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INDIA NEEDS A NEW ECONOMIC POLICY

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

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‘What is alarming today is the serious and continuous decline in GDP growth rates which began in 2016’ | Photo Credit: Getty Images/iStockphoto

The National Statistical Office (NSO) has released the 2022-23 GDP fourth-quarter growth rate figures. Measured against fourth-quarter figures of the previous year, the data give a gloomier picture than what the media publications of the Press Information Bureau present. According to NSO data, in the first COVID-19 pandemic quarter of 2020-21, i.e., April 1 to June 30, 2020, GDP growth rate was minus 23.8% when compared to GDP of the same period in 2019-20.

Three conclusions based on NSO data since 2014-2015 are important for a reality check. First, the growth rate of GDP, since 2015-16 had been declining annually, and has fallen in the fourth quarter to what it was earlier, and sneeringly referred to by economists as “The Hindu Rate of Growth” — 3.5% growth rate in GDP.

Second, it is essential to recognise that since 2014, Prime Minister Narendra Modi’s widely publicised “Vikas” in reality achieved the so-called “Hindu rate of growth” in GDP of what had been achieved in the period 1950-77 — the socialism period.

Third, during the tenures of P.V. Narasimha Rao and Manmohan Singh, GDP growth rates rose for the first time to between 6% to 8% per year over a 15-year period, i.e., 1991-96 and 2004-2014 (with the usual cyclic ups and downs).

That is, it took Narasimha Rao and Manmohan Singh as Prime Ministers to understand and reform the Indian economic system, to reduce state participation and increase incentives for capital and labour providers, thus achieving a higher and faster growth of the economy.

What is alarming today is the serious and continuous decline in GDP growth rates which began in 2016. And that decline continues even now. The Modi government has failed to structure economic policy coherently and which has prevailed during the period 2014-2023.

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The growth rate of GDP has been consistently in decline since 2016. There are also the brazen announcements of rosy predictions being published annually in the media, with outrageous claims made by the Prime Minister such as $5 trillion GDP by 2024 (announced in 2019), implying an annual doubling of GDP in five years, or, in other words, a 15% annual growth rate of GDP. No policy structuring has been presented.

By "structuring", this writer means a clear implementation of what the economic objectives will be, and priorities that should be assigned to the various objectives. Thereafter, there ought to be a strategy on what should be incentivised and what should be deleted or discontinued. For example, in today's dark economic condition, it is essential that personal income tax is abolished and Goods and Services Tax scrapped to incentivise investors and earners.

Resources by the government should be mobilised through indirect taxes and also by liberal printing of currency notes and which is circulated by paying wages to the employment generated in extensive public works. The annual interest paid on fixed-term savings in bank accounts should be 9% or so to increase purchasing power of the middle classes. Interest rates on loans to small and medium industries should be no more than 6% of the loans to increase production of these sectors, and thus employment.

This writer is prepared to have a public debate with any government official and prove that "Modinomics" is an unstructured and gigantic flop. No macroeconomic goal that has been announced has been reached to date.

India needs a new economic policy urgently. It needs to be a policy that is based on clear objectives, priorities, have a strategy to achieve targets, and spell out an intelligent and transparent resource mobilisation plan to finance policies. As far as the Finance Ministry is concerned, we have only incoherent public announcements — a hotchpotch — with no accountability.

The market system is not a free-for-all or an ad hoc measure. It has a structure with rules for transactions. Market system capitalism works as the principal drivers are incentive and capital (whose use for innovation raises factory productivity and the growth rate of GDP). Even a totalitarian state such as China understood this. During the tenure of Deng Xiaoping as the supremo, it allowed the socialist economic system to die and an economic market-based system came in.

Deregulations should also not mean that we reject government intervention for safety nets, affirmative action, market failure and creating a level-playing field. Democratic institutions have to be empowered to guard against public disorder arising from rapid de-regulation — as it happened in Russia post-1991. Russia experienced chaos and misery. This dictatorship has returned for the Russians, and with it a complete loss of human rights and democratic values.

The trade-off between the public sector and de-regulation and the sale of loss-making units, increasing employment, through affirmative action, and easy access to social security and a safety net are essential to create a stake for the poor in the system. This creates a level-playing field in a competitive system, ensures transparency, accountability, and trusteeship (philanthropy), as well as corporate governance to legitimise profit-making smoothly which drives the market system. Such steps reduce monopolistic tendencies and help in the formation of a democratic and harmonious society.

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