What Does Economic Survey Tell Us?

-K.S.Chalam

The Economic Survey for the year 2012-13 was laid on the table of the Parliament on Thursday. It is customary to present a white paper on the state of the economy before the presentation of 'annual financial statement' or what is called budget. The white paper in the form of Economic Survey contains details of the policies introduced, performance of the economy and the broad philosophy or commitment of the government. Issuing a White Paper on important subjects is a part of the democratic process of a country. Churchill called it as an important tool of participatory form of democracy that involves a dialogue on contents of the paper. It is necessary that the learned Members of Parliament and public should participate in the discussion once the document is available for comment. We have started an Alternative Survey in 1992-93 as a part of dialogue containing the people's perspective.

The media has picked up the expected rate of growth indicated at para 1.76 in the survey as 6.1 to 6.7 percent in 2013-14 and indicated that in order get the rate of growth, subsidies are to be reduced, price of oil to be increased etc. However, they have not looked at the last part of the paragraph where it is assumed that the monsoon, moderate inflation and the global recovery would be favorable. It is noted that the rate of growth of GDP was only 5 percent during 2012-13. It was due to the low rate of growth of agriculture at 1.8 percent, lower than the previous year at 3.7 percent and manufacturing was at 1.9 percent that was lower than an already stumpy rate of 2.7 percent. How it is possible to get the projected rate under these conditions is left to the imagination of speculators?

The present survey is found to be sensible in its approach compared to the previous one where received theories are repeated without looking at our own conditions. The present report has made a very important observation as, "the combined share of exports and imports of goods increased from 14.2 percent of GDP in 190-91 to about 43 percent in 2011-12 and the two way external sector transactions (gross current account plus gross capital account flows) have risen from 30 per cent of GDP in 1990-91 to about 108 percent of 2011-12. Therefore, while the globalization of Indian economy has helped raise growth, it has also meant greater vulnerability to external shocks" (p130). It is an example of dependent development.This appears to be the genuine condition of our economy today and all other explanations in the survey are platitudes. In the area of FDIs, it is noted that the net portfolio investments including FIIs increased from $1.3 billion to $5.8 billion and interestingly the NRI deposits have increased from $3.9 billion to $9.$ billion during the same period. Yet, the survey says that it is necessary to shift the consumption demand to investment so as to restore the fast rate of growth. There is a very interesting statement on FDI. It is said that FDIs are confined to cities of more than a million population and therefore, do not affect common man and FDIs are essential for the fast rate of growth of the economy. It is tricky to understand this logic or theory. How is it that an investment that does not affect majority would bring economic growth? Either of the two is false.

It is weird to find that the euphoria created in our external sector during the 2005-2009 period when the rate of growth was almost double digit has slowly petered out. It is noted that the economy was bumping even during the American economic crisis of 2008. What has happened during the period? There are many explanations. One pragmatic view is that the so called black money of the country had come back home during the period through various routes irrespective of the crisis. It seems all that was staked is now exhausted and the country is back to square one. In this context, the kind of theories like Micro foundations of Macro Economic policies parroted in USA were found discredited there and scholars like Blinder, a former Vice-President of Federal Reserve System and Princeton Professor and Danni Rodrik of Harvard have drawn the attention of economic teachers about the theoretical blunders of Macro Economics, not to repeat them in class rooms. It was also reported in the journal 'the Economist' about the crisis of Macroeconomic theory in the West. Yet, the same were repeated in the Economic Surveys of India. Does it indicate the bankruptcy of our intellectual tradition or helplessness of our Advisers? Of course, the chapters on Micro Foundations of Macroeconomic Policy and India and the Global economy are dropped in the current Economic Survey.

The budget that can be called as "Nirbhay" budget for its slant on woman during 2013-14 was presented by Chidambaram. There seem to be no enthusiasm in the preparation of the budget due to the economic constraints and political compulsions of an election year that perhaps made Chidambaram to simply raise the allocations by 10.8 percent (compared to revised estimates NP)to make it only a nominal increase as the inflation rate is also around the same range. Education and health sectors needed a little more attention in view of the international standards of expenditure on these sectors in India was the lowest in BRICS. However, he has tried to impress with his figures on MNREGA, Food Security, SC/ST sub plan and an all women Bank in the public sector. It seems he has made a bold step in catching the super rich with a proposal to impose surcharge on Income tax above Rs 1 crore for individuals and Rs 10 crores for companies. The GAAR guidelines and GST seem to have not been finalized and they would come to the house after sometime. It is doubtful to what extent these changes would bring the expected rate of growth when there is economic gloom all over.

It is found that very few (except the academics) are participating in the discussions about the state of the economy. In fact, the document is an authentic account of the economy and the public has every right to question the statements made in the report if they find that they are contrary to what they experience or observe in practice. The economic surveys of India are found to be very comprehensive and contain useful data both cross section and timeline. People seem to be unaware of the importance of the document except the trade and commerce associations using it for lobbying with the government. As a matter of fact, the budget being a constitutional obligation is only an estimate of future revenue and expenditure, where as economic survey is about the performance of the past year. And people should raise issues of concern and draw the attention of the government and people's representatives about the progress achieved or underachieved as per the previous year's budget and policy statements. But, we often observe that public discussions (including media) are generally organized on the budget, mostly in relation to the direct and indirect tax proposals (income tax and customs) but hardly about the performance of the industry, service sector, agriculture, infrastructure etc ,and the direct or indirect burden passed on to the citizen due to the failure of the policy or governance. Are the citizens not responsible to question and ask for clarification from the government? What role the civil society is expected to play in such matters?

The structure of the survey has undergone a metamorphosis. The survey for the year 1957-58 contained a very brief state of the art account having only six chapters in 38 pages including tables. Today, the size is increased by ten times having 13 chapters and 424 pages. It is a text book on Indian Economy. The original survey maintained the spirit of government without resorting to any theoretical discussion or policy speculation with little scope for public debate as the government of the times knew the courage of conviction of the leaders, most of them being freedom fighters and could challenge even a statesman like Nehru. It seems the ruling elite of the past were responsive and accountable to the people for the policies committed in the survey. Therefore, the size and structure was carefully planned. It has undergone a sea change following the PPP philosophy of the successive governments after 1991.

There are five departments in the Ministry of Finance. The Department of Economic Affairs through the newly created Chief Economic Adviser is responsible for the preparation of the survey. Generally, the chief economic adviser is brought from outside mostly from among those who had a stint or seize the philosophy of the World Bank, while the economic service officers are kept at the level of Principal Adviser to assist CEA. They work broadly under the guidance of the Minister and in association with the Secretary. Finance Ministry is one of the most important agencies in the government and is also one of the largest. The officers in collaboration with the chief statistician procure and produce data and information for the economic survey. It is an official document and the citizens should consider this as the source for any debate on economic issues.

One of the earliest documents on survey used to give the economic outlook, review of economic trend, food grains position and prices, industrial progress, balance of payments as important components of the survey. The statistical tables used to provide data on private imports and the type of goods imported and the structure of the survey has remained almost the same for two decades. It seems some changes were brought in the format in 1974-75 with a new chapter on Industry and Infrastructure to indicate the importance of the sector for the economy. But, the 1991-92 is the watershed in the history of the Indian economy that was accused as 'license permit' raj with Hindu rate of growth, to shed its inertia on a road to fast growth trajectory. Therefore, the so called socialist mode of industrial policy built over a period of time was given a decent burial. It was mentioned in the economic survey of 1991-92 (which was in two parts) in chapter 6 on Industry that abolition of industrial licensing, deregulation of public sector, removal of investment control and amendment to MRTP to restrict only to control monopolistic and restrictive practices etc are important policies initiated. The chapter on balance of Payments clearly described the reasons for taking up the new Economic Policy, to tide over the problems in the balance of payments crisis described in the part-A of the survey. The adjustment strategy of the government consisted of exchange rate adjustment, fiscal correction, structural reforms and mobilization of 'exceptional' (emphasis added) financing from IMF etc. It is found in the 1992-93 survey a positive outlook saying that 'we must protect the weak and help the poor to ensure peace and prevent mischief.' It is also mentioned that it would bring the 'most prosperous future for our people'. Have we achieved this?

The current survey and the budget introduced by Chidambaram seem to be pragmatic in their approach; perhaps they have received enough hints from the global trends. It is necessary that our policy makers should realize to concentrate on our real economic strength, rather than heavily relying on external factors that are not under our control. In fact, the Moody rating agency has said that the 'diverse source of Indian growth' of industry and service sectors in equal weight, is responsible for India's resilience. But, we have neglected the manufacturing sector and our *annadata* agriculture as revealed in the present and in the past surveys. Even the Banking and Capital markets seem to have not helped much, as 70 to 80 percent of our savings come from the household sector while more concessions are given to the corporate. It is essential to strengthen this sector with constant flow of income and not doles for votes. People in this country need work and never rely on others as seen from the rural scene where even a Ninety year old woman found longing for work and do not rest and ever willing to contribute to the country, unlike those who sit in cozy rooms and manipulate financial markets and fatten. It is for them some theoreticians wanted to dole out cash so that it would increase monetization and help increase the aggregate demand for goods produced in the FDI financed sectors. But, India is a complex country as reflected in economic institutions; need a thorough probe so that they could be utilized for the development of the people at large, and not necessarily the chosen few.

The economic surveys that were presented in Parliament have set an optimistic outlook and continued to bring reforms in all sectors to compliment the structural adjustment policy initiated in 1991. It seems the strong and economically volatile reforms were brought during the period 1998-99. The disinvestment of PSEs like VSNL, GAIL, IOC etc to reduce the shares to 26 percent of the investment was initiated. It was also during this period reforms in the capital market were launched with Companies (amendment) Ordinance promulgation on 31st October 1998 and again in 1999 to facilitate to buy back shares by companies, amendment to SEBI facilitating equity funds in government dated securities both in primary and secondary markets etc. Interestingly a new concept of "sweat equity" consisting of equity shares used by a company can be transferred to its directors and employees at a discount or for consideration other than cash was introduced. In other words, different sectors of the economy were capitalized that seemed to have given scope for several scams later. As the ordinary politicians of Nandi category are not cognizant of such sophisticated operations; they are confined to millions and those who have access to capital market and a tradition of knowledge have become billionaires overnight through manipulations. The official information from the surveys contains several such incidents, but can be revealed only when analyzed in a broad framework of political economy or social economy of India.