



Economic Slowdown and its Fix

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This article is based on **“The slow climb to the trillion economy peak”** which appeared in The Hindu on 17/09/2019. It talks about the nature of economic growth, reasons for the current economic slowdown and steps to fix it.

Recently, India resolved that it would be a \$5-trillion economy in 2024. However, GDP growth slowed to a six-year low of 5 % during the first quarter of 2019. According to NITI Aayog, the **present economic crisis is the worst crisis India is facing since Independence.**

Reduction in growth automatically leads to hampering of development goals and poor development indices contributes to slow economic development.

It is important to understand the nature and composition of growth in order to address its impact on major development goals like improvement in education, health and overall human development/human capital formation; expansion in productive employment for all and environmentally sustainable development.

Nature of Economic Growth

- **Non-inclusive growth:** 1% of the wealthiest in India increased their share in wealth 60% in the last five years, and the richest 10% in India own more than four times wealth than the remaining 90%.
 - This marks the prevalence of high inequality in the Indian socio-economic paradigm.
- **Jobless growth:** With increasing economic growth, the rate of growth of employment has declined.
 - According to NSSO, unemployment in India is highest in 45 years.
 - With rising population and, consequently, the labour force, India will soon experience demographic disaster rather than a demographic dividend.

- **Inadequate spending on social infrastructure:** On comparison with similarly placed emerging economies, India spends way too low in education and health sector.
 - India spends 3% on education and 1.5% on health.
 - This low expenditure can be reflected in the observations noted by the United Nations that, India's literacy was 71.1% in 2015, far behind that of many African countries such as Rwanda, Morocco and Congo.
 - Also, according to the Annual Status of Education Report (ASER) 2018: The quality of education is far from satisfactory.
- **Unsustainable development:** In the process of growth in India, there has been a severe depletion and degradation of environmental resources.

A recent Intergovernmental Panel on Climate Change report had warned India of the seriousness of climate change and its severe adverse impact on the environment and the livelihood of masses.

Given all these issues and a severe economic slowdown, reaching the aim of a \$5-trillion economy by 2024 would be very difficult, unless we focus on human capital formation and address the real reasons for the slowdown.

Reasons for the Slowdown in the Economic Growth

The slowdown in the Indian economy is **partly cyclical and partly structural**.

- Two cyclical factors are **Shadow banking stress (NBFC crisis) and weaker global demand**.
- Structural factors may include:
 - The **rates of savings and investment in the Indian economy have declined, as also exports and total credit**.
 - This has led to a slowdown among the major industries, like the **automobiles, diamond, textiles industry, and several Micro, Small and Medium Enterprises (MSME)** are experiencing a continuous decline, which has led to the retrenchment of 3.5 lakh workers so far.
 - **Agriculture is in crisis** today on account of rising costs of inputs and low prices of produces, and low public investments in this sector.
 - Apart from it, there is **income stagnation in urban areas**.
 - The **slowdown in consumption** is the major worry for India's economic slump (consumption has been the main driver of India's growth).

There is a sharp fall in **Private Consumption and** as well as **Public Expenditure**.

- Externally, the **US-China trade war** is the leading dampener in India's growth story. In addition to this, the **timing of some of the policy changes**, the goods and services tax, demonetisation, measures to curb corruption, and the move to flexible inflation targeting led to a combination of lower inflation, higher real rates, and lower nominal growth.

Way Forward

- Government need to follow a **Keynesian approach** (increasing public expenditure to spur demand).
 - Increase **public expenditure in investing in agriculture** — in infrastructure, inputs, extension, marketing and storage and training — and in providing profitable prices to farmers.
 - It should also **raise funds for the Mahatma Gandhi National Rural Employment Guarantee Act** to push up demand.
- **Investment in SHE (Skill, Education and Health):** Increasing additional jobs for ensuring basic health and good quality education up to the secondary level to all so that any meaningful skill formation is possible should be another aim.
 - It should **raise public employment** by filling all vacant sanctioned posts in the Central and State Governments, which would be around 2.5 million jobs.
 - The government should also focus on **promoting labour-intensive** sectors such as gems and jewellery, textiles and garments and leather goods.
 - **The human capital formation will give a big push to start-ups and MSMEs.**
- **Cyclical fix:** Cyclical slowdown can be dealt with **counter-cyclical policy response**. Counter-cyclical policy means encouraging spending during downturns and tightening credit during inflationary periods.
- **Liquidity crisis** that was at the centre of IL&FS crisis, must be dealt as soon as possible.
- India, unlike the Asian tigers, **cannot rely on exports alone**, given deglobalisation trends. Instead, a multi-pronged strategy is necessary:
 - Fast-tracking infrastructure investments
 - Raising the export market share via competitiveness
 - Attracting global value chains that are shifting away from China
 - Prioritising domestic production over imports
 - Leveraging sectoral strengths

The Indian economy has huge potential, the current slowdown must be dealt with a bottom-up strategy, which may include boosting agriculture, food processing, tourism, MSME, automobiles and pharmaceuticals.

Drishti Mains Question

Without investing in Human capital and addressing current economic slowdown, the goal to becoming a \$5 trillion economy, will remain a pipe dream for India. Discuss.