 DOI: https://doij.org/10.10000/IJLMH.112530

INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES

[ISSN 2581-5369]

Volume 5 | Issue 1

2022

Changes in the Indian Economy in the 21st century & its Varying Impacts

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ABSTRACT

The 2008 and 2020 recessions, were both estimated to be 'once in a lifetime' events, that occurred within nearly a decade of each other. Both left formidable impacts on the world, and in India, wherein with an inadequately equipped healthcare system, and a lack of government response, the impact on the poor in the country has been devastating. This paper studies the immediate aftermath of both recessions and draws parallels between the two, while discussing the systems that allowed for the tragedy to recur.

Post-independence, the Indian economy can broadly be divided into three main parts - the Socialist Era, the Economic Bust of 1970, and the Capitalist Boom that followed the liberalisation of India's markets. In the 21st century, the Indian economy can be categorised by the politics that has governed each decade - the liberal centre and left in the 2000s, and the right wing following the 2014 election. In 2021, the country has fallen into its fifth ever financial recession, forty years after the last in 1980.

Two major fiscal events have defined the 21st century in India - the 2000s economic boom, followed by the global recession of 2008; and the Covid-19 crisis of 2020, and the recession of 2021. Both events have had significant impacts on Indian households, and have altered the path of the Indian economy.

The early 21st century was termed "India's Dream Run"[3]. The boom in growth lasted for five years, with the economy growing 9% annually, until the financial crisis of 2008 hit the global markets. India was an emerging economy, having liberalised its markets in 1991. This five year dream run was a "(private) corporate debt-led growth" which was partially funded by domestic savings, and financed by foreign private capital[4].

The 2000s global financial crisis first began in 2007 in the United States, with the 'sub-prime mortgage' crisis being the first. The Indian economy seemed well-protected from the crisis

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[3] R. Nagaraj, *India's Dream Run, 2003-08: Understanding the Boom and Its Aftermath*, 48 Economic and Political Weekly , 39-51 (2013)
[4] Ibid

when it first began, with the RBI raising interest rates until July of 2008, trying to cool the growth rate of the country, and contain inflation. In September of 2008, the financial meltdown in the United States turned into a global economic crisis nearly overnight, and the Indian economy suffered immediately. In 2009, for the first time in 60 years, the International Monetary Fund began forecasting a global recession, and with that, the entire world was suddenly in crisis.

Emerging market economies were severely impacted globally by this market crash. These EMEs, including India, had all been on a steady uptick before the crisis, which was financed by borrowing in global capital markets, and exporting outputs to advanced economies. This meant that all EMEs were vulnerable to the availability of credit, and the demand for their output[5]. Thus, when developed economies faced a lack of credit, EMEs became unable to finance foreign debt, which translated into them being unable to borrow even in domestic markets, damaging their working sectors.

Before May 2008, all EMEs were protected from the global financial crisis that had affected developed economies for the last sixteen months[6]. In India, the impact of the crisis can be traced through the deterioration of all macroeconomic and financial indicators between 2008 and 2009. Industrial production, which had been growing by a 9.2% average for the past four years, grew by 2.7%. The growth of the economy slowed, and the BSE Index lost 37.9% of all its value, which meant that the wealth of an average household in India decreased.

The 2008 market crash led to the slowing down of the Indian economy. There are three effects a slowdown in growth brings: Firstly, exports and foreign investments (both direct and portfolio) and ODA flows suffer, which means there is slower growth. Second, the poverty-reduction effect that the growth caused, slows down. Third, government revenue is then adversely affected, which means that governments now possess less fiscal space[7]. The rural sector of India, particularly the rice and wheat growing irrigated sectors, cushioned the country's economy during the slowdown. A study by the Rural Marketing Association of India, conducted between July and December 2008 on the rural markets of India found no evidence of an economic slowdown, more so amongst those who live off of agriculture. There existed a marginal impact on those who earned a living from trade and manufacturing.

[5] K.G. Viswanathan, *The Global Financial Crisis and its Impact on India*, 9 Journal of International Business and Law (2010)
[6] Michael Dooley & Michael Hutchison, *Transmission of the U.S. subprime crisis to emerging markets: Evidence on the decoupling–recoupling hypothesis*, 28 Journal of International Money and Finance , 1331-1349 (2009)
[7] Bibek Debroy (2009): "Growth Downturn and Its Effects" Published by UNDP India

Since the 1990 liberalisation and reform of the Indian economy, the majority of employment creation in the country has occurred in manufacturing, construction, trade, hotels and restaurants, transport, storage, and communications. These were the sectors that the economic slowdown impacted the most[8]. However, there are no statistics that officially coincide with the period of economic boom. Thus, while there did exist an unprecedented output expansion in the 2000s, the employment in these sectors did not grow. As a result, there was no economy-wide growth in employment in the 2000s, and soon after the 2008 crisis, export rates decreased, and employment in labour-intensive fields decreased.

Migrant workers in India, who made up the bulk of employment in the export sector, found themselves in precarious positions. Facing unemployment, they were forced to either stay in debilitating conditions in urban areas, or return to their places of origin. Earlier, these workers acted as providers of monetary benefits to their households, and overnight, they turned into dependants, even as these households faced circumstances much more fragile than before. Most migrant workers came from financially depressed and backward parts of the country, which meant that returning home too, held no appeal[9]. This mass overnight unemployment, and the exodus of workers, are circumstances that repeated themselves in the 2020 Covid-19 crisis.

The first lockdown in India was implemented without a care to the aforementioned migrant workers, many of whom had to trek back home hundreds of kilometres with no government support[10]. This was the country's biggest migration since the partition, with 10.6 million workers walking back home. These workers were stigmatised and also blamed for the spread of disease[11], despite being one of the worst affected groups. Migrants died due to a multitude of reasons during the pandemic, including starvation, suicide, exhaustion, transport accidents, police brutality, and a lack of medical care[12]. The lockdown that led to the mass exodus of these workers led to extremely detrimental effects on their physical and mental health. The lack of employment, and inadequacy of the public healthcare system has increased their risk of death during the pandemic.

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[8] Supra 5.

[9] Supra 7.

[10] Shailendra Kumar & Sanghamitra Choudhury, *Migrant workers and human rights: A critical study on India's COVID-19 lockdown policy*, 3 Social Sciences & Humanities Open , 100130 (2021)

[11] Ling San Lau et al., *COVID-19 in humanitarian settings and lessons learned from past epidemics*, 26 Nature Medicine , 647-648 (2020)

[12] Urvashi Pareek & Nagendra Ambedkar Sole, *Indian Migrant Workers during the COVID- 19 Pandemic: Perspectives and Policy Responses of the State*, 8 Public Affairs And Governance , 267-289 (2020)

The growing disparity of development in India was exponentially highlighted during the Covid-19 pandemic. Between the months of March and October 2020, Mukesh Ambani's wealth more than doubled, reaching $78.3 billion, and the business monolith jumped from being the 21st richest person on the planet to the 6th. In that period, the average increase in his wealth over four days was more than the combined annual wages of all his 1,95,000 workers[13].

This effect, however, has not been limited to only India. Globally, during the biggest recession since the Great Depression, the rich have gotten richer, and the poor poorer. Current financial inequality in India, which fell post-Independence, is now back to levels last seen during the colonial era[14].

The pandemic has also made public the absolute absurd neglect of the healthcare system in India. While the healthcare of celebrities was covered strenuously, thousands of Indians died due to the lack of basic healthcare facilities in India. The country has the fourth lowest healthcare budget globally, in terms of shares in government expenditure. Only half the population has access to even the most basic healthcare services[15]. Case data for the pandemic in India has not been reported sorted in accordance with socio-economic or social categories. This makes it difficult to understand the distribution of Covid amongst communities[16]. A study has shown that there existed a greater interference to the care provided to poor and SC patients, while women faced higher non-Covid related mortality due to the lack of care-taking for women by households[17].

The poorest have also had to face the worst health impacts of the pandemic. Inadequate housing means these people are forced to live in crowded dwellings, and face a lack of basic sanitation and water facilities. Aside from this, state governments used the pandemic as an excuse to increase daily working hours, and suspend minimum pay legislation in the country[18].

While workers suffer, the wealth of Indian billionaires has increased by 35 percent during the lockdown. The increase in wealth of even the top 11 billionaires during the pandemic can sustain the health ministry of the country for the next decade[19]. Aside from being morally outrageous, this disparity in resources becomes a practical issue in the country. This increase

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13 Esmé Berkhout et al., The Inequality Virus (Oxfam India) (2021)

14 Lucas Chancel & Thomas Piketty, *Indian Income Inequality, 1922-2015: From British Raj to Billionaire Raj?*, 65 Review of Income and Wealth (2019)

15 M. Martin, Fighting inequality in the time of COVID-19: The Commitment to Reducing Inequality Index 2020 (Oxfam International and Development Finance International) (2020)

16 Supra 11.

17 https://web.stanford.edu/~pdupas/Jain,%20Dupas_NonCOVID%20Health_Paper_web.pdf

18 Supra 9.

19 Supra 11.

in wealth for Indian billionaires could effectively keep 40 crore informal workers in India out of poverty for five months.

While there was government reluctance to spend money on public healthcare, the centre actively subsidised the corporate sector and the Indian elite. The fourth Covid-19 relief package benefitted a variety of Indian corporations, including Adani, and the Reliance Group. At the same time, the rest of the country used twitter as their main healthcare provider, as they ran out of oxygen cylinders and hospital beds. In early 2020, 84% of Indian households suffered from a loss of income. Thousands lost jobs hourly, and nearly 200 people killed themselves due to starvation and financial distress between March and July[20].

Since March 2020, unemployment has risen sharply in India. A lack of opportunities means that individuals have had to turn to borrowing in order to run their households. It is estimated that nearly 122 million workers have lost their jobs, and 92 million of those jobs were in the informal sector[21]. The formal sector lost nearly 18.9 million jobs[22]. Of those who retained their jobs, a survey by the Institute of Social Studies Trust displayed that nearly 83% of female workers faced a severe income drop. Sixty-six percent of these workers also faced an increase in unpaid care work, along with a burden of child and elderly care. As a result, the total time women spend in both paid and unpaid labour has increased, with work-from-home culture blurring the lines between working and personal hours, increasing the number of hours women now work.

Since the pandemic began, the Indian state has shown itself to be a stoic body, uncaring of the lives of its citizens. As thousands have died across the country, the governing party has allowed for religious gatherings and held election campaigns, even as people lay dying on the streets due to a lack of basic healthcare. Despite nearly every citizen being able to attest to the opposite, the state has denied deaths due to a lack of oxygen, and blamed the opposition for the pandemic. The PM Cares fund, a government of India trust that deducted money from the salary of government employees in order to help 'fight against Covid' has not spent a single penny on the lives of its citizens, as the state denies any accountability to its people.

CONCLUSION

With the disparity in earnings, India's vital need of the hour is a wealth tax. As new variants of Covid-19 affect individuals, leading to an increase in cases, it is unclear whether the country

[20] Supra 15.
[21] https://practiceconnect.azimpremjiuniversity.edu.in/covid-19-lockdown-impact-on-informal-sector-in-india/
[22] Vyas M. (2020): "An Unhealthy Recovery", https://www.cmie.com/kommon/bin/sr.php?kall=warticle&dt=2020-08-18%2011:02:19&msec=596

will go into another lockdown. While the current scenario is uninspiring, the country has made a push for a return to normal life, with universities, schools and workplaces opening up as people return to life the way it was pre-pandemic. Despite this, the impact of the last two years will last for decades. The massive loss of human life and employment, the cracks in our healthcare system that has been exposed to be held together by prayer and glue, all points a finger at a system that has been built to cater to the elite. The increase in global wealth for billionaires during the last two decades, while middle and lower class individuals have struggled through two 'once-in-a-lifetime' recessions, highlights that the system does not exist to cater to the average person. With labour shortages in the United States, and rising unemployment in Asian markets, how the rest of the decade unfolds rest with the policies governments aim to make.

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