Immiserization behind the Recovery*

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Ministers from Narendra Modi to Nirmala Sitaraman are talking about a recovery of the Indian economy from the pandemic-induced crisis. Even the Reserve Bank of India which estimated the second quarter GDP growth to have been -8.6 percent, has seen signs of recovery in October.

Of course there had to be a recovery from the deep abyss to which the lockdown had pushed the economy, as some degree of normalcy returned; it is no reflection of any virtue of the government. Even the 8.6 percent drop in GDP in the second quarter (compared to the previous year's second quarter), represents a return towards normalcy in the light of the 23.9 percent drop in GDP in the first quarter, compared again to the previous year's first quarter.

But while the economy, not surprisingly, is climbing out of the abyss, how far it will climb depends on the nature of the climb itself. And here the inescapable conclusion is that since the recovery is accompanied by significant labour displacement and a squeeze on the wage rate per labour-hour of the working people, leading to a rise in the rate of surplus value, it will get aborted before long.

The RBI's figure of an 8.6 percent drop in GDP in the second quarter of 2020-21, is an econometric estimate, not a statistical one, of the sort the government's National Statistical Office (NSO) normally brings out. The former, unlike the latter, relies on a modelling exercise to which some limited data have been fed. Even so however the NSO's estimates are unlikely to be too far from what the RBI has provided. But the International Labour Organization's estimates for the same quarter July-September 2020 show that for South Asia, in which India has an overwhelming weight, there has been an 18.2 percent drop in labour-hours worked compared to the October-December quarter of 2019; we can expect a roughly similar drop to have occurred compared to the July-September quarter of 2019. The drop in GDP between July-September 2019 and July-September 2020 can thus be safely taken to be much less than the drop in labour-hours worked for producing this GDP. Or, putting it differently, the recovery from the abyss to which the lockdown had pushed the economy has been accompanied by a considerable reduction in labour input per unit of GDP.

This reduction obviously has not been caused by any technological progress of a labour-saving kind, since we are talking here of a period too short for technological progress. There can be only two possible explanations for this phenomenon, of the recovery of GDP from the abyss being greater than the recovery of labour-hours worked.

The first is through a retrenchment of labour that was in the nature of "overheads" and hence non-retrenchable earlier. Any observed reduction in labour input can come about through economizing on such overhead labour which consists above all of salary earners' labour. Salary earners, and even a segment of wage earners, whose pay does not usually vary in accordance with how much output is produced but constitutes an overhead component, are now treated on a par with contract workers: they are retrenched when output is reduced because of the lockdown.

The second way in which a recovery in output can be accompanied by reduced labour input per unit of output is if there is a change in the sectoral composition of this output, i.e. if the recovery is concentrated in sectors with lower labour input, while those sectors which are more labour-intensive continue to languish. There is good reason to believe that this must have played a major role since the informal sector outside of agriculture which is highly labour intensive and which had been hit badly by the lockdown is still to recover, while whatever recovery has occurred is confined mainly to the corporate sector of the economy, both public and private, that is less labour-intensive.

In addition to the apparently reduced labour input per unit of GDP, there is also a reduction in wage rates. The RBI's own report states that the corporate sector has been cutting costs. A very important element of such cost-cutting is the reduction in wage-cost, which arises both because of the reduction in labour-hours per unit output and also earnings per labour-hour. It is because of such cost-cutting that there is for the first time after several months a positive net profit in this sector. This has arisen because sales have picked up compared to the trough while costs have not increased correspondingly.

Now, if the informal sector continues to languish, then that means considerable loss of employment. Likewise, if there is retrenchment of salaried workers, or a wage cut imposed on the mass of workers, whether blue or white collar, then that means loss of income per labour-hour for them. Both these ways entail a reduction in labour income per unit GDP, i.e. an absolute immiserization of workers in the process of the recovery of GDP from the lockdown-induced abyss. Even as the recovery of the GDP still keeps it below the pre-pandemic level, the average living condition of the working people remain to an even greater extent below the pre-pandemic level. This entails an increase in the rate of surplus value in the process of recovery itself.

Two bits of evidence confirm this picture. One, as already mentioned, is the sharp rise in the operating profits of the corporate sector, as revealed by the performance of 887 non-financial listed companies which account for four-fifths of the total capitalization of all listed non-financial companies. Comparing a quarter to previous year's corresponding quarter, the RBI's monthly Bulletin says: "Expenses of these companies. Fell faster than sales in the quarter ending September 2020, resulting in a sharp rise in operating profits after two consecutive quarters of contraction".

The other bit of evidence is the sharp rise in the number of job applicants under the MGNREGS. This number increased by 91.3 percent in October, which is indicative of the inaccessibility of jobs elsewhere. There has been a reverse migration from the town to the country during the lockdown, and whatever revival is occurring in the economy has not ameliorated the over-crowding of rural job markets arising from this reverse migration. This also lends credence to the suggestion made above that the urban informal sector from which most of these migrants had come is still not witnessing any significant recovery.

If a recovery is nonetheless occurring despite an absolute worsening of the conditions of the working people relative to GDP, the reason for it must be that consumption demand is sustained by borrowing or by using up cash reserves. But this cannot go on for long. The absolute worsening of the condition of workers because of unemployment and reduced incomes, must soon affect consumption demand, and hence aggregate demand. At this point the recovery will come to an end.

Despite repeated pleas by economists and civil society groups, and several political parties, including above all the Left, the Modi government has done nothing to put purchasing power in the hands of the people. The warning that not doing so will scuttle the recovery has fallen on deaf ears. Most of the measures announced in the stimulus packages announced by the government from time to time, including in the latest one, apart from being utterly paltry, address themselves primarily to the task of making life easier for the capitalists. But no matter how easy life is made for them, no matter how great an improvement occurs in the "ease-of-doing-business" index for India, capitalists are not going to invest in this country unless there is an increase in aggregate demand.

The vigour with which the coronavirus has made a reappearance in places where it had apparently disappeared, and the fact that it has not even temporarily disappeared in many countries including notably the United States, suggests that recovery through an increase in net exports is simply not on the cards.

The only possibility of reviving the economy then is through increasing demand, especially consumer demand, at home. This is important both for the welfare of the people caught in the grip of a pandemic, and for a revival of the economy. But the government has done virtually nothing to revive such demand. On the contrary, we find a rise in surplus value accompanying even the limited recovery that has occurred, which is bound to bring this recovery to a halt.

*** This article was originally published in the Peoples Democracy on November 22, 2020.**