The Indian Economy in 2017*

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This was the year that the economy tanked. Not necessarily in terms of official growth figures: according to the CSO, GDP growth decelerated, but not by that much. And Finance Minister Arun Jaitley was quick to proclaim that, with GDP growing by an estimated 7.1 per cent for the current financial year, India still remains among the world's fastest growing economies. Financial investors seem to agree: over the calendar year the stock market has boomed, with the BSE Sensex rising by around 25 per cent and the Nifty50 Index by 28 per cent.

But these estimates sit uneasily with the lived experience of around a billion Indians, excluding perhaps the top 200 million of the population whose incomes are essentially dependent on the formal sector. Farmers have experienced one of their worst years in recent times, despite a very favourable monsoon that should have enabled them to recover from the ravages of the previous drought years. Those engaged in non-agricultural informal activities have suffered a fearsome combination of collapsing and then depressed demand, disrupted supply chains, reduced access to credit, and increases in all sorts of logistical and organisational costs and difficulties. The sector that had emerged as the most dynamic employer during the economic boom – construction – was moribund and even in decline, and no other sectors rose to fill the void. Young people desperately searching for gainful employment found that nothing had changed for the better; if anything, opportunities were even more limited than before. Migrant workers faced even more volatile and insecure conditions, to the point that many from poorer states had to return home without being able to earn even the little expected to send back to their waiting families.

What is remarkable is that much of this economic pain was self-inflicted – or at least, inflicted by a central government that was under no particular pressure to do so. For a change, global headwinds cannot be blamed for problems in the Indian economy, other than the fact that the rising world oil prices have meant that the government no longer has the massive windfall benefit from low oil prices that had simultaneously allowed domestic inflation to be contained and increased government revenues because of high indirect taxes on oil products. For much of the world economy, 2017 was a year of tentative (albeit partial) recovery: India is among the minority of countries that showed the opposite tendency.

There is now widespread consensus that the slowdown was essentially due to the continued impact of two policies: the ill-judged and terribly implemented demonetisation of 8 November 2016, which had no positive effects (and certainly did next to noting to control corruption) and many negative ones; and the arrogant but ham-handed and confused imposition of the Goods and Services Tax (GST). The manner in which both were done suggest clear self-goals by the government in purely economic terms, even though clever perception management has meant that politically the government in power did not lose from these.

Much has been written and said about demonetisation, and there is little point in restating what is now obvious. But a few points are still worth noting. First, the adverse effects persist, because of the knock-on effects on demand and the negative multiplier effects of falling employment and livelihood in the initial phase. For example, the poor performance of agricultural incomes is due in no small measure to the collapse in demand that has suppressed crop prices. Second, the disruption in supply chains was severe and also persists, especially by breaking established channels of production and distribution that relied on small-scale enterprises at key points. This has affected export production and further disadvantaged smaller enterprises that account for the bulk of Indian employment. Third, all this significantly added to inequality in the Indian economy – not only between formal and informal activities, large and small enterprises, and rural and urban areas; but also between financial players and the rest of the economy. Indeed, the spectacular rise in the stock markets despite the real economic slowdown can be partly explained by the fact that a significant proportion of the money that had to be deposited into banks post-demonetisation was then invested in stocks as a relatively safe haven (given the uncertainty all around) as well as in risky avenues like bitcoin, to cause bubbles in those.

The central government appeared to be in denial about these effects, and certainly did little to counter them. There was no attempt to somehow make life easier for the bulk of the citizenry that were suffering not for any fault of their own but because of the sheer stupidity of official policy. And then this stupidity was compounded by the desperate rush to bring in the GST without adequate planning or preparation. There are reasons to be concerned about the anti-federal nature of the GST in principle, but even these legitimate concerns were dwarfed by the madness of the implementation. Most countries that have moved to such a system have taken anywhere between one to three years for preparation; our government believed it could simply push this through in less than three months, and that too without even framing the rates and rules clearly or trying to educate people about them.

GST was supposed to simplify tax payments and unify tax rates: "one nation one tax" was the slogan of its proponents. Instead we got 8 different tax rates, of bizarre complexity and often with no clear rationale for the different slabs. No one could figure it out, not even the tax authorities, and there was understandable chaos and confusion as a result. Then, when there were many protests about the very high rate of 28 per cent for a wide range of goods (including agricultural machinery, once again displaying anti-farmer bias) some of these goods were abruptly removed from the highest slab. Refunds are complicated and have been slow in coming, so that many tax payers simply raised prices because of doubts about when, if ever, their refunds would come. GST revenue collection was highest in the very first month of implementation, July, when it amounted to Rs 92,283 crore – since then it has fallen to only Rs 80,808 crore in November. As a result, the aggregate economic impact of the GST thus far has been a remarkable combination of higher prices of many goods and services, along with lower government revenue collections!

Meanwhile it has hugely added to the costs and the headaches of especially smaller enterprises. The requirements of frequent filing of returns, of keeping detailed accounts of every possible transaction, or working out the exact GST rates for different goods and services all of these are hugely demanding, and disproportionately so for MSMEs. Even the smallest firms and micro-enterprises that are involved in supply chains are now forced to pay for accountants and tax consultants to handle thee matters, adding significantly to their operating costs. For enterprises operating with very low margins, this can be a recipe for losses and even eventual closure. So once again, this policy is privileging large organised sector players at the expense of small enterprises that are finding it increasingly difficult even to survive.

Other economic problems persist, for example the NPAs of banks that the government now seeks to make a risk borne by depositors, and the continuing inability to tackle the issue of inadequate employment generation. But one further sin of omission that has a drastic effect on human lives must be mentioned here: the attempt of the central government and some state governments to reduce spending on crucial areas like food and nutrition, health and education by substituting public provision with cash transfers relying on biometric Aadhaar-based identification. These suggest that the government is reneging on its responsibility to ensure the socio-economic rights of citizens simply because it is unwilling to spend as required, and they have already had dreadful effects, like the several instances of hunger deaths because of denial of food rations.

Even one such death would be appalling; to have so many is unbelievable. This must surely be the most unacceptable and egregious bad economic news in the past year, and it speaks volumes for the deadening of our collective conscience in 2017 that we are allowing these to happen. Let us hope that 2018 is different at least in that respect.

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