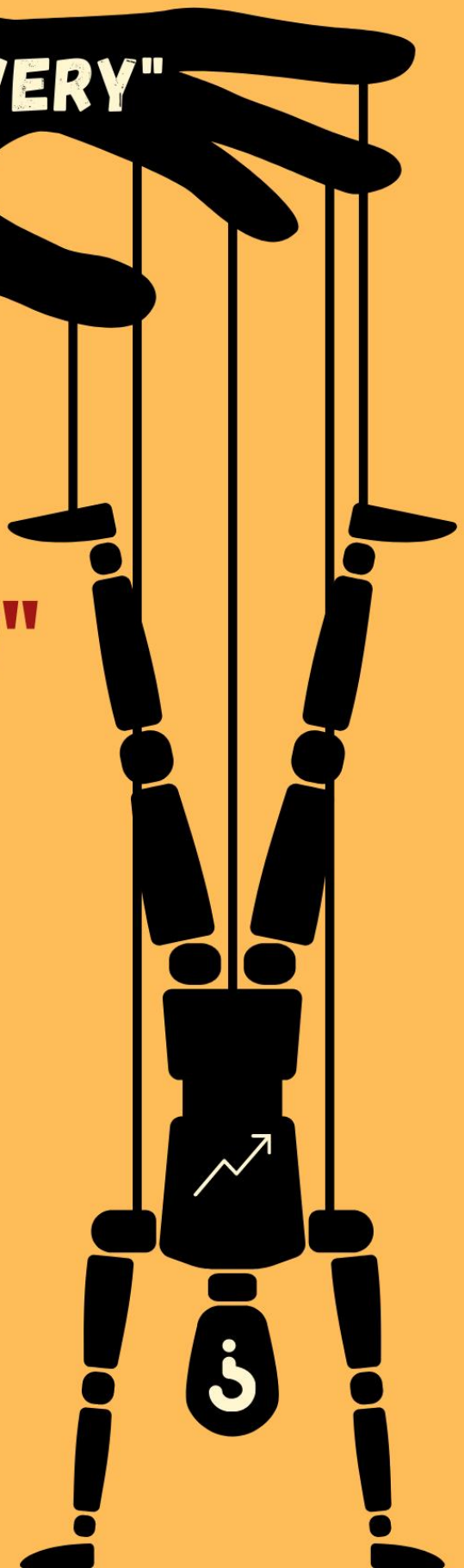
CFA Centre for Financial Accountability | NEWSCLICK

Economy pe Charcha

INTERROGATING "RECOVERY"

Questioning claims of post-COVID recovery



Webinar report | Session 1

The numbers behind the "record recovery"

What are they showing & what do they hide?

Dipa Sinha (Prof. AUD)

Surajit Das (Prof., JNU)

Satyaki Roy (Prof, ISID)

Moderated by
Paranjoy Guha Thakurta

Interrogating "recovery"

A webinar series questioning claims of post-COVID economic recovery

Over the last few months the media has been abuzz with claims of “rapid recovery” and “record growth” for the Indian economy. There have also been claims that the pandemic induced crisis is behind us and we are well on our way to pull off the world's fastest growth this year. How much of such claims actually hold when confronted with the reality? How much of it is just a number-game? What has "recovery" actually meant for the people? And what should a meaningful recovery look like?

Hosted by **Centre for Financial Accountability**
& **NewsClick**

Moderated by
Paranjoy Guha Thakurta

Webinar report of first session

The numbers behind the "record recovery"

What are they showing & what do they hide?

You can watch it here: https://www.youtube.com/watch?v=uNM1L9ppJpc

Remaining sessions:

3rd December
Evaluating the Govt's steps towards recovery

6th December
What has "recovery" actually meant for the people?

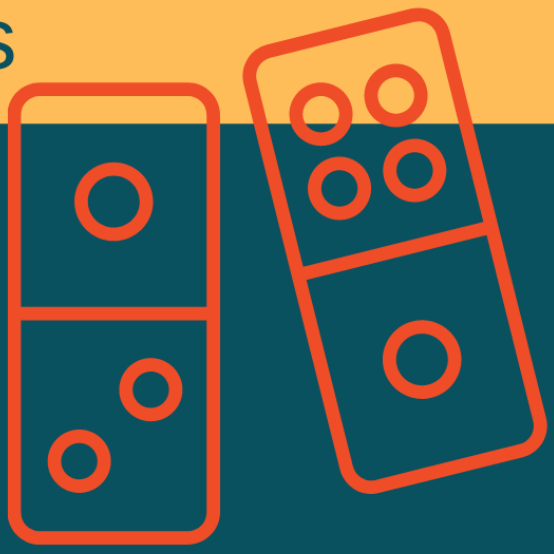
10th December
What should have a people-centric recovery meant?

CFA
Centre for Financial Accountability

NEWSCLICK

The number game

Confronting the claims



Quick review of the Government's claims

- *The Indian GDP growth rate has rebounded in the first quarter of current financial year with a record growth of 20.1%. For the entire financial year, the growth rate estimates by various agencies like World Bank, IMF and others is ranging between 9-10%. This will be almost double the global GDP growth, double that of USA growth and between 1.5-2 percentage points more than that of China.*
- *"Real GDP in the current fiscal year is expected to grow by 8.3%, which is consistent with the last forecast from June 2021, and a 1.8 percentage point downward revision from the forecast in March 2021," said the World Bank's Fall 2021 economic update for South Asia. Growth is forecast to moderate to 7.5% next year.*
- *The RBI estimates GDP growth to be 9.5% in the current fiscal year while government officials say it could be closer to 10% given the sharp recovery that is underway.*
- *Finance Minstry's report claims that armed with necessary macro and micro growth drivers, India is on its way to becoming the fastest growing major economy in the world.*
- *"COVID-19 affected the economies of the entire world, including that of India. But our economy has recovered more strongly than it was halted by the pandemic," said Mr. Modi .*
- *"When big economies of the world were busy defending themselves during the pandemic, we were carrying out reforms. When the global supply chains were disrupted, we introduced the PLI [production-linked incentive] scheme to turn new opportunities in favour of India," Mr. Modi said.*

Reality

Infantile Jubilance: The numbers they don't show

The claim that there has been a record recovery may seem correct on paper. Comparing the figures for growth in quarter ending in June 2021 - 22 with June 2020-21 there is a 20.1% recovery rate, which is the highest growth in India, since the quarterly estimates were issued in 1996. But what is missing in this celebration is the crucial fact that growth in the quarter ending in June 20-21 compared with June 2019-20 saw a contraction of roughly 24.4%. The growth is not commensurate to overcome the contraction that took place.

It is normal for the economy to contract suddenly during an abnormal situation like a pandemic and lockdown etc. and recover once the economy goes back to normal with the businesses, manufacturing and other sectors starting to function normally. Hence the rebound is normal, but what we need to see is whether the growth has returned to pre pandemic figures.

The government is claiming that there is V shaped recovery. But the economic survey suggests that if we have 10% growth rate in 2021 and 6 to 7% growth rate in 2021-22 and 2023-24 even then the GDP achieved by the end of 2023-24 will be 90% short of what we could have achieved if the trend of growth rate did not fall.

Now, if we compare the growth in the quarter of June 2021-22 with the quarter ending in June 2019-20 (pre-pandemic) what do we get? We see that the private final consumption level is 11.9% lower; the Gross fix capital formation is 17.1% lower; Manufacturing the gross value added is 4.2% lower. Only positive as compared to pre-pandemic level is in exports, i.e. 8.7%. And only positive recovery than pre-pandemic figures is in utilities, i.e. in electricity, gas, water.

Let's look at agriculture. According to PLFS data there is a reversal of employment from non agriculture to agriculture. Employment in agriculture has increased. This increase is due to the increase of farm labourers and not the farmers. People who were earlier working in construction and other non farm based work have gone back to the village to take up farmed based work.

In the manufacturing sector, in the year 2019, a total of 40 million people were employed. This came down to almost half (21 million) in 2020 due to the pandemic. It picked up to 30 Million in Feb 2021 but the latest figures show that this has fallen down to 28 Million in August 2021. Employers are looking for less labour intensive options. The way the numbers are talking now, there is no surety that they will go to pre pandemic levels.

So, while it is normal that when things ease out there will be a rebound in the growth rate. But, taking the above into consideration, to say this is a "record growth" is nothing but an *infantile jubilance*.

Now let's talk about the numbers that they don't talk about. Let us not forget that while most sectors are struggling and while the common masses have suffered irreparably, there has been a 35 % increase in the wealth of billionaires during the pandemic. Figures of the listed companies and Non Financial sector show that the growth of reserves and surplus grew by 15% which is a record level in the past decade. Their debt to credit ratio has decreased, because they have enough surplus. This is the time when Mukesh Ambani became the 4th richest person earning 90 Crore rupees per hour. At a time when most of the population was earning less than 3000 per month.

Deeper look at Growth rate and GDP

It is important to first recognize that most economists don't take quarterly numbers seriously. But then the actual numbers arrive only in about two years. So though in today's context, it is the 2018-19 numbers that are more reliable, but nobody will take interest in it today as we stand in the closing months of 2021. Quarterly numbers have their own limitations. Even GDP numbers per se may or may not reflect the reality. But then, these are the best available numbers that we have.

CSO says that the growth rate will be 19%. How do we understand this? Now, if say GDP happens to be 100 crores, and if it falls by 25%, it becomes 75 crore. But to reach to 100 crores again, it needs (not 25%, but) 33% growth. So even with plus 25% growth, we still do not reach pre-pandemic levels. So claims that recovery was higher than the negative impact is not valid.

GDP was decelerating from pre pandemic times reaching as low as about 4%. To go back to at least the 5-6%, recovery would need to mean sea change. We need to realise that growth rate and GDP figures are two different things. So, if by recovery we mean a 5-6% growth rate, then that is a far cry given the current economic policy drive. For that to have been a possibility, one would have needed a fundamental and structural rethinking.

Whose recovery? What are missing in the official data?

There is either a gross misrepresentation or a sheer absence of data when it comes to substantiating the government's claims. What can be safely said is that we haven't reached where we were 2 years back. The heightened growth that is being talked about is a result of a lower base effect.

It is important to ask whose recovery and whose growth are we talking about here? Economic growth is not directly connected with people's income. We know despite the growth, inequality has been rising since last many years. For so many people either income is not increasing at the same rate or it is not increasing at all. Even before the pandemic, in last 3-4 years after demonetization, GST and so on, we know real wage in rural areas stagnated. After pandemic it has only gotten worse as wages have decreased.

Even when we look at the unemployment, once again it's very uneven in terms of type of jobs, unorganised sector workers lost their jobs first who had no savings. For daily wage workers, there has not been a survey especially after the 2nd wave. But after the first wave, field surveys showed that ⅔ rd of the respondents said after pandemic food intake quantity has decreased in their families. People either stopped eating or reduced quantity of pulses, oil, eggs, vegetables, fruits, etc.

A section of people, who could somehow survive the first wave, after the second wave they lost their income drastically. Not just due to lockdown but increased health expenditure also played a role in that. The number of work days has decreased. This does not get counted in the PLFS data.

After the second wave we are seeing mounting inflation. Consumer Price Index or food inflation might not have increased that much, but prices for individual commodities have risen, fuel prices being the primary driver. This impacts entire household budget in so many ways. Gig workers are facing real problems with their decreased rate cards and increased fuel prices that gets lost out in the data. The decreased food intake is also because edible food oil and other basic food items have become expensive. When we talk about GDP growth, we should also look into how it is impacting the people.

If we just look at the E-Shram portal registrations, till 2 months back, 92% of those registered were earning less than ten thousand per month. These figures are overlooked while projecting only a few numbers selectively to show "recovery".

Is the export figures a sign of healthy recovery?

It is claimed that through integration to global production network we can increase employment and growth. But this has not happened either in India or any other country. For low income centuries like India, even World Bank studies show mostly they grow based on industries. Relying more on exports and global integration does not help beyond a point. After the lockdown there is a deglobalisation which has become a trend. The higher reliance on exports is thereby not exciting. The sectors where the foreign integration has been made is in chemicals, motor vehicles, transport etc. and not garment and other labour intensive sectors. Only those segments where the possibility of labour substitution by capital is higher has seen investments.

A Spendthrift govt.

Have we turned less spending into a virtue even during the worst humanitrian crisis?

Quick review of the Government's claims

Faced with the mounting criticism that the government is not spending enough, we saw the FM coming out with multiple schemes. It all added up to 10% of the GDP. But when we broke down those numbers what we found is that 90% were merely repackaging of older schemes. Instead of 20 lakh crore as was claimed, it was only a mere 2 lakh crore. The government, in fact, has turned not spending into a virtue in its claims.

- *Earlier this month while addressing a press conference, BJP spokesman on economic affairs Gopal Krishna Agarwal said the biggest risk to global and Indian economy was premature hardening of interest rates on account of inflationary pressure. He argued that India's handling of economy was much better than other countries, which resorted to printing money and distributing cash doles.*
- *"We did not resort to uncontrolled fiscal deficit financing. Our government followed prudent economic policy in spite of intense pressure. Modi government followed calibrated approach in its economic response with staggered fiscal stimulus, and focused and targeted delivery through DBT." He added*
- *Ruchir Sharma, chief global strategist of Morgan Stanley, recently published a report which analysed countries that were heavy spenders during the peak of the pandemic and compared them with light spenders.*
- *The unambiguous conclusion — countries which were reckless in spending have fared very poorly in economic recovery as compared to countries that spent wisely and spread their efforts in managing the pandemic.*
- *Despite pressure from many celebrity economists, in India and abroad, the Indian government led by Prime Minister Narendra Modi, held firm, did not randomly spend or distribute cash, but rather spread its efforts in reaching the poorest through targeted cash and food, in developing vaccines, ramping up health infrastructure and finally in vaccinating the population.*

Reality

An overview of government spending

The government said they have spent 10% of GDP in COVID response, but IMF data shows it was only 3.5% of GDP which is below average globally. Spending has been less and also not where the government was supposed to spend.

Spending has been there in the PM Garib Kalyan Yojna, but that is just 1% more in the GDP. Food grain distribution of 5kg in ration was the only expenditure, more than 80 million tones grains in FCI warehouses would have otherwise rotted in the storage. Government should actually provide food grains even to those who don't have ration cards. But that apart, in all other essential areas, the real expenditure in fact has decreased be it in education, water, sanitation or in health. This is spending that could have helped in recovery by pushing demand.

Just to take an example they claimed a 139% increase in the budgetary allocation for health post COVID. But if we look into it, a major part of it was allotted for Mission Jal Shakti, a scheme for giving piped water to households. Including water supply and sanitation our total health expenditure is 1.3% of GDP and excluding water and sanitation it is less than 1% which is a shame. There would be hardly ten countries in the world where government expenditure on health in proportion to GDP is lower than this. As a result our out of pocket expenditure on health is one of the highest in the world. Higher spending would have acted as social wage, thereby helping the economy recover faster by securing the earnings of the people. It also ought to be mentioned that even out of the allotted amount for health, till September, i.e., by mid year, only 25% has been spent! For education, only 1/3rd of allotted budget has been spent!

Much has been claimed that instead of "helicopter spending" the government gave prudent and targeted Direct Benefit Transfers (DBTs). If we analyse just the DBTs, we must clarify that no money has given after the second wave. Whatever was given was last year during lockdown. Even the incentives to ASHA workers and nurses that were given last year were discontinued. So the only COVID relief DBT we are talking about is 500 rupees for three months to women with Jan Dhan accounts, and 1000 rupees extra to old age pensioners, disabled and single women.

Worrying trends in employment & income levels: A case for more infusing more purchasing power

In a telephonic survey carried out across 15 states some revealing figures came to fire that kind of repudiates such claims that we have either spent enough or that we have done well not to. The survey covered 3150 households during the lockdown that amounted to 14,500 people. Now 46% of the households lost their entire income during the lockdown. 50% were indebted. And most were living with extreme uncertainty about the future. It is actually the PDS and the MGNREGA that saved us at least from a near famine. Situation was of utter despair and while the government gave liberal tax cuts to the corporates, it considered spending “liberally” to be a bane.

At macro level if we take PLFS data and apply the negative growth rate for the major sectors, then in 2021 the unemployment rate would 12-13%. The Informal unorganized sector the situation is such that even if one opens their shops, they don’t earn, there are hardly any buyers. A major trend as evident in PLFS data thereby is employment with zero income. This category of unemployment has increased enormously.

The PLFS data shows a trend that during the stagnation of the pandemic there was a rise in labour force participation rate and also the workforce participation rate. How do we explain this? Which are components that made this grow - One, female labour participation rate went up. Two, older people above age of 60 are joining the labour force to survive.

Also while self employment has increased in proportion to total employment, we need to see what kind of self employment has increased. Whether it is owner or the worker/helper in the household enterprises. It is the latter helper category (who are largely unpaid and are largely women) that has increased. The CMI makes a category of business owners, a category of professional small employment and third a category of non professionals which include beauticians, security guards and so on. The third category has increased drastically from 62 % in 2016 to 77% 2020 and to 80% of total self employed workers in 2021. The reversal of non-agricultural to agricultural labour and the increase of unpaid labour are really worrying trends.

We don't have reliable data on consumption expenditure after 2011-12, but if we calculate on that basis, then for 80% of our urban household their consumption expenditure is less than 23000 rupees per month and for 80% of rural household their consumption expenditure is less than 12500 rupees. Given that 80% of population earn something around 30% of GDP a reduction of 7-8% in the GDP it is a matter of grave concern. This misery will not be matched by the growth numbers given that the income of the remaining 20% may not get affected as much.

We are still in a K shaped trajectory as we were even before the pandemic. The gap between the forks of the K has in fact increased. We need to reduce this gap by reducing inequality for which we need to make the people have more purchasing power.

Finding supply side solutions for demand side problems

In response to the crisis of this nature and magnitude, what was announced with much fanfare in the name of *atmanirbhar bharat* was bound to fall short. Out of the 20 lakh crore package, hardly 1% was financial commitments. The rest were liquidity measures by RBI for loans as they relied on a credit based recovery model. 75% of the package in fact was in fact loan based. Most of the policies were targeted towards loans and indirect credit provisions. During a situation when 46% of the households are actually borrowing to survice and you have a drastic cut in real income, the credit appetite of the small and micro enterprises is very low.

If one looks at the credit-deposit ration, it was continuously falling since the time the lockdown was announced. And even after the atmanrbhar package was rolled out with credits being offered to MSME etc, the credit-deposit ratio *did not* pick up. As consumption demand plummeted, the market was down and hence so were investments. Several prominent economists actually argued that a fiscal policy was the only way out. They said that the government must increase social spending as it would have larger multiplier effect thereby boosting demand which has been the need of the hour.

It must be stated unequivocally that given a choice between demand pull inflation and cost push inflation, it is the former that is favourable. The latter is the one we see today, that is driven largely by food and fuel prices is harmful in the long run for the economy and for the well being of the poor. So one needs to strongly disagree to the point of fiscal deficit concerns that are cited to avoid demand side solutions.

The government's justification behind such policies is that if they give loans and tax cuts to corporates, they will be inclined to invest more. This is coming from an understanding that private capital is interested in investment. But they only need profit. At a time when the market is on a downslide, they are not interested in increasing capacities or go for fresh investments. So, what needs to be done by the state, they are expecting that from the corporates. From infrastructure, to health, to agriculture, there is a need for direct injection of capital by the state, one that is not forthcoming.

Women are at the receiving end of this reluctance on the part of the government to spend?

Employment data shows that unemployment has decreased especially for women. India has been facing this problem since long time, that women's participation in labour force has been decreasing. Data after the COVID shows that more women have joined the labour force. But we need to see, where they have joined. It's mostly the unpaid domestic work that women do at homes. It's the result of distress driven employment which has resulted in the rise in women's participation in the labour force.

In country like ours, we don't get real unemployment rate because people can't survive without work but they are jobs with meagre income/wage without any employment benefits and all. People had stopped keeping domestic workers during COVID times. But since then, given the distress, more women have come out of their homes and joined the workforce due to the decreased household income. The other sector where women have been working, is healthcare where 50% employees are nurses, technicians and others. Women working as nurses, asha workers, anganwadi workers were working under high risk during the COVID and their wages are very low. So what we are seeing is, that a particular kind of unemployment is increasing where people are working with no income, or in sectors with low wages, or are getting work but for less number of days. And this situation gets intensified for women workers.

When people do not any have purchasing power and even when credit availability is there, businesses will invest only if they feel there is demand. Small businesses are not ready to take credit since they know people have come back from their villages and are still looking for jobs. That's why the impact of cheap credits to MSMEs and Rs 10,000 loans to street vendors is very limited. Hence to increase demand, government needs to spend which will result in economic growth with increased income for the government itself. Instead of spending on people our government is doing opposite. A cut in the corporate taxes will decrease its own income. For instance if government increases the wage of 10 lakhs asha workers from Rs 2000 to Rs 6000 per month, then they will spend on food, clothes, children's education and other household needs which will increase the demand from below.

When will we ever learn?

We are trying to find neoliberal solutions to a problem of its own making

Fiscal deficit cannot be an excuse to spend less

Economic policies that we are seeing today, are not new. The pandemic that exposed the structural faultlines of neoliberalism, actually was an opportunity for us to rethink, but it was squandered be it around climate change, inequality, access to resources and so on. We still looking for neoliberal fixes for a problem of its own creation.

In India the total government expenditure is about 26% of GDP. Of this about 56% is spent by the state governments and local bodies. So central government spends less than 50% of public expenditure. Even as expenditure has in fact come down in proportion to GDP, the fiscal deficit is 9.5% for central government alone. From the state govt also the fiscal deficit will be more than 4%. Combining the two the fiscal deficit will be more than 14%. That is the reason why the government is showing such desperation to sell public sector assets. They have no clue how to do tackle tis fiscal deficit.

There are two ways in which a government can choose to tackle the situation. One is the neoliberal fix, i.e., you spend less, follow an austerity drive, and the recovery is slower. The other option is you consciously incur larger fiscal deficit today, give a boost to demand and thereby to the economy, let the recovery be faster and ensure that the future revenue will be stronger. While prominent demand side economists have advocated for the latter, the government has chosen to continue on the neoliberal prescriptions, i.e., the same prescriptions that has landed us in the crisis in the first place.

As far as managing the fiscal deficit for the time being is concerned, the foreign exchange reserve amounting to 24% of GDP has already been monetised and is sitting idle in the RBI with an average rate return of less than 2%. Government can always use part of this money at 2% interest rate and thereby spend liberally.

Some alternative prescriptions

- **According to our constitutional arrangement since the larger responsibility of spending is on state governments, they should be given more money. But what we see is to the contrary as even the state's share of the GST is not being released putting state finances in a precarious situation. The way towards faster and holistic recovery is to allow more spending powers on the states.**

- **The only way to inject demand is through expansionary fiscal policy aimed at reaching fuller employment. The fact that the presence of the government has become extremely low compared to even western countries is worrying. The planning must incorporate not only the government expenditure but also how to divert private investment in such a way that the existing labour force gets absorbed. While planning itself is being shunned, what we need today is planning that creates more jobs and profitable opportunities not just for big business but also for small business.**

- **MGNREGA needs to expand to urban areas as urban unemployment has increased at a higher rate. And wage rates should be enhanced to minimum wage level. 350 and 450 rupees per day.**

- **We know that social sector gaps are huge and if we have to increase expenditure then the government must invest more. We need to increase tax GDP ratio. And given that inequality is disturbingly on the rise, it is extremely important to have wealth tax, and property and inheritance tax for super rich for those earning more than 100 crore rupees.**

Join us for the Second Session of **Interrogating "recovery"**

A webinar series questioning claims of post-COVID economic recovery

Over the last few months the media has been abuzz with claims of "rapid recovery" and "record growth" for the Indian economy. While in the first session of the series we interrogated several of these numbers and claims, in this second session we will evaluate each of the government's supposed steps towards propelling this "recovery". From "atmanirbhar bharat" to the proposed infrastructure drive; from the relief packages to the monetisation of assets - we will try to confront the claims with reality and reason.

Session 2

3rd December | 3 pm - 5 pm

Evaluating the Government's steps towards recovery

Panelists:

V Sridhar (Senior Journalist)

Chirashree Dasgupta (Prof. JNU)

Surajit Mazumdar (Prof. JNU)

LIVE on **NewsClick Youtube**: https://youtu.be/CjNUFxXIY7c

and **CFA Facebook**: https://www.facebook.com/centerforfinancialaccountability