Indian economy in a downward spiral

Kranti Kumara
11 October 2017

There are growing concerns, even among the domestic and international cheerleaders of Narendra Modi and his hard-right, Hindu communalist BJP government, that the Indian economy is heading for a serious and sustained downturn, possibly even an economic crash.

Modi has boasted that his government has restored India to the 8-percent plus growth it experienced during much of the first decade of this century, but the growth rate has fallen in each of the past 6 quarters. In the first (April-June) quarter of the current, 2017-18, fiscal year, it fell to a mere 5.7 percent, down from 7.9 percent in the corresponding quarter in 2016-17.

Yesterday, the IMF slashed is growth estimates for India, lowering its projection for 2017 by 0.5 percent to 6.7 percent and for 2018 by 0.3 percent to 7.4 percent.

Private capital formation, a key indicator of future growth, has fallen to levels not seen since the first years of the 21st century. According to estimates from the private Center for Monitoring Indian Economy (CMIE), CapEx (Capital Expenditure) project-completion will be the worst this year since Modi and his BJP came to power in May 2014, and at US $62 billion will be down a third from the previous two years.

The corporate media is now full of alarmed commentary and increasingly trenchant criticism of the government, much of it for not pushing through pro-investor measures, like privatization and the gutting of labor law protections against plant closures and layoffs, fast enough.

Modi long maintained a stony silence in the face of such criticism, but finally felt compelled to comment after Yashwant Sinha, who served as Finance Minister under a previous BJP-led government, published a comment late last month in which he warned of a "hard landing" for the Indian economy. Resorting to his standard vacuous bombast, Modi dismissed the claims of mounting crisis, then thundered, "Decisions of the government will take the country to the next level."

The more perceptive critics have raised the specter of social unrest. Even before the drop in the growth rate, job creation under the Modi government was miniscule, with the economy creating at best only a small fraction of the 10-12 million jobs it needs to create annually to absorb the country's rapidly expanding labour force.

While the Indian economy was already facing severe headwinds last year due to heavy corporate indebtedness and a steep fall in demand for products both domestically and internationally, the Modi government delivered further shocks in the form of demonetisation and the imposition of the regressive nationwide GST (Goods and Services Tax), in November 2016 and July of this year, respectively (see "India imposes regressive nationwide sales tax").

The former not only paralyzed single-worker "businesses"—economic activities that numerous poor families undertake to eke out a living and which, according to official statistics, comprise some 41.97 million out of the country's 52.85 million "enterprises." Demonetisation also resulted in tens of millions of workers in small businesses being thrown out of work, at least temporarily, since cash transactions are the mainstay of their commerce and indeed the Indian economy as a whole.

The GST resulted in chaos across the economy by severely contracting the working capital of small and medium enterprises. Most of these are not receiving timely payments for the goods and services they have supplied big corporations, because the two parties cannot reconcile their mutual tax obligations.

During the 2014 general election campaign, the BJP lambasted the Congress Party-led United Progressive Alliance (UPA) government for "10 years of jobless growth" and promised jobs and development if given the people's mandate.

However, according to the reports released by India's Ministry of Labor and Employment, in the eight major economic sectors that it monitors, the total number of new jobs created from June 2014 to December 2016, was just 624,000.

Even if one also includes the entirely fraudulent "job creation through setting up of new self-employment ventures/projects/micro enterprises" under the Prime Minister's Employment Generation Programme (PMEGP), the total number of jobs created, according to a report in the *Hindustan Times* (HT), comes to a mere 1.51 million. This, as the HT report points out, represents a 39 percent decline from the 2.47 million jobs created during the previous three years.

The precarious conditions facing India's workers and toilers, and that are now being exacerbated by the economic slowdown, were spelled out in a damning report released by the Indian brokerage firm Ambit Capital. It noted that while India's annual per capita income is a miserable $1,850, for the poorest half of the population, some 660 million people, it is just $400. By contrast, the top 1 percent, amounting to 13 million persons, has an annual income of $53,700.

What is even more shocking is that in India, a country repeatedly touted by the world corporate press as an emerging economic giant, the per capita income of the poorest 50 percent is substantially lower than the per capita income of Afghanistan ($561), a country devastated by decades of US imperialist-fomented wars, including the current 16-year American occupation.

A report released last month by India's largest bank, the State Bank of India (SBI), bluntly warned that the sustained economic downturn is "technically not short-term in nature or even transient"—i.e., is not simply due to demonetisation and the GST, as Modi government spokespersons keep insisting in public.

The report called upon the government to boost economic activity through government spending such as by investing in infrastructure projects or by making cheaper credit available to small and medium-sized businesses.

"This situation demands that the government steps in and uses the fiscal policy as a tool to rev up the economy," said the SBI report.

However, the Indian government's financial capacity even under the best of circumstances is paltry, since at least 25 percent of the annual budget is from borrowed funds. In the current fiscal year, out of a budgeted expenditure of Rs. 21.5 trillion ($330 billion), borrowing comes to Rs. 5.5 trillion ($85 billion).

Alarmed by the dismal conditions facing the Indian economy, the Modi government, which has hitherto been praised for its pro-business orientation, is coming under severe criticism even from its big business supporters.

Particularly significant was the scathing opinion column Yashwant Sinha penned for the *Indian Express*. It accused Modi and his Finance Minister Arun Jaitley of having mismanaged the Indian economy: "A hard landing appears inevitable. Bluff and bluster is fine for the hustings, it evaporates in the face of reality." Concluding, Sinha stated: "The prime minister claims that he has seen poverty from close quarters. His finance minister is working overtime to make sure that all Indians also see it from equally close quarters."

Jaitley tartly dismissed Sinha's criticism, calling him "a job applicant at 80 who has forgotten his own record." He then noted that the "so-called economic slowdown" has not impacted direct tax collection, which he claimed has increased by 15.7 percent.

But Jaitley's claims are contradicted by the heavy pressure the Modi government and big business, especially manufacturers, are exerting on the RBI (Reserve Bank of India), the country's central bank, to cut the "Repo-rate", which determines the interest rates on bank loans. By lowering the cost of business loans and mortgages, interest cuts would stimulate economic growth, they argue.

But the RBI at its latest monetary policy meeting last week, held the rate steady, citing a surge in consumer inflation and concern that an already sinking rupee would be hammered further, thus exacerbating the trade deficit and corporate dollar-denominated loan burden.

Indian businesses, including many of its largest enterprises, are already burdened by heavy debts and that is a major reason they have severely cut back on new investment. In addition, the whole banking sector faces a severe crisis due to more than $150 billion in "stressed assets," that is non-performing and restructured loans.