India in 2017: Economic Inequality Up, While Faith in Govt Down

DEEPAŃSHU MOHAN
01.01.18

In a recent article for *The Indian Express*, Dr Pratap Bhanu Mehta wrote about the state of public institutions in India after the recent 2G judgment. The verdict, as argued by Dr Mehta, brought out the state’s incapacity to check for and penalise political and economic wrongdoing.

In December 2015, I had argued about the rising threat to India’s democratic framework due to a decline in the credibility and autonomy of its public institutions.

With 2017 coming to an end, this trend continues.

Failed experiments in implementing unilateral, ad-hoc, and centralised public policy in areas – from agricultural pricing, to demonetisation, indirect tax measures, and the bank debt situation – punctured the racing wheels of the Indian economy multiple times in 2017.

The murky state of public confidence in government institutions, termed as a “50-50 democratic success story” by Ram Guha, comes from a persistent institutional inertia in our institutions.

This inertia is responsible for low accountability and unequal access to social justice, while further exacerbating levels of social and economic inequality.

These exacerbating levels of social and economic inequality shaped the Indian economy’s journey in 2017.
1. Access to Fair Wage Employment Opportunities

Year 2017 saw a sharp stagnation in the level of farm and non-farm employment opportunities (across sectors and regions) pointing to a “jobless growth” situation.

More importantly, addressing the stagnation of real wages (ie wages adjusted for inflation) seems to be a major concern at a time where one expects commodity prices of oil etc, to rise over the course of 2018.

One can even argue that with a rising rate of consumer inflation (through higher food prices, fuel costs etc,) and a lower rate of growth of formal employment opportunities (measured through employment elasticity), India’s macroeconomic scenario may transit over 2018 towards *stagflation* (ie a state of high inflation and low employment).

In a recent detailed study conducted by the Centre for New Economics Studies, we documented the arbitrary nature of implementation of the minimum wage law across states in India which leaves most of the employed labor, especially in the unorganised, informal sector (say, construction, farming etc) vulnerable to extremely low wage levels and exploitative contracts.

The lack of reforms in key labor and contract laws dismally affects the social employment scenario across states which seem to suffer from a major skill demand-supply industrial gap. The trend without adequate reforms in the education sector may continue to worsen across India in times of the global age of a “Fourth Industrial Revolution” (through rise of automation, robotics, artificial intelligence etc).

2. Gender Inequality

2017 saw a widening of gender inequality in terms of female-to-male labor force participation rates, rising gender wage gap levels, rising violence against women etc, across India. Argued previously, a diverse set of social and economic factors at the intra and extra household level adversely affect the agency and voice of women in the economy which require greater focus and public attention.

*Improved access to social opportunities through major public and private investments in areas of healthcare, education, social protection (through insurance)*
etc, in both rural and urban areas warrant critical focus in addressing the
depthening of gender inequities (in and across India).

3. Rising Bank Debt

One of the major factors for the overall slowdown in India’s domestic investment and aggregate
demand levels in commodity markets was triggered by a rising NPA crisis and worsening credit allocation scenario for the private enterprise.

A bank with highly stressed assets not only imposed a cost on India’s macroeconomic fundamentals, but led to the government and the RBI to incur higher costs in structurally financing the debt-ridden public sector banks.

Recapitalisation has been favored as the first step in the overhauling of public sector debt in banks which earlier helped other countries like the US (after the financial crisis) in driving private investment upward.

It is likely to be seen how the recapitalisation move goes along with the management of fiscal deficit targets from the financial roadmap drawn out by the Finance Minister in the upcoming 2018 budget cycle and how this affects the aggregate private investment situation across sectors in 2018. Depending too much on the public sector for driving investment demand may put more sectors under debt, creating lopsided incentives for the private sector.

More importantly, a higher fiscal cost (if not managed well) will further affect the government’s overall capacities to socially invest higher capital for human capital developmental purposes.

Apart from the initial hurdles to small and medium sector enterprises created by implementation scenarios of the GST and demonetisation, the Indian economy during 2017 saw lowering levels of trade deficit with a volatile export situation in the manufacturing and service sector.

As the global economy, especially countries in East and South East Asia (led by China), gradually works to dominate the global investment and productivity trends, India’s own productivity scenario will require careful maneuvering of developing domestic capacities (within manufacturing and services) while managing foreign investor expectations from Indian market’s potential.
A state of institutional inertia coupled with deepening of social and economic inequities is likely to worsen India’s regional and global standing as a rising emerging nation.

(The author is Assistant Dean (Academic Affairs) and Executive Director, Centre for New Economic Studies, Jindal School of International Affairs. He can be reached @prats1810. This views expressed above are the author’s own. The Quint neither endorses nor is responsible for the same.)