BUDGET CAN ARREST GROWTH DECLINE: ECONOMY

NEWS: How can the Budget arrest growth decline?

WHAT'S IN THE NEWS?

India's economic slowdown is driven by weak private consumption and investment despite increased government capital expenditure. A shift towards higher revenue spending may be necessary to boost demand and employment.

1. India's Economic Slowdown: Key Issues

- **GDP Growth Below Expectations:** Despite rising government capital expenditure, economic growth remains sluggish.
- **Weak Private Consumption & Investment:** Households and businesses are not spending or investing enough.
- **Major Economic Shocks:** Demonetization (2016), GST (2017), and COVID-19 lockdowns (2020) weakened the economy.

2. Three Phases of India's Post-Reform Growth

(i) 1991-2004: Moderate Growth & Initial Reforms

- Economic liberalization led to **gradual GDP growth** but limited welfare spending.

(ii) 2004-2011: High Growth & Welfare Expansion

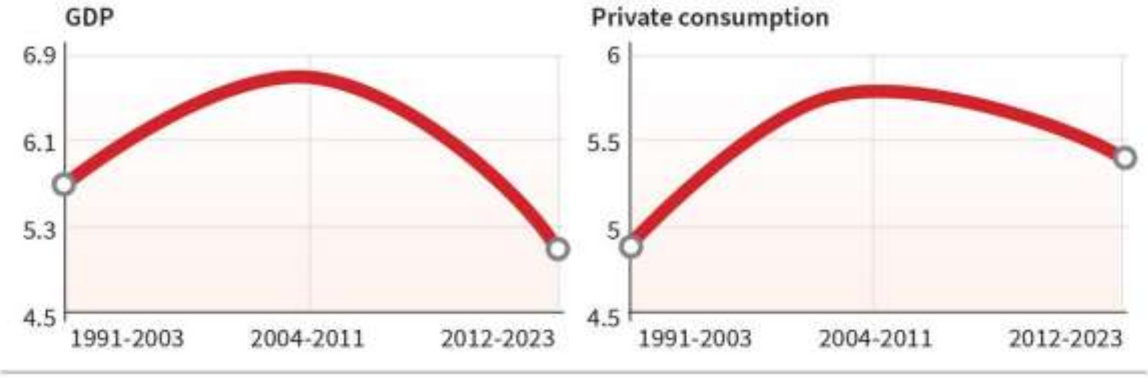
- Strong state intervention through **social welfare programs like NREGA** fueled demand.
- Consumption by the **bottom 80% of the population increased**, leading to inclusive growth.

(iii) 2011-2023: Growth Slowdown & Weak Demand

- Post-2019, private consumption and investment **declined significantly**.
- Government **reduced revenue expenditure** while focusing on capital expenditure.

Chart 1: The growth of GDP and consumption since 1991

Compounded annual growth rate in real terms (in %)



3. Understanding Capital vs. Revenue Expenditure

(i) Capital Expenditure (Capex)

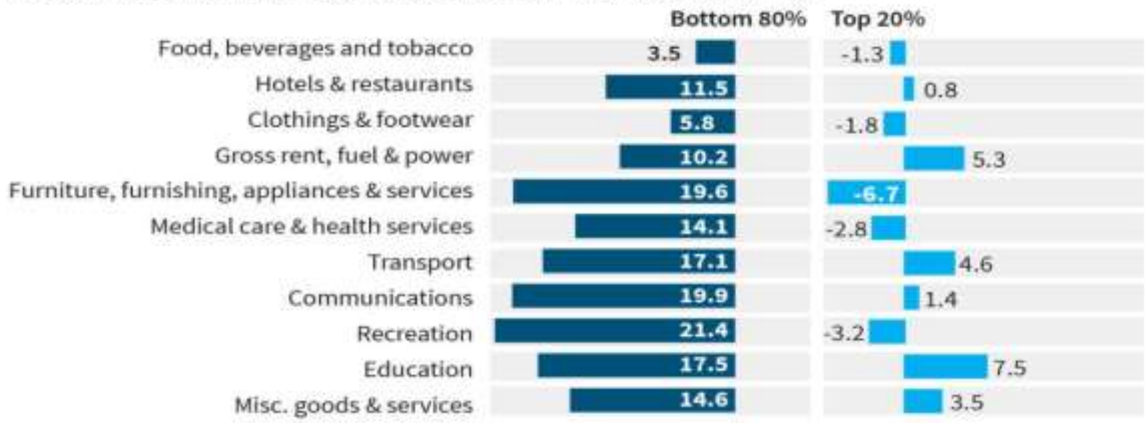
- **Definition:** Spending on long-term infrastructure projects (e.g., roads, power plants).
- **Impact:** Limited short-term employment and demand creation; may increase imports.

(ii) Revenue Expenditure

- **Definition:** Spending on programs like **NREGA, pensions, and subsidies**.
- **Impact:** Directly boosts consumption among low-income groups, creating **higher demand multiplier effects**.
- **Past Example (2004-2011):** Increased revenue spending led to broad-based economic growth.

Chart 3: Growth in consumption during 2004-2011

CAGR of real consumption expenditure between 2004 and 2011 (in %)



4. Government's Response & Challenges

- **Current Focus:** Increasing capital expenditure to drive private investment.
- **Problem:** Corporate tax cuts (30% to 22% in 2019) **did not lead to higher private investment**.
- **Reason:** Weak demand and **low capacity utilization** discourage businesses from expanding.

5. Proposed Solutions to Revive Growth

- **Increase Revenue Expenditure:** Shift towards **demand-driven policies** that boost employment.
- **Prioritize Labour-Intensive Projects:** Instead of capital-heavy projects, focus on industries that generate jobs.
- **Balance Between Capex & Revenue Spending:** Ensure **long-term infrastructure growth** while supporting short-term consumption.

6. Conclusion: Fiscal Policy in the Upcoming Budget

- The budget will indicate whether the government prioritizes **market-driven** policies or **social welfare measures**.
- A policy shift towards **higher revenue spending** could help **reverse the slowdown** and improve living standards.

Source: https://www.thehindu.com/business/Economy/how-can-the-budget-arrest-growth-decline-explained/article69156393.ece