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POLITICS OF EXCLUSION AND DISENFRANCHISEMENT IS HURTING INVESTMENT AND INDIA'S COOPERATIVE SPIRIT

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With India's deep political troubles, and protest marches breaking out all over the country, it may seem odd to be writing on economics. Yet, it would also be wrong not to. India's economy is now spiraling downwards, and there is an urgent need for corrective action. Hence, despite my initial misgivings, I devote this column to India's economy and what the hard numbers tell.

The signs of an economic slowdown were visible from 2017. But, the numbers on the economy that have emerged over the past few months are alarming. The contours of the problem are visible from the broad macroeconomic aggregates. From 2004, India got used to being referred to as one of the world's fastest-growing economies, and indeed, it was, for a few years, among three or four of the fastest-growing economies in the world. If we take the latest official growth rate figure of 4.5 per cent released by the government, and insert this in the chart of all countries' growth rates for 2019 constructed by the IMF, India is no longer in the top three or four. In fact, it is not in the top 30 or 40. This is an alarming drop in rank. Further, the nation's investment-to-GDP ratio is declining, and non-oil exports are actually shrinking. One strong indicator of the overall growth slowdown is electricity generation. Electricity generation growth is now lowest in at least three decades. It is even lower than what happened during the big economic crisis of 1991. In October this year, electricity output contracted by 12.2 per cent.

What is of greater concern is not just these broad, economy-wide parameters, but what the more micro-data reveal. The use of sophisticated statistical techniques for collecting data pertaining to ordinary people's economic well-being were designed in India by the physicist-turned-statistician, P C Mahalanobis. With encouragement from Jawaharlal Nehru, this method has been used in India to collect detailed data by the National Statistical Office (NSO) on household consumption and savings every five years. India is a global pioneer in this area. The 68th round of data collection happened in 2011-12 and the numbers were made available soon thereafter. But, the latest round of data, pertaining to 2017-18, has been held back from release.

There are, however, economists who have been using statistics from the leaked draft report. One of the most comprehensive and convincing analysis, done by S Subramanian of the Madras Institute of Development Studies, gives a "depressing message on the economy". Between 2011-12 and 2017-18, the percentage of people living below the poverty line has actually increased from 31 per cent to 35 per cent. This is very unusual since India has been, for quite some time, on a trajectory of high, but diminishing poverty. Between 2011-12 and 2017-18, for Indians living in rural areas (a vast majority), consumption has not just slowed down, but fallen. On a per capita basis, people are now consuming 8.8 per cent less than what they were doing five years ago.

How do we square the fact that while India is still growing (even though slower than before), large segments are actually getting worse off? This is because, from all accounts, inequality is getting worse. Credit Suisse has recently published data showing that in 2018, the richest 1 per cent Indians owned 53 per cent of all the wealth in the country. The government's official data, released as part of the Periodic Labour Force Survey Report 2017-18, shows that the country's unemployment rate has not been this high in 45 years. Since unemployment disproportionately hurts the poor, the gap between the rich and the poor is growing; and not just that, the rural poor are actually becoming poorer.

In short, the ground reality is grim, and it is the poor who are paying the biggest price. While policymakers no doubt have many urgent matters on hand, I would urge them not to ignore these festering wounds of the economy. As a short-run measure, we have to use and even strengthen some instruments of intervention that we already have in hand, such as the rural employment guarantee programme, so that the immediate hardship of those worst hit by the crisis is ameliorated. This has to be backed up with fiscal and monetary policies to revive growth and spread it better. For this, the main need is not money, but ideas and intelligent policy design, which have been in short supply. There is enough talent residing in India that can fill this gap in government. But to draw in talent we have to allow for dissenting opinion, which in recent times has been anathema.

There is, however, a longer-run problem that goes beyond monetary and fiscal policies. There is currently a trust deficit in India, which has been caused by the growing politics of hate and disenfranchisement. This is hurting investment and the cooperative spirit — the building blocks on which an economy functions. What economists do not like to dwell on and what Karl Polanyi had noted a long time ago is that the economy is ultimately embedded in society, institutions and politics. When these are damaged, the economy begins to stall. It is like the plumbing in a home. We are unaware of its importance as long as it functions fine. It is only when it malfunctions that we realise its great significance. Once the immediate fall-out of the slowdown has been managed using standard economic policies, we shall have to turn to the harder task of rebuilding institutions and the cooperative spirit. Watching the current protests in which large numbers of Indians of all religions are standing together, refusing to accept the missives of hate, one sees a glimmer of hope that the cooperative spirit in the nation is alive, and that in turn gives hope for economic progress in the future.

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