Too many hurdles to growth

Our supply side bottlenecks can turn out to be our biggest growth constraint.

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While we fret on whether there will be adequate demand in the economy to generate growth, it's time we focused on the supply side. Let's try a simple experiment. Assuming growth picks up from the current 7 per cent, and population growth maintains the rate of 1.1 per cent, this would entail acceleration in per capita income, and a consequent increase in demand. Besides, if programmes aimed at inclusive growth, such as the NREGA and the Food Security Act, are indeed successful, they would result in increased disposable income for the lower rungs on the income ladder. In short, there will be more demand pressure.

The question is: would the supply of goods, services and resources be adequate to absorb this rising demand? If not, would these bottlenecks pull us once again to lower levels of growth? Thus, the key question is: should we take even a 7 per cent growth rate as inevitable, or do we need to work really hard to improve the supply side to enable this?

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CRUNCH AREAS

There is no dearth of examples of the acute demand-supply imbalances in the economy. Take the case of power. The country faces a peak power shortage of 13 per cent, with demand far outstripping supply. It is estimated that this could rise to 17-18 per cent by 2016-17, if adequate measures aren't taken to augment generation capacity.

Or consider the food economy in India. The country has the second-largest expanse of arable land globally after the US, marginally more than China. Yet, China produces 40 per cent more grain than India. Prices of vegetables and fruits, and proteins like meat and fish continue to march northward and sustain inflation-related pressures. The price index for protein items has increased more than 30 per cent during the last two years. This is the result of growing per capita incomes that translate into shifting dietary preferences.

Supply constraints also exist at the broader macroeconomic level. As our demographics shift, and our population becomes younger, roughly 12 million youth will enter the workforce every year. But there's a difference between entering the workforce and becoming 'employable'. There is an acute shortage of the supply of education and skills in the economy. It's interesting to note that the bulk of the supply of young workers is in the so-called BIMARU states, while the growth corridors lie outside these areas. Thus, demographic transition involves large-scale migration to cities. A McKinsey report predicts that 590 million Indians (40 per cent of the population) would live in cities by 2030, up from the present 340 million. Our urban infrastructure is far from adequate to handle this. That report also says India's per capita spending on urban infrastructure is just $17, compared to $116 in China. The firm recommends $134 per capita for India.

SAVINGS GAP

There is a serious deficit of financial resources, too. Households in India save roughly 12 per cent of GDP in financial assets. These are the savings that are available to the government and the private sector. The central government currently has a fiscal deficit of approximately 6 per cent of GDP, and another 3 per cent for the States. Thus, from the pool of households, a meagre 3 per cent is left for private sector investments. The currently depressed investment scenario might be temporarily keeping this problem under the lid. However, at the first sign of recovery, there is likely to be serious competition for funds.

There can be two solutions to this. First, we need to step up productivity in critical sectors through technological change and innovation. Productivity gains don't necessarily only mean a direct in increase in output. It spans the entire gamut of the input supply chain to the distribution of final output. The second solution is to price goods and services in line with the market. By subsidising the prices of scarce commodities, we actually discourage conservation and also the incentive to invest and increase supply.

Take oil for instance. Its demand will outstrip supply during the next decade. While oil demand is likely to grow at 1.5 per cent, supply will grow only at 1 per cent. In this scenario, by pricing diesel roughly at Rs 11 per litre below the market price, don't we actively discourage conservation, bloat our subsidy bill and exacerbate the imbalance at the global level? A similar argument holds good for even kerosene and LPG. What can be done? Power is a sector that suffers from the interplay of huge inefficiencies at every stage — from generation to distribution. The fact that the average plant load factor in India varies from less than 50 per cent to more than 90 per cent suggests that huge efficiency gains are possible through technological upgrade. We lose 35 per cent of generated power for reasons ranging from technical fault to pilferage. This doesn't include the massive commercial losses due to the gap between billing and collection (currently more than Rs 70,000 crore, and could worsen to Rs 1,20,000 crore by FY15). We also have a situation where commercial power consumers pay some of the highest tariffs globally, whereas segments like agriculture get free power as a political incentive.

MODERNISE AGRICULTURE

There is a massive agenda for agriculture too. Our crop yields are significantly lower than that in the developed countries, or our peers. The yield for major cereals and pulses, for instance, in China, is as it is in India, while that for coarse grains is four times higher. Further, crop yields in India are also stagnating. The yield for pulses in India has stagnated at 600 kg/hectare since the 1990s. The last serious attempt at a quantum jump in productivity was five decades ago.

Post-harvest wastage in India is estimated at 30-40 per cent for fruits and vegetables and 10-15 per cent for foodgrains. There's a crying need for investments in a cold chain. One can go on listing things that need to be done. The goal here is to highlight the fact that if we don't get our supply act together, the ability to sustain growth might be seriously compromised.

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