

Data shows Indian economy has a problem but...



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India's humming economy isn't yet helping much of its low-income citizens, who need the education deficit bridged and policies that promote job-creation

Is this the best of times or the worst of times in India? For many readers of this newspaper, it is the former. By contrast, lower-middle-class households, already on the edge because of the pre-pandemic economic slowdown, have been forced by the pandemic into selling property and borrowing for consumption.

With jobs scarce even as the economy recovers, and children falling behind in schools because of learning losses during the pandemic, the lived experience of the low-income household, their *rozmarra ki zindagi*, has been worsening steadily over the last few years. You would not know any of this from business commentary or government. But it is there in the data.

Who's buying, borrowing, selling?

Start with demand. One proxy for wellbeing of the lower-middle-class, especially urban dwellers, is the sale of new two-wheelers. Data from SIAM shows that domestic two-wheeler sales have fallen by 36% since 2018-19 and are now back at 2012-13 levels. In contrast, sales of domestic passenger cars, typically bought by upper-middle-class households, fell only by 9% over the same period. And luxury car maker, Mercedes Benz, reported a 64% increase in sales in the first nine months of 2022 over 2021, and expects to match or surpass its 2018-19 sales record. Clearly, lower the income of the household, the more severely demand has been impacted.

If indeed poorer households are stressed, we should see them borrowing to support consumption. Even low-income households have gold jewellery they can pawn. RBI's monthly bulletin indicates that commercial bank loans against gold jewellery increased by a huge 218% between February 2019 and August 2022. Indeed, household borrowing other than for housing, vehicles, securities, or education increased by 80% over this period, suggesting

households across the board were borrowing to support consumption.

With global economy slowing this year, we will be even more reliant on domestic demand. Government infra spending is good but not enough. But the spending power of many is impaired

Those who cannot borrow sell. For farmers, this means land sales. According to the National Family Health Survey, average land holdings were 22% lower in the latest round (2019-21) compared to the 2015-16 round. For households in the lowest wealth quintile, land holdings shrunk by 8.5% annually since the previous round, even though the land holdings of this quintile were growing between 2% to 5% per annum in the surveys between 2004-05 and 2015-16. The poorest landowners seem to be engaged in substantial distress sales in recent years.

The good and the not so good

Could poorer rural households be selling out and moving to better opportunities in the cities? Probably not, because labour share in agriculture has increased over the last few years, in contrast to the steadily shrinking share before that – India is simply not creating enough jobs in manufacturing and services. Indeed, the demand

for “last resort” MGNREGA jobs has increased from 1.64 crore in 2015 to 3.07 crore in 2022, completing the grim picture in rural areas.

To be sure, there have been areas of substantial progress over the last few years.

- Large corporations have cleaned up their balance sheets, as have banks (though it remains to be seen how much of the pandemic-related distress has been recognised).
- As global supply chains look for alternative suppliers outside China, India could benefit.
- And Indian services exports may grow significantly as new technologies to provide services at a distance have emerged.

Accept that there’s a problem

Yet to really make this India’s moment, we cannot delude ourselves. Even though we have had quarters of spectacular growth during the pandemic, they followed quarters of dreadful decline. In reality, last quarter’s GDP numbers suggest we have grown about 2.5% per year since 2019, way below our pre-pandemic rate of about 5%. Among large economies, we are among the furthest below the level to which we should have grown in the absence of the pandemic.

The fact that a significant part of our economy is still distressed may account for this underperformance. Indeed, corporate titans

seem to recognise the drags on our economy, for their tepid investment simply does not live up to their cheery pronouncements.

Where do we go from here? Start by recognising that all is not well. With the global economy slowing this year, we will be even more reliant on domestic demand. Government infrastructure spending is good but not enough. Unfortunately, the still-healthy demand of our rich disproportionately falls on foreign goods while the spending power of the rest is impaired.

The solution is not more tariffs, which will make India a costlier place to do business and ensure global producers think twice about producing in India. Instead, our approach should be two-pronged.

- First, limit the long-term consequences of the damage already done, for instance, by ensuring children in government schools have access to remedial tutoring so that they can make up for learning losses.
- Second, implement bold reforms on the business environment and tariffs so that both foreign and domestic investment pick up to create jobs.

Only with more high-quality jobs will we restore health to the lower-middle-class, without which we cannot achieve our collective dream of prosperity.

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Illustration by Ajit Ninan

