1. An Inclusive Growth Revival Strategy

Context:

- Economists have underlined the seriousness of the growth slowdown in India. Understanding the slow down:
- From a peak of 8.1% in the fourth quarter of 2017-18, growth in gross domestic product (GDP) has now decelerated to a six-year low of 5% in the fiscal first quarter, with a slowdown visible across all sectors.
- Particularly, central government revenue grew **only 6% last year,** more than 11% short of the budget estimate.
- Accordingly, expenditure growth was compressed to 6.9% last year, down from more than 11% the year before.
- Weak revenue growth **meant devolution to states also fell short, forcing them to cut expenditure.**
- This compression of government spending at a time when all major components of aggregate demand were already slowing has been an important driver of the sharp decline in economic growth.

How to Revive Economic Growth?

- We now require a **macroeconomic strategy to revive aggregate demand in the short-run,** while initiating structural reforms to sustain growth over the long-term.
- Given the grim global economic environment, reliance will have to be placed on internal sources to generate demand.
- The measures the government has announced are largely in response to demands of specific interest groups such as foreign portfolio investors, real estate companies, automobile companies, etc.
- These have mostly been piecemeal supply-side interventions, which may help these specific interest groups but won't reverse the collapse in aggregate demand.

Limitations on Monetary Policy:

- The Reserve Bank of India (RBI) has **repeatedly cut the repo rate to revive demand** and has also taken other measures to ease the availability of credit.
- However, **in real terms the policy rate is still rising and these steps have amounted to pushing on a loose string because the binding constraint on credit** flow appears to lie

elsewhere—in the lack of credit demand in some segments and credit exposure limits in others.

- With limited traction for monetary policy, the burden of growth stimulation must fall mostly on fiscal policy.

Government Intervention:

- Tax policy revision **with a large reduction in corporate tax rates.** These are likely to have a strong positive impact on growth in the medium- to long-term.
- In the short-term, though, they will exacerbate the revenue shortfall, as the government itself has pointed out.
- In comparison, the impact of an increase in government spending would be direct and fast, especially if it puts more money in the hands of poor consumers who have a high propensity to consume.
- That would have a strong multiplier effect, and this should be the guiding principle for an inclusive fiscal strategy to revive growth.

Deep fiscal reforms Create Enough Fiscal Space:

- Deep fiscal reforms could create enough fiscal space to substantially increase pro-poor **spending** and revive growth while reducing the fiscal deficit; all this without raising tax rates.
- The revenue shortfall in 2018-19 was mainly on account of a leaky goods and services tax administration based on an incomplete electronic information system—the Goods and Services Tax Network (GSTN).
- Fixing the GSTN on a war footing, paring down tax exemptions and rationalizing subsidies can free up fiscal space to the tune of 6-7% of GDP.

Inclusive Growth Revival Strategy:

- First, building on the **PM-Kisan programme,** has made a compelling case for extending the ₹6,000 income support per farmer to all citizens, which would cost 1% of GDP.
- **This income support could be increased to ₹12,000 per citizen per year, doubling the cost to 2% of GDP.** This support could grow with the economy.
- Second, education, health and infrastructure are all underfunded. **Additional funding of 1% of GDP could be provided to each of these.**
- Lastly, the remaining fiscal space could be used to cut the fiscal deficit.