View from the edge

India’s economic fortunes have been ebbing since 2017. There are structural limits to the unequalising growth pattern fostered by successive liberalisations, underscored by the continuance of a rent-seeking economy, a fragile and abused financial system and a weak and increasingly ineffective Union government.

Has the pandemic made things worse? Two months in critical care and convalescence affords an opportunity to look at the situation with a fresh eye. The picture is grim.

India’s macroeconomic and growth track record, already poor and worsening, has been abysmal across the past year. The growth rate fell from 8.26 per cent in 2016 to 4.1 per cent in 2019. The pandemic caused the economy to contract by 7.3 per cent in 2020, which is more than double the contraction in global gross domestic product or GDP (3.3 per cent). The Union government continues to be in a fiscal crisis. It is unable to raise the tax-GDP ratio despite record corporate profits. The government urgently needs to disinvest, not as a matter of ideology whatever the after-the-fact pretensions of the finance minister, but as a matter of financial necessity. But the finance bureaucracy is so breathtakingly incapable of executing this task that the government has substantially missed its disinvestment targets for five consecutive years. It is now in the business of promoting fire sales of public assets in desperation. (Fuelling a stock market party in the near future with a bonanza of undervalued equity, a different story.)

Indirect taxes now account for a majority of tax receipts. The states continue to receive their GST compensation in arrears which, together with the increased Union government resort to cesses, weakens their fiscal position. The ridiculous policy of “allowing” them to borrow more only increases their fiscal fragility. The first current account surplus in 17 years has arisen because the economy has shrunk. India is diminished as a participant in the world economy, selling less to, and buying even less from, the world. Foreign portfolio investment continues to finance reserve accretion, a precarious situation when sovereign ratings are perilously close to a downgrade given the poor macroeconomic performance.

India’s dismal record on economic performance has not been tempered by protecting the weak and vulnerable from the ravages of the pandemic. The reverse has happened. Hard data is now available to validate pictures of migrant worker suffering and rural destitution and desperation, that are history’s witness to the cruelty and suffering that the pandemic has wrought. The unemployment rate, is 7.1 per cent, up from 5.3 per cent prior to the pandemic. Rural poverty has increased by 9.3 per cent, and urban poverty by 11.7 per cent from December 2019 to 2020.

But this suffering has not been shared equitably across the citizenry. Tata Steel announces record dividends, Reliance Industries goes debt-free. India’s leading vaccine manufacturer rents a palace in London. During the pandemic, output has shrunk, meaning less is being produced and sold. Therefore, employment is down and wages have shrunk. But we see rising profits, a booming stock market, increasing billionaire wealth buttressed by tax and credit concessions. Fugitive jewellers and beer magnates enjoy the good life in exotic foreign locales, beyond the reach of a feeble state which is only capable of locking up old men and college students without bail. The Union government is so fiscally inept that it can only spend an incremental 0.4 per cent of GDP on healthcare in a pandemic, against a global average of 1.2 per cent. And it cannot provide income or livelihood support using fiscal policy, though it can fix the financial system to award 95 per cent haircuts to corporate debt defaulters.

The policy ecosystem responds to this terrible state of affairs with the pusillanimity that marks effete societies. The NITI Aayog, which seems to have appropriated the role of court jester for history to record, has an opinion on everything but a solution for nothing. Politicians pursue Twitter, indulge their sartorial affectations and pugnacity, and trade vulgar election rhetoric oblivious to the unfolding tragic reversal of India’s aspirational story. The finance ministry describes ever-changing alphabet-shaped forms of recovery to mask their incapacity to do any serious economic analysis. It is unable to project a coherent structural picture of where India can be reasonably expected to be in 2023 or even 2024. The Reserve Bank of India produces jargon-filled, analytically-empty, quarterly statements about the likelihood of inflation going up or down (both, not either) depending on the “evolving situation”, accompanied by poetic records of ruminations of policy committees that have ceased to matter for the trajectory of inflation in India.

My recovery from a potentially fatal bout of Covid-19 fostered optimism. I reasoned that all the terrible things that have happened to date were not inevitable. They can change, even be reversed to some extent, for they are the consequence of indolence, ignorance and insecurity, all enemies of good policy-making.

But then, again, a sickbed forces one to think beyond simply blaming “the government”. Have our political leaders obtained the mandate of democracy to secure India’s socio-economic transformation and foster shared prosperity? Or are expectations so low, is insecurity so rife in society, that our leaders are rewarded for infantile posturing, empty flag-worshiping and chicanery praised as political sophistication?

It is not, yet, too late, for us to reflect on this in the context of our collective response to the pandemic and the terrible outcomes unfolding before us.

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