

# The Economic Survey that wasn't

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Paper - III  
(Indian Economy)

It is generally acknowledged that the Budget of 1991 which was presented by the then Finance Minister, Dr. Manmohan Singh, is one of Indian economic history's landmark events. The Budget is still widely lauded by neoclassical economic commentators because it marked a structural shift in India's economy away from the hands of the government to the hands of private enterprise, and embraced free trade. That was the prevailing wisdom then, dubbed as the 'Washington Consensus'.

## Current Scenario

Three decades later, many developed economies, including America, Britain, and Germany, are now reversing course to economic nationalism and increasing the role of government in their economy through industrial policy, ostensibly as a response to China's economic might and weaponisation of trade. This is a profound shift in economic thought and perhaps the greatest symbolic victory for China's economic model that has forced the 'Washington Consensus' champions to backpedal.

## India's situation

A disappointment In this context, what should India's economic strategy be? Should India too revert to increased state control of the economy through an active industrial policy? In which case, should India exercise greater control over the exchange rate of the ru-

## Washington Consensus

The term 'Washington Consensus' was used by American economist John Williamson in 1989. Under this, he suggested policy reforms for the then Latin American countries, which were also agreed upon by institutions like the Washington-based IMF and the World Bank, and considered them necessary to get these countries out of the crisis. The 'Washington Consensus' model emphasizes on comprehensive economic liberalization, under which there were the following 10 dimensions of policy reforms: -

1. fiscal discipline,
2. redirecting public expenditure,
3. tax reform,
4. financial liberalisation,
5. adoption of a single, competitive exchange rate,
6. trade liberalization,
7. removal of barriers to foreign direct investment,
8. privatization of state-owned enterprises,
9. Market entry and deregulation of competition,
10. protection of property rights.

Over time, however, the term became synonymous with 'neo-liberalism' (in Latin America), 'market conservatism' (as George Soros put it in 1998), and even 'globalisation' around the world. It is also used to denote overconfidence and blind commitment that the market can handle any situation.

And impose trade restrictions? The Russia-Ukraine conflict has had enormous geoeconomic consequences by recreating a stark bipolar world order of a China/Russia bloc vis-à-vis western bloc of nations. How will India's economy be impacted by this, especially as we seem to have harked back to bilateral currency arrangements with Russia for trade, abandoning the dollar? These are all questions that are immensely important and imminently urgent, calling for serious discussion and debate among policy thinkers and makers.

### **Economic Survey - point of discussion**

The Economic Survey presented by the Chief Economic Adviser a day before the Union Budget has typically been the medium to raise issues for public discussion and ponder over such strategic economic matters. At least, that has been the case over the past decade or so. Surveys of the previous years had put out various ideas and issues such as universal basic income, economic divergence among States, steps to improve property tax revenues using satellite technology, new ways to calculate inflation using the Indian thali, estimating internal migration of people, and so on. Many of these may not have even been fully fleshed out or well-researched policy ideas, but they at least served as an intellectual public good by triggering a debate and forcing policy influencers to think about these issues.

### **Economic Survey 2022-23**

Disappointingly, the Economic Survey of 2022-23 did not provoke any such deliberation or discussion. It is a rather dry compilation of data to substantiate the Narendra Modi government's economic performance. The Economic Survey has 66 tables and 246 charts with cherry-picked data points (e.g. fig. II.8) that seek to portray a stellar image of the government's economic management and blame the previous regime for all ills, which is perhaps an occupational hazard, and an inevitability in the current climate of politics and government. But the Survey had some new and interesting data — on the housing market, digital infrastructure, etc. — and putting out such copious amounts of economic data in the public domain in itself is a yeoman service to be appreciated.

### **Why was the 'Washington Consensus' brought about?**

- The term 'Washington Consensus' is generally used for the agreement between the 'International Monetary Fund', the 'World Bank' and the 'US Department of Treasury' on economic reforms and liberalization. Through this consensus, it was emphasized that for the developing countries of 'Global South', Asia, Africa, South America, neo-liberalism, free market system and 'minimum intervention of the state' are necessary.
- In fact, by the late 1970s, the world became aware of the many limitations associated with the 'state-supported economy' and market-based economies, that is, the private sector, began to be encouraged. Many countries advocated a comprehensive change in their economic policies with the argument of 'minimum role of government' in the economy, towards increasing the role of the private sector.
- In this way, through the 'Washington Consensus', countries were forced to adopt liberal development strategies. This consensus is a set of economic policies to guide economic recovery. This includes macroeconomic stabilization, opening up of the economy to trade and investment, and expanding market-based forces to the domestic economy as well.
- This paved the way for the domination of Western-style capitalism. It was aggressively promoted by the International Monetary Fund and the World Bank.

Unlike previous years, this year's Survey has only one volume and also a separate 'Highlights' volume that lays out the key messages creatively and simplistically for a larger audience. The broad story is that the Indian economy has recovered from the novel coronavirus pandemic but is still at the mercy of global geopolitical developments, and so the Economic Survey has been honestly cautious about future growth and inflation. Unsurprisingly, it has painted a rosy picture of both Goods and Services Tax (apparently because it has improved tax buoyancy) and of the corporate tax cuts of 2019 (because it seemingly helped clean up bloated corporate balance sheets). The chapter on the social sector has delved deeper than previous surveys have done into issues of employment, rural wages, a demand under the Mahatma Gandhi National Rural Employment Guarantee Act, and other important human capital topics supplemented with vast amounts of data. But an analytical discussion on the employment intensity of contemporary economic growth models and ideas to boost job creation is missing. Instead, the chapter inexplicably concludes that the 'PM's Minimum Government Maximum governance vision will hold the key to equitable economic growth', sounding like a Bharatiya Janata Party manifesto.

### In Survey

A mirror of the government's line The Survey exults over the increase in government capital expenditure from 12% of total expenditure in 2014 to 19% now. With much global uncertainty, tepid corporate investment, and precarious asset markets, the emphasis on public capital expenditure to boost the economy is prudent and wise. On private sector investment, it waxes eloquent about manufacturing and Production Linked Incentive schemes with grandiose but unsubstantiated claims of attracting ₹3 lakh crore in capital investment and generating six million new jobs in the next five years.

Like the government of the day, the Economic Survey also suffers from the 'take credit for the rains but blame nature for the drought' malaise when, for all the 'Make in India' hype, manufacturing gross value added (GVA) grew only at 4% (real) even before the pandemic hit, which it blames on corporate 'indigestion' from too much debt accumulated during the previous regime.

### Implementation, Criticism and End of 'Washington Consensus'

- Implementation of some was imposed as a condition for obtaining loans from the IMF and the World Bank. The consequences of these reforms have been much debated. He has been widely criticized.
- Much of the criticism has focused on trade liberalization and the elimination of subsidies, and the criticism has been particularly sharp in the agricultural sector.
- In countries with substantial natural resources, criticism has tended to focus on privatization of the industries that exploit these resources. Some critics focus on claims that the reforms led to instability.
- Some critics have also blamed specific economic crises such as the Argentine economic crisis (1999–2002) and the Washington Consensus for increasing Latin America's economic disparities.
- The IMF and the World Bank began to soften their insistence on these policies in the 2000s largely due to political pressures surrounding globalization, but any reference to these views as a consensus essentially dates back to 2008. Ended in the wake of the global financial crisis, as market fundamentalism lost support. This is called the end of the Washington Consensus.



Yet, it is neither unreasonable nor unfair to have expected a little more intellectual acuity into some of the pressing economic issues of trade, industrial policy, capital account, and inequity that the whole world is ruminating over now. More so because the Chief Economic Adviser is eminently qualified and wise, who would have thought deeply and formed an opinion about the direction that India should take at the current crossroads of economic strategy.

## Conclusion

The Economic Survey is in fact the only medium in the country for rigorous, thoughtful and nuanced discussion of new economic ideas. Perhaps it was a deliberate move to stick to data and facts to provide a report card of the government's economic performance and not, like previous surveys, a doctoral thesis on economic road maps to spur discussion in the public sphere. Regardless, the Economic Survey 2022-23 could have probed into the issues in depth and provided a roadmap for India's economic reform and development instead of sounding like a political manifesto.

### Expected Question

**Que. 'Washington Consensus' is related to which of the following?**

- (a) Economic liberalization
- (b) Economic sanctions
- (c) Free trade system
- (d) Bilateral relations



**Answer : A**

### Mains Expected Question & Format

**Que.:** Throw light on the 'Washington Consensus' in view of the present scenario of the global economy including India.

**Answer Format :**

- ❖ Tell the current scenario of the global economy including India.
- ❖ Tell about 'Washington Consensus'.
- ❖ Give a balanced conclusion keeping in view the Economic Survey of India.

**Note:** - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC mains examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.