

From Mughal India to Modi Raj

In the time of Covid has the world's fifth largest economy lost the plot?

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Sometime over the past 12 months a momentous event happened, but very few people noticed. No, not the Covid that everyone was forced to notice by lockdowns and associated mayhem but rather the surpassing of the economy of Britain, the former colonial master, by the economy of India, once a supplicant Raj. Apart from the occasional reference in an editorial or two this event went largely unnoticed. And yet, in the time of Covid, while Britain (with its Treasury managed by an Indian origin Finance Minister) is complimented by the world for its agile response to the current economic crisis, India responds dilatorily with the classic rope trick, nearly two months into the lockdown we announce a ₹20 lakh crore support to the economy. This turns out not to be big bang stimulation of demand in a stalled economy but a series of squeaks worth no more than ₹3-4 lakh crore by most economists' estimates. Never mind the nightmare of the largest migration the country has seen since the disastrous partition of the country and never mind the near-starvation the lockdown has visited upon the poorest sections of the population.

It is interesting to compare India with Britain partly in the context of the colonial relationship. Historians like William Dalrymple tell us that the India of the early seventeenth century had the largest economy in the world. According to Dalrymple in his book titled, *Anarchy*, when the English King's ambassador, Sir Thomas Roe, arrived at the Mughal court in 1615 he was treated with near-indifference and returned home after three years with limited results from his trade mission. It was not until the disintegration of the Mughal Empire following the reign of Aurangzeb, more than a hundred years later, that the British traders of the East India Company took advantage of the ensuing anarchy to gain ascendancy not only in trade but graduated to become plunderers and despots. By the time they left in 1947, according to former Prime Minister, Manmohan Singh, "the brightest jewel in the British Crown" was one of the poorest countries in the world in terms of per capita income.

Today, with the Indian economy on the rise we find what should have been a government growing in confidence reduced to timorous economic management. While the British government announces 80% income support for middle class workers the Indian government cannot even promise ₹7,000 a month to its poorest families (as suggested by industrialist Azim Premji). The government appears to believe that the country will sink to a level of borrowing that will be unacceptable to international rating agencies and multinational investors alike besides fuelling inflation. All of these we are told will result in a ratings downgrade and a disastrous flight of capital crippling the economy.

As of now, our government has in effect committed just 2.5% of GDP in fiscal stimulus, increasing the national debt from 69% to 72% of GDP. Even by the most liberal assumptions of profligate spending by the centre and states, Fitch and others suggest this debt will rise to 77%. Britain by contrast had borrowing equivalent to 86% of GDP before the pandemic and the current stimulus is expected to increase the national debt to over 100%. Many other

countries, with weaker economies than ours (including our neighbours) have announced much larger stimulus packages relative to the size of their economies. The fact that our fiscal stimulus is accompanied by a range of pronouncements on economic liberalisation is of use neither to the poor woman in rural Bihar with children to feed nor to the migrant worker trudging over a thousand kilometres to his home in MP dodging police lathis on the way. The British left India in 1947, but the Raj they relinquished control of is alive and well. Not only that, while the British today are not scared of international rating agencies or flighty investors, the successors to the Raj have become weak-kneed supplicants to them.

But before we completely abandon millions of our fellow citizens to their fate, let us consider the realpolitik as well as the economics of the government's thinking in this matter. First, as pointed out above, the national debt is not overstretched in comparison with other economies of our size; a further increase in borrowing necessary to provide meaningful support to poor families would merely compensate for the deflationary effects of lockdown. The question of fuelling inflation with the subsistence expenditure of near-destitute mothers in Bihar and Odisha is simply laughable.

On ratings, many commentators have pointed out the relative nature of the exercise. In a world where every country faces recession, the likelihood of an individual country being downgraded declines. If all countries are downgraded, it will surely lead to a wholesale readjustment of the rating agencies' overall scale resulting in all economies staying where they are. Similarly, the concerns of international investors; much of their money has already flown, more money flowing out will not find a place anywhere in the world. Will international investors really be happy to put all their money into US Treasury Bonds with sub-one percent yields?

Even the IMF has recognised that India will be the fastest growing large economy in the world in 2020, can international investors really ignore us, and has our government not noticed? Particularly if the reforms announced are truly undertaken, though sadly that is a big if, it is highly unlikely that there will be a significant flight of international capital from this point. The only issue that remains is the resurrection of demand to revive the economy; demand that can be stimulated by an injection of income directly into the hands of the poorer segments of the population; an injection that can be quickly financed by monetising the deficit. Without it there will surely be recession and all the Modi Raj's worst nightmares may come true; the fifth largest economy in the world will have lost the plot due to its own lack of confidence. Come back, Rishi Sunak!

[999 words, SS/M-CRIL, 21 May 2020]

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