Social Fabric and Economic Growth

What is the issue?

- India is evidently witnessing an economic slowdown with varied indicators reflecting the trend.
- In this backdrop, here is a look at the constraining factors to economic development, with social fabric of the country playing a key role.

What are the key indications of economic slowdown?

- The nominal GDP growth is at a 15-year low.
- The unemployment is at a 45-year high.
- Household consumption is at a four-decade low.
- Bad loans in banks are at an all-time high.
- Growth in electricity generation is at a 15-year low.
- More worryingly, most recent retail inflation numbers have shown a sharp increase, especially the food inflation figure.
- Retail inflation is expected to rise even further in the coming months.
- Continued increase in inflation combined with stagnant demand and high unemployment may lead to 'stagflation', which would be hard to address.
- These in themselves are not the cause of worry.
- These are instead the manifestations of deeper underlying drawbacks that plagues the nation's economy today.

How is social fabric a factor in this?

- The role of social trust in economic development has been well-established.
- It is documented right from the times of Adam Smith to the modern-day discipline of behavioural economics.
- The functioning of economy is the result of the combined set of exchanges and social interactions among its people and institutions.
- Mutual trust and self-confidence are the bedrock of such social transactions among people that foster economic growth.
- So, a nation's state of the economy is also a function and reflection of the state of its society.

- The poor state of the former is, in turn, an indication of the weakening of the country's social fabric of trust and confidence.

What are the constraining factors to economic growth?

- There is an apparent climate of fear in the country's society today.
- Many industrialists live in fear of harassment by government authorities.
- Bankers are reluctant to make new loans, for fear of retribution.
- Entrepreneurs are hesitant to put up fresh projects, for fear of failure attributed to hidden motives.
- Technology start-ups are an important new engine of economic growth and jobs.
- But, they seem to live under a shadow of constant surveillance and deep suspicion.
- Policymakers in government and other institutions are scared to speak the truth or engage in intellectually honest policy discussions.
- There is profound fear and distrust among people who act as agents of economic growth.
- In all, this distrust adversely impacts economic transactions in a society, leading to a slowdown of economic activity, and eventually, stagnation.

- On the other hand, public trust in independent institutions has been severely eroded.
- These include the media, judiciary, regulatory authorities and investigative agencies.
- So, there is a lack of a support system for people to seek refuge against unlawful tax harassment or unfair regulations.
- This also makes entrepreneurs lose their risk appetite for undertaking new projects and creating jobs.
- This toxic combination of deep distrust, pervasive fear and a sense of hopelessness is severely restricting the growth potential of the economy.

What is the way forward?

- For economic growth to revive, it is important that the strained social fabric of fear and distrust is corrected.
- It is very important for businessmen, capital providers and workers to feel confident.
- While India is currently not in stagflation territory yet, it is prudent to act quickly to restore consumption demand through fiscal policy measures.
- Notably, the impact of recent monetary policy measures seem muted.
- Given all these, India's fragile economic situation calls for the twin policy actions of -

1. boosting demand through fiscal policy
2. reviving private investment through ‘social policy’ by inspiring trust and confidence in the economic participants

Source: The Hindu