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## *India's Economy: The End of Neoliberal Triumphalism*

India's much-touted neoliberal growth trajectory is experiencing a quiet crisis, after a period of high growth. Indicative of that crisis is the evidence that all performance variables selectively chosen to showcase that trajectory now point to a sharp down turn. To start with, India's shift after 2003-04 onto a high-growth trajectory in the 8 to 9 per cent per annum range seems at an end. GDP growth is estimated to be significantly lower at 6.5 per cent in financial year ending March 2012, down from 8.4 per cent in year ending March 2011. Agriculture has, of course, been afflicted by a long-term crisis. But even the other important segment of the real economy, the manufacturing sector, grew at less than 3 per cent as compared with nearly 9 per cent in the previous year. And there are signs that the services sector that has 'led' growth in India is also slowing.

Second, as growth slows inflation is on the rise, with high average price increases becoming almost routine. The annual month-on-month rate of inflation as measured by the national Consumer Price Index had risen to 10.4 in April 2012, from 9.4 per cent in March, 8.8 per cent in February and 7.7 per cent in January. With the inflation in the prices of essentials, including food, being even higher, the impact

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of the price increase on the working people and the poor has been particularly adverse. In sum, the Indian economy is caught in another bout of “stagflation”, or a combination of slow growth and inflation.

Third, the current account deficit on India’s balance of payments, or the excess of the country’s current foreign exchange expenditures compared to its foreign exchange earning has widened quite sharply during financial year 2011-12. Over the year, the current account deficit stood at \$78.2 billion or 4.2 per cent of GDP, as compared with \$46 billion or 2.7 per cent of GDP in the previous year. The main reason for this is a widening of the deficit in exports relative to imports. Exports are slowing because of the persisting global crisis, though over financial year 2011-12 as a whole exports rose 21 per cent in dollar terms to \$303.7 billion as against the previous year’s \$251.1 billion. But the trend is one of slowdown. In the month of March 2012, exports were six per cent lower at \$28.6 billion, compared with \$30.4 billion in March 2011.

But the real reason the trade deficit rule high is the sharp increase in the import bill. Two developments, in particular, explain that increase: international oil prices are exploding for geopolitical reasons and in a period of uncertainty rich Indians are rushing into imported gold as a safe investment or as a speculative bet. Over the whole financial year 2011-12, imports grew at a much faster 32.15 per cent to \$488.6 billion. Oil imports were up 47 per cent (at \$155.63 billion) relative to the previous year’s \$105.9 billion. Non-oil imports also grew 26 per cent to \$333 billion (\$263.8 billion). We must recall that the accelerated programme of neo-liberal reform launched in 1991 came after a balance of payments crisis, and the reduction of the deficit on the external account was seen as one of the important achievements of reform. That scenario is now changing.

As the trade and current account deficits in India’s external payments widen, a related disconcerting external development is under way. Foreign investors who were rushing into India encouraged by liberalisation and government concessions are holding back and even exiting. If India had not encouraged these short-term investors, their lack of interest would not be a problem. But having liberalised capital flows and enlarged foreign presence, a sudden exit will be destabilising. Hence, it matters that India is no more the flavour of the season for international investors and the international financial media.

According to the SEBI, FIIs who were pumping in huge volumes of dollars into the debt and equity market, reduced their net investment to \$387 million in March, took out \$926 million in April and had brought in only \$597 million in May and \$209 million in June. Initially this was because they were selling out in India to garner surpluses that could cover losses or meet commitments at home. But, now, it is because they too are wary of the India prospect.

The result of the widening of the current account deficit and uncertainty of inflows of foreign capital to finance that deficit is the weakening of the rupee, which is a fifth feature of the current crisis. Over the last year the rupee has depreciated by close to 25 per cent vis-a-vis the dollar, bringing its value to the current level of around Rs. 57 to the dollar. This would, of course, please exporters who would find the dollar value of their exports falling with possible positive effects on demand. And exporters locked into long-term contracts denominated in dollars (such as exporters of IT and IT-enabled services), would find their rupee revenues and profits soaring. But there are many losers in the domestic economy. Importers of capital goods, raw material, intermediates and components would be hit hard. India's already high and persistent inflation could be aggravated because of the higher costs of import, and those directly or indirectly consuming imported products varying from food articles to petroleum products would be adversely affected by rupee price increases. Finally, corporates who rushed to the international financial market to borrow funds because of lower interest rates abroad must be counting their losses. The rupee's depreciation is, therefore, a matter for concern.

Finally, as the rupee slides, speculators, facilitated by the currency futures market in the country, are betting against the currency, converting the slide into a collapse. This has at different points forced the central bank to sell dollars in order to shore up the rupee. The net result has been a depletion of India's foreign exchange reserves. In absolute terms those reserves still appear large. India's foreign reserves at around \$289 billion are adequate to finance her merchandise imports for over seven months. That is a far cry from the foreign reserve equivalent to two weeks' imports that prevailed at the time of the balance of payments crisis in 1991. Not surprisingly, India's reserves position is consistently referred to as one indicator of the success of economic reform.

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However, things seem to be changing. Over the year ending June 1, 2012 reserves had fallen by close to 9 per cent or by \$27 billion, with more than half the decline having occurred in the first half of that period. But, the last two months ending June 1 seem to have witnessed acceleration in the decline, with reserves having fallen by \$8.5 billion. This decline in reserves is because the Reserve Bank of India is being forced to sell some of its dollar holdings.

In the not too distant past India's problem was an excess supply of foreign exchange because of a surge in capital inflows. Since the appreciation in the rupee that resulted from that surge tended to erode the competitiveness of India's exports, the RBI had to step in on more than one occasion to buy dollars and generate demand for foreign exchange in order to limit the rupee's appreciation. Now the situation is one where the central bank is being forced to sell dollars in an effort to stabilise the rupee.

More reserves in the hands of the central bank in a country that is a recipient of large short term capital flows is definitely positive, since it offers a buffer to deal with the reverse flow of the currency. The difficulty now is not so much a substantial reverse flow, but that flows have dried up considerably while the deficit on the current account of the balance of payments continues to widen. The resulting excess demand for foreign exchange and the speculation that encourages explains the depreciation of the rupee. While the RBI has sold foreign exchange to counter that depreciation, the rupee continues to slide. If current trends continue India may lose a large part of the foreign exchange buffer it had to deal with external shocks or volatile capital flows. And as the foreign reserves of the RBI shrink, the probability of a currency crisis increases.

This points to a fundamental weakness in India's external account that was masked by her accumulating reserves. India's foreign reserve accumulation was (unlike China's, for example) not the outcome of its excess earnings of foreign exchange relative to its annual expenditures of foreign currency. Rather it was reflective of the fact that, for many years now, while economic liberalization had not delivered on its promise of generating an export and current account surplus, financial liberalization had resulted in large inflows of foreign capital in the form of portfolio flows and debt. India's dependence on foreign finance has increased considerably, increasing its vulnerability.

SHORT-LIVED BOOM

In sum, judging by a range of indicators that provided the case for lauding India's growth story, the dynamism that the Indian economy displayed after 2003-04 has ended and the economy seems set for a sharp decline. This is of significance because it shows that though the post-2003 experience was being presented as representative of the consequences of neoliberal reform, the boom of that period was an exceptional phase in the neoliberal era. It is often argued that the higher growth experienced since the 1980s, and especially after liberalisation in 1991, had lasted far too long to be dismissed as an exceptional, short-run phenomenon. But there are a number of difficulties with that argument. To start with, it does not take account of the fact that the drivers of growth during the 1980s were significantly different from that in the 1990s and after. The second is that even the period after 1991 was by no means one of consistently high growth. There was a mini-boom during the four years starting 1993-94, a slowing down of growth and recession after that and then a sharp revival after 2002-03.

However, the revival was so marked and remarkable that it speaks of a break in the growth process in the early years of the last decade. For a period of five years or more after 2002-03, not only was GDP growth in the 8-9 per cent range, savings and investment rates were much higher, the current balance in the external account was reasonably comfortable, foreign exchange reserves were high and rising, and manufacturing was once again a part of the growth process. In sum, the evidence seemed to point to a new growth trajectory. But that trajectory has now run through its short stretch, pointing to the deep and persisting contradictions characterising India's capitalist path.

The current crisis also suggests that the short boom of the 2000s increased India's vulnerability rather than strengthened the economy. This is because, associated with this episode of remarkable growth was one new feature. These were the years when there was a surge in cross-border capital flows across the world with the so-called "emerging market economies" being major beneficiaries. India too experienced a surge, facilitated by more liberalised investment rules and encouraged by the abolition of capital gains taxation on

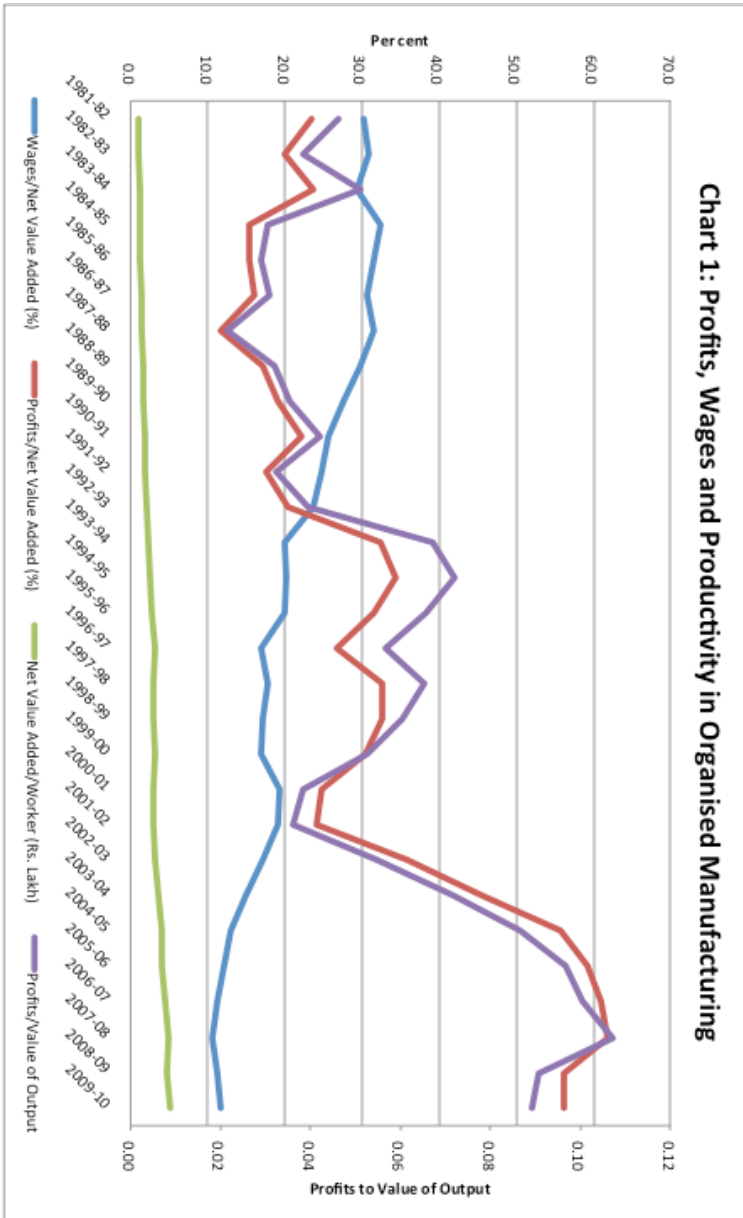
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investments held for more than a year. Foreign investment inflows rose from around \$6-8 billion at the turn of the last century, to \$20-30 billion during 2005-07 and \$62 billion in 2007-08. This not only gave the government a degree of manoeuvrability with regard to its spending, but also infused liquidity into the system and supported a substantial expansion in retail credit. Lending to individuals for housing investments, automobile purchases and consumption registered a spike. The resulting credit-financed investment and consumption helped expand demand and drive growth, including growth in manufacturing. The government catalysed that growth with multiple concessions at central and state levels for private investors, important among which were easy access to and low taxes on imports of technology, capital equipment and intermediates and low cost access to land and mineral and other scarce resources.

### PROFIT INFLATION AND GROWTH

The result was an increase in the private sector's ability to garner higher profits. Consider trends emerging from the official Annual Survey of Industries relating to the organised manufacturing sector depicted in Chart 1. To start with, since the early 1990s, when liberalisation opened the doors to investment and permitted much freer import of technology and equipment from abroad, productivity in organised manufacturing has been almost continuously rising. Net value added (or the excess of output values over input costs and depreciation) per employed worker (measured in constant 2004-05 prices to adjust for inflation), rose from a little over Rs. 1 lakh to more than Rs. 5 lakh. That is, productivity as measured by net product per worker adjusted for inflation registered a close to five-fold increase over the 30-year period beginning 1981-82. And more than three-fourths of that increase came after the early 1990s.

Unfortunately for labour, and fortunately for capital, the benefit of that productivity increase did not accrue to workers. The average real wage paid per worker employed in the organised sector, calculated by adjusting for inflation as measured by the Consumer Price Index for Industrial Workers [CPI(IW) with 1982 as base], rose from Rs. 8467 a year in 1981-82 to Rs. 10777 in 1989-90 and then fluctuated around that level till 2009-10 (Chart 2). The net result of this stagnancy



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in real wages after liberalisation is that the share of the wage bill in net value added or net product (Chart 1), which stood at more than 30 per cent through the 1980s, declined subsequently and fell to 11.6 per cent or close to a third of its 1980s level by 2009-10.

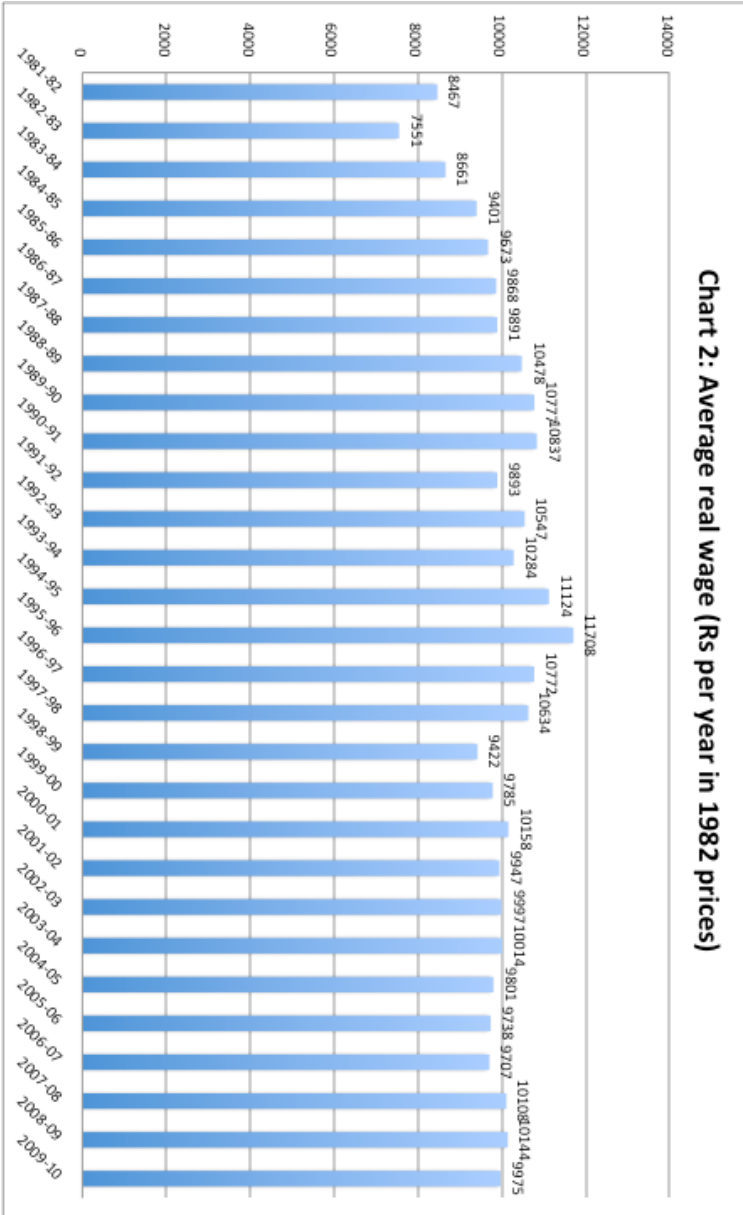
A corollary of the decline in the share of wages in net value added was of course a rise in the share of profits. However, the trend in the share of profits is far less regular than that of the other components in net value added. Between 1981-82 and 1992-93, the ratio of profits to net value added fluctuated between 11.6 per cent and 23.4 per cent. During much of the next decade (1992-93 to 2002-03) it remained at a significantly higher level, fluctuating between 20.4 per cent and 34.3 per cent, but showed clear signs of falling during the recession years 1998-99 to 2001-02.

However, the years after 2001-02 saw the ratio of profit to net value added soar, from just 24.2 per cent to a peak of 61.8 per cent in 2007-08. Unfortunately for manufacturing capital, the good days seem to be at an end. There are signs of the profit boom tapering off and even declining between 2006-07 and 2009-10. But this latter period being short, we need to wait for more recent ASI figures to arrive at any firm conclusions.

As of now, what needs explaining is the remarkable boom in profits at the expense of all other components of net value added. An interesting feature that emerges from Chart 1 is that the ratio of profits to value of output, or the margin on sales, tracks closely the irregular trend in the share of profits in value added described above. Increases in profit shares have clearly been the result of a rise in the mark up represented by the profit margin to sales ratio, or the ability of capital to extract more profit from every unit of output.

Interestingly, the periods in which the ratio of profits to the value of output has risen, leading to sharp increases in profit shares, were also the years when the two post-liberalisation booms in manufacturing occurred. The first of those was the mini-boom of the mid-1990s, starting in 1993-94 and going on to 1997-98, which was fuelled by the pent-up demand in the upper income groups for a range of goods that had remained unsatisfied prior to the liberalisation of imports and foreign investment rules. The second was the stronger and more prolonged boom after 2002-03, led by new sources of demand. That boom lasted till the global financial crisis in 2008-09. The coincidence of the rise in profit margins and profit shares and





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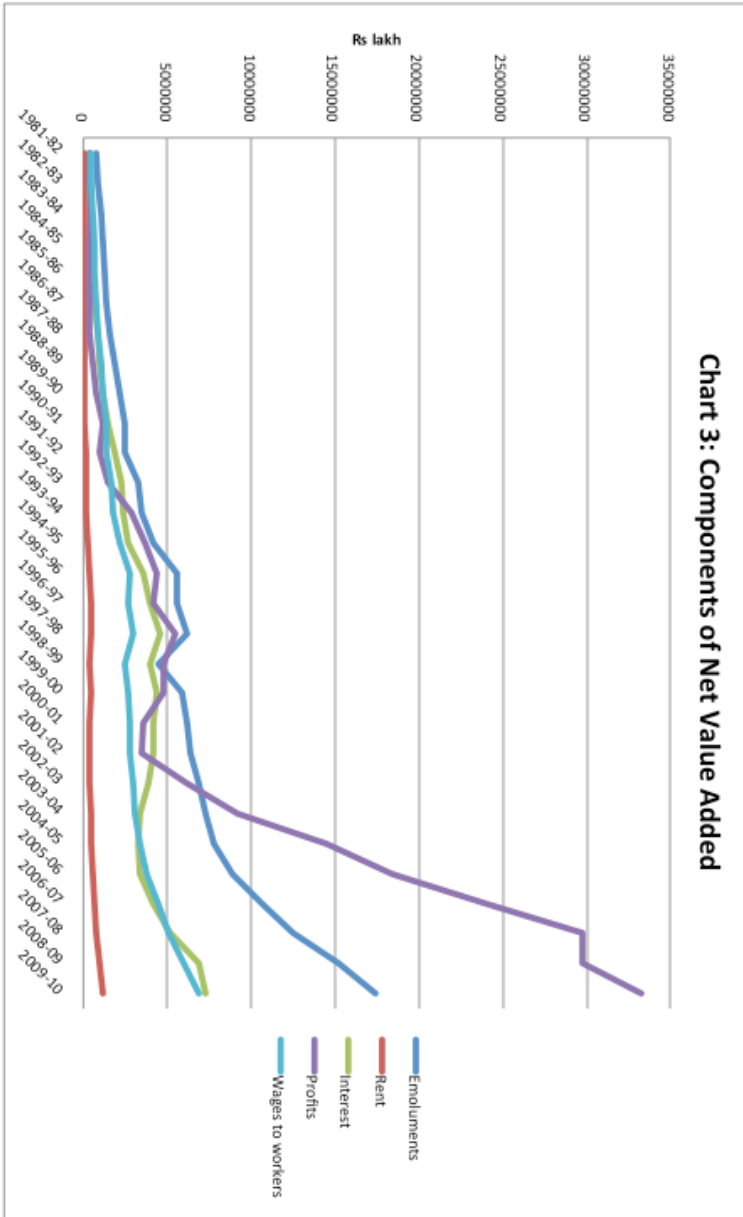
the output booms suggests that, in periods of rising demand, the organised manufacturing sector in India has been able to exploit liberalisation in two ways. First, it has been able to expand and modernise using imported technologies, raising labour productivity significantly in the process. Secondly, it has been able to ensure that the benefit of that productivity increase accrues almost solely to profit earners, because of the conditions created by the “reformed” economic environment. As a result, the mark up rose significantly or sharply in these periods and delivered a profit boom.

An interesting feature is the way in which this process feeds on itself. As Chart 3 depicting trends in the different components of net value added shows, while the nominal value of rent, interest and wages rose only marginally over a long period, the increase in emoluments, which include managerial salaries was substantial. Profits of course soared as noted earlier. The increase in non-wage salaries and incomes not only directly drives manufacturing demand, but also provides the basis for the expansion of credit-financed investment and consumption expenditure. A major factor underlying the post-2003 boom was this credit-financed private expenditure boom in the form of investment in housing, purchases of automobiles and durables and increased expenditure on “luxury” services.

It needs to be noted here that this evidence relates to the organised manufacturing sector where workers are in a better position to defend their real incomes. In much of the economy, working conditions are much more tenuous and wages and earnings fragile. Unorganised workers and petty producers are known to have experienced a significant erosion of their real incomes during the years of high growth. It is to be expected therefore that the worsening of the distribution of income and wealth during the years of neoliberal growth would have been much more than indicated by the figures from the organised manufacturing sector discussed above.

## PREDATORY CAPITALISM

The question naturally arises as to the factors that explain the sudden and sharp rise in profit margins and shares in the periods after 2002. One obvious answer is that through tax concessions, transfers of various kinds and sale of land and scarce assets to the private sector at extremely low prices, the government has engineered this profit inflation. This



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role of the government also partly explains the surge in capital flows that supported this parasitic form of growth. It was true that this was a period when globally there was a sharp rise in cross-border flows of capital. But India in particular was a beneficiary of the increase because of actions adopted by the Indian government. Just before the FII surge began, and influenced perhaps by the sharp fall in net FII investments in 2002-03, the then Finance Minister declared in the Budget for 2003-04: "In order to give a further fillip to the capital markets, it is now proposed to exempt all listed equities that are acquired on or after March 1, 2003, and sold after the lapse of a year, or more, from the incidence of capital gains tax. Long term capital gains tax will, therefore, not hereafter apply to such transactions. This proposal should facilitate investment in equities." Long-term capital gains tax was being levied at the concessional rate of 10 per cent at that point of time. The surge was no doubt facilitated by this further concession that converted India's equity market into a tax-free enclave.

There is a major lesson emerging from this narrative. Neoliberalism is an ambiguous and loosely defined term, even when restricted to the economic sphere. However, there are broadly three features that can be seen as characterising a neoliberal growth strategy. These are: (i) the use of the rhetoric of market fundamentalism, in which the market or ostensibly "free economic exchange" is presented as the most efficient economic mechanism, to pave the way for the increasingly unfettered functioning of private capital, both domestic and foreign; (ii) the use of the notion of a minimalist state, to be realised by dismantling its developmentalist version, to legitimise a state-engineered shift in the distribution of income and wealth in favour of the owners of capital and their direct or indirect functionaries and conceal the conversion of segments of the state apparatus into sites for primitive accumulation; and (iii) the pursuit of a regime of accumulation where, the home market and deficit-financed state expenditure are replaced by debt-financed private expenditure as the principal stimuli to growth. The limited evidence pertaining to the organised industrial sector presented above suggests that it was the adoption of such a strategy that allowed for a process of growth based on profit-inflation. Sustaining such growth requires therefore sustaining a process of increasing inequality of income and wealth. Neoliberal growth is by definition growth achieved under a predatory regime of accumulation.

Seen in this light, there are reasons to believe that certain recent developments have served to constrain and reverse this process of growth. The first is the reduction and even reversal in foreign capital inflows into the country as a result of both global and domestic uncertainty. Besides developments abroad, the waning of foreign investor interest is blamed on the “slowing” of reform. All India needs to do, the advocates of the neoliberal strategy argue, is announce a few “big ticket” reform measures, such as opening multi-brand retail for foreign investment or allowing sale of equity in public sector banks to foreign investors, for the economy to revive. The government should also not prevent foreign firms from benefiting from ambiguity in the law, such as happened in the case of tax avoidance by Vodafone when it acquired equity in the Indian cell phone industry. By advancing such arguments even the advocates of reform reveal the parasitic nature of capital in this regime of accumulation, which requires persistent concessions to coax it into investing for growth.

A second factor contributing to the end of the boom is the evidence that in the aftermath of the sharp expansion in retail credit in the economy, defaults and non-performing assets have been on the rise. Combined with the liquidity crunch resulting from the lower levels of foreign inflows, the uncertainty arising from increase debt defaults in the retail market is reducing the volume of credit and hence the volume of debt-financed investment and consumption. A major factor underlying the temporary boom under neoliberal capitalism has thus lost its momentum.

Finally, the ability of the state to flout the law and provide concessions to big capital has also been limited by the controversies generated by the evidence that the process leads to large-scale corruption. The instances to which such allegations of corruption relate are many, varying from the sale of 2G spectrum and the mobilisation and/or disposal of land and mining resources to purchases made as part of large and concentrated public expenditures (as in the case of the Commonwealth Games). If even partly true, these allegations indicate that corruption associated with the state-private capital nexus has increased in scale, overwhelming the evidence of small-scale corruption among petty bureaucrats and local government functionaries.

Associated with such instances of the possible misuse of powers held by state functionaries for substantial private gain is huge profit for some of the richest individuals and for leading domestic and foreign business groups. This leads to surplus accumulation by two groups. The first consists of those serving the state apparatus in high positions. The growing nexus between politics and business and the huge increases in the assets reported by individuals contesting elections to parliament and the legislatures strengthens the suspicion that this could be occurring. The second set of potential beneficiaries consists of the business groups which derive gains from the purchase of pecuniary benefits for a small price. If we go by the Comptroller and Auditor General's estimate, the loss of revenues to the state from the mispricing of 2G spectrum alone is Rs. 1.76 lakh crore or close to 10 per cent of Gross Fixed Capital Formation in the economy in 2008-09. If a large share of that loss is being transferred to those acquiring spectrum it points to huge benefits.

It needs to be noted that transfers of this kind to private capital are not always the result of corrupt practices. There have been many instances where sections of the private sector have made huge gains through means that are "unfair", even if not illegitimate and not associated with credible allegations of corruption. One such, involving spectrum again, was the implicit bail out of investors who made irrational bids for cellular bandwidth during the first round of auctions. Though these bids were irrational, the government helped the bidders meet their initial commitments by allowing them to retain a few of the multiple circles in which they had, not surprisingly, won licences. However, when these bidders turned operators, they discovered that they could not operate profitably if they were actually required to pay the amounts they had bid to obtain even these licences. The government, therefore, allowed them to migrate to a revenue sharing regime rather than a specific licence fee system, allowing them to make huge profits subsequently.

The point to note is that the irrational bids made by these operators had kept out a number of rational bidders who may have been more efficient suppliers. Yet, by allowing the irrational bidders to substantially reduce their commitments the government rewarded

them. This was to say the least unfair, even if not illegitimate because no evidence of corruption emerged. This was one more instance where unfair business practices and state patronage at the expense of the exchequer permitted sections of the private sector to garner huge profits. But no allegations of corruption were involved.

It is to be expected that such instances would increase under liberalisation since the state increasingly dilutes or gives up its role as an agent influencing and regulating the nature and scale of private activity to take on that of being a facilitator of private investment. In fact, the very process of transition to a more “liberal” regime is fraught with potential instances of corruption, as the allegations of underpricing of public assets in the process of disinvestment of public enterprises illustrates. The process of decontrol and deregulation is also accompanied by efforts at promotion of private investment, involving public-private partnerships and help to the private sector to acquire land and material and financial resources. As a result, besides the old type of corruption where state functionaries demand a price for favouring individual firms with purchase orders or permissions and exemptions, there is a new form in which those benefiting from state support could be called upon to share the transfers they receive with the decision makers involved.

Advocates of liberalisation have argued that by reducing state intervention and increasing transparency economic reform would reduce corruption. The allegations of large-scale corruption suggest that this is not true. Liberalisation does not mean that the state withdraws from intervention but merely that there is a change in the form of state intervention, which also enables the state to deliver illegitimate gains to individuals and private players.

The flip side of this process is that there are new avenues through which the private sector can garner windfall gains that raise private profits, increase internal resources and allow for an acceleration of private capital accumulation. There is ample evidence of a substantial increase in private profitability, corporate savings and private wealth since the launch of liberalisation and especially during this decade. But this has been attributed to the entrepreneurial energy released by liberalisation, with no role given for the benefits from transfers engineered by the state. In fact, when discussions of corruption occur, the possibility that it serves as a mechanism for private aggrandisement

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receives little attention. The tenor of the discourse is that the virus of corruption afflicts only the government officials and politicians who control and misuse state power. But increasingly corruption appears to reflect payments made by the private sector to realise illegitimate gains that not merely violate norms of fair practice and/or the law, but are damaging from the development, environmental or fiscal points of view. Given the large amounts that can be garnered in this fashion the state seems to be turning into an important site for primitive accumulation for the private sector during the phase of liberalisation and economic reform. If true, this makes the private sector not just complicit but a participant in the acts of corruption, if any, involved.

However, once corruption is embedded in the process of accumulation it is expected that it would be far more present than would otherwise be the case. This results in the outbreak of scandals, especially in a democratic setting like India, with a role not just for “right to information” activism, but for “leaks” triggered by corporate and/or political rivalry. In the event, controversy ensues and investigations follow. Thus, in post-2005 India there has been a spate of scandals. Over time this has partly increased the reticence and limited the ability of the government to openly favour private capital in violation of the law with concessions that deliver high and rising profit margins.

Given the parasitic nature of the growth process under neoliberalism these developments do have significant implications. When their effects combine they could restrict demand and dampen investment considerably leading to a reduction in the rate of growth. They are also possibly reducing profit margins and profitability constraining the trajectory of growth led by profit-inflation.

## POLICY PARALYSIS

What is more, the downturn tends to be self-reinforcing. Consider for example, the depreciation of the rupee, which in other times may have helped by improving the competitiveness of India’s exports by making them cheaper. But that is of little help in an environment when a sluggish world economy is demanding less goods and services overall. What rupee depreciation does in the current environment is increase the domestic prices of India’s imports including that of oil,



aggravating inflation. It also squeezes firms that, encouraged by much lower interest rates abroad and the liberalised rules on borrowing, accumulated large foreign debt to finance local expenditures. That was a boon when the rupee was strong. But now, the dollar payments due on those debts are draining far more rupees, affecting corporate bottom lines adversely. That too depresses investment and growth, and threatens to trigger a downward spiral flagged now by a collapsing rupee.

However, there appears to be no convincing response from the government thus far. The RBI is wary about stoking inflation by reducing rates to spur growth. Given the deficit on the government's budget and India's relatively high public debt to GDP ratio the government is wary of increasing its spending to counter the crisis, partly because it fears that larger fiscal deficits or higher taxation would upset foreign investors and hasten their exit.

In the event, we have a government that speaks of the need for austerity and harsh decisions amidst a slowdown in growth. That would only convert falling growth into a recession. Further, the "harsh decisions" involve measures such as cutting subsidies to reduce expenditure and raising oil prices. Combined with the increase in the prices of imports as a result of the rupee's depreciation, these administered price hikes would only fuel inflation, and further aggravate the tendency towards stagflation.

The potential for a cumulative slide has already triggered a bandwagon effect. Rating agencies are downgrading India and international investors, heeding these agencies, seem to be reducing their exposure. Shaken by this response, the government seems set to implement austerity. That could worsen the downturn without correcting either inflation or the balance of payments. But the government is opting for these measures because of the legacy of financial liberalisation in the form of the accumulated presence of foreign finance in the country. All policy is being viewed first in terms of the effect it would have on the confidence of those investors, rather than its efficacy in addressing the problems at hand.

It is here that the similarity with the European predicament is apparent. There too, the accumulation of large volumes of public debt has made sovereign default a possibility if additional credit to meet expenditures was not forthcoming. However, additional credit

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to “help” countries avoid default was provided only on the condition that they opted for austerity. This imposed huge burdens on the people in the form of increased unemployment, reduced incomes and a collapse of social security outlays.

Cutbacks in government expenditure were expected to reduce deficits and release the wherewithal to finance future debt service commitments. The outcome was contrary to expectations. Rather than reduce deficits and generate surpluses, the output contraction resulting from expenditure cuts reduced revenues, making it impossible for these countries to meet their deficit reduction targets. A cycle of enhanced austerity, lower growth and worsening debt service capacity followed, with no solution in sight. It is clear from this that in bad times countries need to get out of the slowdown-austerity-recession cycle by substantially increasing expenditures to restore growth and employment. This would, over time, also raise the revenues to finance some of their debt commitments.

Though there are important differences between India and Europe, there are two similarities here that need to be recognised. The first is that India’s fiscal deficit and debt to GDP ratios have also been declared to be unacceptably high by international finance, which has a large and influential presence in the country. The second is that this large presence of international investors and creditors, not only increases economic instability, but also induces an element of “policy paralysis” because of a reduction in the state’s room for manoeuvre. Central to that paralysis is a self-imposed limit on spending resulting from a fear of raising resources through taxation and financing expenditures with borrowing. Even when confronted with slowing growth, the government tends to adopt austerity measures that trap the country in a recession. This has already occurred in Europe. It is a real possibility for India.

The way out, is to escape from this vicious cycle by expanding spending, and finding ways other than expenditure contraction to address inflation or balance of payments difficulties. But that requires not only ignoring the demands of finance, but also countering its speculative manoeuvres. In contexts like India, controls on the movement of footloose and speculative capital are a must to give the government the required room for manoeuvre. But that does not seem to be the route the government is adopting. So the downturn, as

in Europe, may soon turn into a full-fledged crisis.

#### THE AGRARIAN CRISIS

For the working people, such a crisis that would lead to further unemployment, accelerating inflation, worsening deprivation and increasing poverty would be devastating because they are already entrapped in a longer-term crisis. When the CSO released its revised estimate of national income in 2011-12, which points to a decline in India's GDP growth rate from 8.4 per cent last year to 6.5 per cent this year, the government, obsessed with growth rates, was deeply disappointed. Hence there is much talk of the need to respond and demands that the Reserve Bank of India should reduce interest rates are being heard. There are others, however, who would not waste time with numbers such as these. High GDP growth rates need to be viewed with scepticism because for more than a decade now much of India's growth has been based on incomes generated in the services sector, with the goods producing sectors either languishing or performing poorly. Seen from that perspective there are other elements in the growth figures that should give cause for concern. Principally, the 'agriculture, forestry and fishing' sector is expected to record growth of just 2.8 per cent in its GDP during 2011-12, as against the previous year's growth rate of 7.0 per cent.

The problem here is not that agricultural output has registered a dip just with respect to the previous year. In a country where in many regions agricultural production is still dependent on the vagaries of the monsoon this should not be surprising. Rather, the problem is that decline in annual growth occurs in a context where for two decades now production in the agricultural sector has been languishing. Taking a long view, agricultural production has been stuck in the two per cent-plus range since Independence. Even after the 1980s, when the Indian economy reportedly migrated out of the "Hindu rate of growth" to a higher growth trajectory, agriculture has remained stubbornly on the 2 per cent plus growth trajectory.

The government has tended to play down this aspect of the growth scenario. In fact, early into the XIth Plan, it had argued that India had not merely seen a substantial acceleration in its aggregate GDP growth rate to 8-9 per cent per annum, but that the evidence was pointing to

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this dynamic affecting agriculture as well, generating hopes of a four per cent or more rate of growth in that sector. It is now clear that such assessments based on a few years' data had come too early and were wrong. Agriculture as a sector still languishes.

In fact things seem to be getting worse. Though the aggregate rate of growth of agriculture seems to have remained constant, even if low, a more disaggregated view points to significant differentials across crops. Thus, the observed low rate of growth has been sustained in the 1990s and the 2000s because of specific categories of crops like fruits and vegetables and oilseeds. On the other hand, food grain production seems to have decelerated during the last two decades when compared to the 1980s and coarse grains and pulses have recorded particularly low rates of growth. That is, agricultural growth has been maintained even at its low level because of higher growth in a few non-staple crops.

As some economists not beguiled by the statistics have noted, this evidence points in two directions. The first is that in the period of reforms, when the Indian economy had ostensibly turned dynamic as suggested by the GDP growth figures, agriculture continued to be neglected, resulting in a silent agricultural crisis. That neglect had many components. Public investment in agriculture has been in long-term decline. The extension system aimed at reaching new agricultural technologies and information on better farming practices to India's agriculturists has either been dismantled or allowed to degenerate. Agricultural research, which served India well during the Green Revolution years, has been given inadequate attention and resources. And a "reform"-induced combination of trade liberalisation and domestic deregulation, has raised costs while inadequately compensating farmers with remunerative prices, damaging the viability of crop production and increasing farmer exposure to income volatility.

The second is that the country is experiencing a food crisis that is concealed by claims of self-sufficiency. The per capita availability of food in a country where much of the population is below the level of nutritional adequacy has been low and declining. This has for much of the period not proved to be a problem because low incomes and purchasing power among a significant section of the population kept demand in check as well. But with low levels of per capita availability

persisting even as the indirect demand for grain on the part of the well-to-do has increased, food prices are finally turning buoyant in India, squeezing the poor even further. Farmers may not be benefiting from remunerative prices, but consumers have to pay more.

Put together this and other evidence indicates that Indian agriculture is in the midst of a crisis that adversely affects farmers and the non-farm poor. But given the government's obsession with growth this receives far less attention and provides much less cause for concern than the close to 2 percentage point decline in the official GDP growth rate.

#### THE EMPLOYMENT FALL-OUT

The implications of unbalanced growth of this kind for employment generation are quite adverse. Even when growth in post-reform India accelerated, it failed to deliver adequate jobs for its citizens. The results of the 66th Round survey of the National Sample Survey Organisation (NSSO) relating to 2009-10 indicate that while the deceleration of employment growth recorded during 1993-94 to 1999-2000 had been partially reversed in the period 1999-2000 to 2004-05, the record over the five years after 2004-05 is even worse than it was during the 1990s.

To summarise, the rate of growth of employment (on a usual, principal and subsidiary, status basis), which rose from 1.07 and 2.62 per cent in rural and urban areas respectively during 1983 to 1987-88, to 2.55 and 4.08 per cent during 1987-88 to 1993-94, fell to 0.80 and 2.73 per cent during 1993-94 to 1999-2000. The scepticism about the dynamism unleashed by reform that this generated was dismissed once the results of the 2004-05 survey were announced that showed that rural employment growth had actually risen to 2.41 per cent in rural areas and 4.22 per cent in urban areas over 1999-2000 to 2004-05. Based on the results of the 2004-05 survey, some like the Chairman of the Prime Minister's Economic Advisory Council C. Rangarajan argued that "with a sustained growth of 9% per annum, by 2012 unemployment will be totally eliminated." The challenge was to achieve and sustain high growth rather than to generate employment, since "accelerating growth is central to expanding employment opportunities" (Times of India, March 15, 2006).

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Since then, India seems to have managed to achieve and sustain high growth, except for the brief downturn during the global crisis. Yet the results from the 2009-10 NSSO survey are disconcerting. Over the five-year period 2004-05 to 2009-10 employment declined at an annual rate of -0.34 per cent in rural areas, and rose at the rate of just 1.36 per cent in urban areas. In the aggregate, the volume of principal and subsidiary status employment rose by a negligible 0.1 per cent. There is of course much discussion on how robust these numbers are and how they should be interpreted. But the broad conclusion that high growth is doing little to deliver the employment that the large mass of the unemployed and underemployed in India need stands up to scrutiny.

This is significant for at least two reasons. The first is that it indicates that the pattern of growth that India is experiencing is woefully inadequate to provide incomes and livelihoods and the dignity that comes from work to a substantial number of those seeking it. It seems to be time to shift from an obsessive and single-minded devotion to growth and focus more on employment. The second is that the picture of near-jobless growth changes the whole notion of “inclusiveness”. If the trajectory continues, India’s poor and marginalised would have to be “included” not by integrating them into the development process through employment, but through special programmes that reek of state patronage and are dependent on government prerogative. The right to a decent life is not ensured but merely assured.

The implications of this scenario where increments in GDP are not accompanied by anywhere-near-adequate increments in employment are many. One is that the growth process India is experiencing is such that the new activities that displace old and traditional ones deliver much fewer new jobs relative to the number they displace. The second is that in a whole set of new activities that are “additional” to what existed before, “value creation” is far less dependent on leveraging “work” and based more on intangible notions of meeting felt needs and offering quality. The corollary is that the value created goes less to finance an expanding wage bill and more to enhancing surplus incomes in the form of profit, rent and interest. Not surprisingly, there are clear signs of an increase in inequality and a worsening of income distribution in recent years.

This is indeed surprising given the kind of new activities that India's recent growth has been partly based on. Of the cumulative increase in GDP since 1990, close to 60 percent was accounted for by services. This should have had implications for employment growth in the organised sector. Given the technological trajectory, it should be expected that the potential for increases in productivity is far greater in industry than in services. Hence, when services dominate growth, the expectation is that employment growth would be more responsive to output growth. However, in practice, despite the expansion of services, the growth of employment in this sector has been limited. Tertiary sector employment in 2004-05 amounted to only 25 per cent of the work force despite the fact that more than 50 per cent of GDP came from this sector. Moreover, between 1999-00 and 2004-05, employment in the tertiary sector increased by only 22 per cent, whereas GDP at constant prices contributed by the service sector expanded by 44 per cent. This was possibly because GDP growth came from those kinds of services (such as ICT services and financial services) that delivered substantially in terms of revenues but little in terms of employment.

#### PERSISTING DEPRIVATION

Another consequence of growth of this kind is persisting and even increasing deprivation. Among the features that sully India's "growth story" is the persistence and possible worsening of malnutrition in the country. The subsistence nutritional intake adopted when defining the official poverty line expenditure for 1972-73 was 2400 Kcal per person per day for the adult rural population and 2100 Kcal (henceforth "calories") per person per day for the urban population. Needless to say, calorie requirements would vary depending on the build and occupation of individuals and would be substantially different for different age groups. As a standard, the National Institute of Nutrition set the requirement for members of a reference group consisting of Indian males of age 18-29 years with normal body mass index and weight of 60 kg engaged in sedentary work at 2320 calories per day. Thus, the 2300 to 2400 calories per day range provides the benchmark for required calorie intake for a representative Indian.

The National Sample Survey (NSS) Organisation has in

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periodical consumption expenditure surveys been collecting and putting out figures on the average calorie intake per person in Indian households. It has also provides figures on calorie intake per *consumption unit* adjusted for age, with a male child in the 4-6 year age group treated as equivalent to 0.54 of a representative consumption unit and a male in the 70-plus age group treated as equivalent to 0.7 of a representative consumption unit. It has recently released such figures for 2009-10 (*NSS Report No. 540: Nutritional Intake in India*), permitting an assessment of the nutritional situation in the country.

On first glance the results seem to give some cause for satisfaction. At the All-India level calorie intake per consumption unit stood at 2647 calories in rural areas and 2604 calories in urban areas, both of which are higher than the “recommended” 2400 calories. What is more, there is not a single state in which the average figures fall below 2400. For a country that is reported to have the world’s second worst child malnutrition record based on physical indicators, this is indeed encouraging.

However, a closer look at the evidence suggests there is much cause for concern. To start with, as is to be expected, there are substantial variations in the calorie intake numbers across expenditure classes. In the rural areas it varies from 2007 calories per consumption unit per day among the poorest 10 per cent of the population ranked by per capita expenditure to 3591 calories per consumption unit for the richest 10 per cent. The corresponding figures for urban areas are 1969 and 3482 calories respectively. More than 30 per cent of the population falls below the benchmark 2400 calories per day per consumption unit intake in both rural and urban areas.

Secondly, the Planning Commission’s estimate of the required subsistence calorie intake for defining the poverty line is set at 2400 calories per person (not per consumption unit) per day in rural areas and 2100 calories per person per day in urban areas. Going by that figure at least 80 per cent of the population in rural areas and 50 per cent in urban areas fall below the required subsistence intake. This points to a much higher incidence of poverty in the country than reflected in estimates of the proportion of the population below the official “poverty” line. This is a feature of the evidence that has been highlighted by Utsa Patnaik, who has argued that the official poverty estimates were based on an erroneous definition of poverty in which



“the ‘poverty line’ was simply the original nutrition norm based poverty line of 1973 adjusted upwards by a consumer price index, without ever asking the question whether this index- adjusted ‘poverty line’ allowed people to obtain the same level of nutrition as before.” What the direct estimates of nutritional intake indicate is that poverty is much higher than such estimates, and even the new, revised poverty estimates based on the Tendulkar Committee methodology.

Thirdly, the figures show that the average calorie intake per person per day has fallen overtime. It fell in the rural areas from 2256 calories to 2153 calories between 1972-73 and 1993-94, recovered to 2149 calories in 1999-2000 and then fell to a low of 2020 in 2009-10. The trend in urban areas was slightly different. Calorie intake per person per day declined marginally from 2107 to 2071 between 1972-73 and 1993-94, improved to 2156 in 1999-2000 and then fell sharply to 1946 in 2009-10. In both cases there is reason to believe that changes in the reference period adopted in the survey questionnaire for 1999-2000 tended to impart an upward bias to the estimate for that year and rendered the figure non-comparable with previous and subsequent estimates. Hence the picture seems to largely one of continuous decline in average nutritional intake.

Finally, the NSS computes figures on the extent to which nutritional intake falls short of or exceeds the level of 2700 calories per consumer unit per day. Those figures show that the calorific intake shortfall has increased over time. The percentage of consumption units in rural areas obtaining less than 80 per cent of 2700 calories (which is 2160 calories) rose from 22.7 per cent in 1993-94 to 27.6 per cent in 2004-05 and 25.8 per cent in 2009-10. In urban areas the corresponding figure rose from 26.6 per cent in 1993-94 to 28.2 per cent in 2004-05 before falling marginally to 27.7 per cent in 2009-10.

Thus, the detailed evidence on nutritional trends yielded by the NSS Survey suggests that the extent of malnutrition in India not only remains extremely high, but is also increasing over time. This makes obvious the case for a universal programme of distribution of subsidised food through a strengthened public distribution. The government, however, seems to be dithering over implementation of even its much diluted food security initiative on the grounds of lack of resources. There is much scope for mobilising additional resources in India, through better implementation of existing tax laws,

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withdrawal of unnecessary tax concessions and increases in tax rates. Rather than looking to such measures the government is focused on trimming expenditures on programmes aimed at ensuring food security and generating employment.

## CONCLUSION

Thus, for much of India's population growth seems to make little difference to their standard of living. That is a severe indictment of the strategy of growth, especially when the growth rate figures are remarkably high, as was true in India for a period after 2003, and those figures are used to argue that India is a successful nation en route to great power status. However, such reasoning serves two purposes. First, it provides the propaganda to make India an attractive site for speculative global capital, the entry of which triggers the speculative run that delivers expected profits for a period of time. Second, it helps divert attention from the predatory nature of the regime of accumulation that has come to prevail in the age of finance. However, the economic success involved here is necessarily transient. That is the realisation that slowly dawns as evidence of a crisis even of neoliberal growth surfaces in India.