



THE DETERIORATING STATE OF THE INDIAN ECONOMY

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October 13, 2017

(Views expressed in the brief are those of the author, and do not represent those of ISSI)



On September 27, senior BJP leader and former Finance Minister Yashwant Sinha severely criticized the economic policies of the ruling BJP government in a newspaper article, singling out current Finance Minister Arun Jaitley for blame for the deteriorating state of the Indian economy.¹ Sinha was not the first BJP leader to criticize the policies of his own party. Just some days before, Subramanian Swamy had also expressed concern that India was moving towards a major depression.²

Not surprisingly, the Congress has also focused on the effects of recent policies such as demonetization and the Goods and Services Tax (GST). Recently, for instance, former Finance Minister, P. Chidambaram had also written an equally scathing review of the Indian economy.³ In fact, the Congress has for some time been focusing on the deteriorating Indian economy.⁴ However,

¹ Yashwant Sinha, "I need to speak up now," *Indian Express*, September 17, 2017. <http://indianexpress.com/article/opinion/columns/yashwant-sinha-arun-jaitley-gst-demonetisation-narendra-modi-economy-bjp-i-need-to-speak-up-now-4862716/>

² "Arun Jaitley Hits Back at Yashant Sinha," *Financial Express*, September 29, 2017. <http://www.financialexpress.com/economy/arun-jaitley-economic-slowdown-yashwant-sinha-article-narendra-modi-india-top-stories/874270/>

³ Malu Balachandran, "Its Sinking, No It's Not: India's Top Politicians are Speaking Up About the Economy," *Quartz India*, September 28, 2017. <https://qz.com/1089324/its-sinking-no-its-booming-what-senior-indian-politicians-think-about-indias-economy/>

⁴ "Rahul Gandhi's Visit Raises Gujrat's Poll Fever," *Economic Times*, September 26, 2017. <http://economictimes.indiatimes.com/news/politics-and-nation/in-poll-bound-gujarat-rahul-gandhi-attacks-narendra-modi-over-demonetisation-gst/articleshow/60830225.cms>

Sinha's warnings that "the economy is on a downward spiral, is poised for a hard landing" have further energized the BJP's political opponents, as coming from him the same critique seems more credible since it is not politically motivated.⁵

It is worthwhile to examine Sinha's description of the economy in some detail, in order to understand the commotion it engendered. He writes:

*"Private investment has shrunk as never before in two decades, industrial production has all but collapsed, agriculture is in distress, construction industry, a big employer of the work force, is in the doldrums, the rest of the service sector is also in the slow lane, exports have dwindled, sector after sector of the economy is in distress, demonetisation has proved to be an unmitigated economic disaster, a badly conceived and poorly implemented GST has played havoc with businesses and sunk many of them and countless millions have lost their jobs with hardly any new opportunities coming the way of the new entrants to the labour market. For quarter after quarter, the growth rate of the economy has been declining until it reached the low of 5.7 per cent in the first quarter of the current fiscal, the lowest in three years."*⁶

Subsequently, there has been a war of words between and within the two major political parties, with BJP leaders arguing that the policies are "transformational" and bringing necessary "structural reforms".⁷ Facing Sinha's scathing critique, Arun Jaitley responded by pejoratively calling him a "job applicant at 80", and emphasized that the BJP government has taken much needed bold steps.⁸ Given the scale and immediate impact of recent economic policies – namely, demonetization and GST – the rancor itself is not surprising.

Much of the ongoing debate has occurred in the aftermath of these two reforms. Demonetization had been introduced first in November 2016 without prior warning, rendering 80% of all currency notes in the country worthless, in order to address tax evasion and corruption. After significant social and economic unrest as a result of this policy, a slow return to normalcy was followed by a second "upheaval" on July 1, 2017 when "the replacement of a complex system of cascading federal

⁵ Prabhash Datta, "The big Yashwant Sinha-Arun Jaitley debate: Why the Indian economy is not doing as badly as some have claimed," *India Today*, October 1, 2017. <http://indiatoday.intoday.in/story/yashwant-sinha-arun-jaitley-indian-economy-gdp-growth-rate/1/1059451.html>

⁶ Sinha, "I need to speak up now"

⁷ "Arun Jaitley Hits Back at Yashant Sinha"

⁸ Ibid.

and state taxes with a single Goods and Services Tax” was instituted, the effects of which again were felt disproportionately by poorer sections of society and smaller business.⁹

Another aspect of Sinha’s article that warrants some contextualization is his reminder that, “the methodology for calculation of the GDP was changed by the present government in 2015 as a result of which the growth rate recorded earlier increased statistically by over 200 basis points on an annual basis. So, according to the old method of calculation, the economic growth rate of 5.7 per cent is actually 3.7 per cent or less.”¹⁰ Indeed, in the first phase of using new calculations over eighteen months ago, economists had reason to be skeptical as the growth numbers seemed “completely in conflict with other economic indicators, such as growth in agriculture and allied sectors, poor corporate performance, rising non-performing assets (NPAs) and a shrinking index of industrial production (IIP).”¹¹

As Taufeeq Ajaz explains, this new calculation “uses FY 2011-12 as the base year instead of FY 2004-05... [and] incorporates more comprehensive data on corporate activity, and newer surveys of spending by households and informal businesses” and brings the Indian GDP calculation more in line with global practices.¹² One independent economist described this as “highly sensible” and “a move in the right direction”.¹³ But he too has found the 7 per cent growth rate for the December 2016 quarter to be unbelievably high, though he also reminds us that this is simply due to limitations in calculating GDP growth rates.¹⁴ Nonetheless, he confirms that growth rate numbers have been deceptive, since sectors of the economy are simply not doing as well – exactly what Sinha highlighted on September 27.

⁹ “India’s economy stares at depression amid raging Sinha-Jaitley debate,” *Deccan Chronicle*, September 29, 2017. <http://www.deccanchronicle.com/business/economy/290917/indias-economy-stares-at-depression-mid-raging-sinha-jaitley-debate.html>

¹⁰ Sinha, “I need to speak up now”

¹¹ Taufeeq Ajaz, “The Reality of India’s Rising GDP Numbers,” *The Wire*, February 24, 2016. <https://thewire.in/22519/the-reality-of-indias-rising-gdp-numbers/>

¹² Ibid.

¹³ Tim Worstall, “India’s Change in GDP Calculation Seems Highly Sensible,” *Forbes*, April 18, 2015. <https://www.forbes.com/sites/timworstall/2015/04/18/indias-change-in-gdp-calculation-method-seems-highly-sensible/#5f91d50547e2>

¹⁴ Tim Worstall, “I Don’t Believe India’s 7% GDP Growth Rate – not with Demonetization I don’t,” *Forbes*, March 1, 2017. <https://www.forbes.com/sites/timworstall/2017/03/01/i-dont-believe-indias-7-gdp-growth-rate-not-with-demonetisation-i-dont/#7ca05b3a715f>