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The darkness of trivialisation
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The darkness of trivialisation

This month, the attention of the policy ecosystem has been focused on two events. The decision to collect a withholding tax on some (I'm not quite sure which) foreign spending and the withdrawal from circulation of ₹2,000 currency notes

These are things to read about in magazines at the barbershop. "Timepass" we call it in Bombay. But these are hardly questions impacting the nation's economic and political fortunes. India does not have the luxury of dwelling in trivia-land. For some time now I have been pointing to the serious fragility of India's growth and prosperity story as the post-1991 engines of prosperity flame out.

RATHIN ROY

Vivek Kaul (*https://www.theindiaforum.in/economy/state-indian-economy-today-what-numbers-actually-say*) has recently eloquently shown that the four components of GDP — private consumption, private investment, government activities, and net exports — are all sputtering. Private consumption is tepid. Demand for things that the rich consume is soaring — tractor sales, air travel, and SUVs. But things that a broader section of Indians consume — two-wheelers, affordable fast-moving consumer goods, and even rail travel — are languishing. Investment — household, private, and foreign direct investment — has been stagnant for over 10 years now. Net exports continue to be negative.

Government activities cannot make up for this stagnation. There is simply not enough money to afford expansionary government spending because the fifth-largest economy is a poor and unequal economy. In the UK, personal taxes can be levied at one-third the per capita income. In India they kick in at double the per capita income. This is because those earning less would be impoverished if their personal incomes were taxed. In recent years the Central government sought to step up its disinvestment to raise money but that has failed because of incompetent execution and insufficient market absorptive depth. Resource mobilisation is so bad that the dividends of the Reserve Bank of India have become significant to a fiscally constrained Central government.

Even the limited revenues and borrowing the government has been able to garner are spent on "committed" expenditures: On a bloated interest bill, following years of deficit financing; and on an inflation-proofed government workforce, which cannot be trimmed even by stealth because jobs in government continue to offer the only hope of a stable and dignified future to millions of youths. Given the failure to secure inclusive growth since 1991, state governments, and the Centre, are now spending increasing amounts of public money on compensatory payments rather than investing in growth and public goods — like subsidised food to 800 million, work under the Mahatma Gandhi National Rural Employment Guarantee Act to at least partly compensate for the horrific rates of youth unemployment (in turn because of the failure to educate and skill rather than just create credentials that permit the young to engage in the competitive exam lottery), and provision at the most basic level for the elderly and the indigent. This is not a choice but an inevitability. It is the first duty of governments to ameliorate indigence and there is a lot of indigence in the fifth-largest economy where 60 per cent of the population live on less than ₹8,000 a month.

These are serious multiple challenges: Where we face a structural demand problem as we produce or import things that the top 150 million consume, but fail to produce what even the top 40 per cent of the population wish to consume at affordable prices; where profits of listed companies are booming but investment is languishing; where government is trapped in a vicious circle of poor resource mobilisation, but must spend these limited resources on compensating a swathe of people for failure to increase economic prosperity; and where the import bill inexorably increases, not least to pay for the luxuries that India cannot deliver to its rich, and India's share of world exports languishes at an insignificant level.

But the policy ecosystem is sunk in a deep stupor. The establishment has bought into its own optics. The rotational G20 presidency has become a forum for self-congratulatory chest thumping and celebratory entertainment. Slogans and empty rhetoric substitute for policy action to address the serious challenges we face in our endeavour to secure inclusive economic prosperity. Uttar Pradesh is poorer than Nepal but has the richest district in India. Tamil Nadu and Kerala are as prosperous as Indonesia but are roiled by an aggressive attempt to fight political battles on cultural terrain. This inhibits us from crafting a strategy to increase national prosperity that uses the economic strength of the south to create prosperity in the north and east.

Economic policy tradecraft is a serious, sober business. It cannot be executed with an inferiority complex that constantly requires divisive religio-cultural and ethnic grievances to be sated, or by indulging in trivial quarrels about ₹2,000 notes and withholding tax on foreign spending. When the party is over and the cold light of reality shines through, there will be a lot to repair and rejuvenate — if that opportunity even presents itself. Franco's Spain, Salazar's Portugal, Marcos' Philippines, Mubarak's Egypt, Tito's Yugoslavia, all point to the difficulty of getting out of a dark place into which frivolous trivialisation of serious economic questions can push a country.

The writer is managing director, ODI, London.
r.roy@odi.org. The views are personal