What the Second Quarter GDP Estimates Reveal*

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It is ironic that government spokespersons should exhibit so much euphoria over the second quarter (July-September) Gross Domestic Product estimate, which shows a drop "only" of 7.5 per cent compared to second quarter 2019-20. The expectation had been that the drop would be larger, about 8 to 9 per cent; and as the first quarter drop had been 23.9 per cent, the talk has been of a "stronger recovery" than anticipated. The irony however is that on closer look the recovery appears both dubious, as well as immiserizing and hence fragile.

It is dubious because there is a substantial increase in GDP under the head "discrepancies" which is synonymous with errors and omissions. If we assume that the same absolute figure for errors and omissions holds for Q2 2020-21 as was the case for Q2 2019-20 then the decline between the two quarters is 8.7 per cent, as was anticipated earlier, instead of the 7.5 per cent that the NSO estimates show. Thus the entire claim of a "stronger recovery" is statistically dubious.

But let us assume for the present that the GDP figure is correct and examine it further. Obviously since there had been a sharp reduction in output because of the lockdown, some recovery from it was inevitable; the important question is what factors have contributed to that recovery.

Looking at GDP figures is relevant mainly because employment is associated with GDP; and in an economy like India where unemployment is not of the open kind, but rather takes the form of casual employment, intermittent employment, part-time employment, and such like, the way to see if it is declining is to look at workers' income. A proxy for workers' income is workers' consumption, or more generally the consumption of the working people. A rise in GDP not accompanied by an increase in the level of consumption of the working people, or if accompanied by a meagre increase, does not constitute an authentic recovery.

With this in mind let us see what has been happening. We do not have any information of course on the consumption of the working people as such; but from the overall information about consumption we can infer something about the consumption of the working people. While the second quarter GDP was less than that of the previous year by 7.5 per cent, private consumption expenditure in real terms was less by even more, 11.32 per cent. This means that the share of private consumption expenditure in GDP has declined between the second quarters of 2019-20 and 2020-21. In fact the data show that it was 56.5 per cent in Q2 2019-20, and fell to 54.2 per cent in Q2 of 2020-21.

The consumption of the better-off segment of the population is likely to have got back to the pre-lockdown level after the lockdown had been eased. This is because it is scarcely constrained by lack of purchasing power in their hands: they have plenty of cash reserves with them even when their incomes are impaired, so that their demand is relatively invariant. As restrictions ease, this demand will be met immediately; its share in GDP should increase, if not through additional production then through decumulation of stocks. It follows then that if the share of private consumption expenditure in GDP shows a fall of 11.32 per cent, then the decline in consumption of the working people must have been even higher than 11.32 per cent between the two quarters; and this must be due to a decline in their purchasing power.

From the fact the recovery has been marked by a reduction in the share of private consumption expenditure in GDP we can then safely infer that it has been accompanied by a decline in the share of income of the working population in GDP, or by a rise in the share of surplus in GDP.

There are thus two quite distinct processes of immiserization that are going on. One is the result of the pandemic and the total or partial lockdown it has brought in its wake. This has reduced per capita income, per capita consumption and hence the condition of life. The second is because even within this general fall in per capita consumption the per capita consumption of the working people has taken a particularly severe beating, which continues even when the lockdown is being eased. This is the result of the rise in the share of surplus even within the reduced income.

There is a second point to note about this so-called recovery, and this is a significant decline in the share of government consumption expenditure in GDP, from 13 per cent in Q2 of 2019-20 to 10.9 per cent in Q2 of 2020-21. This, relative to its size, is a really massive drop, by 22.2 per cent between these two quarters compared to the 7.5 per cent drop for GDP as a whole.

Normally when there is a drop in GDP and hence in government revenue, the government's current expenditure, which consists significantly of salaries that are in the nature of overheads, does not fall. Its ratio in GDP therefore should rise. In fact this is one important reason why, even when there is no conscious move in this direction, government expenditure tends to be "counter-cyclical" rather than "pro-cyclical". It is a measure of the Modi government's desire to kow-tow to globalized finance capital that it has cut down the size of the government's current expenditure as revenue has dropped, and by even more than the drop in government revenue. This is particularly repugnant at a time when because of the pandemic it should be substantially enlarging expenditure on healthcare and related areas.

With the share of both private consumption and government consumption in GDP declining, the so-called recovery has been associated with an increase in investment, especially in Gross Fixed capital Formation. Even this in real terms is below what it had been in the second quarter of 2019-20, but it has recovered notably from the trough. If we look at the recovery from the trough, that is compare Q2 figures with Q1 then we find that 58 per cent of the increase in GDP between these two quarters was on account of the increase in Gross Fixed Capital Formation, which includes both government and private sector investment.

This increase in GFCF however is patently unsustainable. Even if government investment is made to keep going for a while through issuing diktats, it cannot go on for long. Given the government's penchant for not offending globalized finance, the fact that the fiscal deficit till end-October has already exceeded the target for the entire year, despite a cut back in government's consumption expenditure, implies that the government will soon feel constrained to rein in its investment as well. On the other hand such reining in cannot be offset by any increase in private investment, since growth in private investment depends upon an increase in consumption.

The growth in exports can provide some stimulus for private investment up to a point, but the share of exports in our GDP is relatively small, and growth in exports, the anticipation of which causes investment to be undertaken, is not very promising in a world reeling under the pandemic. Hence the stimulus for private investment will have to come from the growth in domestic consumption.

Until consumption recovers to pre-pandemic levels, capacities already built up in the economy would be lying unutilized, and hence the additions to these capacities will be negligible. Private investment therefore can pick up to any notable degree only after pre-pandemic levels of consumption have been surpassed. But if consumption continues to languish as now then the recovery will be still-born.

Thus the pattern of recovery from the trough induced by the lockdown is disturbing for more than one reason. The obvious one of course is the cut in consumption as such. If we take the entire first half of 2020-21 then there is an almost 20 per cent drop in real private consumption expenditure compared to last year, which is serious in an economy with millions living close to a subsistence level. In addition this also means that the recovery from the trough will be that much more difficult.

There is thus nothing to celebrate about the Q2 GDP estimates which show the economy in a quagmire. The obvious way out of it is to defy the wishes of global finance and put purchasing power in the hands of the people; but the Modi government lacks the guts to follow this route.

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