Indian economy hammered by world economic crisis

Kranti Kumara, Deepal Jayasekera
12 March 2009

The world economic crisis continues to roil the Indian economy, damaging both its immediate and longer term prospects and exacting a mounting toll of job losses in a country where there is, for all intents and purposes, no social safety net.

The government concedes that half a million jobs have been eliminated in recent months in "globalised" sectors of the economy, including the textile, gem and jewelry, and auto industries and in business processing. India is the most important site of IT-enabled offshore operations for the US and British banks that have been at the center of the world financial meltdown.

Commerce Secretary Kamal Nath has warned that 1.5 million jobs in export-oriented industries could be eliminated in the first six months of this year. Fearing the social-political impact of the rise in unemployment—Indian voters are to go to the polls in a multi-stage general election this April and May—the acting finance minister, Pranab Mukherjee, recently urged employers to slash wages and reduce hours in preference to job cuts. "Jobs," said Mukherjee, "must be protected even if it means reduction in compensation at various levels."

Many observers and political opponents of the Congress Party-led United Progressive Alliance (UPA) government contend that it is grossly understating the extent of the job losses. This is undoubtedly true.

The government does not systematically gather employment data—a national employment survey is conducted only once every five years—and more than 90 percent of workers are in the so-called "informal" sector, meaning that have no statutory benefits and that their jobs can be cut by their employers at will.

Textile employers claim 700,000 jobs were eliminated in their industry in 2008. Since October, thousands of diamond-polishing workshops have shut down and more than 200,000 people in the gem and jewelry industry have reportedly lost their jobs just in the Surat region of Gujarat.

In a February 26 article titled "Indian towns that fuelled the boom hit hard," the London *Financial Times* reported that tens of thousands of workers who recently migrated to Coimbatore, a center of textile and auto production in southern India, have been forced to return home after their jobs were cut.

The United Nations' World Food Programme (WFP) has warned that the migration of newly jobless workers back to their rural family homes risks exacerbating a longstanding crisis in rural India.

While the Indian and world corporate elite have made much of the 9 percent annual growth India experienced for four successive years beginning in 2004-5, the reality is that the gains of India's boom flowed almost entirely to big business and more privileged sections of the middle class. Rural India, meanwhile, has been ravaged by the flip side of the pro-investor policies pursued by successive Indian governments. State investment in agriculture has been slashed, so governments can lower taxes and pursue the megaprojects required by big business to make India a cheap-labor producer for the world market. Agricultural price supports and subsidies for fertilizer and other inputs have been pared back or eliminated. The dilapidated state of public services forces even the rural poor to increasingly turn to the private sector for health care and education, thus further depleting their meager financial resources.

The WFP's "Report on the State of Food Insecurity in Rural India" found rising levels of "food and nutrition insecurity." 230 million people—one fifth of India's total population are undernourished—and a total of 350 million are considered food insecure, which is defined as "consuming less than 80 percent of minimum energy requirements."

Hundreds of millions more eke out an impoverished existence and are at risk of being pushed into the abyss by unemployment or illness. Fully 70 percent of India's population survives on less than $2 per day.

A body-blow to the Indian elite's ambitions

In the immediate aftermath of last September's implosion of the Wall Street banks, the Congress Party-led United Progressive Alliance government claimed that the economic crisis would have a negligible impact on India. As a sharp decline in economic growth and a steep plummet in exports have put the lie to these claims, the government and the Reserve Bank of India (RBI) have been scrambling to find means of stimulating the economy. The RBI has cuts lending rates five times since September and on February 24, just one week after tabling a budget, the government again reversed course and announced a series of tax cuts, in effect a third stimulus package, supplementing stimulus measures announced in December and January.

Especially troubling for the government was the recent report that India's economic growth slowed in the last three months of 2008 to an annualized rate of 5.3 percent. This was far below government forecasts and belied its claims, confidently repeated in the preceding weeks, that economic growth in India in the 2008-9 fiscal year, which ends March 31, will be in excess of 7 percent.

Manufacturing output actually contracted by 0.2 percent in the last quarter of 2008, while agriculture, which continues to provide over half of India's population with its livelihood, suffered a 2.2 percent decline.

Overall growth in the first eight months of fiscal 2008-9 (April through December 2008) is reported to have been at an annualized rate of 6.9 percent. But there is every reason to believe that, following on from the last quarter, the pace of economic growth has continued to slow in the first three months of 2009. Thus the 2008-9 growth rate will fall far short not only of the government's early projections of well over 8 percent, but even the revised 7 percent figure.

Export earnings have fallen for five straight months. In January exports fell 16 percent from a year earlier to $12.3 billion and in February by 13 percent to $13 billion.

India's economic development strategy is predicated on the country registering an annual growth in exports of 20 percent or more. The government had set an export target of $200 billion for this year—less than one-sixth of the value of China's exports in 2007—but it is now expected that the figure will be around $170 billion.

While India's economic outlook may appear cheery when compared with the advanced capitalist economies, whose economies are rapidly contracting, the dramatic slowing of India's growth constitutes a body blow to the Indian bourgeoisie's ambitions to transform India into a world power and will undoubtedly lead to explosive class conflict.

"Talk that the country had finally embarked on a strong, sustained period of industrial expansion is now a distant memory," Robert Prior-Wandesforde, the senior Asian economist at HSBC, told the *Financial Times*.

Indian Prime Minister Manmohan Singh has repeatedly said that India needs economic growth of 8 percent if it is to keep pace with China and the ASEAN countries, let alone catch up with the major imperialist powers. And just as importantly, he has argued that the only way to maintain a "popular constituency" in favor of "reform"—that is support for the bourgeoisie's drive to transform India into a cheap-labor producer of world capitalism—is by maintaining very high growth.

Otherwise it will be impossible to absorb the tens of millions who will be joining the labor force in the coming years as a result of population growth and the bourgeoisie's drive to supplant petty producers in agriculture and handicrafts and the large number of family-owned shops with production and commercial firms organized along advanced capitalist lines.

Several years ago, India's Planning Commission warned that if India grew at only 6.5 percent a year, its jobless rate would still jump, resulting in another 70 million unemployed by 2012.

Under pressure from big business the UPA government has announced three stimulus packages, but most of the stimulus has been in the form of tax cuts for business.

In an attempt to attract foreign capital—foreign institutional investors have pulled billions from Indian equities—the government has also eased some caps on foreign investment.

The first stimulus package, introduced in early December, only increased public spending by $4 billion. January's package included no increased spending whatsoever. All told, it is estimated that the various government stimulus packages have boosted government spending by less than 1 percent of GDP.

The Stalinist Left Front, which propped up the UPA in parliament from late May 2004 through June of last year, has charged the government with fiscal conservatism. Unquestionably, the Congress-led UPA is executing the demands of big business which wants to seize the benefits of any stimulus for itself and doesn't want significant state funds invested in income support or even state-run infrastructure projects.

But the small size of the total stimulus package—tax cuts and spending increases combined—is a measure not just of the reactionary character of the government, but also of the fiscal crisis of the Indian state and the limited resources of Indian capitalism.

The economic crisis has led to a rapid swelling of India's budget deficit. Whereas the government had projected a deficit in 2008-9 equal to 2.5 percent of GDP, in last month's interim budget it conceded the figure would be 6 percent and predicted a deficit equal to 5.5 percent of GDP in the coming fiscal year, which starts in April. The latter projection is highly optimistic given the bleak outlook facing the Indian economy.

The combined deficit for federal and state governments has almost doubled as a proportion of GDP, rising from 5.7 in the 2007-8 fiscal year to a projected 11.1 percent in 2008-9.

The rapid deterioration of India's fiscal position has led the world's major bond-rating agencies to warn that they may soon slash India's credit rating. Following the presentation of India's budget, Standard and Poor said India's debt position is unsustainable, switched its outlook for Indian debt to "negative," and said it may soon downgrade India's debt rating to junk bond status from the current level of BBB-, the lowest investment grade rating.

UPA ministers have vowed that the deterioration of India's fiscal position is only temporary. "Conditions in the year ahead are not likely to be normal," said Mukherjee in his budget speech, "and, therefore, the high fiscal deficit is inevitable. We will return to the [tighter fiscal] targets once the economy is restored to its recent trend growth path."

The world economic crisis, however, precludes any return to rapid economic growth. The next government, whatever its political coloration, will come under intense pressure from domestic and foreign capital to dramatically curb public spending with devastating consequences for India's impoverished toilers.