

MY VIEW | VOX HETERODOX

# The government's tight fist has given our economy a body blow

A recovery and return to normalcy will prove almost impossible if the central government does not loosen its purse strings



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More bad news about the economy surfaced last month. During January-March 2020, gross domestic product (GDP) growth declined for the ninth consecutive quarter, plummeting to 3.1%, the lowest in 44 quarters since January-March 2009. For 2019-20, annual GDP growth at 4.2% was also the lowest in 11 years since the global financial crisis in 2008-09. This is no surprise, as the economy has been in a downturn for the past three years. But the economic slowdown and downturn began 10 years ago. Strangely enough, successive governments have been in a denial mode, often accentuating the problem because of their failure to act or the adverse consequences of their actions.

The past decade provides a striking contrast with period 2003-04 to 2010-11, when GDP growth, on average, was 8.4% per annum. However, during the last three years of the United Progressive Alliance 2 regime, 2011-12 to 2013-14, GDP growth slowed down to 5.5% per annum, as the government did little except hope and pray for inflation to slow down and growth to revive. The first three years of the Narendra Modi government, 2014-15 to 2016-17, did witness a recovery, with GDP growth at 7.9% per annum. Yet, it was a story of missed opportunities.

The Modi government failed to address the fundamental problems of declining investment, savings and exports underlying the slowdown. An enormous opportunity created by a sharp drop in world oil prices in 2014, followed by a similar decline in world commodity prices, was entirely lost by the high interest rates that strangled investment and a strong exchange rate that stifled exports. In fact, it was the low oil and commodity prices rather than high interest rates that moderated inflation, while the overvalued rupee only encouraged imports and volatile portfolio investment inflows but reduced the competitiveness of exports.

The slowdown resurfaced when the economy was subjected to two shocks. In November 2016, demonetization dealt a severe blow to output and employment that persisted in the medium-term. The goods and services tax, a good idea, introduced in haste in July 2017, was flawed in conception, with a multiplicity of rates, poor design and complex procedures. The preparation was grossly inadequate in the government for implementation and in the economy for compliance. These two policy decisions surely dampened economic growth during 2017-18 to 2019-20 to an average of 5.8% per annum.

In May 2019, the Modi government was re-elected for a second term with an even more decisive political mandate. Yet, the Union Budgets presented in July 2019 and February 2020, instead of being confident, were diffident, almost timid,

because of misguided fiscal conservatism. The reality of the persistent economic slowdown, staring the government in the face, was not recognized, while the political opportunity to revive economic growth by stimulating demand for investment and consumption was lost. In attempting to manage its fiscal deficit, the government simply enlarged the economy's growth deficit.

The slowdown in 2019-20 was inevitable. The lockdown during its last few days dented it further. But 2020-21 will be far worse, since almost two-thirds of economic activity was completely shut down through April and May. It will be months, not weeks, before production systems and supply chains are restored. In my judgement, GDP growth will be negative, at least -5%, possibly more, in 2020-21. This would be about the same as the worst year in Independent India so far, 1979-80, when GDP growth was -5.2%.

The draconian and prolonged lockdown is a massive shock to an economy already in trouble, and could be the proverbial last straw on the camel's back. The state of the economy is much like that of a patient in critical condition requiring intensive care. Alas, since the government's analysis and diagnosis are both wrong, in my view, the prescription cannot be right.

The announced support of ₹20 trillion is an illusory claim. Of this, ₹8 trillion is liquidity through lines of credit provided by the Reserve Bank of India. The effective fiscal stimulus, in terms of extra resources provided by the government, is at the most ₹2 trillion.

This stress on the supply side, while neglecting the demand side, reveals a flaw in analysis and understanding. Even in normal circumstances, the

speed of adjustment on the supply side is slow because supply responses take time, whereas the speed of adjustment on the demand side is fast, as incomes spent raise consumption demand without any time lag. At present, if there is little or no increase in demand, supply responses will be slower than usual. Hence, demand must be revived first to kick-start the economy. For the government, its basic aim is to minimize expenditure incurred.

The government's tight fist is visible everywhere. There is almost no relief for migrants. Cash support for poor households is minimal. Free

rations of wheat or rice and pulses, about one-tenth of household needs per month, have been limited to three months, despite massive government stocks of wheat and rice. Micro, small and medium enterprises (MSMEs) have been provided a ₹3 trillion line of credit for loans without collateral, but loans are neither automatic nor assured, while buyers owe MSMEs as much as ₹5 trillion. The limit on market borrowing by state governments has been raised from 3% to 4.5% of gross state domestic product (as suggested in my column last

month), but only if they meet specified conditions. Such conditionality, used by the International Monetary Fund in the past, is bizarre. It is not as if the central government is lending to them on concessional terms. States will borrow at market rates.

It is time for the central government to loosen its purse strings. Unless it does so, a recovery and return to normalcy will be impossible. The economy and the people will pay a huge price. But economic and political consequences for the government are also inevitable, and fiscal virtue will provide no alibi.

## QUICK READ

Even though India's downturn began about a decade ago, successive governments have been in denial of its afflictions, and this has played a big role in the poor state it's now in.

The scale of the latest stimulus also seems overstated. The government needs to spend a lot more money, or we may have to pay a huge price, which could have political consequences too.

MY VIEW | PEN DRIVE

# Don't let fake news steal the habitat of our dolphins

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To be able to observe dolphins from one's balcony is not a possibility for most in Mumbai, which may explain why video grabs of these beauties caused such a stir on social media. There must have been a time when Indian Ocean Humpback Dolphins (*Sousa plumbea*) roamed this coastal stretch in large numbers. Today, they are scattered in small pockets, one of which is the bay off Raj Bhavan, Malabar Hill. Other city locations where these dolphins are seen include Worli, off Chowpatty in South Mumbai, Marine Drive, Sassoon Docks, and Alibaug. When we were young, we used to see them often; then we forgot about them; and now, I seem addicted to sightings, perhaps just to see they are still here, trying their best to still call Mumbai their home. Over the last three years, I have been observing these humpback dolphins in the shallow waters of the bay overlooking Raj Bhavan, or the Governor's House off Malabar Hill. They make their presence felt

late in the month of December till the onset of the monsoon. Documentation shows that dolphins use this space for foraging and socializing. We have seen a dolphin pod cooperatively foraging and chasing fish just under the water's surface, an adult and calf foraging together, and also intense socializing activity, mating chases, etc., in these waters. The dolphins are highly acrobatic. They go breaching, spy hopping and porpoising, a sign of how relaxed they are in these waters. Often, cooperative foraging involves chasing a school of fish towards the shore and then catching the fish underwater as they get trapped against the sand. Over two years, the pod I spoke of has grown from 2-3 individuals to about 12. I hope the population keeps growing and reclaims the coastal waters of Mumbai.

I am told by Dipani Sutaria, an ecologist studying cetaceans (aquatic mammals) for the last 20 years, that these highly intelligent dolphins prefer shallow waters and estuaries as habitats, usually less than 20 metres depth. They are clever, and often manage to extract fish from the gill nets and purse seines cast by local fishermen.

Indian Ocean humpback dolphins are social delphinids (oceanic dolphins) that live

in groups averaging 12 individuals, although group size can vary widely. Most of their diet is composed of sciaenid fishes, cephalopods, and crustaceans. Being near-shore cetaceans, living in such close proximity to coastal development that they suffer its repercussions, they experience high rates of mortality due to anthropogenic disturbances. The threats include fisheries entanglement, environmental pollution, habitat loss and noise pollution. The International Union for Conservation of Nature lists the species as globally endangered, and the Indian government has listed the species in appendices I and II of the Convention on the Conservation of Migratory Species of Wild Animals (CMS). It is listed in the first as this species has been categorized as being in danger of extinction throughout all or a significant proportion of its range, and all CMS parties must strive to protect these animals. It is listed in

appendix II as it has an unfavourable conservation status, or would benefit significantly from global cooperation.

Unfortunately, the area where I see these dolphins almost everyday, living freely in the wild, is where the Maharashtra government wishes to erect a 200m high statue of Chhatrapati Shivaji Maharaj, a 17th century ruler of the Maratha Empire. The project includes "reclaiming" 16 hectares of the sea, all this just 1.6km off the coast of Raj Bhavan and 3.6km from Chowpatty, at a project cost of over ₹3,000 crore.

## QUICK READ

Humpback dolphins did not show up in Mumbai's coastal waters on account of our lockdown, as many false tags said alongside images that went viral on social media.

Had forwarders checked the source of the snaps, they would've known that dolphins have always been here, they're not 'visitors', and we shouldn't try to 'reclaim' their habitat.

including sharks and rays. At least three species of cetaceans use only near-shore waters: finless porpoises, humpback dolphins and Bryde's whales. If the statue goes ahead, it will not only negate the intertidal richness of Mumbai's shoreline and threaten sea snakes, pelagic birds, turtles and coral reefs, but also affect the future of people who need thriving marine life at their doorstep. It has been shown that biodiversity in urban areas has a positive correlation with one's mental well-being.

Sadly, too many of us presume ownership of all we see. In April 2020, during the covid lockdown, videos and photographs of these dolphins that I had taken were widely shared on social media platforms, various news channels and websites without my permission. No credit was given to me. Worse, the information shared along with the clippings was inaccurate, giving large numbers the wrong impression that these dolphin sightings were the result of the lockdown. This was untrue. Branding these fine dolphins as "visitors" hurts the cause of saving their habitat. An effort to trace the origin of those images, if only to honour their copyright, could have prevented the wave of fake news they set off online.

MINT CURATOR



The Christopher Columbus statue that was left headless in the US

## A statue of Columbus beheaded in Boston

A statue of Christopher Columbus in Boston has been beheaded, police said Wednesday, as calls to remove sculptures commemorating colonizers and slavers sweep America on the back of anti-racism protests. The incidents come as pressure builds in the US to rid the country of monuments associated with racism following massive demonstrations over the killing of George Floyd by a white police officer in Minneapolis last month. Italian explorer Columbus, long hailed by school textbooks as the so-called discoverer of "The New World," is considered by many to have spurred years of genocide against indigenous groups in the Americas. He is regularly denounced in a similar way to Civil War generals of the pro-slavery South.

AFP

## What a prehistoric statuette says of Chinese art

A tiny statuette of a bird carved from burnt bone about 13,500 years ago reveals the origins of Chinese art, embodying a style different from prehistoric three-dimensional artwork by people in other parts of the world, researchers said on Wednesday. The figurine, found at a site called Lingjing in Henan Province in central China, depicts a standing bird on a pedestal and was crafted using stone tools employing four sculpting methods—abrasion, gouging, scraping and incision. It is the oldest-known three-dimensional art from China and all of East Asia by 8,500 years, although there are primitive abstract engravings on bone and stone and personal ornaments made of animal teeth and shells predating it. The bird sculpture is six-tenths of an inch (1.5cm) long, apparently representing a songbird.

Reuters

## Virtual reality headsets may cause eye damage

A software developer has tweeted about how wearing a [virtual reality] headset for hours a day has damaged his eyesight. A visit to the opticians left him "worried about my future VR use" after a doctor blamed the technology for a problem with his vision. Glasses should correct the issue but would normally only "be prescribed to 40-year-olds", he tweeted. The Association of Optometrists said it had not seen evidence that VR headsets could cause permanent eye damage. Facebook-owned Oculus states that one in 4,000 may suffer "dizziness, seizures, eye or muscle twitching." Doctors have previously warned that VR, which is the computer-generated simulation of a real or imaginary environment, can cause eye strain because the brain is forced to process visual stimuli in a different way to normal.

BBC

## Hug me tender: The secret of a perfect embrace

In this era of social distancing and depressing news, we could all do with a good hug. Now scientists have analysed what makes the perfect cuddle—just don't squeeze too tight. A team from Japan's Toho University measured the calming effect on infants of hugs of different pressures, and when given by strangers compared to from parents. By monitoring heart rates for the infant and using pressure sensors on the adult's hand, the researchers assessed the baby's reaction to just being held, a hug with medium pressure, and what they called a "tight hug." According to the results, published in the journal *Cell*, babies were soothed more by a medium-pressure hug than just being held but the calming effect decreased during a "tight" hug.

AFP

## Even whooping cranes must stay locked down

The covid-19 pandemic is drastically reducing the number of young whooping cranes to be released this fall to help bring back the world's rarest cranes. Zoos and other places where the endangered birds are bred have had to cut not only staff size but use of two techniques to boost the birds' numbers: artificial insemination and hand-rearing—or, rather, costume-rearing—chicks. Whooping cranes are North America's tallest birds, 5 ft (1.5m) high from their black feet to the little red caps on their heads. They're white with black tips on wings spanning 7ft (2.1m). They mate for life. Only about 825 exist. All are descended from 15 that had survived habitat loss and hunters in 1941, breeding in Canada's largest national park and wintering in Aransas, Texas.

AP