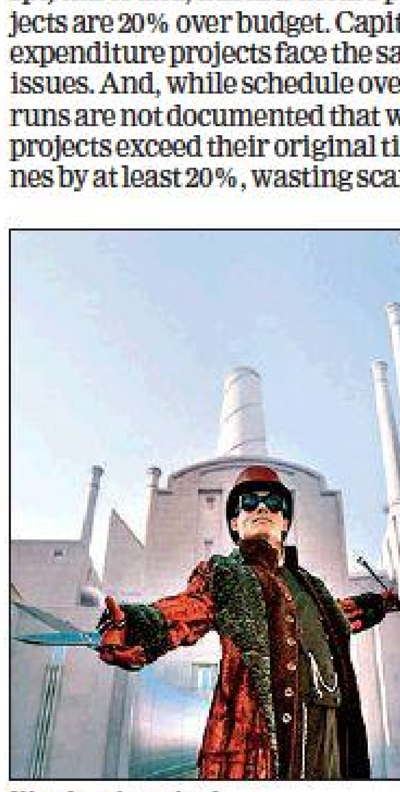
Sanjeev Gupta

A government's fiscal policies can do only so much in advancing that country's growth and prosperity. They can direct scarce capital to sectors of national importance, but cannot cause those resources to be used efficiently. Excellence in execution at the ground level is what causes efficient use of resources and generation of surplus wealth. And, that mantle always falls on industry and its leaders.

For example, Japan's ministry of international trade and industry (Miti) would not have made an impact on their national economy without the industry's mastery of Total Quality Management (TQM). The US would not have become the richest economy without excelling in mass production. In both cases, only when the industry mastered new methods of production were tens of millions of well-paid jobs created. Jobs that also allowed workers to consume the very products they were making.

At this moment in India's rise, projects are the lifeblood of its growth. Almost 10% of our GDP goes into infrastructure, capital expenditure and R&D projects. Every rupee spent on them can generate ₹2-3 of surplus wealth — but only if those projects are delivered on time and on budget. Unfortunately, they are not.

As the ministry of statistics and programme implementation (Mospi) has found, infrastructure projects are 20% over budget. Capital expenditure projects face the same issues. And, while schedule overruns are not documented that well, projects exceed their original timelines by at least 20%, wasting scarce capital and delaying job-creation.



It's about control

This need not be the case with India. Just like Japan went from being once synonymous with 'low quality' — 'Jap Crap' — to being the paragon of high-quality products. And the way the US was transformed from an agrarian economy into an industrial powerhouse by the early 19th century. However, those transformations did require turning traditional management wisdoms on their head.

'Don't inspect quality after the process. Find and reject poor quality at *every* step of the process. It's cheaper than producing low-quality goods,' was the guiding principle for Japan's TQM. 'Division of labour can be faster and more efficient than artisan-centred manufacturing,' was the foundation of Henry Ford's mass production system.

The Indian industry has a golden opportunity to embrace a similar paradigm change in project delivery. Crashing timelines through parallel tasking does not speed projects up. When you have capacity limitations, it prolongs timelines and amplifies delays. In contrast, metering of work based on capacity constraints produces an immediate impact on project delivery.

Pioneers like Jindal Steel and Power and Wonder Cement are showing how, even with all the real-world imperfections and constraints, flow-based scheduling using Eliyahu Goldratt's Theory of Constraints — a chain is no stronger than its weakest link — shortens timelines by more than 20%.

However, we must first stop hitting our heads against the same walls. Workforce and other capacity limitations will never get fully resolved. Uncertainties are intrinsic to projects, so perfect plans are a chimera. Real-time dashboards for years-long projects are an oxymoron. Yet, the purveyors of established paradigms insist on perfect planning, and more real-time control. And when projects fail, everyone scrambles to blame factors that were unavoidable and outside of their control.

It's always possible to apportion blame — or find consultants who will do that for you. But that does not solve the problem. We need to view project delivery problems from a different lens. Engineering and management institutes can play an invaluable role, too.

Instead of recycling failed concepts from abroad, let us perfect the new method. Let us become known for excellence in project delivery, and even teach the rest of the world how to achieve it. The Japanese did it in manufacturing with TQM. So can we.

The writer is CEO, Realization Technologies

THE SPEAKING TREE

Managing Stereotypes

S RAMESH KUMAR

'Don't be judgemental' is a platitude made popular by several speakers on managing oneself, but this is almost impossible. When we see someone, we categorise the person into social labels based on their appearance instantaneously. It could be applied to diverse fields like the apparel worn, origin of nationality, religion, name of the educational institutions and many more aspects of life. Stereotypical judgements can have far-reaching implications.

Stereotyping is a part of the brain possibly as a defence mechanism for the primitive man. Are stereotypes bad? Not at all. We are able to distinguish a banana from an apple only with the built-in mechanism of stereotyping and it is unavoidable by most of us.

Are there negatives associated with the perceptual process? Like the functioning of the mind, stereotypes also have a flip side. We are a part of the culture we live in, and it provides unconscious input to stereotypes, and the images creep into our minds without asking for permission from our logic.

At a fundamental level, a stereotype is a thought that is biased. With a stereotypical thought, the least we can do is to ensure that it does not create a negative emotion, worse, lead to any kind of discrimination. Given India's cultural and economic social diversity, our mind is likely to be a fertile playground for the generation of stereotypes.

Chat Room

Be Afraid, Be Very Afraid. No!

Apropos 'To Shut Down Is to Give In' by Swaminathan S Anklesaria Aiyar (Dec 1), the issue is, who spreads the panic. It is mainly the private TV news channels, Twitterati and WhatsApp warriors. At the peak of Covid fear-mongering by the broadcasters, viewers had to switch to state-run Doordarshan news for clear and realistic reporting. For Omicron too, full-scale rumour-mongering has already begun. Governmental agencies should take over all Covid-related communication with the masses to end exaggerated claims, and appeal to the citizens to neither believe in rumours nor spread them.

RAMESH N HASGEKAR
Mumbai

Finger in the Business Pie

This refers to the Edit, 'Needed, Parag Agrawals at Home' (Dec 1). One feels we need a home improvement plan as Parag Agrawal had to shift abroad to find the right place for his talent. This has been a point of discussion for a long time, especially since Indians have been constantly shining abroad. The onus lies solely with the Indian promoters. They should open the door to new talent and work in the background as investors and strategic partners for the growth of the business. More control with professionals can lead to creation of more unicorns at home.

VINAY SINGHAL
Gurgaon

Here Comes The Hotstepper

Apropos 'Needed, Parag Agrawals at Home', the founders of many Indian corporates have a propensity to keep complete control of the business with themselves and manage through a group of multifunctional heads. As a result, talented executives operate with restricted professional freedom that only ends up in limited roles and frustration for them. In fact, wide-ranging diversification is not in the Indian corporate DNA, hence, the promoters do not feel the need for fully functional CEOs. The attrition of the creamy layer is a natural consequence. The situation needs to change to usher in professional talent at the top of the corporate pyramid.

RAJARAO KUMAR
Bengaluru

Letters to the editor may be addressed to
editet@timesgroup.com