

GDP CANNOT BE SOLE CRITERIA TO MEASURE OVERALL GROWTH OF THE INDIAN ECONOMY

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ABSTRACT

GDP is the mostly wide used measure of economic performance and used to evaluate economic policy decisions. GDP has become relevant indicator is that Government monitor GDP quarterly and many times environmental and social data can outdated by the time it published and reaches policy makers. This is a problematic as GDP takes into account economic performance but does not measure sustainable development, quality of life, human and social capital and wellbeing.

Therefore, rather than depending on GDP alone will not help India's development. India has to develop its own index inclusive of various factors of human welfare.

Keywords: GDP, indicator, economic growth, HDI, Real GDP, Sustainable development

INTRODUCTION

Gross Domestic Product or GDP also known as gross domestic income (GDI) measures national income and output of an economy of a country. It measures total market value of goods and service in a given time. We can say that GDP is the godfather of the indicator world. As an aggregate measure of total economic production for a country, GDP represents the market value of all goods and services produced by the economy during the period measured, including personal consumption, government purchase, private inventories, paid-in construction costs and foreign trade balance (exports are added, imports are subtracted). GDP is narrowed monetary measurement although does not help to measure a lot of things such as education, crime rates, the environment etc. It consistently/annually helps countries analyse their total output. It gives the country an idea where their economic level is, are they doing bad or good? Are they experiencing recession or economic growth over a period of time, India is moving towards higher growth, better economy. The basic indicators of growth are aspirators, health, literacy – all are moving upward. Even poverty ratios have gone down, the per capital income is growing. An economist believes to the idea of measuring progress by growth and their metrics include industrial production, agriculture production and growth of money itself. Poverty ratios have gone down not the number of poor still remain vulnerable, unprotected socially, economically and legally. India has not done well as far as inclusive growth is concerned. There is so much inequality. It is true that

GDP per capital and related aggregate income measures are widely used to assess the economic performance of countries. Economic growth that measures the rate of change in per capita real GDP has become a standard economic indicator. Despite the popularity of economic growth as measure of success, there is increasing recognition that it is an inadequate measure of a population well being. Higher economic growth does not necessarily mean a higher level of well-being of the people. Economic growth provides people with a greater command over goods and service which translates to greater utility. It gives people more choices, however, these do not necessarily or automatically translate to well-being. Furthermore, the benefits of economic growth are seldom shared equally. Some people may enjoy a much larger share of benefits while many others may be completely bypassed by growth. Thus economic growth does not necessarily imply a higher well-being for everyone in the society. If the objective is to enhance the well-being of every one, then economic growth is not sufficient indicator of aggregate well-being. It should be supplement with some other indicators that are more closely related to individual lives such as achievements in the most basic human capabilities leading a long life, being knowledgeable and enjoying decent standard of living.

India's GDP growth is likely to decline to 7 – 7.25 percent this fiscal from 8.4 percent (projected) in 2010 –11 due to slackening industrial output and slowdown in economy. The world economic situation is also not very encouraging. As per PMEAC chairman Dr. C. Rangarajan GDP growth may turn out to be better in 2012 –13 due to likely decline in inflation, improvement in infrastructure and greater clarity on issues like land acquisition and environment. He further said the board macro-economic parameters relating to saving and investment are conducive to achieving a growth rate of 8 to 9% in a sustained manner.

GDP real growth

1999	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010
5.5	6	4.3	8.3	6.2	8.4	9.2	9.00	7.4	7.4	10.4

It is true that country's prosperity is determined not by the prosperity of few elite citizens but by the emancipation of its entire population, while our nation boasts of having 6.8 % GDP growth rate, we still have more than half our population wallowing in hunger, poverty and misery. We are still fettered by the shackles of illiteracy, slums, child labour, lack of health care etc. Booming IT and retail sectors burgeoning telecom sector and galloping FMGC market present a skewed picture of the Indian economy.

Our Indian society is evidently segmented and there is a huge disparity between the urban and rural people, between higher cast and lower caste, between non-agriculture farmers and farmers, between organised sector and unorganised sector employees. All section of society must get the benefits of our country's growth in full measure and then be able to take this growth forward by participating full and whole heartedly. Currently the Indian's economy dependent to a large extent on foreign demand. This can be seen from the fact that exports constitute 13% of GDP and the outsourcing constitute 7% of GDP. Clearly we are sensitive to volatility in international economy. According to the Human Development Report – Economic growth is means and not an end of development. It has positioned India 134 out of 187 countries and territories. Bangladesh and Pakistan are ranked 146 and 145 respectively. On the multidimensional Poverty Index (deprivations such as in health, education and living

standard) 53.7 per cent Indians have been placed in the bracket of multi-dimensionally poor (612 million), the largest concentration of such poor in the world. New study by the United Nations Development Program said that India’s significant inequalities in income, health and education dent the country’s overall human development performance. The report found that “inequality in the distribution of human development is distinctly pronounced in India” compared to other countries. This is the latest sign that despite government efforts, the benefits of India’s booming economy still have not spread widely among the country’s population.

For overall development of economy Human Development report emphasised on three basic things one to live long and healthy life, to be educated and knowledgeable and enjoy decent economic standard of living. According to HDR 2011 the HDI was 0.547 in 2011 with an overall global ranking of 134(out of the 187 countries) compared to 119 (out of 169 countries) as per HDR 2010. However, a comparable analysis of the trends during 1980-2011 (Table13.1) shows that although lower in HDI ranking, India has performed better than most (including high and very high human development) countries in terms of average annual HDI growth rate. India is behind only China and Bangladesh in this regard.

India’s Global Position in Human Development 2011

Rank	Country	HDI
1	Norway	0.943
2	Australia	0.929
101	China	0.687
97	Sri Lanka	0.691
134	India	0.547
	World	0.682

Inclusive Development

Central Government Expenditure (Plan and non-Plan) on Social Services and Development

ITEM	2011-12 BE (as per cent of total expenditure)
1.Social Service	
Education, Sports, Youth Affairs	4.63
Health & Family Welfare	2.15
Water Supply, Housing, etc.	2.10
Information & Broadcasting	0.20
Welfare of SCs/STs and OBCs	0.67
Labour & Employment	0.24
Social Welfare & Nutrition	1.02
North-Eastern Areas	1.86
Other Social Services	0.32
Total	13.20
2. Rural Development	3.68
3. Pradhan Mantri Gram Sadak Yojana(PMGSY)	1.59
4. Social Services, Rural Dev. and PMGSY	18.47
5. Total Central Government Expenditure	100

Trends in Social Services Expenditure by General Government (Central and State Governments combined)

Total expenditure	2011-12 BE
	As per cent of GDP
Expenditure on social services	6.74
Education	3.11
Health	1.30
Others	2.34
	As per cent of total expenditure
Expenditure on social services	25.0
Education	11.5
Health	4.8
Others	8.7
	As per cent of social services expenditure
Expenditure on social services	100
Education	46.1
Health	19.2
Others	34.7

Trends in India's social-sector expenditures

Central government expenditure on social services and rural development (Plan and non-Plan) has consistently gone up over the years from 13.38 per cent in 2006-7 to 18.47 per cent in 2011-12.

Expenditure on social services as a proportion of total expenditure increased from 21.6 per cent in 2006-7 to 24.1 per cent in 2009-10 and further to 25 per cent in 2011-12 (BE).

As a proportion of the gross domestic product (GDP), its share increased from 5.57 per cent in 2006-7 to 6.76 per cent, 6.91 per cent, and 7.34 per cent in 2008-09, 2009-10, and 2010-11 respectively, helping India face the global crisis without much adverse impact on the social sector. In 2011-12 it is expected to be 6.74 per cent as per the BE.

While expenditure on education as a proportion of GDP has increased from 2.72 per cent in 2006-7 to 3.11 per cent in 2011-12 (BE), that on health has increased from 1.25 per cent in 2006-7 to 1.30 per cent in 2011-12 (BE). Of total social services expenditure, that on 'Others' has fallen in 2011-12 (BE).

From the above statistics it can be ascertained that GDP has been increasing in slow mode, and also nation's expenditure in different sectors are also not admirable. Economist must look at the human development reports. How it has stand on each sectors. HDI explains itself in terms of three basic capabilities: to live a long and healthy life, to be educated and knowledgeable and to enjoy a decent economic standard of living. GDP also ignores important aspects of nations well being such as sustainable threats to the environment. It is true that it measure of the overall economic output of a country, but many other factors go into quality of life, other than raw economic output. If a country has a strong economy but wealth is distributed unevenly, the quality of average people will suffer. India has witnessed growth in GDP because of increasing in manufacturing jobs and globalisation of economy in

food and service sectors. But still large population's quality of life has gone down due to high inflation in all-basic necessities like education, shelter and food.

Economic planner must work on the following subjects:

- Is spatial disparity a binding constraint to growth and poverty reduction?
- Have spatial disparities in opportunities been a serious constrains to achieving an equitable growth?
- Do people have access to primary education and affordable health services?
- Is the pattern of government budget allocation equitable across regions and income groups?

Finally, it can be said that GDP is not perfect measure of development because in many cases the GDP of a country may be increasing even though the development is not. This can be due to inflation. As the prices of goods rise, GDP will also rise, however, this does not mean that production or the standard of living is also increasing. This is known as Nominal GDP, one must consider the real GDP of the country.

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