

The Eight Per Cent Solution: A Strategy for India's Growth by Nikhil Gupta, 400 pp, Bloomsbury (2023), ₹699

There has been a lot of animated discussion in recent years on how soon India can become a \$5 trillion economy. With its changing growth narrative from caution and watchfulness to optimism and exuberance, one can argue that it is now India's time to make a mark on the emerging global economic landscape¹. This book by Nikhil Gupta argues how the 2020s can be deemed as a healing decade such that an 8 per cent growth rate can be achieved by India in the later decades, and provides the specific roadmap for achieving it. The author argues that the division into household, corporate and government sectors provides a right framework to see the Indian economy instead of the traditional division into agriculture, industry and services sectors. He justifies this division by drawing upon the interconnectedness among these three segments, and with the external sector. The primary approach in the book for achieving higher economic growth is to analyse the financial health of these three sectors and address the concerns therein.

Every chapter in the book starts with an imaginary conversation between the author and a non-economist giving the context, illustrating how solutions that appear simple to non-economists may not be the ideal ones, and also how the solutions offered by economists to simple problems may actually appear complex to non-economists. An economist may miss the references to the usual economic concepts or schools of thought in the book except for some macroeconomic identities. For instance, one of the identities described by the author as “the theory of everything” is actually a basic macroeconomic identity [$\text{Investment (I)} = \text{Savings (S)} + \text{Current Account Deficits (CAD)}$]. But then the beauty of this book lies in its simplicity and lucidity.

In the first chapter itself, the author gives his recommendations for India to achieve a higher growth rate by identifying the weaknesses in the

¹ “Building Blocks for a Sustainable Future: Some Reflections”, Speech by Shri Shaktikanta Das, Governor, Reserve Bank of India - Delivered as the 29th Lalit Doshi Memorial Lecture on August 23, 2023 at Mumbai.

three sectors laid out earlier. He notes the weakening financials of the Indian household sector. The household sector also includes the non-corporate private sector. In the last six to seven years, household income growth has lagged behind consumption growth, leading to less savings and higher debt. Household debt is at a higher level than widely believed due to credit widening or loans from new accounts. The author worries that the debt service ratio is quite high for Indian households as effective interest rates are high and the maturity period is low compared to other countries. If this trend continues then higher growth in near future will be at the cost of lesser growth in the coming decades.

The financial health of the corporate sector too has weakened notwithstanding the improvement in the performance of listed companies, which incidentally form only a small fraction of the overall corporate sector. Also, in the 2010s, the shares of listed companies in gross value added (GVA), corporate investments, exports, profits and corporate taxes have fallen. After COVID-19, there is deleveraging in the listed corporate sector. Profitability along with debt has improved for listed firms while the opposite is happening for the unlisted firms. However, the deteriorating health of the unlisted firms is limiting the investments by this sector. Due to subdued investments, the financial sector is lending more to the retail sector. Even though the corporate debt has fallen, India's total debt to GDP ratio has remained stable because of an increase in household leverage.

Fiscal consolidation may result in reduced spending, posing a downward risk to GDP growth. There has been an upward trend in direct tax components in total government receipts whereas indirect taxes have been broadly stable with a steady fall in the share of non-tax non-debt receipts. During the 1980s and 1990s, revenue expenditure accounted for the bulk of fiscal spending. While the trend changed in the 2000s and 2010s with a rise in the share of capital expenditure, this share too remained range-bound at about 15 per cent. As per the author's computation, the general liabilities of the government reached a peak of 87 per cent of GDP in FY21. The actual fiscal deficit absorbed the entire household financial savings in the 2010s, leaving the corporate sector to support itself. The author notes that the public support to the rural sector and other direct transfers can be counterproductive

if they do not increase productivity and instead introduce rigidities in the fiscal expenditures. Furthermore, rural areas have more consumers than savers.

Finally, exports may not be the engine for India's GDP growth, given the sacrifice of domestic consumption that may be needed to achieve higher exports. Between portfolio and direct investment flows, foreign direct investments (FDI) act as a stable form. However, the quality of FDI, according to the author, has deteriorated in recent decades given the focus on brownfield projects. The author also argues that policymakers need to find ways to reduce oil and valuables trade deficits. Any policy to narrow the trade deficit will lead to a fall in investments, a rise in domestic savings or a combination of both. As compared to the other three sectors, the discussion on the external sector is more at a conceptual level with limited direct relevance to the 8 per cent GDP growth target.

The author argues that if India has to grow at 8 per cent for decades, all of its economic sectors need to be in strong financial positions. The author observes that households in emerging markets suffered much more than advanced economies in terms of the income losses due to COVID-19. An important indicator to gauge the potential of households over the next few years is their excess savings *i.e.*, the difference between actual savings and estimated savings in the counterfactual (no-COVID) world. The author argues that unlike the rich nations, there were no excess household savings in India. Consequently, the subsequent period will witness lower savings and higher leverage in the household sector. Since the government will also focus on fiscal consolidation in the coming years, both the drivers of economic growth during the pre-COVID period *i.e.*, household consumption and government spending are likely to grow slowly, while the listed corporate sector may show an improvement in its financial position, it may not inspire the corporate sector as a whole to grow in the near future.

The only way for India to grow faster than or at a pace similar to the pre-COVID period is if household investments make a strong comeback. The scenario of exports leading economic growth appears even tougher in the current global shift towards protectionism. The author provides four pathways to enhance India's economic growth performance: (i) the household sector must become financially responsible; (ii) public finances must consolidate

in the least disruptive manner; (iii) household borrowings should not be encouraged over corporate borrowings; and (iv) the corporate sector needs to align its objectives with the national objectives.

In the financial markets and real economy chapter, the author opines that the growth of the financial markets – equity and debt – during the past four decades has been extraordinary. The debt market plays a more important role in India than the equity market. The author states that easier monetary policy has led to good performance of the listed companies but not of the entire corporate sector. Since Indian households held only on an average around 8 per cent of their gross financial assets in equity during 2012-2021, the rise in the equity market might not have had a major effect on household consumption.

In the final chapter, the author talks about the growth model followed by the East Asian economies and the American growth model based on his analysis of Professor Michael Pettis' work. As per this analysis, the East Asian growth model is based on high savings, while the American model is based on high wages. In the former, households are suppressed in the favour of the corporate sector whereas they are the growth drivers in the latter. There are some more features of the East Asian growth model, such as this model lays thrust on external demand, and the corporate sector is aligned with national objectives while government finances are kept under strict control. Following this growth model, the author further suggests that (i) the private sector may require support at the early stages of development; and (ii) a better allocation of resources needs to be ensured to achieve a greater efficiency of investments.

While the book touches upon important sectors, there are certain areas about which it remains silent. First, even though the author discusses the financial markets in detail and their interconnections with monetary policy, clear suggestions about how to make use of the financial or banking sector to attain the 8 per cent growth would have been useful. Secondly, there has been an improvement in the leverage of the corporate sector, addressing the twin balance sheet problem to a large extent, and thereby raising hopes for an increased growth in the near future. As for the government sector, the author observes that consolidation may result in lower growth, but the nature of consolidation also matters. If the consolidation is achieved through a cut

in revenue expenditure while maintaining capital expenditure, it might be growth-inducing, as the fiscal multiplier is negative for revenue expenditure but positive for capital expenditure during expansion². In sum, the issues raised in the book are important and need to be laid out on the table, as the author has attempted earnestly. Overall, this book is an easy, quick and clear read for everyone interested in India's growth potential.

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² *Report on Currency and Finance, 2021-22*, Reserve Bank of India.

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