The Coronavirus and India's Economic Crisis: Continuity and Change

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Abstract:

The Covid-19 pandemic and the response to it is the third successive shock (after demonetization and Introduction of the Goods and Service Tax) being experienced by an Indian economy within a period of 4 years. Even before this shock, there were clear signs of Indian growth slowing down considerably and indeed there have been signs for nearly the whole decade now ending that India's economy was losing steam. Stagnation in investment (capital formation), foreign trade and investment flows, industrial production and in the construction activities have been steady indicators of this in the real economy which is the reason why so many were sceptical of GDP growth figures emerging from the new GDP series introduced in 2015. Even as credit growth has slowed down considerably, a mounting bad debt problem has been seen in the financial system. These trends were all in marked contrast to those seen in the previous decade, and the sharp deceleration in Indian GDP growth seen even before anyone had heard about the Coronavirus was a sign of this deepening crisis. This paper discusses the Covid-19 impact on India's economy in this background and the nature of the state's response to argue that the future of India's economy is grim unless there is a drastic shift in the thrust of government economic policy.

Introduction

The Government of India imposed a COVID-19 related nationwide lockdown from 25 March 2020, initially for a period of three weeks. This lockdown was then extended three more times with the fourth phase being completed on 31 May 2020. The subsequent phase termed as Unlock 1.0 was marked by a significant withdrawal of the restrictions in force except in some select zones identified as being particularly severely affected. This process of easing actually began with the third phase from 4 May and a big step forward in that direction came when the lockdown was extended for a fourth time by another two weeks after 17 May. The fourth phase also initiated a shift from a highly centralized structure prevailing till then to greater decentralization of decision-making – opening up the scope for greater regional variations in the level and nature of restrictions. It would be hard, however, to find in the series of decisions of the Government of India – to impose a lockdown, extend it and then to ease the applicable restrictions – any kind of a consistent underlying framework of decision-making where both public health considerations and the economic situation are given their due place. This is maintainable even after conceding the fact that the world’s response to the COVID-19 threat has involved some bit of groping in the dark for everyone.

In addition to imparting a communal dimension to the response to the coronavirus crisis, the regime’s dealing with the crisis reflected yet again two features that have tended to mark its style of governance. The first is an exceptional ability to make whimsical and ill-thought-out decisions dictated by cold political calculation and the objective of managing perceptions rather than reality, and indeed, with potentially disastrous consequences on that reality. The second is an unshakeable and highly inflexible commitment to the mutually complementary agendas of privatization and fiscal conservatism that is blind to the prevailing conditions. Even before the impact of the coronavirus had been felt, these twin elements characterizing the government’s behaviour had contributed to consistently aggravating an economic crisis in India. With the added threats of the impact of the COVID-19 pandemic coming into the picture, they almost certainly are pushing India in the direction of an economic catastrophe without any significant gain in averting a public health disaster.

From Lockdown to Getting the Economy Going: What Is Behind It?

When the nationwide lockdown was announced on 24 March 2020, the number of confirmed coronavirus cases in India was still relatively low – around the 500 mark – and large parts of the country had not yet been touched by the virus. The official contention was that India had not entered into the stage of community transmission of the virus and most of the infected people were either those who had carried the infection from abroad or their close contacts. That route of entry of the virus into India had already been almost entirely closed by the cessation of all incoming international flights along with the imposition of restrictions on public gatherings prior to the lockdown. Despite these measures, as extreme a shutdown of the entire country as was possible was suddenly chosen as the way of dealing with the pandemic and implemented without giving people any warning. As measured by the Stringency Index developed by the Blavatnik School of Government of Oxford University,[i] the Indian lockdown restrictions were the most severe in the world, the index value for India being at the maximum of 100 between 25 March and 14 April. Even in the second phase of the lockdown, this index value remained close to 100 and higher than those of almost all other countries, including those worst affected by the pandemic. At the beginning, therefore, it did not appear that the likely disruption of economic activity and people's lives the lockdown would cause was given too much consideration in the shaping of the epidemic containment strategy. The eruption of what became a prolonged migrant workers' crisis was one visible consequence of this neglect which also undermined the immediate objective of the lockdown.

The process of gradual withdrawal from the lockdown restrictions on the other hand seemed to have a life of its own, independent of the situation with regard to the epidemic. The first steps towards such easing were taken in a background when the growth of confirmed COVID-19 cases in the country experienced a sharp acceleration in the first week of May. This acceleration was in complete contrast to the projections that had been put forward on 24 April by a member of the NITI (National Institution for Transforming India) Aayog who headed the government's high-level technical committee of Public Health Experts which is supposed to be guiding the COVID-19 prevention and control activities. According to those projections put out by V.K. Paul in a press conference, the number of daily new cases was to peak in early May and decline to near zero by the middle of the month.[ii] The reality of acceleration, however, did not come in the way of easing restrictions, including the first limited steps to allow the return home of migrant workers stuck in different parts of the country and also of Indians abroad.

Even though the acceleration at the beginning of May had been followed by a slowing down of the rate of growth of cases to levels prevailing towards the end of April, the number of infected people continued to grow at a steady clip throughout May on the higher base it produced. The number of cases reported daily remained consistently on an upward trend and this continued till mid-September. Indeed, almost 1.56 lakh cases – 78.5 per cent of all confirmed cases reported till 31 May – were added to the tally in the month of May, as were 4,254 of the total 5,408 deaths. By mid-September, when the first peak in daily cases was reached, the total number of confirmed cases had multiplied many times further to cross 5 million, and over 83,000 Indians had died of COVID-19. Another almost 4.5 million cases and 55,000 deaths were reported in the two and a half months after, till the end of November. In other words, almost 98 percent of all Indians who had contracted the coronavirus infection did so after the Unlock phases were initiated. At the state level, states in eastern and southern India, where the growth of the infection appeared to have been limited or contained earlier, the situation also changed and the number of cases started rising, partly on account of movement of people from the more affected parts of the country or of cases imported from abroad. Even Kerala, initially the most successful among major Indian states in controlling the epidemic, experienced a very sharp reversal of the decline in active cases as it had to deal with a big second wave resulting from transmission from outside the state and country.

Seen in a global comparative perspective, India's epidemic-control strategy built around an unplanned stringent lockdown hardly produced the greatest relative success in its chief objective of checking the spread of the virus (and this is even if we ignore the issue of lower testing numbers per capita). Notwithstanding the proud official claims repeatedly made about the effectiveness of the Indian COVID-19 containment strategy made exclusively by comparing the numbers in India (confirmed cases and deaths) with those in some of the worst-affected countries in the world, the truth is that the coronavirus pandemic exhibited a certain pattern in its worldwide spread in relation to which the Indian story was a standout one only in the sense of Indian being one of the worst affected by the pandemic.

As is clear from Table 1, the economically advanced countries of Western Europe and North America, with barely a tenth of the world's population, were initially hit much more by the coronavirus than the rest of the world. The pattern of spread of the coronavirus pandemic till end of May was also indicative of some relationship with per capita income levels of countries – with poorer countries being less affected. Sharply contrasting with the west's story was that of the region of origin of the epidemic, east and Southeast Asia. What was seen in China's Hubei province, the location of the first epicentre of the pandemic, was not repeated across this vast and heavily populated region, including in the rest of China.

Table 1 ***India and the Pattern of Spread of the Coronavirus Pandemic till 31 May 2020***

Country, Region	**Percentage Shares in World Total of:**						
	Population	**Total Covid-19 Cases**			**Total Covid-19 Deaths**		
		04-May	**17-May**	**31-May**	**04-May**	**17-May**	**31-May**
World	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
US Canada	4.8	34.9	33.4	30.8	29.1	30.6	30.4
Western Europe	5.5	33.8	28.5	23.2	54.6	49.1	43.8
Eastern Europe	4.2	6.7	8.6	9.1	1.9	2.3	2.7
Latin America & Caribbean	8.4	7.3	10.8	16.2	5.6	9.2	13.7
West Asia	4.7	8.9	9.1	9.3	4.2	3.9	3.8
Central Asia	0.9	0.2	0.2	0.3	0.0	0.0	0.0
East & SE Asia	29.9	4.4	3.8	3.3	2.8	2.5	2.3
Excl Hubei (Approx)	*29.2*	*2.5*	*2.3*	*2.2*	*1.1*	*1.1*	*1.1*
South Asia	23.9	2.2	3.5	5.2	0.9	1.4	2.1
India	**17.8**	**1.3**	**2.0**	**3.0**	**0.6**	**1.0**	**1.4**
Africa	17.3	1.3	1.8	2.4	0.7	0.9	1.1
Oceania	0.5	0.2	0.2	0.1	0.0	0.0	0.0
Low Income Economies	*9.2*	*0.3*	*0.5*	*0.7*	*0.1*	*0.2*	*0.3*
Low Middle Income	*40.0*	*4.1*	*5.7*	*7.8*	*2.1*	*2.8*	*3.7*
Country, Region	**Population**	**Total Covid-19 Cases/Million**			**Total Covid-19**		
		04-May	**17-May**	**31-May**	**04-May**	**17-May**	**31-May**
World	**100.0**	**466**	**616**	**803**	**32.3**	**40.6**	**47.9**
US Canada	4.8	3445	4355	5230	198.8	262.6	307.9
Western Europe	5.5	2888	3225	3421	323.1	366.2	384.9
Eastern Europe	4.2	751	1273	1755	14.9	22.5	31.7
Latin America & Carribean	8.4	410	799	1562	21.8	45.0	78.9
West Asia	4.7	896	1209	1608	29.4	34.2	39.2
Central Asia	0.9	106	170	296	0.8	1.5	1.7
East & SE Asia	29.9	69	78	88	3.1	3.4	3.7
Excl Hubei (Approx)	*29.2*	*41*	*50*	*60*	*1.2*	*1.6*	*1.9*
South Asia	23.9	45	90	177	1.3	2.4	4.2
India	**17.8**	**34**	**69**	**138**	**1.0**	**2.0**	**4.0**
Africa	17.3	35	65	111	1.3	2.1	3.2
Oceania	0.5	207	213	215	2.8	2.9	3.1
Low Income Economies	*9.2*	*15*	*32*	*62*	*0.5*	*1.0*	*1.4*
Low Middle Income	*40.0*	*48*	*88*	*157*	*1.7*	*2.8*	*4.5*

Source: www.worldometers.info/coronavirus/ as at the end of 4, 17 and 31 May 2020, accessed on 1 June 2020. Population shares are derived from the affected country population figures given in the same source (as on 31 May 2020).

While East and Southeast Asia have remained among those where the success in control of the epidemic has been the highest if not complete, South Asia and Africa did eventually see a surge by May. Despite them still having relatively low per capita incidences of cases and deaths, they crossed east-Asian levels. Thus, the onset of the epidemic in these parts of the world was at a later point of time, and by May-end, these parts were still behind many other parts of the world, including the rest of Asia, in terms of where they were located on the epidemic curve. Subsequent events were to bear this out.

Thus, the Indian story of the coronavirus epidemic was broadly what geography, its economic status, and perhaps, demographic characteristics like age structure of the population would indicate it should have been when restrictions started getting eased. In per capita terms, the Indian situation was almost identical to that of the African continent, which has almost the same population size as India. The growth of the epidemic in India, however, was already faster than in Africa as a whole. During the lockdown, India had also left behind thrity-six countries which initially had a larger number of cases than her – becoming in the process the country with the highest cases in Asia and only Russia moving up to cross India. All of these, however, were to prove to be only the early signs of what was to follow. The subsequent trajectory of the pandemic in India was one which made it, for months, one of the global epicentres. India became the country with the second largest number of cases, and third largest number of deaths, by some margins. It not only left Africa far behind, in per capita terms, its cases and deaths left behind almost the entire Asian continent other than West and Central Asia, including its South Asian neighbours. Despite the pandemic ebbing somewhat in India since mid-September while Europe and the USA saw new surges, by end-November, India's share in global cases and deaths were almost 15 per cent and over 9 per cent, respectively, way above the levels in May. The corresponding shares relative to Asia's totals were almost 57 per cent and over 47 per cent, respectively.

Thus, even though 68 days of lockdown had served to slow down the growth of cases in India, it was clear that it had not managed to suppress the epidemic or take it past its peak. Unlike in many other countries, therefore, the beginning of the retreat from the lockdown in India was initiated and continued even as the country remained a long distance away from turning the corner and starting the long journey downwards in terms of the number of daily active cases. It was not apparent, however, that any new and more sophisticated and effective epidemic containment strategy had replaced it – which perhaps explains the accompanying message that ‘we have to learn to live with the virus’. This suggests that the authors of the Indian lockdown script chose to start withdrawing from it because it was proving to be unsustainable, precisely because despite its highly restrictive nature and already long duration, it had failed to fulfil the expectations of enabling a grip on the epidemic.

Even before the government announced the easing of lockdown restrictions in mid-May, it also put forward what it claimed was a big economic stimulus package, equivalent to 10 per cent of the country’s GDP (gross domestic product), with the objective of achieving an ‘Atmanirbhar Bharat’ (self-reliant India). Several state governments also announced relaxations in labour laws, ostensibly to stimulate investment. Several elements of the economic package were also such that the underlying assumption must have been that almost all the constraining effects of epidemic-control measures on economic activity would disappear very soon. It seems therefore that the state of the economy had come to the fore, outweighing the concern with the epidemic and its spread that apparently dominated earlier decision-making. That perhaps the clock had indeed turned a full circle was also indicated by the significant difference between the prime minister’s addresses to the nation – the one announcing the first lockdown and the one which declared the coming of a Rs 20 lakh crore economic package. The clarion call had changed – what was supposed to be a war to vanquish a deadly virus had become one of ‘converting a crisis into an economic opportunity’.

However, reviving a battered economy, let alone achieving an economic resurgence, is different from implementing a lockdown. Coercion, fear and persuasion can all combine to ensure compliance with a lockdown, but the economy demands more specific concrete actions from the government. Unfortunately, that was conspicuous by its absence in the ‘stimulus’ package and all subsequent measure announced. The package failed to acknowledge the reality of what the lockdown had done to an economy which was already in the throes of a crisis, and the effects of these on the people. The mutually reinforcing combination of a sinking economy and a growing epidemic and a larger public health crisis, as attention to other ailments and diseases get squeezed out due to diversion of limited capacity, may be recorded as the eventual outcomes of the government’s follies.

The Coronavirus Impact on the Indian Economy

International evidence tends to support the fact that the economic impact of the coronavirus has been relatively more uniform across countries, not reflecting the diversity seen in the incidence of the epidemic. In other words, successful containment of the epidemic has also been costly in economic terms. Thus, in the January–March quarter of 2020, if the European Union and the US experienced contractions in their GDP by 3.5 and 4.1 per cent respectively, so too did China, Japan and Korea – by 6.8, 4.1 and 1.4 per cent, respectively.

India's January–March GDP (Q4 of 2019–20) data showed a considerable slowing down. However, this was no indication of the magnitude of the impact since the lockdown began only in the last week of March. Instead, it was a 23.9 per cent GDP contraction in the April-June quarter (Q1 of 2020–21), itself considered an underestimate, which eventually confirmed the devastating economic effects of the lockdown. Before this data came at the end of August 2020, there were several other indicators from official and private sources that were pointing towards a catastrophe While the negative growth picture moderated in the next quarter (July–September or Q2 of 2020–21) to -7.5 per cent, the picture of these two quarters are sufficent to confirm that India was not only among the worst affected by the pandemic, its failed attempt to suppress the pandemic also produced one of the biggest economic contractions in the world. A comparison with the situation in other major economies over the same period shown in Table 2 will bear this out.

Table 2 ***Growth in GDP Compared to the Same Quarter of Previous Year, Seasonally Adjusted, Selected Countries***

Country/Country Group	April–June 2020	July–September 2020
Mexico	-18.7	-8.6
Turkey	-8.5	5.4
Korea	-2.8	-1.3
United Kingdom	-21.5	-9.6
United States	-9.0	-2.9
Euro area (19 countries)	-14.8	-4.4
European Union – 27 countries)	-13.9	-4.3
G7	-11.9	-4.2
Brazil	-11.4	-3.9
China (People's Republic of)	3.2	4.9
India	**-23.5**	**-7.5**

Source: OECD.stat. (https://stats.oecd.org/index.aspx?queryid=350) Accessed on 16 December 2020

The GDP data for India indicates that the contraction has been widespread and it is only agriculture that appears to have posted a positive growth in the first half of 2020–21. India's trade too was hit, and the fact that imports were hit more severely than exports (Table 3) was also an indication that India's growth performance was worse than in other countries constituting her export markets.

Table 3 ***Percentage Change in India's Merchandise Trade (in US $) Over the Same Period of the Previous Year***

Item	April–November 2020–21/ April–November 2019–20
Merchandise Exports	-17.76
Non-Oil & Non- Gems & Jewellery X	-8.26
Merchandise Imports	-33.55
Non-Oil and Non-Gold Imports	-28.09

Source: Government of India, Ministry of Commerce & Industry, Department of Commerce, Economic Division, Press Release, INDIA'S FOREIGN TRADE: November 2020**,** 15 December 2020

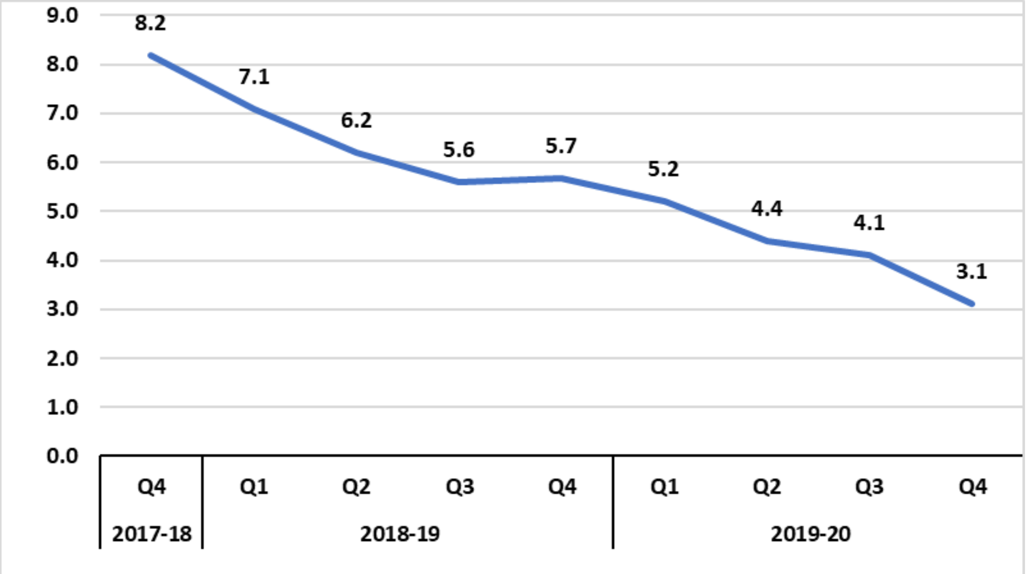
In the case of agriculture too, studies have revealed how disruptive the lockdown provisions have been for operations, leading to decline in *mandi* arrivals of different crops, large-scale destruction of perishable crops, fall in farm gate prices and reduced procurement – all implying significant loss of farm incomes (Rawal and Verma 2020, Rawal and Kumar 2020).

The employment situation, of course, was one of the most distressing dimensions of the massive production contraction. The CMIE data indicated, not surprisingly, large-scale job losses as an immediate effect of the lockdown – amounting to as much as 122 million by the beginning of May (Vyas 2020). While unemployment levels came down thereafter, it is unlikely that the earnings situations of workers has recovered too or that they have the same kind of employment as earlier.

The Economic Crisis in a Longer-Term Perspective

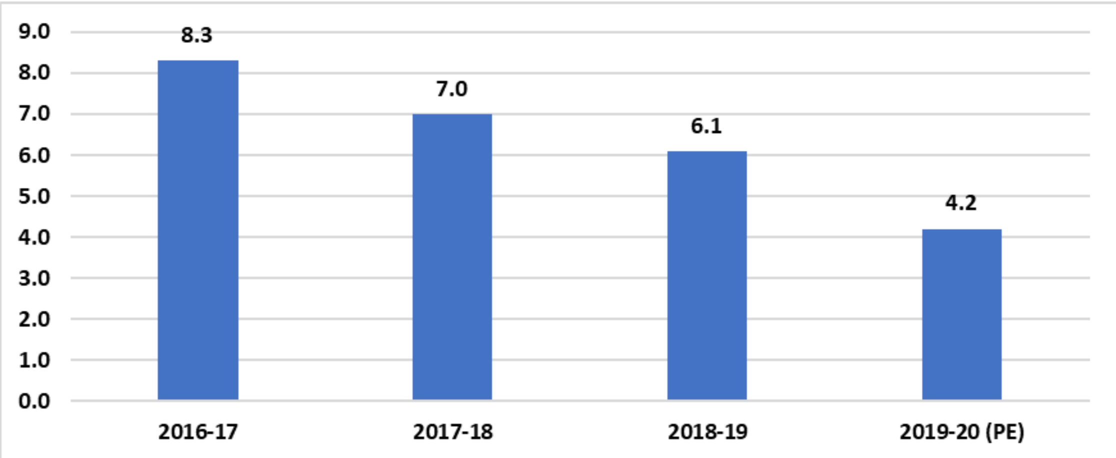
The immediate and direct contractionary impact of the pandemic cannot, however, fully capture the damage that is being actually afflicted. This is because this impact is taking place on the back of an existing crisis, which also means greater longer-term damage is being done also to the economy's future prospects. As the full-year growth figures in Tables 2 and 3, and the three-year trend in Figure 2 already indicated, things were not well with the Indian economy even before COVID-19 appeared on the scene. An ongoing slowdown, expressed through the regular fall in quarterly GDP growth since the last quarter of 2017–18 (Figure 1), had been the centre of attention before anyone had heard of the novel coronavirus, and 'stimulus' and 'reform' packages and measures had also been announced in response to it.

Figure 1 ***Growth of Quarterly GDP over Same Quarter in Previous Year, Q4 2017–18 to Q4 2019–20*** **(Percentage)**



Source: Government of India, Ministry of Statistics and Programme Implementation, Press Note on Provisional Estimates of Annual National Income 2019–20 and Quarterly Estimates of Gross Domestic Product for the Fourth Quarter of 2019–20, 29 May 2020

Figure 2 ***Growth Rates of India's GDP (New Series) at 2011–12 Prices, 2016–17 to 2019–20***

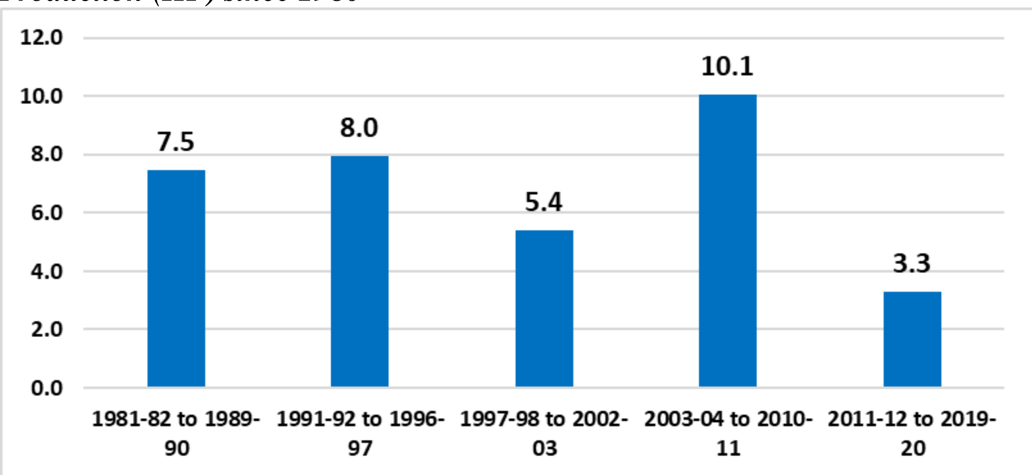


Source: National Accounts Statistics 2020, National Statistical Office, Ministry of Statistics and Programme Implementation, Government of India and Press Note on Provisional Estimates of Annual National Income 2019–20 and Quarterly Estimates of Gross Domestic Product for the Fourth Quarter of 2019–20, 29 May 2020

However, the coronavirus pandemic should be seen as the third successive shock being inflicted on an already sluggish Indian economy – the November 2016 demonetization and the introduction of the new GST regime from July 2017 being the previous two. Even India's controversial new GDP series introduced in 2015 shows the effects of the earlier two shocks (Figure 14.2), despite it not being suited to capturing the exceptional adverse impact all of these had on the unorganized sector. It is clear, therefore, that the latest slowdown was only an aggravation of an existing trend. If we, in addition, take into account the widely believed possibility that even the growth of the period before was being overestimated by the revised GDP series, in one estimate by some two and a half percentage points in the period up to 2016–17 (Subramanian 2019), the picture is starker. It would imply that the Indian GDP growth had already slowed down considerably from the beginning of the 2010s to around a 4.5 per cent per annum level, decelerated rapidly after 2016–17 as a result of two shocks being inflicted on it and had approached stagnation or contraction levels even before the coronavirus hit was experienced.

Even if we leave aside the controversy about the accuracy of GDP growth estimates, there are several other indicators that show that all has not been well with the Indian economy in the second decade of the twenty-first century – an extremely poor industrial growth performance, a sharp slowing down in growth of construction activities, stagnation in investment and a steady reversal of the previous decades trend of a rising investment ratio, a similar reversal in the significance of India's external trade and a general weakening of expansionary impulses being transmitted from the world economy, and a sharp deceleration in the growth of commercial bank credit are among the symptoms of a decade-long weakening of the growth impulse.

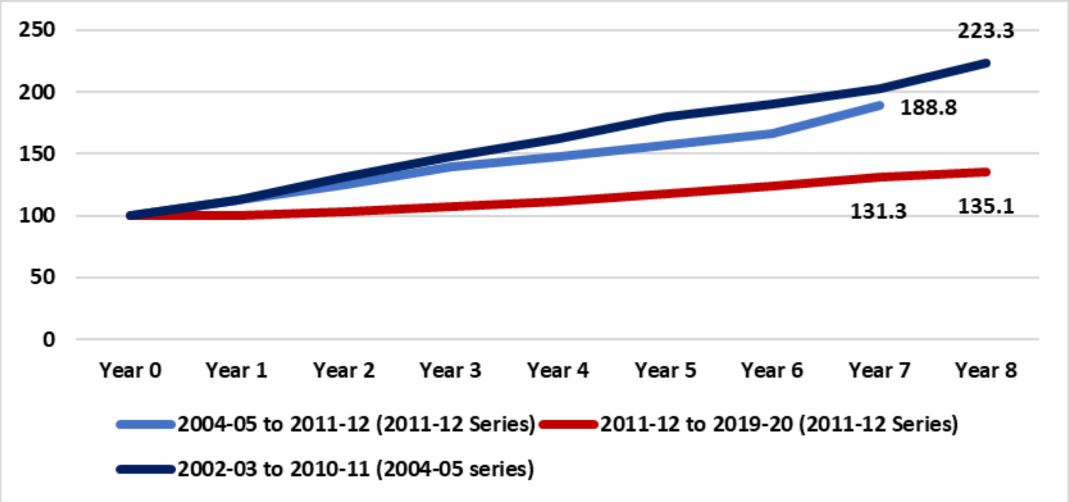
Figure 3 ***Simple Averages of Annual Growth Rates of Manufacturing Index of Industrial Production (IIP) since 1980***



Source: Computed from data in RBI (2020)

As shown in Figure 3, the 2010s have been the worst manufacturing growth phase in four decades as measured by the trends in the index of industrial production. Indeed, it is reminiscent of the stagnation era that started in the mid-1960s.

Figure 4 ***Index of Construction GDP at Constant Prices*** **(Alternative 9/8-Year Periods and GDP Series) (Respective Year Zero = 100)**

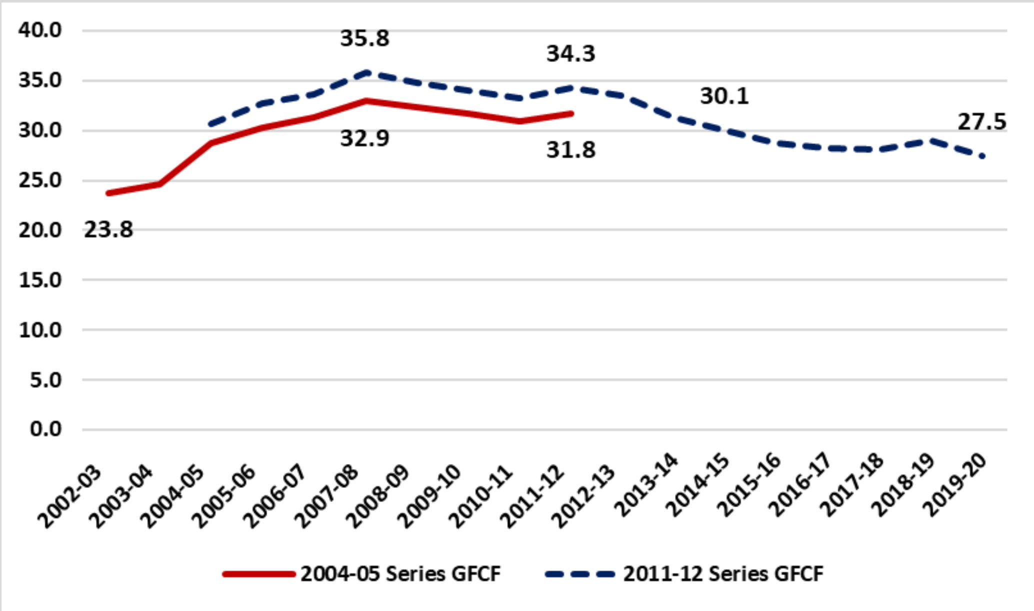


Source: CSO, National Accounts Statistics, 2013; CSO, National Accounts Statistics back Series 1950–51 to 2004–05, 2011 and RBI (2020)

The construction sector in India had been booming since the mid-1990s and grew even more rapidly in the first decade of this century. Figure 4 shows a comparative picture of the growth of the sector since 2011–12 with periods of equivalent length in the first decade, using both the older 2004–05 base year series as well as the official 2011–12 base year back series. Either comparison shows that the sector's growth has considerably slowed down in the decade ending this year.

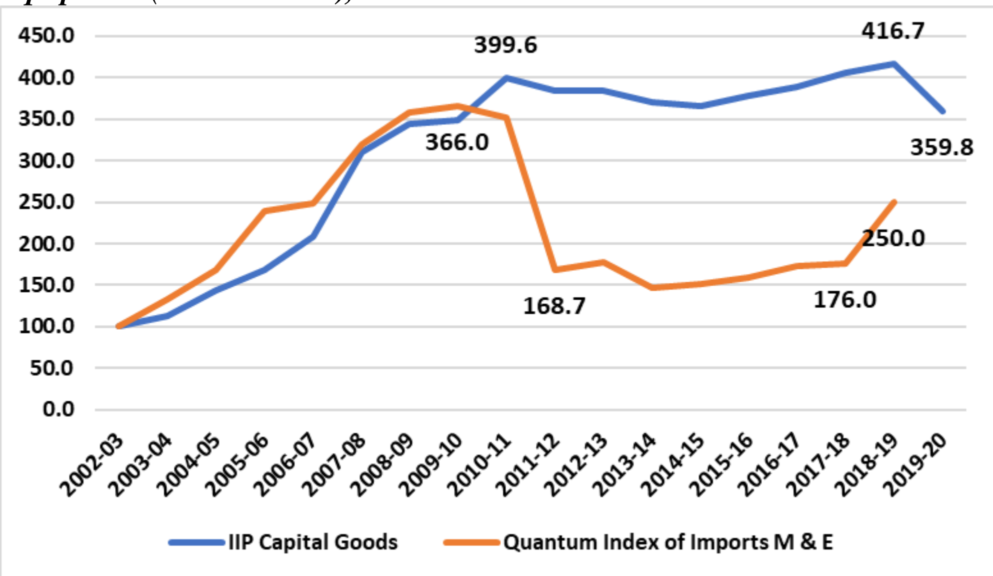
An extremely dramatic rise in the investment ratio of the Indian economy led by private corporate investment was one of the standout features of the five-year boom preceding the global crisis. However, that has since given rise to a stagnationist trend in investment and a steady decline in its ratio to GDP (Figure 5). The slowdown in construction activities is a part of that, but there been also an almost complete stagnation in expenditure on machinery and equipment. This is also borne out by the very sharply contrasting trends in both the production and imports of capital goods in the two decades of the twenty-first century (Figure 6). Even the temporary upturn in investment in 2018–19 proved to be very short-lived.

Figure 5 ***GFCF/GDP Current Market Prices (Percentage), 2002–03 to 2019–20***



Source: CSO, National Accounts Statistics, 2013; CSO, National Accounts Statistics back Series 1950-51 to 2004-05, 2011 and RBI (2020)

Figure 6 ***IIP for Capital Goods and Quantum Index of Imports of Machinery and Transport Equipment (2002–03=100), 2002–03 to 2019–20/2018–19***

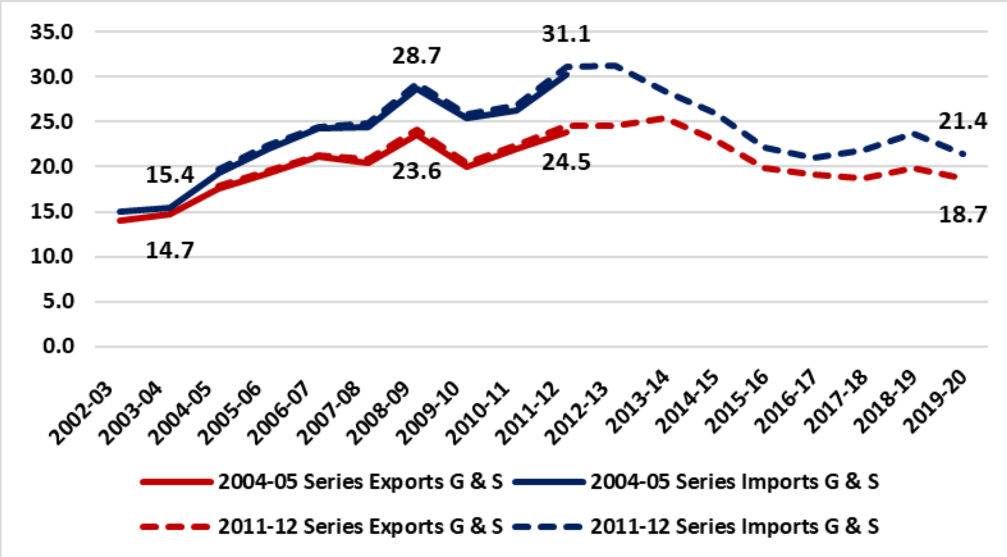


Source: RBI (2020).

Like in the case of investment, a rapid growth of merchandise and services trade, both exports and imports, and significant capital inflows into India were part of the process by which India came to participate in the boom seen across 'emerging' economies before the global crisis.

However, as is evident from Figure 7 and Table 4, this did not last into the current decade in which all the variables show almost complete stagnation.

Figure 7 ***Exports and Imports of Goods and Services to GDP Current Market Prices (Percentage), 2002–03 to 2019–20***



Source: CSO, National Accounts Statistics, 2013; CSO, National Accounts Statistics back Series 1950-51 to 2004-05, 2011 and RBI (2020)

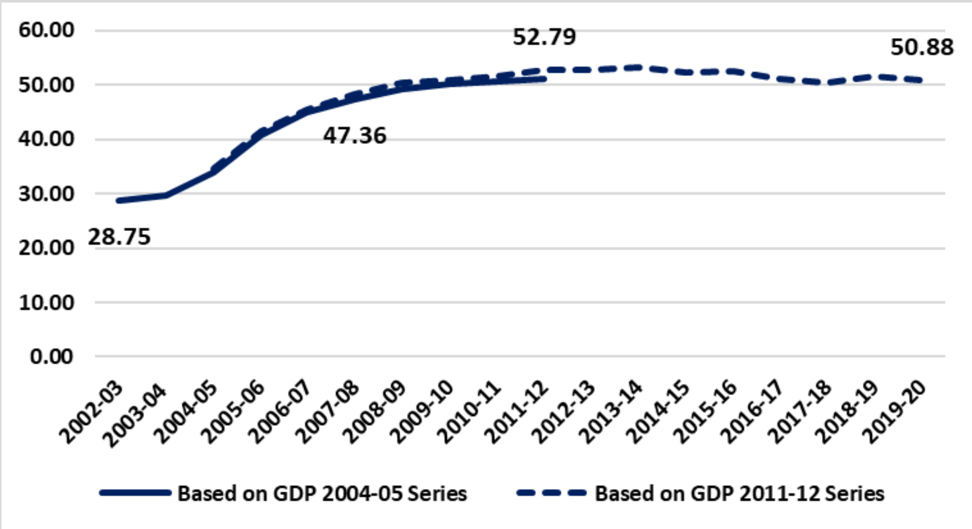
Table 4 Indices ***of US Dollar Values of Selected Balance of Payments Items, 2002–03 to 2010–11 and 2011–12 to 2019–20 (First Year=100)***

	Merchandise Exports		Merchandise Imports		Invisibles, net		Foreign Investment	
Year	02-03 to 10-11	11-12 to 19-20	02-03 to 10-11	11-12 to 19-20	02-03 to 10-11	11-12 to 19-20	02-03 to 10-11	11-12 to 19-20
Year 0	100	100	100	100	100	100	100	100
Year 1	123.3	99	124.1	100.5	163.2	96.3	260.6	108.7
Year 2	158.5	102.9	184.5	93.3	183.3	103.3	254.3	71.1
Year 3	195.5	102.2	243.6	92.4	246.6	105.8	355.7	153.8
Year 4	239.7	86	295.8	79.4	306.5	96.7	494.5	81.9
Year 5	309	90.4	399.6	78.6	444.6	87.8	1030.8	99.2
Year 6	351.5	99.7	478.6	93.9	537.7	99.7	463.6	122.3
Year 7	339.3	108.9	466.4	103.6	469.8	110.2	1088.7	85.2
Year 8	476.4	103.5	594.9	95	465.3	118.7	1005.8	110.9

Source: RBI (2020)

It is in the background of all these signs of a severely demand-constrained economy that one must understand both the taming of inflation and the improvement in India's current account situation that has marked at least the second half of the 2010s decade. Attempts to address this demand problem by monetary easing towards the later part of the decade has proved ineffective and bank credit growth has remained tepid throughout, barely keeping pace with nominal GDP growth (Figure 8). This is in sharp contrast to the rapid expansion of the previous decade.

Figure 8 ***Commercial Bank Credit to GDP Ratio, 2002–03 to 2019–20***



Source: RBI (2020)

Underlying the persistent sluggish tendencies of the Indian economy is India's cheap labour economy and the wage and income stagnation of large sections of the population it entails – which has only been aggravated by the slowdown tendencies. The forced shift out of agriculture that was triggered from the mid-1990s by the agrarian crisis continued during the current decade with a further reduction in the proportion employed in that sector (Table 5). However, while the onset of the agrarian crisis had coincided with the start of the construction boom making it the most important sector for absorbing those moving out of agriculture, in the 2010s, it happened in the background of a slowdown in construction. The persistence of a high level of self-employment (52 per cent of total employment), largely in own-account enterprises (OAEs), despite the reduction in cultivators is one expression of the problem of inadequate employment opportunities. However, with the non-agricultural unorganized sector, where much of the employment is also facing increasing difficulties, increasing unemployment and shrinking work-participation (of both females as well as males) have come to characterize the Indian economy in the 2010s. If the unemployment rate emerging from the PLFS (Periodic Labour Force Survey) 2017–18 was at an all-time high, the same source also showed that the proportion of the Indian population that was in self-employment declined from 20.2 per cent in

2011–12 to 18.1 per cent in 2017–18 while those in wage employment declined from 18.6 to 16.5 per cent (Rawal and Bansal 2019).

Table 5 ***Employment Structure in India (Usual Status Basis)***

Sector	**Share in Workforce**		
	2011-12	**2017-18**	**2018-19**
Agriculture	**48.9**	**44.1**	**42.5**
Industry	**24.3**	**24.8**	**25.2**
Manufacturing	*12.6*	*12.1*	*12.1*
Construction	*10.6*	*11.7*	*12.1*
Services	**26.8**	**31.1**	**32.1**
Share of Informal Enterprises in Non-Agricultural Employment	*72.4*	*68.4*	*68.4*

Source: Employment and Unemployment Situation in India, NSS 68th Round, July 2011–June 2012, NSS Report No. 554 (68/10/1); National Statistical Office, Periodic Labour Force Survey (PLFS), Annual Reports, 2017–18 and 2018-19

Limited income earning opportunities in agriculture for the large mass of people with little or no land and the entry of large numbers of them into the labour reserves non-agricultural activities could draw on has for long meant a generalized tendency in India for earnings from labour to remain depressed – even in highly productive activities and even in periods of rapid expansion of investment and output. This is what had earlier facilitated high growth and accumulation in India being combined with sharp increases in inequality – which saw the top 10 per cent of the population raise its share in national income to over 55 per cent (Chancel and Piketty 2018) and the overlapping trend of dramatically rising share of corporate profits. Thus, while India's real per capita income increased by 2.41 times between 2000–01 and 2017–18, the average real wage in India's organized factory sector increased by less than 15 per cent over the same period.[iii] That this was symptomatic of labour incomes in general is indicated by Table 6 which shows the general levels of earning of Indian workers – both self-employed and waged – the bulk of whom make up the 90 per cent that has seen a steady slide in its share in national income over the last few decades.

Table 6 ***The Cheap Labour Economy: Earnings by Category (Figures in Rupees)***

PLFS April–June 2018/April–June 2019				
Item	**Share in Workforce (%)**		**Earnings/Wage in Rs**	
Gross Monthly Earnings of Self-Employed	52.2	52.1	12,304	10,648
Monthly Wage/Salary of Regular Workers	22.8	23.8	16,848	16,196
Average Daily Wage of Casual Workers	29.4	24.1	271	291
Annual Survey of Industries 2017-18				
Factory Worker Average Monthly Wage (Rs)			13,143	
Monthly Per Adult income 2018-19 in Rs. (Derived from Chancel & Piketty, 2018)				
Bottom 50 % of the Population			4,944	
Middle 40 % of the Population			12,289	
Top 10 % of the Population			94,407	
Top 1 % of the Population			3,59,170	

Source: National Statistical Office, Periodic Labour Force Survey (PLFS), Annual Reports, 2017–18 and 2018-19; Central Statistics Office, Annual Survey of Industries, 2017–18; RBI (2020); Chancel and Piketty 2018.

The crisis of manufacturing and the sharp slowing down of construction activities seen in the present decade meant Indian growth in both output as well as employment terms became more concentrated on services. This reflected the inability of the beneficiaries of increasing inequality and expanding credit to sustain support from the demand side for any alternative growth pattern. This included the failure of the private corporate sector to sustain the investment boom of the previous decade – the drying up of opportunities in high capital-absorbing manufacturing, real estate and infrastructure had both a cause as well as effect relationship with the demand situation. Cheap labour had also not proved adequate incentive for Indian and foreign firms to be able to convert India into a competitive location for production for the world market in much of manufacturing, and this became even less of a possibility in the post-global crisis world. The trade balance remained in check only because of the sluggish growth of import using sectors rather than increases in exports.

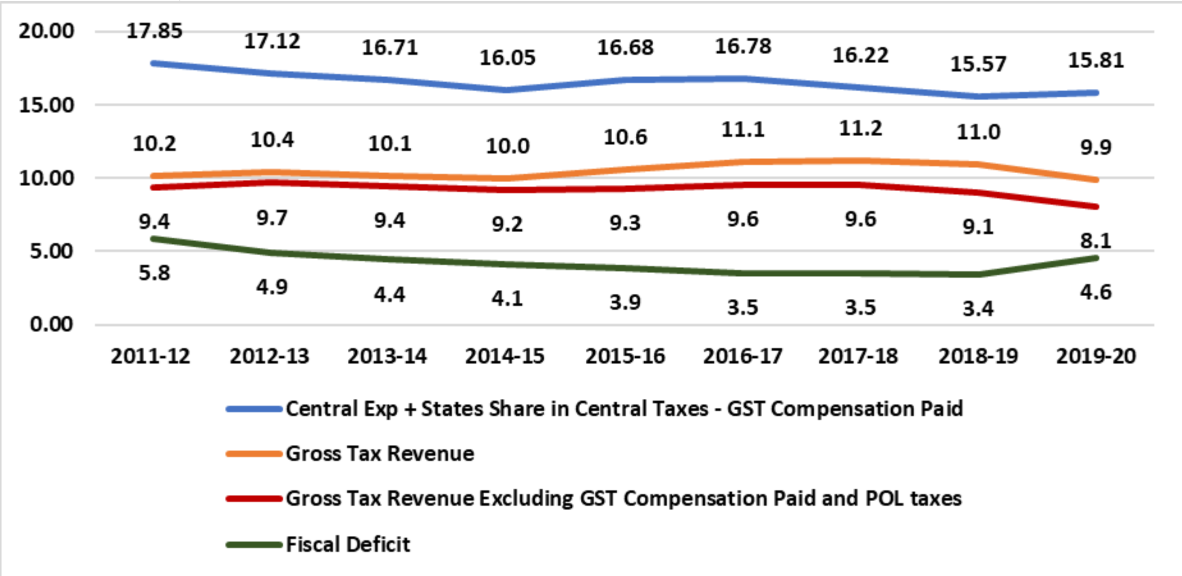
Demonetization and the hurried introduction of the GST regime served to inflict further body blows on a floundering growth and accumulation process, particularly through their impact on the unorganized sector. The slowdown in the immediate period before the COVID-19 crisis struck thus reflected the process of the crisis spreading and becoming more generalized. The agrarian crisis became a larger livelihoods crisis that not only sustained through the boom of the first decade of the twenty-first century, but even helped in its generation by its effects on profits. As its demand and other effects assumed greater significance, however, it translated into a sustained crisis of accumulation and profit growth that became worse as the initially relatively more adverse effects on the unorganized sector in time also transmitted themselves to the organized sector.

Given this background to the impact of COVID-19 on India, the specific contractionary effects that the containment measures associated with the epidemic has produced, of course, aggravates every aspect of the crisis. However, it doesn't do so only temporarily, and there is little scope for the economy to return to even its previous situation even after all the constraining factors specifically associated with COVID-19 containment cease to operate. That even this 'normalcy' will fully return soon, not only in India but in the world economy, itself seems remote. Even when containment measures cease, reversal of some effects like the migration of labour back to villages is unlikely to be instantaneous, more so on account of the delay in their returning home and what they have had to experience in the process. Similarly, the still incomplete return of expatriate Indians to their employments abroad and the resultant flow of remittances to India may also not be restored quickly if at all it will. Many service activities may face greater difficulty in returning to normal levels of activities in comparison to at least organized manufacturing because of the practices and regulations that will have to be adhered to as long as the COVID-19 threat continues. These will also tend to tilt the balance further against unorganized enterprises in several sectors. To add to all of this would be the large-scale destruction of incomes and damage to the financial health of enterprises that containment measures have caused – making it unlikely that there will be much pent-up demand to form the basis for any rebound in the economy unless it receives significant support from the state. Such support, however, is precisely what is missing in the so-called 'stimulus' package announced by the government which neither responds to the immediate needs created by the massive economic contraction nor to the longer-term crisis of India's economy.

The 'Stimulus' as Expression of an Unchanging Economic Policy Script

Trying to get India's economy going by trying to induce private investment, both domestic and foreign, even while completing the 'retreat' from the post-global crisis stimulus, has been the essence of the Government of India's policy for the entire decade of the 2010s. Started by the previous government – this has been continued with renewed vigour by the present one since it assumed office in 2014. The attempts to improve the 'ease of doing business', 'Make in India', 'Skill India', etc. and the likes were among several supply-side measures to kickstart the investment process. Once inflation rates came down, monetary easing, reduction of interest rates and pushing expansion of credit also became part of this effort despite the mountain of bad debt already existing on the books of banks and other institutions (sought to be cleaned by basically writing off the bad debt). That year after year passed with neither exports nor investment showing any signs of revival made no difference except the pursuit of the same strategy with greater doggedness. All this was accompanied by a single-minded pursuit of the objective of bringing down the fiscal deficit, which had increased with the post-crisis stimulus. This effort relied primarily on expenditure compression as underlying economic realities and the lack of any effort to raise direct taxes meant that revenue growth remained poor, except for the brief windfall gains from higher oil taxes when international prices fell after 2014. Figure 9 captures this story with reference to the central government's finances.

Figure 9 ***Central Revenues, Expenditure and Fiscal Deficit as Percentage of GDP at Current Market Prices, 2011–12 to 2019–20*** [iv]



Source: Union Budget Documents, Various Years, RBI (2020), Controller General of Accounts Monthly Accounts, www.cga.nic.in, accessed on 30 September 2020), Petroleum Planning and Analysis Cell, https://www.ppac.gov.in/, accessed on 10 October 2016 and 14 December 2020)

Even when the slowdown became too severe to be ignored, the prescription did not change. Attempts to talk the Indian economy out of a crisis by promising bold structural 'reforms' and a rosy future (the 5 trillion-dollar economy) have particularly marked the tenure of Nirmala Sitharaman as finance minister. In content and form, there is much similarity that can be found in the five-stage announcement of the COVID-19 'stimulus' package, the previous one announced in September 2019 in response to the slowdown, and the last two budget speeches of the finance minister.

The slowdown, however, led to a further aggravation of the fiscal crisis – a sharp drop in revenue growth in 2018–19 was followed by a contraction in 2019–20 (Table 7) as a result of which the central government fiscal deficit shot up to 4.6 per cent of the GDP. While the coronavirus impact on March revenues played some part in this, it is not the primary factor because revenue growth even before that was non-existent. Part of this, in fact, can be attributed to the bizarre corporate-tax cut that had been included in the September 2019 'stimulus' package.

Table 7 ***Growth Compared to Same Period in Previous Year in Nominal GDP and Tax Revenues*** **(Percentage Increase)**

Nominal GDP 2018-19 (1st Revised Est)	11.0
Gross Revenue from Central Taxes 2018–19	
Union Budget Estimates (Relative to actual)	18.4
Actuals	8.4
Nominal GDP 2019–20 (Provisional Est)	7.2
Gross Revenue from Central Taxes 2019–20	
Union Budget Estimates (Relative to actual)	18.3
Actual Collections (Provisional)	(-)3.4
Revised Estimates (from Budget 2020–21)	4.0

Source: Union Budget Documents, Various Years; RBI (2020); Controller General of Accounts Monthly Accounts, www.cga.nic.in, accessed on 30 September 2020)

Given this long record of an unfolding economic reality and a governmental obstinacy that has been in effective denial of it, the nature of the COVID-19 'stimulus' package is actually not surprising. With the revenue situation becoming graver, the central government's borrowing requirement in 2020–21 has already had to be increased substantially. In the absence of any new-found willingness to abandon 'fiscal prudence' and to consider, eventually if not immediately, a decisive shift in the direction of heavier taxation of the rich and the corporate sector, the government obviously cannot find any 'fiscal space' to step up spending. It is not surprising therefore that additional spending does not constitute any significant part of the stimulus measures. Almost everyone has seen through the hoax of the package having a size equivalent to 10 per cent of GDP and that the fiscal implications of it do not go beyond a tenth of that. However, past experience suggests that even the limited increase in expenditure may end up being 'financed' by cutting similar expenditures under other heads.

Table 8 ***Growth in Central Taxes and Expenditure in the first two Quarters of 2020-21 over Same Period of Previous Year***

Item	April-June 2020–21 (Q1)	July-Sep 2020–21 (Q2)
Gross Tax Revenues	**-32.6**	**-13.1**
Corporation Tax	-23.3	-46.1
Income Tax	-35.9	-10.1
GST Total	-35.2	-1.3
Customs	-61	-23
Excise	-4.3	58.4
Assignment to States	**-9.8**	**-22.6**
Total Expenditure by Central Government	**13.1**	**-13.5**

Source: www.cga.nic.in, accessed 28 November 2020)

Evidence from the first half of the year (Table 8) shows this clear picture of continuity in the fiscal approach. In the background of the COVID-19 crisis, the Indian government once again resorted to the old method of generating revenues from increasing oil taxes. Despite the sharp increases in excise collections, however, revenue growth was still negative even in the second quarter of the year. However, the expenditure increases maintained in the first quarter did not carry over into the second even as the squeeze on the states shares in central taxes increased. In other words, the fiscal stance of the Indian government had already turned contractionary in nature.

In the absence of spending, obviously, the package is incapable of meaningfully compensating working people with already fragile household economies for the exceptional loss of income and employment. Indeed, the 'stimulus' package incorporated the earlier announced limited relief under the Pradhan Mantri Garib Kalyan Yojana (PMGKY) but added truly little to it. Some of the measures are little more than adjustments in the schedules of receipts and expenditures – with no net positive impact on the incomes of the beneficiaries or expenditures of the government. 'Relief' has also been given to employers by legitimizing what in effect is a wage-cut (temporary reduction in the statutory provident fund contribution). Included in the package is also the 'enabling' of workers in running down their savings and future pensionary benefits in order to survive in the present. Thus, there is extraordinarily little which represents transfers from the government. Even the increased allocation to the Mahatma Gandhi Employment Guarantee Act (MNREGA) of Rs 40,000 crores is less significant than it seems as first sight – since the original allocation in the 2020–21 budget was almost Rs 10,000 crores less than what had been spent in the previous year.

A critical gap in the 'stimulus' package is also the inadequate financial support to state governments which will also end up squeezing the aggregate level of public expenditure in the economy. States are already suffering from the combined effects of two consequences of the shortfall in revenues from central taxes in 2019–20. The first is that this also hit the state's share in central taxes , which came down from Rs 7,61,454 crores in 2018–19 to just Rs 6,50, 677 crores in 2019–20 – a drop of 14.6 per cent. The picture indicated in Table 8 is a reflection of this problem becoming worse in the current year. The second consequence has been the central government holding back the GST compensation payable to the states, which is likely to be repeated in the current year. Thus, instead of helping state governments overcoming the hit their own revenues are taking, the central government will end up aggravating their problem. Even the expansion of their borrowing possibilities has been made conditional on state governments accepting 'reform' measures.

The core of the attempt, if any, to attain the short-term objective of reviving economic activities from the immediate shutdown that can be found in the package is all about facilitating greater borrowing by individuals and enterprises who are already reeling under the impact of significant income and revenue losses. The longer-term focus accompanying it – facilitating greater privatization and concentration in the control of the nation's assets – is also the same tired old script the government has been plugging for years without any results. The current context, however, makes these look even more perverse than earlier.

When the ability to repay existing debt has taken a big dent, and even renewal of economic activity is likely to confront COVID-19-related abnormal and uncertain conditions for some time, how is increasing the debt further a solution? Adding to the perversity is the fact that this 'solution' comes from a government that is reiterating the belief that it itself is the one economic actor which must keep its borrowing under check, no matter what the circumstances. So, the rest of the economy has truly to be 'self-reliant' by increasing its debt and not expect government spending to revive demand and income earning prospects. Even those who might favour the 'reforms' announced, or hope to gain from them, recognize that these do not really constitute the immediate relief and stimulus the economy and the desperate millions without work need – the disappointment at the government doing too little for once appears near universal. Others, however, would recognize the paradox of privatization being offered as a reform at a time when the pandemic has brought home the importance of the public sector the world over. Other peculiarities – like the promotion of 'self-reliance' through 74 per cent foreign direct investment (FDI) in defence production, of all things, have also not escaped attention. The renewed expression of commitment to privatization and the reluctance to expand public spending today are, however, linked. Together, they mean that the real roots of India's long-term economic crisis, and the immediate consequences of the specifically COVID-19-related disruption, will both remain unaddressed.

Conclusion

India's economy was in a deep-seated crisis even before anyone had heard of the novel coronavirus. Economic policymaking, however, remained captive to the promotion of the narrow interests out of which had emerged a universalization of what was an ever-present crisis for India's working people. Further, helping the economy on its path downhill were actions like demonetization and the introduction of the goods and service tax GST). The way in which the nationwide lockdown was imposed resonated that same kind of 'decisiveness' without proper weighing of the economic costs and benefits – making the fallout worse than might have been the case. As the COVID-19 crisis is aggravating every element of the existing crisis even while producing acute distress immediately, the almost formulaic policy response of the government reflects a continuing pattern. This apparently ostrich-like behaviour of the Indian government, seemingly in contrast to responses elsewhere in the world wherein governments appear to be assuming a larger role, is, of course, rooted in the class interests it represents. What the coronavirus crisis may have revealed more sharply is the exceptional obstinacy as well as callousness that a secure but deeply authoritarian regime is capable of in the pursuit of these interests. That is what makes it incapable of 'deviating' even to the limited extent that the exceptional circumstances created by the COVID-19 crisis may have rendered possible, even been partially acceptable to powerful economic interests if not desired by them. As such, the only 'opportunity' that the COVID-19 crisis really offered – to pull India's economy out of the morass into which it is sinking – is being lost even as the situation with regard to the pandemic and its effects continues to add to uncertainty.

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[i] https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker, accessed 1 June 2020

[ii] V.K. Paul has sought to clarify his position and suggested that he had been misinterpreted. However, the fact is that a graph was presented which showed precisely what has been said here. See Koshy (2020).

[iii] Based on data from the Annual Survey of Industries (ASI) http://mospi.nic.in/asi-summary-results/844, accessed on 1 June 2020, and Government of India 2011, Government of India 2013 and Government of India 2020c.

[iv] The data has been presented in a specific way to ensure that comparability across the entire period is not affected by (i) the changes in the share of the centre and states in central taxes following the implementation of the Fourteenth Finance Commission recommendations; and (ii) the introduction of GST with a clause of compensation of states for revenue losses from the proceeds of a GST compensation cess levied by the centre.