Skating on Thin Ice*

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The Modi government completed one year in office on May 26. This year saw a continuation of the industrial stagnation which has been a feature of the Indian economy for quite some time now. The year-on-year rates of industrial growth, calculated on the basis of the index of industrial production, have been as follows:

2008-09: 2.5 percent

2009-10: 5.3 percent

2010-11: 8.2 percent

2011-12: 2.9 percent

2012-13: 1.1 percent

2013-14: -0.1 percent

2014-15: 2.8 percent

The Modi government's propaganda machinery has been active in "selling" the idea that industrial stagnation has been finally overcome by this government; but the Modi year, it can be seen, has experienced an industrial growth rate which continues to be extremely paltry, a mere 2.8 percent. For the entire 7-year period between 2007-08 and 2014-15 the average annual compound growth rate in industrial production comes to a meagre 3.2 percent, while during the post-independence dirigiste period, which is much derided by the neo-liberal spokesmen, the average annual compound growth rate, say between 1951 and 1965, had been well over 7 percent (it all depends on which particular index of industrial production one happens to take).

At the same time however, as is well-known, there has been a massive attack during the last one year not just on the few welfare programmes that exist in the country, but on the entire 'rights-based" approach, to which the UPA, under popular pressure, had been forced at least to pay lip service. Even the Integrated Child Development Services programme has not been spared: the central budgetary allocation under this head has come down drastically from Rs.16590 crores in the preceding year to Rs.8677 crores in the current one.

Nowhere is this attack on the "rights-based" approach more evident than in the Modi government's treatment of the MGNREGS. This programme, launched through a legislation unanimously adopted by the parliament, had amounted in effect to conferring an economic right to the people, not alas to everybody but at least to a particular poverty-stricken segment of the population. What the conferring of such an economic right logically entailed was that the financial provision for this programme would become dependent entirely on the demands of those on whom the right was conferred; it could not then be arbitrarily fixed at some level determined by the central government. The government in short became duty-bound to provide whatever funds were needed to accede to the demands of those upon whom the right was conferred. What the NDA government has done however is not only to fix arbitrarily a certain level of financial provision for the MGNREGS irrespective of the demands of the beneficiaries, but to enforce a substantial cut in this provision compared to the last year.

The NDA government has enforced a cut by maintaining the same budgetary allocation for this programme as last year, even though last year these provisions had fallen short of requirements by Rs.6000 crores (because of which Rs.6000 crores of wage arrears were carried over into the current year). When Rs.6000 crores of wage arrears are carried over, then the maintenance of the same budgetary allocation as last year actually amounts to a cut in the nominal size of the programme by Rs.12000 crores (consisting of Rs.6000 crores of arrears which have to be paid anyway and Rs.6000 crores of additional allocation which needs to be made to keep the programme at last year's level itself). This cut in the nominal size comes to around 30 percent of last year's actual programme. With inflation occurring in the economy, the cut in its real size is much larger.

But even more significant than the cut in allocation itself was the remark made by Arun Jaitley in his budget speech that if the resource position of the government improved, then the funds earmarked for this programme would be increased. This is basically an open declaration that the MGNREGS is no longer a rights-based programme, but one dependent upon the government's discretion. And Modi's subsequent disparaging remarks about this programme, apart from displaying his characteristic bad taste, leave one in no doubt that the government has, at its own sweet will, abrogated an economic right that the parliament of the country had unanimously conferred on the people. This constitutes not only an assault on the people whose rights are thus being summarily, peremptorily and unilaterally abridged by the executive, but a veritable coup against the parliament itself.

But as the first year of Modi's rule ends, dark clouds are gathering over the horizon from another source, which augur ill for the economy in the coming months. The impact of the world capitalist crisis, as is well-known, was not immediately felt in any perceptible manner upon the overall macroeconomic performance of the Indian economy (though it did have a bearing as we noticed earlier on the industrial growth rate). Indeed many at the time had felt that economies like India and China had escaped the crisis altogether, that the local "bubbles" in such economies, together with a certain amount of fiscal stimulus, had insulated them from the immediate impact of the world capitalist crisis. But such local "bubbles" have collapsed and the impact of the crisis is now being felt even by these economies. And one area where this is manifesting itself in an acute manner in the case of India is the country's external accounts.

Two developments in this area in particular are noteworthy. One is the sluggish growth of exports and the consequent increase in the size of the trade deficit. The growth of India's export earnings after 2012-13 has slowed down perceptibly, the rate of growth in US dollar terms being a minuscule 1.67 percent per annum between 2012-13 and 2014-15. But, in the current year so far, this growth has turned sharply negative. Between April 2014 and April 2015, for instance, the rate of growth of export earnings in US dollars has been -14 percent.

While exports have come down, there has been a very sharp increase in non-oil imports, where again the rate of increase between April 2014 and April 2015 has been as high as 24.6 percent. Some may say that this exaggerated growth rate is because the April 2014 import figures were particularly low. But even if we take the monthly average non-oil imports in US dollars for the entire year 2014-15, the figure comes to \$25.8 billion. Compared to this the non-oil import figure in April 2015 was \$28.3 billion, which is 10 percent higher.

Not surprisingly, the trade deficit has widened sharply in the current fiscal year, despite the fact that oil prices continue to remain low. For the month of April for instance the trade deficit in US dollars was 10.992 billion compared to 10.086 billion, a near 10 percent increase. Of course with an increase in oil prices the deficit will widen greatly, but that does not appear to be an immediate source of concern: though supplies from Libya have dried up of late, and middle eastern conflicts can push up prices anytime, in the absence of any decision by OPEC to curtail supplies, of which there are no signs, no obvious reason exists immediately for any substantial increase in oil prices. But the deficit figures we are looking at are despite import restrictions on gold being already in place, so that the scope for further restrictions on gold imports has narrowed considerably by now. An increase in the trade deficit in this context therefore can be particularly serious, as easy ways of restricting it within the neo-liberal framework are no longer available. And if there is a 10 percent increase in the trade deficit, then that would add roughly an extra 0.6 percent of the GNP at market prices to the size of the current account deficit.

This brings us to the second development which is even more significant and which relates to the end of the policy of "quantitative easing" by the US central bank, the Federal Reserve Board. Under this scheme the US Fed had been buying government bonds to keep down the long term interest rate in the U.S. as a means of stimulating the economy; but in exchange against these bonds it had been pumping dollars into the economy which were then finding their way all over the world, including into the Indian economy, for holding local assets. The Fed has started tapering off this policy and has already reduced the amount of government bonds it buys every month. As "quantitative easing" comes to an end it would become increasingly difficult for India to finance its current account deficit on the balance of payments, which would have the effect of pushing the rupee down. And such a depreciation of the rupee, if it generates expectations among the wealth-holders of a further depreciation, can well trigger a large downslide.

Already the rupee is moving downwards even though the foreign exchange reserves, built from the inflow of finance capital, are quite large and even growing. But slides can be quite sudden, as had happened in 2013, and even what appear as large reserves would be incapable of arresting them, since the very depletion of reserves can stimulate outflows, which can gobble up such reserves in no time.

The volatility of financial markets was on display on Monday the 25th when the Fed announced that it would be increasing the interest rate later this year, since it expects the US economy's performance to improve (which would therefore obviate any need for a continuance of the extremely low interest rate regime that has prevailed until now). This announcement itself was enough to cause a drop in the Indian stock market by over 1 percent on that day. And if any such drop makes international finance capital hesitant about bringing funds into the Indian stock market, then this could cause a slide in both the stock and foreign exchange markets.

Such a slide in the value of the rupee will stoke inflation which has eased a little on account inter alia of the fall in oil prices, a fact which only underscores the proposition that, within the current regime of globalized finance, the living conditions of millions of people become dependent on the whims and caprices of a bunch of international speculators. The Indian economy is currently skating on thin ice. It is entering a period when these whims and caprices are likely to be damaging for the people's livelihood.

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