

As Indian economy sinks, Modi government scrambles to respond

By Kranti Kumara
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After coming under severe criticism from Indian big business and foreign capital for not recognizing the depth of the crisis facing the country's economy, India's Hindu supremacist Bharatiya Janata Party (BJP) government has announced a slew of new economic measures, just weeks after tabling its budget for the 2019-20 fiscal year.

The new measures are principally aimed at shoring up the country's beleaguered financial system, which is weighed down by tens of billions of dollars in bad loans, and at placating capitalist investors.

In the hopes of inducing banks to be less reticent in extending credit to businesses and consumers, the government has sought to "clean up" their balance sheets by injecting capital and forcing bank mergers.

To boost "investor sentiment," Finance Minister Nirmala Sitharaman has rescinded a tax surcharge on the very rich in her July 5 budget that provoked howls of opposition from the Indian elite and foreign investors. The government has also raised foreign investor limits in several industries, including allowing 100 percent FDI (Foreign Direct Investment) in coal mining, and vowed to accelerate the sell-off of public assets.

Boosting India's auto manufacturers, who are shutting down production lines for weeks as unsold new cars pile up in their inventory, is also a government priority.

Indian and domestic capital have welcomed the measures taken by the Narendra Modi-led government. But many Indian business leaders and the financial press are pressing for more radical steps, arguing that the crisis is "structural," and not simply the product of a temporary, cyclical fall in demand. The *Times of India*, the flagship publication of India's largest media group, has published editorial after editorial urging Prime Minister Modi to act with "Kashmir type" urgency to push through further neo-liberal reforms, referencing the government's illegal power-play stripping Jammu and Kashmir of its special, semi-autonomous constitutional status.

Falling investment and consumer demand, rising joblessness

India's growth rate has been declining for more than a year and a half, but the decline has accelerated in recent months. In the April-June quarter, GDP growth plunged to a six-year low of 5 percent. Economists and Indian government officials have long held that India needs at least 8 percent growth to create enough jobs for new entrants.

Consumer demand has fallen steeply as workers' real incomes, in an already low-wage economy, have fallen due to rising unemployment—the jobless rate is currently at a 45-year high—and the proliferation of low-paid, precarious contract work, even in the so-called "formal" sector comprised of large firms.

New investment by Indian companies has declined sharply, falling from 22 trillion rupees (Rs.) (\$350 billion) in 2014-15 to Rs. 11.3 trillion (\$160 billion) in 2018-19.

Although India's central bank, the Reserve Bank of India, has, under government pressure, repeatedly slashed interest rates, banks have been unable to increase lending since they are weighed down by about Rs. 10 trillion (\$140 billion) in NPAs (Non Performing Assets), and have to provision reserves against losses.

Manufacturing activity has plunged with the auto sector experiencing an up to 50 percent sales decline.

When the BJP came to power in 2014, Modi coined the slogan "Make in India" to exhort transnational corporations to manufacture their goods in India for the world market. He grandiosely promised to create 100 million jobs and enhance manufacturing's share of India's GDP (Gross Domestic Product) from 16 percent to 25 percent by 2025.

Neither of these goals are being fulfilled. Despite some new investments, manufacturing still makes up less than 17 percent of nominal GDP and, instead of job creation, more and more job seekers confront long-term unemployment or have to settle for low-wage jobs in sales or marketing. India's exports are still predominantly comprised of commodities such as gems, rice and mineral oil, rather than manufactured goods.

Anemic economic growth in the advanced capitalist countries and the Trump administration's trade war policies have undercut Modi's push for India to become a production-chain hub rivaling China; although sections of the Indian elite cling to the hope that Washington's drive against China will cause US and other western-based transnationals to relocate production facilities to India.

In recent years exports as a percentage of GDP have fallen sharply. In 2017-18 exports represented just 11.65 percent of India's total GDP, its lowest level since the 2003-04 fiscal year.

Increasing unemployment is now a chronic feature of the economy, with 34 percent of youth between 20 and 24 years old and about 38 percent of young urban workers unemployed. In other words, Indian economic growth, such as it is, has occurred at the expense of jobs and incomes. Household consumption from

automobiles to Rs. 5 packets of biscuits (cookies), a common snack for impoverished workers, have declined sharply.

Corporate incomes have also fallen, with demand contracting even as corporations' debt load has ballooned. Corporate debt now amounts to 56 percent of India's GDP.

Auto and auto parts companies have slashed hundreds of thousands of jobs, while idling plants for weeks. The auto companies are pressing the government to cut the national sales tax, the GST, on cars from 28 to 18 percent. This appears to be not forthcoming, at least for the moment, since the government cannot afford the Rs. 300 billion revenue loss.

Instead, the Modi government intends to implement a "scrapage" policy to force owners to scrap cars and trucks that are older than 10 or 15 years. Sitharaman has also announced the lifting of a freeze on government departments purchasing new cars and doubled the depreciation rate from 15 percent to 30 percent per year for cars purchased until March 2020.

While announcing these and other changes, the finance minister did not acknowledge, let alone advance any measures to mitigate, the growth of unemployment and low-paid contract labour. Indeed, the government recently passed legislation further entrenching fire-at-will employment.

Bank Crisis

In an attempt to shore up the crisis-ridden banking system, the Finance Minister announced a series of forced mergers of India's Public Sector Banks (PSB) on August 30. The current 18 PSBs, down from 27 in 2017, are to be fused into 12 "mega-banks." According to Sitharaman, the mergers will help stabilize the banking system, however the position of the stronger banks, that are to anchor the new mega-banks, is being undermined by their takeover of banks that are sinking under their NPAs.

Talking out of both sides of her mouth, Sitharaman claimed the bank mergers will not result in a "single job loss," while boasting about the savings to be achieved through "rationalization" and economies of scale.

In its July budget, the government, set aside Rs. 700 billion (\$10 billion)—almost equal to what the Indian state devotes to providing health care for its 1.3 billion people (Rs. 900 billion)—for "bank recapitalization." In her bank merger announcement, Sitharaman declared that Rs. 550 billion (\$8 billion) would be injected immediately with the remaining funds released in the next few weeks.

Since 2014, the Modi government has annually budgeted public funds for bank "capitalization," and the cumulative total is now a gargantuan Rs. 2.26 trillion, well in excess of \$30 billion

Nevertheless, 19 of the 21 PSBs still in operation as of last year reported losses and their gross amount of bad debts also increased. According to a recent study, the massive Rs. 3 trillion the Indian government has handed over to the banks over the past six years has enabled them to pare their losses, but not boost credit.

Bowing to private investors

In her July budget, Sitharaman increased the tax surcharge on the two highest income brackets—those earning more than Rs. 20 million (\$300,000) and those with incomes in excess of Rs. 50

million (\$715,000). This also hit foreign and domestic portfolio investors (those who trade in stocks and bonds), who are considered individuals under Indian tax law.

The Indian corporate media responded with a propaganda barrage, charging "wealth-creators" were under attack, while Foreign Portfolio Investors (FPI), such as hedge funds and other financial speculators, vented their anger by pulling more than \$3 billion dollars out of Indian financial markets.

The government has now rescinded the measure, underscoring its crippling dependence upon foreign currency flows from FPIs into Indian stock and bond markets, and Foreign Direct Investment from transnational corporations to boost economic growth.

If the slavishly pro-big business BJP government had chosen to raise the surcharge in the first place, it was because it faces a massive fiscal crisis, which is being exacerbated by the economic downturn.

Big business has been pleading for the government to provide an economic stimulus package, including increased investment in infrastructure. But the government's precarious fiscal position and fears of the response of international credit agencies to a further retreat from its pledges to reduce the budget deficit as a share of GDP have tied its hands.

To shore up the state coffers, the BJP government announced on August 26 that it was taking Rs. 1.76 trillion (\$25 billion) of dividend and "surplus capital" from India's central bank. Observers noted that this sum is about equal to the forecast gap in government revenue collections.

In her budget speech little more than two months ago Sitharaman claimed that the Indian economy is a high-flying juggernaut that will more than double its GDP to \$5 trillion over the next five years. The reality is, even before the global credit bubble built up since the 2009 financial crisis busts and the world economy descends into slump, Indian capitalism is beset by an all-rounded crisis—including falling investment and consumer demand, a banking crisis and state budget crisis, agrarian distress and mass joblessness.

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