

## **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**

