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The GDP numbers for the first quarter of the fiscal present a bleak picture of the economy. A revival do not seem to happen so quickly. However, the government has made some effort to pump-prime the economy by capitalising PSU banks and giving sops to certain sectors such as auto to boost demand. Moreover, through a big merger move of PSU banks, the government hopes to make the banking sector stronger.

India Today is doing a Cover Story on the developments, and is reaching out to top economists regarding their views on the state of the economy and the government measures. Please find a set of questions below. Would appreciate if you can reply by Monday evening.

QUESTIONS:

#1 GDP growth has slowed to 5% -- the lowest in six years. Are we in the midst of a protracted slowdown?

Yes, that there is a slowdown is shown by every indicator of the economy, not just the 25-quarter low figure for the first-quarter of the financial year 2019-20. The Sensex has fallen continuously since a temporary high right after the elections to reach 37332 on August 30, lower than the figure one year ago. People are talking about the fall in sales in the automobile sector (including two-wheelers, commercial vehicles, and tractors) but this is quite widespread – demand for low-price consumer good items like biscuits is also down, core sector growth rates have fallen alarmingly, retail lending for consumer durables have fallen, both the Consumer Confidence Index and Business Expectations Index shows significant pessimism.

Also, it is likely to be protracted as there is no obvious tailwind, global or national in sight and this is consistent with the fact that the IMF has adjusted India's projected growth rate over the next two years downwards (as has other international private banks, corporate bodies, and investment funds). This slowdown is not news to some of us who have written enough about the ominous economic trends since at least the last three years, post-demonetisation. Those voices got lost in the debates about GDP measurement as well as the need to project the first term of the Modi-government as a grand success in an electoral season. That is why the alarming unemployment numbers by the government itself were not published before the elections.

#2 Is the government reading the slowdown right? Are the measures they have taken so far to revive the economy in the right direction and enough?

No. Talk about sops to the auto industry, selective reductions in GST rates, interest rate cuts all seem like trying to put band-aids on a seriously injured person. The main problem has been the government's attempt to try to formalise the economy overnight. Misguided policies like demonetisation, chaotic implementation of GST and flip flops on specific rates and trying to force the use of technology in social services are the obvious examples of this. Command and control policies do not work as we know from the experience of India during the license-control Raj. Similarly, you cannot turn an economy of India's size and complexity into a formal one overnight as much as China's attempt to industrialize a primarily agricultural economy in a few years in the late fifties ended in a disaster of incredible proportions.

#3 Prime Minister Modi seems to prefer a sectoral approach to addressing the problems of the economy. Is that recommended in your view? Or what would you rather the government do?

No, that does not make any sense. It is like arranging deckchairs on the Titanic. The main problem is systemic – a demand-side problem due to falling incomes and job losses and a supply-side problem due to excess zeal in formalising the economy and collecting taxes that has raised the cost of business and made businessmen wary of investing. What will a sectoral approach do to address this?

#4 Rs 70,000 crore for PSU banks, a lifeline for NBFCs, new sops for auto… what else can the government do to shake the economy out of its current stupor?

None of these address the core structural problem and involves a mindset of a kitchen-sink approach of throwing every sop and temporary fix at the problem, reflecting both a sense of desperation and cluelessness.

#5 Private consumption shows no signs of revival. Is this unusual? Are we likely to see a revival in the oncoming festive season?

In a recent column in Livemint, the economist Himanshu has reported what I think is one of the most stunning pieces of statistics on the Indian economy. As we know, the detailed NSS (National Sample Survey) report on consumption expenditure is overdue (the last one, for the year 2011-12 was published in 2014), but some numbers on consumption expenditure collected by the NSSO are available from other socioeconomic surveys. This suggests that average consumption expenditure at current (2018) prices fell from Rs 1587 per person per month (ppm) in 2014 to Rs 1524 ppm in 2017-18. The corresponding figures for urban areas were Rs 2926 ppm in 2014 and Rs 2909 ppm in 2017-18. There was a marginal increase in 2014-15, to Rs1667 and Rs 3212 ppm in rural and urban areas respectively, but after 2015-16 it has declined. There are two striking things here. First, there is the sharp *decline*, which is unprecedented since NSSO consumption expenditure figures are available, which no amount of quoting GDP growth rates can hide. Second, if we take the poverty line of 2011-12 and allow for inflation, the figures turn out to be Rs. 1,200 and Rs. 1,800 ppm at current prices for rural and urban areas, which shows the average consumption level is not that far from the poverty line, which itself is defined very conservatively. In contrast, GDP per capita at current prices is about Rs 11000 ppm. Given that the poor proportionally save less and spend more than the rich, this reflects the vast inequality that exists in the economy and the difficulty to achieve broad-based growth without generating more purchasing power for the vast majority of the population.

#6 Exports have been subdued too, in some part due to global trade headwinds. Does India need a different strategy?

The fall in exports started much earlier than the global trade headwinds. Between 2014-17 exports grew at an annual rate of 1.68%, while in the two decades preceding that the rate of growth was 13% and 14% respectively. I am sure global headwinds are not helping but then companies affected by the US-China trade dispute are relocating their supply chains to Bangladesh and Vietnam and not India.

#7 The govt says the jobs crisis is exaggerated. Do you agree? Is there a reliable way to understand/ measure the extent of the problem?

The government's own Periodic Labour Force Survey (2017-18) whose results were not published before the elections show an unemployment rate of 6.1%, which is much higher than the unemployment rates seen in the last forty years, which happen to be in the range of 2-3%. If anything, this number understates the extent of the problem since in a poor country like India without unemployment benefits very few people have the luxury of looking for jobs full-time and have to do something to earn a living, often in the informal sector. If we took this problem of underemployment problem into account, the problem would look far worse.

#8 Is the merger of PSU banks well advised? What effect will it have on the banking sector? And on the borrower?

In and of itself, reforms of public sector banks is a good idea. But this one falls well short of privatization and it seems there will be no downsizing and so it is not clear where the efficiency gains will come from. As a result I don't see this policy having a big effect and besides, given the current economic situation this seems like a distraction.

#9 Is the move to link bank lending rates with the RBI repo rate good for borrowers and banks alike? Is it welcome?

Yes, interest cuts are welcome given the demand situation facing the economy. However, they are unlikely to be sufficient given the other problems that are constraining both the demand and supply sides of the economy.

#10 Any other structural reforms that you recommend to revive the economy?

Yes, this is the time to pump up infrastructure spending by the government that will boost demand, by expanding demand for labour, equipment and various ancillary private industries and business. It should also focus on creating an enabling environment for businesses ranging from small to big, rather than a punitive environment where more regulation, paperwork, and fear of harassment by government officials raises the costs of doing business and reduces the incentives to invest.