The State of the Economy*

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There was a time when India had one of the finest statistical systems in the developing world. No matter how one interpreted the statistics that came out of that system, one could take the figures themselves as reasonably correct. This alas is no longer true. We now have GDP estimates which the Economic Survey of the Union government itself considers unreliable. And some of the figures given in the latest Economic Survey are quite bizarre.

Take the manufacturing sector. The Survey states that during April-December 2015 the Index of Industrial Production for the manufacturing sector increased by 3.1 percent over the corresponding period of the preceding year. (For April-January, the growth rate is even lower, a meagre 2.5 percent). But the same Survey, based on CSO data, gives an estimate of 9.5 percent for the growth of GDP originating in the manufacturing sector for the year 2015-16. Since the weights used in the Index of Industrial Production are the relative amounts of value added in the base year, such enormous differences are quite inexplicable. And since the overall GDP estimate for 2015-16 has been boosted by the manufacturing sector's figure, it follows that the advanced estimate of GDP growth for 2015-16 is worth very little.

Let us therefore leave aside GDP growth figures and concentrate only on certain indisputable statistics. What these clearly show is a remarkable stagnation of the Indian market owing to a squeeze on the purchasing power in the hands of the people.

Take the case of the foodgrains sector. The total output of foodgrains was 257.1 million tonnes in 2012-13. In the three subsequent years, the figures were 265.0, 252.0, and 253.2 million tonnes respectively. Between 2012-13 and 2014-15 in other words the output declined by 5 million tones. One should normally expect therefore that more people would be accessing the public distribution system over this period and that the off-take from the PDS should have increased between these two years. In fact however the PDS off-take actually declined from 65.8 to 55.9 million tonnes between these two years, i.e. by as much as 10 million tonnes.

The fact that over a stretch of time when output went down in absolute term, and hence free market sales must have declined in absolute terms, there was a fall in PDS off-take by as much as 10 million tonnes shows the extent of the squeeze on people's foodgrain consumption. The squeeze in per capita terms was obviously even larger.

This squeeze, it should be noted, occurred in a context where per capita foodgrain availability had already declined quite drastically. The per capita foodgrain availability, which is defined as net output plus net imports minus net additions to stocks, had stood at roughly 200 kilogrammes per year at the end of the nineteenth century for "British India". It fell drastically in the last half-century of colonial rule, by around 25 percent, and had reached the abysmal figure of 137 kilogrammes in 1945-46. After independence, strenuous efforts were made to increase per capita foodgrain availability, and the figure was pushed up to 177 kilogrammes per year for the country as a whole for the triennium ending 1991-92. After "economic liberalization", it declined, slowly at first but quite precipitously afterwards. For the triennium ending 2011-12, per capita annual foodgrain availability had reached 163 kilogrammes, which is roughly where it had been on the eve of the second world war.

But the figures given in the latest Economic Survey (and quoted above) suggest that in the subsequent years per capita availability has declined even further. What is particularly noteworthy is that this decline has not been on account of any shortfall in output. Output has been low, as we have seen, but in the years 2013-14 and 2014-15 the country has exported a total of 42 million tonnes of foodgrains; and despite its doing so, the level of stocks with the Food Corporation of India today are higher than what is considered "normal" for this time of the year.

The fact that there has been a decline in per capita availability even in the midst of growing exports and comfortable stocks clearly suggests that the constraint on foodgrain absorption has come not from the supply side, but from the demand side, i.e. because of inadequate purchasing power with people to lift grains at the prices at which these grains have been offered to them. The case of foodgrains thus clearly shows the constriction of the size of the domestic market because of the limited purchasing power in the hands of the people.

This is borne out by the manufacturing sector too. The growth rate in the Index of Industrial Production in 2012-13 over the previous year was a mere 1.1 percent. In the two subsequent years it was -0.1 and 2.8 percent respectively. For 2015-16 (April-December), as already mentioned, it was 3.1 percent. But since industrial output has been shrinking in absolute terms for the three latest consecutive months ending with January for which figures are available, the April-January growth rate is even lower at 2.5 percent. This is not only lower than the average rate that had been maintained for long in the pre-liberalization era, but presents a picture of absolute stagnation. The fact that for four consecutive years the index has shown negligible growth is clear indication that India's industrial sector has run aground.

There are two quite distinct reasons for this. One is the general stagnation in the domestic mass market because of the squeeze on the purchasing power in the hands of the people; the other is "trade liberalization" which has opened the floodgates to imports even as India's manufacturing exports to the world market, which have been generally sluggish anyway, have suffered on account of the world capitalist crisis.

Some have used the term "deindustrialization" to describe what has happened to the industrial sector after liberalization. Just as in the colonial period the imports of a variety of manufactured goods from Britain had decimated Indian manufactures and thrown masses of artisans and craftsmen out of employment, a process that had been referred to by the nationalist writers as "deindustrialization", likewise under the regime of "liberalization" a range of Indian industries, from IT hardware to heavy electricals, have been hit badly by cheap imports from other countries which are no longer prevented through tariff barriers.

It may of course be argued that if Indian manufacturing cannot withstand competition then it has no right to exist anyway. The whole point of trade liberalization across the world is to ensure that competition is unleashed so that the more efficient producers, who have the lowest costs of production, ultimately drive out the less efficient ones. This argument however is completely untenable for two reasons: first, countries act "strategically", so that even though their production is not at the lowest cost (at the going exchange rate), they use non-tariff barriers (in a situation of trade liberalization) to keep their domestic markets to themselves, and to keep up profit-margins, so that their producers can "dump" abroad to grab more export markets. In other words, the prices at which other countries sell in our market are not reflective of their costs of production but are deliberately kept low to drive out our domestic producers.

Secondly, strange as it may seem, the entire argument for trade liberalization, namely that it promotes "efficiency", does not recognize that imports can generate unemployment. It is the utter poverty of economic theory that despite centuries of deindustrialization perpetrated on colonies by the metropolitan powers, it cannot cognize this phenomenon because it invariably assumes full employment, both in the pre and post-trade situations.

Hence anyone who is thrown out of work, because of imports out-competing domestic production, is assumed to get employed elsewhere in the economy as long as there is wage and price flexibility. This however is patently wrong, for, if it were true, then there would never be any recession at all, since recessions are characterized by mass unemployment incapable of being cured by wage-cuts. Trade liberalization in short has hurt domestic industrial production; and in such a situation where domestic producers are driven to the wall, even our exports of such goods suffer.

Paradoxically, in other words, protection against imports, far from making a country uncompetitive and hence incapable of exports, can actually make it more competitive abroad by giving domestic producers a perch in the home market from which they can make forays into export markets. At any rate, whether or not they do so, it is indubitable that protection increases domestic output and employment by reversing "deindustrialization".

It is not surprising that the U.S. which misses no opportunity to lecture every other country on the virtues of free trade, is itself going protectionist in the midst of the current crisis. "Outsourcing" of a range of service sector activities, which the "efficiency" argument supports, is being penalized by the U.S. government. This would have the effect of worsening the employment scenario in countries like India.

It is curious in this context to see Narendra Modi announce in the presence of Christine Legard, the IMF Managing Director, that India will not use the exchange rate mechanism to stimulate its economy. Now, in a situation of recession there is a temptation on the part of countries to depreciate their exchange rates in a competitive scramble for the stagnant world market. This policy which is called "beggar-my-neighbour" policy seeks to generate domestic employment at the expense of other countries, i.e. by exporting unemployment to other countries; and in this process almost everybody ends up becoming worse off. This no doubt should be avoided, by all countries deciding together to shun beggar-my-neighbour policies. But, for just one country to declare that it would shun such a policy when everyone else is engaged in it, makes no sense; it only amounts to importing unemployment.

The fact that the Modi government sees nothing wrong with importing unemployment is also suggested by the Economic Survey's proud statement that while the currencies of most countries have depreciated against the dollar, the Indian rupee has done rather better than the others. This only means however that speculative inflows of funds into the economy which have somewhat shored up the rupee compared to other currencies, have opened the way for an import of unemployment.

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