'INDIA INC HAS TO SPEND INSTEAD OF KEEPING THE CASH'

'India's investment rate must rise to 34-35% for 7% growth'

ENS ECONOMIC BUREAU
NEW DELHI, OCTOBER 31

PRIVATE SECTOR investment is critical and should increase as there is no twin balance sheet issue now and no problem of capital availability, S Mahendra Dev, Chairman, Economic Advisory Council to the Prime Minister (EAC-PM) said on Friday. Dev also said that India's investment rate needs to increase to 34-35 per cent as share of the GDP from 31-32 per cent at present for it to achieve 7 per cent growth along with a push towards exports.

"Increase in rural and urban demand will facilitate more private investment. Many firms are now debt free, they are rich with cash. India Inc has to make new investments instead of keeping the cash. So private investment is now important…some of the industrialists meet me and I ask them: Why are you not investing? They say: Uncertainty. I said: for the last one decade, you are saying uncertainty, so uncertainty will also be there in the future. They said: we have started investing," he said during the Distinguished Person Lecture at the Institute for Studies in Industrial Development (ISID).

Dev underlined that no emerging market of India's size has grown at 7 or 8 per cent for a decade or more without strong export growth and thus, the support for exports should continue even as now there are protectionist policies all over the world.

Referring to the high tariff of 50 per cent imposed by the US as an "unexpected event", Dev noted India's four-fold response — helping the affected sectors, diversifying exports to other countries, speeding up FTAs with other countries, and continuing negotiations with the US. While pointing out the importance of exports, Dev also said that exports account for only around 20 per cent of the GDP and domestic demand constitutes 80 per cent of the Indian economy. "It is therefore, primarily driven by domestic consumption and investment and less by exports," he said.

He said that the government's capital expenditure has been increasing over the last few years which will have a multiplier effect. "Investment rate is presently 31-32 per cent. You need to increase the investment rate to 34-35 per cent to get 7 per cent growth. Private sector investment is critical. Government capex is increasing as has been seen in previous budgets. It will have a multiplier effect," he said.

Stating that investments are financed through savings and foreign investment, Dev said domestic savings have to be further increased amid prevailing uncertainties for foreign investment. Dev also flagged the need for more labour-intensive manufacturing and the "missing middle" in India's manufacturing sector. "Labour absorption can be there. It is increasing but the share is not increasing in manufacturing, it's at 11-12 per cent from the last several years," he said, adding that India must have many more middle-level manufacturing units with 200 to 500 workers.

Currently, the small size of the firms and majority of them operating with less than 10 workers is the major problem, he added. Citing India's share in world GDP of 25 per cent in 1700 AD, Dev said some estimates show that by 2043, the share of India in world GDP is likely to be 25 per cent. As compared to global headwinds, there are many domestic tailwinds such as low inflation, rate cuts and CRR cut by the RBI, good monsoon, measures in the last budget like rising capital expenditure, tax reduction and now GST reforms, he said. **FULL REPORT ON www.indianexpress.com**

'More decentralisation needed; use tech in agri'

EAC-PM Chair S Mahendra Dev (second from right) presenting the the 4th Rohini Nayyar Prize for Outstanding Contribution to Rural Development to Vidhya Parshuramkar (third from right) in New Delhi on Friday. *Gajendra Yadav*

ENS ECONOMIC BUREAU
NEW DELHI, OCTOBER 31

INDIA NEEDS greater decentralisation, which should involve giving more powers to panchayats and local bodies along with increased use of technology in the agricultural sector to improve rural wages, said S Mahendra Dev, Chairman of the Economic Advisory Council to the Prime Minister (EAC-PM), on Friday.

Speaking at the Rohini Nayyar Prize for Outstanding Contribution to Rural Development, Dev said that in many states across the country there is resistance to devolving powers to local councils. The levels of decentralisation in China and the US are much higher, he said.

Recalling Nayyar's contribution in designing the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) scheme, Dev said that implementation of the scheme through panchayats not only helped lift wages but also build trust in grassroots democracy.

"She (Nayyar) was responsible for designing MGNREGA, launched in 2006. At that time, we had listed the direct and indirect benefits of MGNREGA. The direct benefits are well known — the creation of wage employment, which helps lift incomes, and asset creation. But there are many indirect benefits. The most important benefit for workers was self-respect because earlier they were dependent on landlords for employment. So their bargaining power has increased," Dev said.

"Another positive impact was the improvement in agricultural wages and women's empowerment, as almost 50 per cent of workers are women. It also reduced distress migration. And since it was implemented through panchayats, grassroots democracy also improved," he added.

The Rohini Nayyar Prize has been instituted by the family of the late Rohini Nayyar, an eminent scholar-administrator who spent much of her professional life working on issues related to rural development in India. This year's prize was awarded to Pune-based social entrepreneur Vidhya Parshuramkar.