

# How can the Indian economy ride out the storm?

PARLEY

Unless rural incomes, hit by demonetisation, are revived, consumer demand is not going to grow

*To pull India out of the current economic slowdown, the government can loosen its purse strings, make pending payments, give GST refunds quickly, and revamp MGNREGA to put more money in the hands of rural consumers, Ajit Ranade and Pronab Sen tell TCA Sharad Raghavan. They add that we can expect to see the slowdown lasting for a few more quarters. Edited excerpts from a conversation:*

**Dr. Sen, do you think we are in a slowdown? And if we are, is it more structural, in that we need to make drastic changes, or is it more cyclical, where if we just make smaller changes we can ride out the storm?**

**Pronab Sen:** We are in a slowdown. There is no question about it. And I think we have only seen the first phase of the slowdown. It has been five quarters now and I think it will go on for at least a couple of quarters more, maybe longer than that. To my mind, the problem is essentially structural, but structural does not necessarily mean that you have to do deep reforms to get over it. What you have to do is identify the cause of the structural slowdown and address it directly. Indirect instruments don't work in the case of structural constraints.

**Dr. Ranade, of the main drivers of the economy – government expenditure, private consumption, investment, and exports – which of them do you feel need a revival most urgently?**

**Ajit Ranade:** I agree with Pronab that we are in a slowdown and I believe this is a problem of lack of aggregate demand. This is a slowdown not because we are not able to produce enough or that we have run out of capacity to produce; it is because there is not enough demand. You identified the four sources of demand. Of course the most sustainable and long-term solution to come out of the slowdown is when investment demand picks up, especially from private investment spending. But that is not something that can happen in a jiffy because it

requires the investor's confidence, it requires investors to take risks.

So, in the near term, because exports depend on the enthusiasm of foreigners buying Indian goods, maybe some supply-side measures like trade facilitation, removing bottlenecks, reducing the GST refund period delay, or even managing the exchange rate [may work], but fundamentally if the global slowdown is a reality, then export demand cannot pick up quickly. Although, I do believe that India's share of manufacturing exports in the world is barely 2% or something, so we can easily go from 2% to 3%. In the near term I think the aggregate demand gap has to be filled in by some kind of government spending, although we can have a separate discussion on the fiscal situation. But I believe that's what is required.

**Dr. Sen, Dr. Ranade has identified the most important driver that needs to be revived, but if we are looking for low-hanging fruit, if the government were to do something quickly that would have the biggest impact, what do you think that could be?**

**PS:** I think Ajit and I agree. The problem is really private consumption demand. Remember that the government has limited instruments in its hands. It cannot stimulate private consumption directly, except in certain ways. But the focus needs to be primarily on that. The things that Ajit talked about in terms of exports would have to be in terms of trade facilitation and issues of that kind, and a sensible exchange rate policy, which we don't have at the moment. The focus really would have to be on how to do you revive consumption demand. To my mind, the first step is really to go back to something we briefly touched on, which is the fiscal deficit.

If you were to ask me what I would recommend, I would say the first thing I would recommend is please recognise that the true fiscal deficit is significantly above the reported fiscal deficit. Because the outcome of trying to suppress your fiscal deficit artificially is that the government is not paying its dues. It is



B. JOTHI RAMALINGAM

not giving refunds; export credit refund is a large issue. But this is true of GST refunds across the board. The second is that the government is not paying off its suppliers. The third is that a lot of government spending that has already been budgeted for and announced has not been made. PM KISAN is still languishing. These are things which have been budgeted for but that money has not been spent or has not been shown to be spent, simply because the government is not releasing the requisite funds. Just recognise the fiscal deficit for what it is and put the money out, then we can go back to the serious issue of correcting the fiscal deficit over the next few years.

**Dr. Ranade, the government has recently announced certain steps to release some of these locked up funds. It is saying that within a time-bound period, we will pay our suppliers, and GST input tax refunds will be credited in a short window. Does this mean that the government will then have to cut down on other spending or can it keep the fiscal deficit target and say that we'll do both – we'll increase our spending and we'll give all of these pending payments?**

**AR:** I am going to ask for forgiveness from god, and Pronab, and all my colleagues. I am going to stick my neck out and say that this is a time when we need to actually worry less about the fiscal deficit target. After all, 3% or 3.3%, there is no golden rule. I want to emphasise what Pro-

**From a demand-based system MGNREGA has now become a supply-based system. Unless you redesign MGNREGA to its original form, indexing the wages alone is not going to do a whole lot.**

nab said: even the routine stuff, the clearing payments which are not in dispute, where the vendors have supplied their services or goods, that itself is a very huge number if you count State and Central governments. I think it is very large, about ₹10 lakh crore. Just releasing this payment or making very quick refunds for exporters, especially SMEs, who have to pay 28% GST and then claim a refund would help a lot. So, that is the easier thing to do, and I would recommend that we don't get hung up on the deficit, even though the CAG said that the 3.3% reported is not the right number. The actual deficit at the Central government level may be as high as 5.5% and when you factor in the State governments, the combined deficit could be 8-8.5%.

But remember that the nominal GDP growth rate has dropped to 8% and we are in a very unusual and unprecedented situation of low inflation and low GDP growth in nominal terms, so this is the time when we have to take the risk of cyclical fiscal expansion. One thing I would like to mention, which Pronab also mentioned, is that purchasing power, especially in rural areas, is of prime importance. So, the driver of growth we need to look at is government spending, but also consumption in rural areas which is going to

be helped by things like MGNREGA and wage growth because that will also require fiscal expansion.

**Dr. Sen, there were reports on how the government is considering pegging MGNREGA payments to an updated CPI inflation. Do you feel this will have a big impact in terms of putting more money in the hands of rural workers?**

**PS:** MGNREGA wages in any case were inflation indexed. What the government has announced is that it will be linked to the CPI for agricultural labour or the rural CPI, whichever shows more inflation. That's all they have done. It's been indexed all along, nothing new in that.

Whether this is going to have an effect will depend entirely on how well MGNREGA is being implemented. The fact of the matter is that over the past five years or so, the confidence of State governments that the Central government will pay up the MGNREGA funds has eroded significantly. And the net result is a lot of State governments simply haven't been putting the same level of commitment in MGNREGA as they used to. Over the years MGNREGA has become a supply-based system from a demand-based system. The State government says, I have got a public work, now you guys want to work on it, you can come and work on it. Earlier, it used to be a system where people went and demanded work and the State government was bound to give it to them and the Central government was bound to refund the labour cost of that particular project. So, unless you redesign MGNREGA to its original form, just indexing the wages is not going to do a whole lot.

**Now that we have identified private consumption as one major driver that needs to be revived, what are the ways, Dr. Ranade, that we can put more money in people's hands? Are income tax rate cuts viable and will they be effective?**

**AR:** Let's not forget that a big driver of growth is consumption, which includes rural consumption. And so, I want to reiterate what Pronab said about MGNREGA. Make it truly demand-driven, make the wage indexation meaningful and involve social

audits which were successful in some States like Andhra and Rajasthan. Involve social audits to ensure effectiveness, and also focus on the dual objective of asset creation wherever possible. But primarily it should be about putting some income in the hands of rural consumers.

I am going to propose a radical suggestion. Since we also agreed that some of the reasons for the slowdown are structural, I believe one of the big structural features of the Indian economy right now is the massive drop in female labour force participation. In the last 10 or 12 years, it has come down by 10 percentage points, from 30-32% to 22%, which means that only one out of five working age women are actually working for a paid job. So, here's my radical suggestion: Think of a 10-year or 15-year completely tax-free income for women. That is zero income tax for all women. That's a suggestion to also increase consumption but it would be mainly to encourage paid jobs for women.

**Dr. Sen, is it accurate to say that this slowdown that we are seeing is the delayed effect of demonetisation and that has completely removed the parallel economy?**

**PS:** Yes, unquestionably so. The unorganised sector has been hit now for a long time and unless rural incomes are revived, and that is where 70% of our population is, consumer demand is not going to grow. So, what we are talking about is the same, that the principal cause of distress in rural areas was demonetisation. If you want to fix that structural break, you need to bring back rural income to some semblance of normalcy.

**Dr. Ranade, do you agree?**

**AR:** Yeah, 90% of India's labour force is in the informal sector. We have to recognise that this is the normality of the Indian economy and, therefore, whatever disrupts that, we are disrupting the mainstream. And that I believe is the lingering effect of demonetisation. I believe the rural wages, which used to grow at perhaps 10-15% a year, have grown at barely 1% in the last few years. And this has certainly affected rural purchasing power.



**Ajit Ranade**  
is Chief Economist at the Aditya Birla Group



**Pronab Sen**  
is former Chief Statistician of India



Scan the QR code to listen to the full interview online

## A climate emergency

The Indian government must take corrective measures immediately to combat climate change

ANBUMANI RAMADOSS

A few generations from now, our descendants may not see the animals and plants we now regard as commonplace. Nearly 500 species have become extinct in just the last century. We are depleting 25% more natural resources than the planet can sustain right now. Mankind is teetering dangerously close to the precipice of extinction.

**Climate change is real**

Al Gore's 2006 film, *An Inconvenient Truth*, awakened the world to the dire causes and consequences of global warming. It made an impact on millions and initiated global debates on climate change. However, many of us were sceptical of the warnings. Some of us did not believe that our planet would ever run out of resources. We thought that discussions would take place among scientists and environmentalists, but that the impact of climate change would never really be felt by us. And that if it were to be felt, it would take a long time, perhaps a couple of centuries.

In just 13 years, Al Gore's predictions have become real and haunting. Now the effects of climate change are at our doorsteps. Cyclones such as Thane, Vardah, Ockhi and Gaja have affected Tamil Nadu in recent times; Chennai saw terrible floods in 2015. Floods wreaked havoc in Assam, Himachal Pradesh and Bihar this year, and Mumbai received record monsoon rains. Kerala witnessed floods for the second consecutive year. Cyclone Fani devastated Odisha, Cyclone Vayu ravaged Gujarat this year. All these are because of climate change. Meanwhile, Europe saw the highest temperatures ever in recorded history. This July, Paris recorded its highest temperature of 42.6°C.

Humanity is paying the price for the indiscriminate use of fossil fuels. The increase in global temperatures started with the industrial revolution. Experts say that if our current lifestyle continues, the global temperature will increase further in the next 30-40 years and that will have catastrophic consequences.

Industries, vehicles, burning of fossil fuels, thermal power plants and large-scale rearing of cattle are emitting

heat-trapping greenhouse gases like carbon dioxide, methane and nitrous oxide. The increase in these gases is trapping the sun's heat and increasing the earth's temperature.

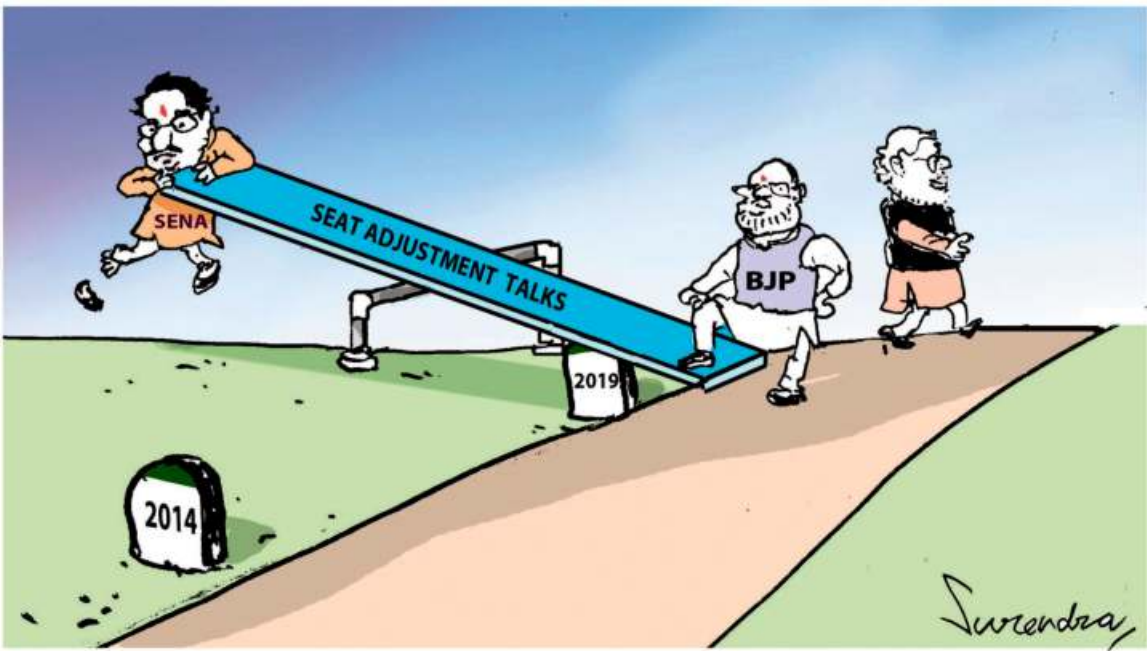
Global warming will drastically affect agriculture – the production of rice, wheat, maize and soya will decrease significantly. Apart from malnutrition, climate change will give birth to newer infections and illness. This imbalance will in turn affect the economy which will lead to conflict, war and global unrest. Global warming is already melting the polar ice caps. If this continues, sea levels will rise and submerge coastal cities. These natural disasters will make millions of people climate refugees.

The Intergovernmental Panel on Climate Change report states that averting a climate crisis will require reinvention of the global economy. By 2040, there could be global food shortages, inundation of coastal cities and a huge refugee crisis, it says.

**Steps to be taken**

UN and climate experts have called for the declaration of a global climate emergency. Countries like the U.K., Canada, France and Ireland have already declared climate emergencies. So have local bodies and NGOs worldwide. Unfortunately India and U.S. are still slow to act. Which countries are responsible for historical emissions is now past the stage of debate. Global warming will affect every individual in every country. It is the duty of every human and government to take steps to stop the climate crisis. The Indian government should declare a climate emergency immediately. Immediate policy changes should include reducing the usage of fossil fuels by half by 2030, encouraging the use of public transport, increasing forest area, promoting non-conventional energy, devising good water management policies, implementing the plastic ban stringently, banning the burning of waste, promoting innovative urban planning policies and reducing mass rearing of cattle for human consumption. Let us all join together to save the only planet we have.

Anbumani Ramadoss is a member of the Rajya Sabha from Tamil Nadu



### NOTEBOOK

## No record? Then it never happened

Journalists can never afford to forget the tools of their trade

KRISHNADAS RAJAGOPAL

Every legal reporter worth his salt prizes an opportunity to interact one-on-one with a judge. The occasion offers an insight into the personality of the judge and the inner workings of the judiciary. An hour spent with a judge is a rare event, particularly in the case of the Indian judiciary which considers talking to the media anathema. The code of judicial ethics insists judges keep a distance from the media. They are expected to talk only through their judgments, the January 12 press conference in 2018 by the four senior-most judges of the Supreme Court being an aberration.

Seasoned court reporters wait patiently for months to gain access to a judge. A phone call to the judge's staff for an appointment is often met with the clichéd "judge saahab abhi busy hain (the judge is busy now)" or even "the Lord-

ship is in the washroom". But we nevertheless persist with our efforts to break the ice. Personal equations, and trust in a reporter or a media house, really help.

It is in this context that I managed an interview with Justice S. Rajendra Babu after he retired as Chairperson of the National Human Rights Commission. Dressed in a white silk kurta and veshti, Justice Babu greeted me politely at his official residence and offered me tea. The interview went well. I jotted down his replies to my questions. After a brief farewell, I drove away smacking my lips over the coup. Halfway to the office, I leaned over to the passenger seat, my eyes still on the road, to check for my notebook. To my horror, I realised that I had lost it! Frustrated and angry, I stopped the car and searched everywhere for the notebook. It was missing. I called Justice Babu's office and told his personal staff about my misadventure.

They invited me back to search for it, but the search was in vain. I had to eventually call my editors to inform them that the interview was not happening. I was too ashamed to seek another appointment with Justice Babu.

The ghost of the misadventure returned to haunt me in 2018. Justice Kurian Joseph, a popular Supreme Court judge who was also one of the four participants in the January 12 presser, granted me an interview. I went to his residence with my trusty old Samsung phone which doubled up as my recorder. The interview was detailed; the judge candid. After the interview, I checked my recording only to find that not a word had been recorded. A kind man, Justice Kurian gauged my embarrassment and said, "Why don't you get a good phone for yourself? It seems you need one more than me."

I went back to the office and shared my plight with

my colleagues. My boss advised me to check with the electronics department. They said the file was corrupted. A colleague suggested calling up a friend of his in the forensics lab. The lady there said she could give it a try, but it would take time. I did not have the luxury of time. Finally, I called Justice Kurian and told him that I had bungled. He advised me to redo the interview. I went back the next day, and this time, much to Justice Kurian's surprise, placed an array of recorders on his tea table. It looked more like a press conference than a one-on-one. The interview turned out to be more detailed than the earlier one, probably because the judge had more time to think about his answers.

It takes more than one to do a good interview – you, your recorder and the interviewee. Especially a good recorder! I still wonder where I left that notebook all those years ago.

The  **Hindu.**

**FROM THE ARCHIVES**

**FIFTY YEARS AGO** SEPTEMBER 27, 1969

Preparing for a new role

One bank customer said: "Once upon a time an applicant for bank credit was expected to be humble in his relationship with his banker. Bargaining with him about anything was almost unknown." This popular picture of the banker being a hard-hearted person who always liked to say "no" to anything is vanishing. With all the major banks now in the public sector, the banker to-day is a person racking his brains to find some way to grant every applicant "all the credit that is both safe for the bank and sound for the borrower." In the words of one Bank Custodian, the "penalties for over-conservatism are going to be enormous." While the issue of fresh directives, which are not in conformity with the Banking Companies Act, by the Government has been stayed by the Supreme Court, pending disposal of the writ, individual Custodians who have been briefed on the Government's intentions have shown zeal in different degrees in fulfilling these intentions on their own initiative. At the moment, the Government could formally ask for nothing more than the implementation of last year's social control policy on which every bank has made significant progress.

**A HUNDRED YEARS AGO** SEPT. 27, 1919.

Punjab "Frightfulness."

(From an Editorial)

The moving finger has written and with the inevitability of the pre-ordained the Indemnity Bill has been added to the long list of unwelcome measures forced down the throat of the country. So far as the Government is concerned it may well congratulate itself on having come out of its trials, if not exactly with colours flying, at least with its feathers practically intact. It resolutely set its face against any "whittling down" of the Bill, as Sir W. Vincent called the many genuine suggestions for a via media proposed by non-official members, and had its own way – no difficult task in a Council more than half of which cherishes a collective conscience throbbing in touching harmony with the directions of official mouth-pieces, while all but an intransigent few are too lost in a sense of amazed gratitude that a ma-bap Government should actually deign to explain its actions to be over-critical of the explanations. The hypnotic atmosphere of the Council is perhaps best made evident in the attitude of Sir D Wacha, who surrendered to the official... after the "assurances" of the Law Member.