Economy Sliding into Stagnation*

Prabhat Patnaik

Changes in estimation methods have of late made statistics on the Indian economy increasingly bewildering; besides, whenever the statistics show the performance of the economy in a poor light, the BJP government simply suppresses them. Nothing however can suppress the fact that the Indian economy is sliding into a serious state of stagnation. The third quarter (October-December) GDP estimates which have just been released show a 4.7 per cent growth over the corresponding quarter last year, which comes on the heels of a 4.5 per cent growth in the second quarter. The National Statistical Office (NSO) now believes that the growth rate for the fiscal year 2019-20 will be no more than 5 per cent. Various financial agencies put the figure even lower.

Even if we take 5 per cent, that will still be an 11-year low. In addition, it is by now quite clear that the new method of GDP estimation seriously overestimates its growth rate; in fact a former Chief Economic Advisor had suggested that against the 7 per cent growth which was being claimed for the period before the slowdown began, the actual growth rate would have been only around 4.5 per cent. This means that even the 5 per cent official growth rate projected for 1919-20 would actually entail a much lower growth rate, no more perhaps than 3 to 3.5 per cent, which in the old days used to be facetiously called the "Hindu Rate of Growth".

The ascendancy of the Hindutva forces, it would appear, has even "Hinduised" the rate of growth! But there are some important differences between this 3.5 per cent growth and that of the old days, of which at least three must be noted.

First, the 3.5 per cent GDP growth rate of the earlier period was accompanied by much higher rates of employment growth, because those days there were restraints upon the introduction of labour-displacing technological-cum-structural change. Secondly, the inequality in income distribution is increasing these days unlike then. In fact, as Piketty and Chancel have estimated on the basis of Income Tax data that the share of the top 1 per cent of households in total income had become as low as 6 per cent in the early 1980s; it has climbed thereafter to about 22 per cent in 2013-14, which is the highest it has ever been since 1922 when the Income Tax was first introduced in India. Thirdly, the overall growth-rate then was sustained by a significant growth rate in agriculture, especially foodgrains, so that per capita foodgrain output and availability increased noticeably, reversing a trend that had come to characterize the last half-century of colonial rule. The per capita availability had fallen from about 200 kilograms around 1900 to less than 140 kilograms at independence; it increased to about 180 kilograms by the end of the 1980s and has again fallen since then.

In other words, despite the GDP growth in the pre-liberalization period being relatively small, it was more evenly distributed, and alleviated hunger to a far greater extent, than during the heyday of neo-liberalism, let alone at present when we are witnessing a slowdown in growth.

The slower growth in 2019-20 than in 2018-19 (for which it has been estimated at 6.1 per cent) is mainly due to a slowdown in non-agricultural growth. In the agriculture sector the growth rate in 2019-20 is expected to be about the same as in the previous year, 2.9 per cent compared to 2.88 per cent, which is small but steady. Elsewhere however growth has slowed down and is expected to bring down the overall rate to 5 per cent. What is particularly striking is the slowing down of industrial growth, especially of the manufacturing sector.

The government expects industrial growth to be around 2 per cent in 2019-20 and judging by the fact that both in the second and the third quarters of 2019-20 there have been actually negative growth rates, even 2 per cent seems a tall order. The slowing down of industrial growth in the face of an apparently unchanging growth-rate in agriculture is intriguing at first sight, but there are three basic reasons for this.

First, the growth-rate of agriculture is not the same as the growth-rate of rural consumer expenditure. Even when the growth-rate of agriculture is high, the growth rate of rural consumption expenditure appears sluggish. The classic example of this was in 2017-18, which was a bumper crop year, and yet, according to National Sample Survey data, per capita real expenditure in rural India was absolutely lower in that year compared to 2011-12 by as much as 8 per cent. This could be partly because of infirmities in agricultural growth estimates; but more importantly, it is because the cost-of-living index for peasants and agricultural labourers is grossly underestimated, as it does not take into account the cost-raising effects of the privatization of essential services like education and healthcare.

Secondly, in a neo-liberal economy the role of the external market increases greatly compared to the home market, as the latter is kept deliberately restricted, as a consequence of keeping down wages for the sake of improving international competitiveness. This provides the means by which the world economic crisis impacts on the level of activity in the Indian economy. The growth of exports has indeed slowed down which in turn has had multiplier effects on the economy as a whole, including on the industrial sector.

A peculiarity of the Indian economy must be noted here. By opening itself to global commodity and capital flows, India did manage to increase its exports of a number of service sector products, especially IT-related services. But as far as the industrial sector was concerned “openness” hardly had any net benefits for the Indian economy; on the contrary it might have had a net negative effect. Indeed the rate of industrial growth during the entire neo-liberal period was no higher than during the dirigiste period.

While Indian industry found it difficult to stand up to East Asian, especially Chinese, competition in the domestic market, it could not make much headway in the export market either. “Opening up” in other words had the effect of keeping industrial growth suppressed, even as it stimulated certain services. With the world economy entering into a period of slowdown owing to the dead-end reached by neo-liberalism, this industrial repression has turned into a retrogression, even as the stimulation of the service sector has come to an end, pushing the economy into a prolonged period of stagnation.

This is where the third factor for industrial stagnation becomes operative, which relates to a cut back in investment. The capital goods sector has been particularly badly hit by the stagnation because of this cutback, which is both a cause and a consequence of the industrial stagnation.

The BJP government, needless to say, has not a clue about how to revive the economy. Its corporate tax cuts predictably have not made an iota of difference to private corporate investment. Since such investment responds to the expected growth of the market, as long as the growth of the market is not accelerated, there would hardly be any higher investment, no matter how much taxes are cut. On the contrary, if such cuts lead to a reduction in government expenditure (for meeting the fiscal deficit target), then capacity utilization will fall, and so will private corporate investment because of such cuts.

Its other measures, like tinkering with GST rates and the "make in India" campaign, are equally flawed. Such tinkering will not help; and if it leads to lower revenues and hence lower expenditures (again for meeting the fiscal deficit target), then it will be counter-productive.

As for "make in India", when not much investment is being undertaken anyway because of the world economic crisis, there is little hope of getting much investment into India. And the pogrom against Muslims, not to mention the general social unrest generated by the CAA and NRC, will drive such investment away rather than attracting it into India.

We are in short saddled with a serious economic stagnation, whose overcoming requires, apart from social peace, a powerful fiscal intervention going well beyond what neo-liberalism allows. Modi and company alas have little idea of it. And all this is without taking into account the impact of the coronavirus on the world economy.

*** This article was originally published in the Peoples Democracy on March 8, 2020.**