The Economic Survey 2017-18*

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Like the person on the proverbial tiger, the Indian economy is currently riding a precarious course. The Government of India's Economic Survey for 2017-18 recognizes this frankly, but its panacea is to keep one's fingers crossed and hope that the ride continues.

The macroeconomic data it presents are closer to those of the IMF's World Economic Outlook Update prepared for the Davos meet than to the figures of the Indian government's own Central Statistical Office. Its GDP growth estimate for the current fiscal year is 6.75 percent (compared to the IMF's 6.7 percent and the CSO's 6.5); and in the absence of anything untoward, i.e. if the precarious ride continues, this is expected to rise to 7-7.5 percent in 2018-19 (compared to the IMF's 7.4).

The presumption is that the world economy is beginning to look up; hence export growth is likely to pick up, unless the Modi crowd throws a further spanner in the works as it did with demonetization (the Survey is unobtrusively but unmistakably critical of it). This would directly and indirectly (via private investment) stimulate the economy if the combination of current precarious circumstances does not get disturbed.

The two possible sources of disturbance that the Survey highlights are: a further rise in world oil prices, and a collapse of the current stock market boom in the country. The subdued oil prices and the stock market boom have together made the balance of payments manageable at the prevailing interest rates, the latter by encouraging an inflow of foreign finance capital substantial enough even to permit fairly handsome additions to foreign exchange reserves at the current exchange rate.

The Survey thus frankly recognizes the role of the stock-market bubble in shoring up the economy's current growth rate. Should this bubble collapse, there will be an outflow of finance, to combat which the interest rates have to be raised, pushing the economy in a recessionary direction.

Its frankness alas is not matched by any innovativeness with regard to extricating the economy from this bizarre situation in which it currently finds itself. Surely the whole rationale of a government publication like the Economic Survey should be to point to the direction in which the economy should be guided to prevent its continuing to be a prisoner of the precarious set of circumstances in which it is placed. For instance a recognition that a collapse of the stock market bubble would spell trouble for the economy, must be followed not by a hope (even if silently expressed) that the bubble will continue, but by some idea of how to overcome this situation itself, of dependence upon a bubble. Of such innovativeness alas there is no sign in the Economic Survey.

This is all the more disturbing because the current precarious conjuncture sustaining the growth of the Indian economy depends not just on the two factors highlighted in the Survey but on a whole host of other factors as well. An obvious one is the U.S. interest rate. Janet Yellen, the current Chair of the Federal Reserve Board in the U.S., has not been given an extension by Donald Trump (the first time a Chair has been denied a second term), and her replacement, Jerome Powell, though apparently committed to following Yellen's policy, could well fall in line with Republican demands to raise the U.S. interest rate. Yellen herself had been toying with this idea; her successor could well implement it sooner rather than later. In such a case, finance would flow out of countries like India back to the U.S., exactly as it would in the event of a domestic stock-market collapse in India, and indeed would actually precipitate such a collapse itself, and with exactly the same consequences as the Survey anticipates in the event of a collapse.

The second of the additional factors to be reckoned with is Trump's belligerence towards Iran. Oil prices have been on an upward trend, with Brent Crude having reached $70 a barrel. There are no obvious signs of any reversal of this trend; on the contrary the fact that U.S. oil stocks have been getting depleted, and shale oil production which had gone down in the wake of the crash of the oil market has been sluggish in its recovery, portend a further increase in crude prices. If Trump imposes new sanctions on Iran at this juncture, then oil prices will get a boost, impinging in an adverse manner, both directly and through second-order effects, on inflation, balance of payments, and the growth rate of the Indian economy.

Third, the expectation that export growth would continue to provide a stimulus to the Indian economy, can be belied by either or both of the following two factors: one, a fall in the growth rate of the world economy arising from the causes already mentioned, namely a rise in oil prices and a rise in U.S. interest rates; and two, greater protectionism in the U.S. which hurts India's service sector exports by penalizing outsourcing. The employment in IT-related services has already seen a decline, despite the world economy reportedly looking up, which is indicative of the prevailing pressures on the Indian economy; and these pressures could mount in the coming months.

It is also not clear why China, whose growth rate is predicted to slow down further, would take such a slow-down meekly; it is more than likely to make a determined effort to capture markets in countries like India. And with the Indian Prime Minister declaring at Davos that "protectionism is as bad as terrorism", the government clearly lacks any strategy to defend Indian production, and balance of payments, against import encroachments in such an eventuality.

In the backdrop of all these possible threats to the economy, the response of the Survey is to basically keep its fingers crossed. It has lots of obiter dicta on questions of judicial reforms, gender equality, and expenditure on science (though there is little concrete suggestion on how resources for such spending could be mobilized); but on how exactly the economy can overcome the threats that immediately confront it, and will continue to confront it even if nothing untoward were to happen immediately, or, in short, on what strategic rethinking should occur with regard to the economy, the Survey has very little to offer.

This is an area where China's strategic thinking has been well ahead of India's. In the wake of the world capitalist crisis there has been a strong appreciation in China of the need to expand the home market and to shift away from an extreme reliance on the export market, as had been the case until then. Towards this end, apart from the strong fiscal stimulus that China provided following the crisis, there has been an increase in the level of domestic wage rates, especially in coastal China, decreed by the government. While such an increases poses a threat to Chinese exports, it has the effect of expanding the domestic market. The fact that China's Trade-Weighted Exchange Rate was allowed to appreciate over a long period of time, is also indicative of China's sifting focus.

Whether China will be able to reduce its export dependence and shift its growth-base towards the home market remains uncertain. But in official circles in India, as the Survey makes clear through its loud silence, there is not even a hint of discussion on any of these issues. One can understand the BJP government, innocent as it is of economics, being oblivious of these issues; but the Survey at least should have flagged some of them, which alas it does not do.

In fact in the one area where the Survey does discuss medium-term strategy, it makes a curious suggestion, namely that direct benefits and cash transfers to farmers should be substituted for input subsidies and price support in the input-intensive and irrigated cereal growing areas of north India. The substitution of cash transfers for price support which has been a demand of the advanced countries at the WTO thus finds support, oddly enough, in a document of the Government of India itself, even though the government has been opposing this demand systematically.

This makes one wonder about the exact status of this Economic Survey: does it represent the personal views of the Chief Economic Advisor including of the organizations (like the IMF) to which he has belonged in the past and which have therefore shaped his views, or do they represent the government's position?

That the Economic Survey has acquired an autonomy vis à vis the government is also reflected in the curious fact that while praising the government's professed aim to double farm incomes by 2022, it makes no mention whatsoever of any measures that can possibly help in achieving this objective.

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