

‘Government doing Exact Opposite of what’s needed to Revive Economy’*

An interview with Jayati Ghosh

The leading development economist speaks out on the predicted global recession this year and why the extremely adverse environment for small and medium enterprises is likely to continue

Jayati Ghosh, professor of economics at Jawaharlal Nehru University (JNU) in New Delhi, is one of the world’s leading development economists. A fierce critic of the near-universal obsession with ‘fiscal discipline’, Ghosh believes that India cannot revive its economy without increasing public spending. In an exclusive chat with the Magazine, she spoke about, among other things, the looming global recession, the situation at JNU, and what’s in store for the next generation of Indians. Edited excerpts:

Tell us something about your childhood.

I was born in Bangkok. My father, an economist, was posted there for a few months. My mother was expecting, but she went along with him. But they came back to Delhi, which is where I grew up for the most part.

What about college?

I went to Miranda House, where I did sociology. I was interested in understanding social processes; the more I did sociology, the more I realised that it’s just the surface, that it is the economy that’s shaping social processes. So I decided to study economics. The entrance exam in JNU at the time was such that you didn’t need an earlier degree in economics to enrol in an M.A. course there. After my M.A. in economics, I did my Ph.D. from Cambridge. Then I came back and worked briefly with the Planning Commission before I got this dream job at JNU.

You’ve been at JNU a long time. How would you describe what’s happening to it today?

JNU is one of the best universities not just in India or Asia but possibly the world. It has an amazing combination of good faculty, bright students and diverse students. This is a very special characteristic because it isn’t just geographical diversity or gender diversity but also caste, class, and ethnicity, and the OBC reservations have made it even more diverse.

Such an institution, especially in the social sciences, gives you a much greater richness of conversation in the classroom and outside. The recent move to increase fees would force nearly half the students to leave. It would not only be a terrible blow to less well-off students, but also damage the diversity that makes for much better scholarship.

International agencies have predicted a global recession in 2020. Will India be badly affected, or somewhat insulated?

The prognostication of a global recession is something I share. Unless something radical is done, we are on the verge of a significant crisis. Well before the global slowdown, we had several internal problems: falling investment rates, falling employment, falling consumption — all bad indicators domestically.

Now you add to that worsening exports, and capital moving out, and not just foreign capital. We now have data showing that domestic residents are sending huge amounts of money abroad, thanks to the liberalised remittance scheme.

There's been so much debate on whether the slowdown is cyclical or structural. What's your take?

This is a foolish debate. 'Cyclical' would mean that growth will go up, and then down, and then up again. But it is not automatic. If it goes down, and nothing happens to make it go up again, it will stay down! Then will you call it cyclical or structural?

These terms are being misused. What's happening is that we are going through a downswing, and this downswing is reflecting a lack of demand in the system. Workers don't have jobs. Farmers don't have income. So they can't buy. So eventually even the formal sector is hit.

How do we resolve the demand problem?

The government has to step in and create demand — it's basic economics! Increase your MGNREGA, spend more on infrastructure, put more income in the hands of farmers. They will spend the money. That will have a positive multiplier effect — it will generate more income, more production, more employment, more investment, and all of that. But for some reason, the government is doing the opposite. Not only is it not spending more — it is spending less.

What about the recently announced corporate tax cuts? People say it will boost investor sentiment, and thus help attract FDI.

Why does a company go into a country? It's because they anticipate profits. Now, if you are otherwise not competitive — if you have terrible infrastructure, your ports are clogged, your electricity doesn't work half the time and you therefore need expensive power back-up, your workers are not trained in the way we want and are not fed properly or housed properly, as a result of which their productivity is not great — why would they come here? In other words, taxes are one of the factors. But a number of studies have shown that taxes are like No. 17 on the list of factors that firms consider when deciding where to invest.

The world over we are looking at interest rates close to zero, if not negative interest rates. Even the RBI has been steadily cutting rates. What does this mean for the common man?

It's terrible news for the common man because it really means that if you're planning to save for your post-retirement income, you are going to be a loser — big time. Negative interest rates are a way of attacking the working class over time, as opposed to today. The reason we are stuck with very low or negative interest rates is because governments the world over refuse to use fiscal policy.

Describe the Modi government's policy orientation in one line?

Extreme crony capitalism.

But you can be very friendly to certain crony capitalists, and also do a lot for small and medium enterprises. Isn't the government doing that?

Not at all. Small and medium enterprises were smacked by demonetisation and GST, and now they are being smacked by tax inspectors. They are facing an extremely adverse environment, that too in a scenario of declining demand. So I would say this government is the opposite of small-investor-friendly.

What do you think life is going to be like for the next generation of Indians?

I worry about this a lot, because I have a daughter who is just beginning her life. I think we are headed for a demographic disaster.

But everyone keeps talking about a demographic dividend.

Demographic dividend refers to a scenario when you have lots of people of working age. But what do you call it when you have lots of people of working age and no jobs? That's why it's a disaster. Because you then get a massive increase in social and political instability.

You may paper over it, or even make it work for you politically for a while, by diverting them into loving cows, loving Mother India, and all of that. You can do this for a while, but eventually you lose control of it. There could be a general breakdown of civic order. This is my pessimistic vision.

And your optimistic one?

My teacher Joan Robinson used to say, anything you say about India, the opposite is also true. Every time I feel depressed about India, I also remember that we have amazing resilience. I have, or I used to have, this faith that Indian society, being so complex, doesn't go for extremes easily.

I don't think that there is any such thing as one 'Indian' who is tolerant and secular and all that. But the extraordinary multiplicity among Indians is irrepressible. This absence of homogeneity is something that you cannot do away with easily, and that is a massive strength.

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