

BIGGER IS NOT NECESSARILY BETTER

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

At an election rally in Pune in October, Prime Minister Narendra Modi is reported to have said that the economy is on course to achieve the \$5 trillion mark by 2024, a target set by him in his last Independence Day speech.

Having emphasised his government's role in expanding India's economy, Mr. Modi went on to say that the bigger the economy the easier it was to eradicate poverty and fulfil the aspirations of the youth. He said that India's economy was full of opportunities for the youth and recent policy decisions, including tax reform and allowing foreign direct investment, would further boost its growth. Three pieces of evidence, all from public sources, douse this ebullient narrative.

First, we have the national accounts statistics showing a slowing of growth after 2016-2017. Growth has been lower in the following two years and has now begun slowing in successive quarters. If this continues, the attainment of the \$5 trillion mark within the next five years is not assured. However, it is two other pieces of evidence that matter more to our assessment of the progress allegedly being made. They point to the possibility that the \$5 trillion economy may not be such a happy destination whenever it may be reached.

The evidence are the unemployment figures contained in the Periodic Labour Force Survey released in May and the consumption figures in the latest consumer expenditure survey of the National Statistics Office yet to be released. A report in a prominent financial daily presented the main findings of the latter, which we are informed was cleared for release in June but will no longer be released due to its "adverse" findings.

Earlier, the government had dragged its feet in releasing the employment report mentioned above. The reason for the reluctance is not difficult to see. These surveys report data for 2017-2018 showing unemployment to be at a 45-year high and consumption falling for the first time in over 40 years.

Between 2011-2012, the previous year of both the surveys, and 2017-2018, the unemployment rate for rural men more than trebled while that for urban women more than doubled. The fall in consumption is less drastic than the rise in unemployment and the decline is confined to rural India.

It is not possible to say in which year since 2011-2012 these trends have set in but it is clear that the policies of the Modi government aimed at expanding the size of the economy have not been able to reverse them. On the other hand, we know that 2017-2018 was the year of the introduction of the Goods and Services Tax and followed the one in which the demonetisation was implemented. There is, then, *prima facie* evidence that some of the policies of the government have had adverse effects for many Indians.

The observed rise in unemployment and decline in consumption don't just crimp growth, they both reveal persisting hardship in the economy and indicate that the pursuit of growth may fail to address it. The rise in unemployment is far higher in rural India and it is in this segment that consumption has fallen. The two policies that Mr. Modi took credit for in his Pune speech, namely tax reform and foreign direct investment, have no role here and can do little for the rural population.

Our recently derided public statistics agency has now presented data that enable an

assessment of material well-being in the country. They converge in pointing to a poor record of the government in delivering it. We must engage with them, encourage them to raise their output to the global standard and to serve the public without fear or favour.

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