India's Economic and Social ills and what to do about them*

Amiya Kumar Bagchi

Only a few weeks back, the central government was talking grandly about India reaching a 5 trillion dollar economy and refusing to recognise the severe recession India was going through. (It is not such a grand ambition when compared with China's economy - which is often portrayed as India's competitor, because by 2025 China's economy is expected to achieve a GDP of 29 trillion dollars). Then reality at last struck the proud citadels of PMO and the North Block, at which point the Finance Minister Nirmala Sitharaman announced a slew of measures. These included retracting the only progressive feature of her budget, namely, the additional surcharge on incomes of the super-rich, reducing interest on housing loans for government employees, Rs. 20,000 crore stress fund for real estate and sops for exporters. Recently, these sops have been increased further. Rs. 50,000 crore has been allocated for exemptions and support for insurance of exporters. Interest rates for all housing loans have been brought down. At the same time, the government approved foreign investment in digital media up to stakes of 26%, allowed 100% foreign investment for coal mining, associated infrastructure and sales of fuel. However, so far foreign investment has flowed into non-manufacturing sectors, such as payTM, into shopping malls, food and beverages and so on. So it does not help the government's 'Make in India' project. In fact, in the recent slowdown the decline in manufacturing has been a leading factor. Moreover, foreign investment flows tend to hold up the exchange rate of the rupee. As the ex-Prime Minister Manmohan Singh pointed out, India should allow the rupee to be devalued.

Two of the leading sectors that have been particularly hurt are the automobile sector and the FMCG sector. Parle, one of the leading biscuit manufacturers has laid off thousands of workers. Sales of basic goods such as atta, hair oil, soap and toothpaste have badly fallen, especially in rural areas of North Indian states such as Uttar Pradesh, Bihar, Rajasthan, Madhya Pradesh and Chhattisgarh.

The sales of the auto industry have reached a 19-year low. Maruti Suzuki has slashed its production continually for the last seven or eight months. It has not responded to prodding by central government ministers. Ashok Leyland has closed five of its factories. Tata Motors and Mahindra have also drastically slashed their sales. All this has led to the unemployment of direct factory workers but also of the contract workers who come from the surrounding areas. India's employment shrank by seven million between 2013 and 2018. Open unemployment of the youth (forget about disguised unemployment) has reached 16 per cent. As Dr. Singh also pointed out, agricultural income has fallen to a fourteen-year low.

Growth of GDP is borne on the back of investment. The rate of India's rate of investment as a percentage of GDP has declined from 34 in 2010 to 29 in 2017, recovering to a little over 31 in 2018-19. As Keynes had long time back pointed out, investment is basically driven by effective demand, the level of the rate of interest only playing a minor part. But most of the measures adopted by the current government and suggested by Dr. Manmohan Singh focus on cheaper loans. The only part of the latter's recommendation that is aimed at increasing effective demand is to raise rural incomes by reviving agriculture. Apart from the fact that it will require a large increase in public investment in agriculture, which had come down as a proportion of GDP under the Congress regime also, we have to remember that the major part of India's national income is constituted by urban incomes.

What we should talk about is not just the slowdown in economic growth but the miserable state of our human development. To take just two of the indicators of human development, India is home to the largest mass of illiterate in the world, and in terms of hunger index, India ranks even below some of the poorest Sub-Saharan countries. This is because India is one of the worst performers globally in terms of expenditures on both health and education.

Let us now look at the percentages of GDP spent by India compared with other countries. India spends 3.8 per cent of its GDP on education, compared with – taking some countries at random, 3.9 per cent by Afghanistan, 4.0 per cent by Albania, 5.3 per cent by Australia, 5.5 per cent by Austria, 4.2 per cent by Burkina Faso, 12.8 per cent by Cuba, 7.6 per cent by Denmark and 5.5 per cent by France. Most of India's expenditure on education is incurred by private persons, the government spending just about 1.3 per cent on education. With increasing neglect of public educational institutions, there has been a mushrooming of private institutions, increasing the burden on the poorer people. The Tapas Majumdar committee's recommendation for spending 6% of GDP on education has never been realised.

According to WHO figures, around 2016 India spent 3.66 per cent of its GDP on health as against 5.27 per cent by South Africa, 8.11% by Russian Federation- two other members of BRICS- and taking other countries at random, 10.20 per cent by Afghanistan, 6.70 per cent by Albania, 7.55% by Argentina, 9.25% by Australia, 10.44% by Austria, 11.77% by Brazil, 6.75% by Burkina Faso, 8.53% by Chile, 10.35% by Denmark, 11.54% by France and 11.14% by Germany. It is no wonder that the Indian expectation of life is lower than that of practically East and South-East Asian countries and lower than even that of Bangladesh, a much poorer countries. Most of the expenditure on health comes out of private pockets, the percentage rising to 90% in some northern states. In states such as Kerala and Tamil Nadu, where the public health sector is more active the longevity is much higher than the all-India average.

Let us now turn to the area of environmental protection, including minimizing the ravages of climate change. Before the advent of British rule, India had extensive forest cover except some desert in Rajasthan and Sind. Even there the kings and nawabs had created special forest reserves for hunting purposes. The British began commercial exploitation of forests throwing out some millions of forest-dwellers out of their habitat and tremendously increasing the erosion of soils without forest cover and leading to silting of rivers. Unfortunately, the same policies were continued by successive Indian governments, giving only nominal protection to STs, the main victims of the government's forest and mining policies.

But India is also the country of Rabindranath Tagore, who initiated the custom of ceremonial planting of trees (Vana Mahotsav), a tradition continued by Jawaharlal Nehru. India is also the country of the Chipko movement started by Sundarlal Bahuguna. It is a proven fact that forest cover increases humidity in the atmosphere, retains soil fertility, gives shelter to flora and fauna, increases biodiversity and arrests desertification. Not fazed by the rapid melting of Himalayan glaciers, and the enormous sliding of rocks in Himachal Pradesh precipitated by construction of four-lane highways to facilitate tourism, the government has continued to follow the disastrous policy of taking the environment as given. Its attitude is clear from the derisory amounts allotted in budget 2018-19, under budget heads 223 to 234 which are concerned with the environment. On Environmental impact assessment head and international cooperation head the allotment was precisely zero and the total allotment came to Rs. 828 crore.

In order to advance human development India would have to these doubling public expenditure on education, on health care, on special educational and health schemes for Adivasis and Dalits, on ICDS and other schemes like girls' hostels not only under the central government but also under state governments, which are responsible for most of the expenditure on social sector heads.

First, the public distribution system should be made universal as in Kerala. In education the public sector contribution should be raised to 3 per cent of GDP, which will take the total to about 5 %. In Health care the public expenditure should be raised to 3 per cent of GDP which will take the total again to somewhere around 5% of GDP (These are very rough and ready calculations.) In every case, the part specifically meant for women, Adivasis and Dalits should be tripled. The money meant for environmental protection should be quadrupled, the policy of attaining low carbon emissions should be monitored, wherever possible, the use of non-renewable energy should be replaced by renewable energy (India has abundant solar power and tidal power) the felling of trees should be strictly and all companies felling trees should be made to plant an equal number of trees before they relieved. The Vana Mahotsav should be revived and the government should set up a target of say, planting of 20 crores of saplings all over India every year.

Where will the money come from for all these ambitious schemes? Thomas Piketty, the author of Capital in the Twentieth Century has recommended 80% of income for the top 1% of earners, which he thinks will not infringe incentive for work or investment. In India the highest marginal income tax rate is 30% for everybody from Mukesh Ambani, Uday Kotak, Gautam Adani , K. P. Singh to a mere college professor. I would increase the marginal income tax rate in two steps 35% for incomes up to Rs 20 Lakhs and 45% for all incomes above Rs 50 Lakhs. That is the top marginal tax rate in the UK and Germany. In countries like Denmark, Sweden and France, highest marginal tax rates are much higher ranging from 60 to 75 percent. I would also abolish special treatment for Hindu Undivided Families, which is invidious because families following the Dayabhaga law or Families belonging to other religions than Hinduism cannot take advantage of it, and because a major portion of high incomes escapes taxation using that route.I would raise the tax rate for domestic companies with turnover up to Rs 250 crore from the current rate of 25% to 30%, for domestic companies with turnover above Rs 250 crore from 30 to 35% and for foreign companies from 40 to 45%. These changes in tax rates should be enough to finance the increased public expenditure suggested above.

What will be the implications of all these changes? The increases in public expenditures suggested will at once lead to enormous increases in employment (India has been witnessing growth with zero employment growth) in educational institutions, public hospitals and health centres, ICDS schemes, schemes meant for women, Adivasis and Dalits and schemes of afforestation, renewable energy generation and schemes for abatement of carbon emissions.. Special schemes will have to be devised for aiding the farmers and workers in medium and small enterprises in trade and manufacturing which are the primary sources of employment in the non-farm sector.

*** This article was originally published in The Wire on September 16, 2019.**