

The Post-Election Economy

Jayati Ghosh

The election hullabaloo has meant that economic issues have taken a back seat, and open public discussion about future economic policies has been relatively absent. This is surprising, because even the (admittedly problematic) opinion polls brought out by various media organisations regularly describe economic issues like price rise and lack of employment opportunities as major concerns at least in voters' minds. Very few of the major parties have come out with clear programmes about what exactly they plan to do to address the complex set of problems currently facing the Indian economy, and those that have done so (such as the Left parties) have got minimal press coverage.

But in fact whatever new government is formed is going to face quite formidable challenges, both immediately and in the medium term. And these complex challenges are unfortunately ignored by both the misleadingly wishful and vague "ache din ayenge" slogan of the major opposition party and the defensive posturing of the current ruling party.

The immediate problems are kind of obvious. The mainstream media has been most concerned about the flagging rate of output growth, which is reflected in flat or declining industrial production over the previous year and decelerating exports. Declining rates of fixed investment are likely to have an impact on both infrastructure conditions and productive capacity in the coming years. Agricultural growth has recovered in the current year, but mainly because of the munificence of the 2013 monsoon, underlying the economy's continued dependence on wayward weather conditions. This dependence is a source of concern not only in itself, but because of predictions of the adverse effects of El Nino on the coming monsoon, which would in turn affect prospects for crop production in the coming year. And it is a pointer to how overall the condition of cultivators in India still remains fragile.

The other obvious problem is the continued high rate of inflation, particularly consumer price inflation, which has led to the situation being described as a stagflationary one (decelerating output growth accompanied by relatively high inflation). It is evident that this is really cost-push inflation, driven by increases in fuel prices and by prices of food items. So the focus of the government should be on addressing these elements, by improving conditions of agricultural supply and reducing the global impact of volatile food prices, and creating a mechanism of administered fuel prices that does not expose Indian consumers (most of whom have per capita incomes that are a small fraction of the global average) to high and volatile global oil prices.

Yet thus, far, the official response has been to treat inflation control as the sole domain of the central bank, in a peculiar and inevitably unsuccessful version of inflation targeting that causes interest rates and monetary policy to be the only policy instruments to be utilised. This blunt strategy affects investment and economic activity adversely, and does not really control inflation since the cost-push forces thereby deteriorate further. So the next government will have to have a more effective strategy to address inflation.

The issue of employment generation is often seen as a medium term concern, since any policies are unlikely to have immediate effects, especially in a country like India with a preponderance of informal activities. Yet it is no less pressing for that. Three aspects of the employment scenario have indeed assumed dire proportions: the decline of recognised work by women; the need to meet the aspirations of growing number of youth entering the labour force; and the fragility of existing livelihoods and employment. All of these effectively require emergency treatment – ideally within a systematic and planned medium term framework, though that may be hoping for too much in the current Indian context.

Consider each of these in turn. The recent extraordinary deterioration in women's recognised [work participation rates](#) – which is in fact one of the more obvious indicators of the economic empowerment of women – has been widely commented upon but is still inadequately understood. Much of the decline in work participation has been among self-employed workers, including (but not only) those involved in agriculture. It is true that the growing mechanisation of agriculture has played a role in reducing demand for women's work. In addition, changes in ecological conditions have led to declines in many rural activities earlier performed mainly by women, such as the collection of minor forest produce.

But there is clearly a greater degree of undercounting of the actual work participation of women, particularly because of their involvement in a range of tasks associated with “household work” including both productive and reproductive activities. In rural India, women are typically used as unpaid drudges performing work in homes and fields. Meanwhile, other changes, such as the growing difficulties of collecting fuel wood and water, have increased the time that has to be devoted to unpaid labour. It is now recognised that the time that has to be allocated to unpaid labour – in the form of not just various economic but unrecognised activities like provisioning essential items for household consumption but also the care economy generally – is likely to be an important reason for the withdrawal of women from the labour force. Indeed, there is a strong inverse relationship between work participation and involvement in domestic work. Most women, even and especially those classified as “non-workers” are engaged in these activities, which are clearly economic activities even when they are not socially recognised as such.

State action has a critical role to play in affecting the extent to which such unpaid work is required. The lack of basic infrastructure and amenities, such as piped water or cooking fuel, obviously adds to the time required to procure or collect fuel wood or water for household use. The lack of social provision of care services including medical care increases the burden of care work that falls on household members. So improving the basic working conditions of around half of the working age population (particularly those who are not even recognised as workers) requires recognising the huge significance of such unpaid work for the economy along with active state interventions designed to reduce the time, drudgery and arduousness of all such work.

The problem of employing the growing numbers of young people who are entering the labour market is an even more pressing one. India is often seen as benefiting from a “demographic dividend” because of the youth bulge that should reduce dependency rates and increase aggregate productivity in the economy. But in the absence of suitable productive opportunities for such people, this can easily become a nightmare

instead, and indeed already the indications are that we are sitting on a ticking time bomb.

The recent expansion of [tertiary education](#), for example, is certainly to be welcomed in the abstract. But in concrete terms, around two-thirds of education in tertiary education is in private institutions, which charge often very high rates from unsuspecting students and their families on the promise of better employability. So tens of millions of young people – both men and women – have sold family assets, taken expensive loans, and otherwise made sacrifices in order to get higher education degrees that they expect will deliver them paying jobs. Yet the economy is simply not generating enough jobs for such young people, and indeed formal employment of the kind that is most sought after is not increasing at all. And there are huge mismatches between required skills and the educations that is provided (including by private institutions) so that employability of graduates remains a huge concern. It does not need too much imagination to figure out what kinds of social and political tensions such a situation can generate.

But even among those who are employed – including in self-employment, which is by far the dominant form of employment in India – the volatility and insecurity of incomes is an enormous concern. The recent rise in real wages was generally seen as an indication of better conditions for workers in the country. Yet this was due to a combination of public action (the MNREGA in rural areas) and the construction boom that generated rapid increases in employment in that sector. It is not that all jobs generated in construction were necessarily desirable jobs with good working conditions, but it is nevertheless the case that construction had emerged as the most dynamic employer in the Indian economy in the past decade in both urban and rural areas. Yet that boom is now coming to an end, with all sorts of adverse implications for both employment and wages. And there appears to be nothing that can take its place, at least in the immediate future.

So the employment problem will likely get much worse before it gets better. And this is compounded by the growing difficulties faced by micro and small enterprises, including the vast army of self-employed workers, who manage to survive somehow despite all the institutional constraints and economic vicissitudes. The very fragility of their occupations means that it is easy for them to drop into absolute poverty even when they are not recognised as being “poor”, and that many of their material aspirations may remain unfulfilled. Not only that, but the continuing poor delivery of essential services like health means that material insecurity can be both cause and effects of both food and health insecurity.

These are not problems that can be easily wished away – and they definitely cannot be dealt with through broad and fuzzy platitudes about economic policy. What is also clear is that the previous strategy adopted by the UPA, of relying only on the large corporate sector to ensure growth and development, and providing all sorts of incentives to do so, has not just run out of steam but cannot deliver either real development or better conditions of the mass of people. Ideally the country needs a really new and different vision for the economy. But sadly, the parties that are being projected to do well in the coming elections do not exhibit that new vision at all.

*** This article was originally published in the Frontline , Print edition: May 16, 2014.**