Indian Economy The Way Forward: Contemporary and Eventual Ogle

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Abstract- Three decades have almost passed since our great nation liberalized and integrated itself with the global economy. Being a mixed and 5th largest economy in the world by gross domestic product (GDP) by 2018, our growth has steadily slipped into the abyss. The echoes of agony is heard everywhere. Even though this dark time is believed to be cyclic and is expected to be revived with a few regulatory initiatives and policies by the government, there is a mist of malice spread across the nation that keeps one doubtful of any rescue promises. This time maybe changing the engine could set things to settle as we have come way far from the position of patching tires.

***Keywords*: Economic slowdown, GDP, consumption, liquidity, skill enhancement, Investments, Savings, Tax.**

I. INTRODUCTION

Economic slowdown. A term in trend. The bugbear haunting the 5 trillion economy dream of the nation. A definite page-turner of our time. How has it gained such notability across all sides of the ideological divide? Why is it magnified than demonetization and discussed than GST? Honourable finance and corporate affairs minister Nirmala sitharaman has quoted recently that it was too early to say if the slowdown in the economy had bottomed out. But a plain look at the recent occurrences definitely credits the economic slowdown a unanimous malice across the nation. **GDP deceleration** to a more than 5 five-year low at 5% in June quarter of 2019-20 against 5.8% in the March quarter. **The unemployment** rate in the month of October jumped to 8.5%, which is the highest in three years. The **gross non-performing assets** in Indian banks, particularly in the public sector banks according to the RBI are being valued around 60 Billion dollars, constituting to an unbelievable 90% of the total NPA in India and we stand second, next to Italy in terms of gross NPA ratio (10.3%) among the G20. On the other side, the **infrastructure output** has taken a heavy smack, declining to 5.2% from a year earlier to September 2019. Industries/sectors such as Coal, Natural gas, Electricity, Petroleum refinery products, Steel, Crude oil and construction outputs were evidently falling and reaching the rock bottom. When the **Automotive industry**, one of the biggest contributors to India's GDP faced the worst crisis ever after LPG and lost over 2.5 lakh jobs in no time, there was a clear warning of the tough times ahead for the nation. With both **Government final consumption expenditure (GFCE)** and especially the **private final consumption expenditure (PFCE)** by Indian households slowing down to 3.1% in June from 7.2% in March, it is indeed a war in our time. Some of the other important factors confirming the economic slowdown are the fall of two-wheeler and tractor sales (chief private consumption indicators), and the number of unsold homes, investment results such as domestic commercial vehicle sales, consumption of finished steel and a downfall in the investment projects announced by the government. It is a now or never scenario for the present government before the scene becomes ungovernable.

II. RESCUE MISSION

To assuage this heavyweight challenge, government has carried out numerous precautionary initiatives to hold the situation from going catastrophical. The merger of public sector banks and recapitalization, GST revision for the automobile sector, facilitation of foreign direct investments in the contract manufacturing sector and Loan camps are some of the mentionable rescue moves by the government. Reduction in the base corporate tax rate from 30% to 22%, a move which is in line with the steps taken by the US and UK during economic slowdown deserves a special mentioning since it was boasted to be an elixir of the scenario. Prime Minister Narendra Modi called this move “Historic”. He quoted that it will have a great stimulus to “make in India” and will definitely attract private investments and moreover it will open doors for new jobs. Despite of the steps taken so far, it is apparent that these schemes are likely to have much of an impact only on the supply side than accelerating demand, something that is climacteric to boost consumption and there is no sign of any momentous improvement in the economy even after the execution of these so called historic efforts.

III. HINDSIGHTING THE HISTORY

How have we arrived at this state of affairs? What prompted this chain reaction? How an economy that had the immunity to resist a global economic meltdown in 2007-2008 has taken a mighty blow this time? In order to solve this economic quandary, a conscientious examination of the present government’s prosecutions over the period of 10 years is desired, particularly from 2016. The panic siren was startled with demonetization, severely blowing the consumption and investment, especially in the rural economy, leading to a vicious cycle of job loss and lower-income, which led to a further drop in demand. With no time for recovery GST was rolled out in 2017, knocking out the export growth in the year of implementation because of the delay in refunds to exporters and the export demand was already declining due to slow growth in developed countries. Repo rates during this period were high in the name of inflation targeting, making the case worse. Just as these effects were petering out, the IL&FS crisis along with the whopping increase in the NPAs has triggered the NBFC credit crunch in 2018. Blundering public sector bothering such as Air India, BSNL, MTNL or Public sector banks had their roles in the story. Weakening of global trade and GDP growth led by US-China trade war made sure that an export-led economy is impossible in India by keeping the global sentiments poor. Taking the picture as a whole, it is understood that the economic slowdown in India is caused by a multiplier effect, which in common context is known as the ripple effect. Knowing this instils the momentous thought that would decide the course of the rescue mission of Indian economy. Is this slowdown cyclical?

IV. A STRUCTURAL PARADOX

Cyclical economic slowdown is a part of any country’s economic cycle having its peak performance and downturn which can be rethrusted by an adequate mix of fiscal and monetary policy. But sometimes the problems are deep routed and are unsolvable by fiscal and monetary stimulus. These can demand a structural reform. One such example can be the liberalization of Indian republic in 1991. Even though it is believed commonly to be cyclical, not structural slowdown, the evidence for the presence of structural components is conspicuous. The economic growth of any country has **savings, investments and exports** as their key drivers and indicators of growth. Taking a glance at a few important indicators gives us a high view of the current state of our economy. Investment rate as measured by Growth fixed capital formation (GFCF) as a per cent of GDP has declined from 34.3 per cent in 2011 to 28.8 per cent in 2018 and from 26.9 per cent in 2011 to 21.4 per cent in 2018 in private sector. New investment projects announced in 2018 was 3708 from 5882 in 2011, and this has a strong connection with the NBFC credit crunch and NPOs in recent times, dropping 2142 investment projects by 2018. A similar declining is also evident in Gross domestic savings as a per cent to GDP. Hitting 29.3% in 2018 from 32.7% in 2011 and this again has a strong connection with the wage (both rural and urban) growth which showed a negative sign over the period, leading to a disruption in consumption rate. Exports, another prime indicator of economic growth has also declined from 24.5% to 19.6 % and this has rooted from the restrictive trade policy and labour laws typical for our country that has impeded India from following the footsteps of other East Asian countries like China. Considering this data, it is clear that a structural reformation is needed for the revival of the propensity to consume. A change that is fundamental, absolute, attainable and out of ordinaries.

V. THE BOTTOM THAT HOLDS

There are numerous propositions on the development of economy from the comrades as well as the antagonists of the present central power including refurbishing the financial infrastructure, kick starting the liquidity by taxation reforming, creating an export friendly ecosystem, working on credit growth etc. But the reality seems unpromising and the customer outreach initiatives taken by the government which were supposed for boosting liquidity and investment of the nation are apparently aiding the corporate mammoths alone. Recently public sector banks have offered a hefty 2.5 trillion as a loan amount to stimulate liquidity and investment in which (1,22,785 Cr) 48% was given to corporates while personal and MSME loans which has a certainty in increasing consumption were given minor importance. When it comes to tax reduction the surcharge on salaries and rent received by individuals remains unchanged while those on capital gains of the individual and institution investors (both domestic and foreign) has been removed. If consumption in India is the prime engine of economy contributing to a massive 70 per cent of the total GDP, it is absolutely understandable that it is by consumption this nation can see a revival in the decelerating economy in a few quarters. Anything other than consumption is a secondary aid and can never deliver us out of this nightmare soon. The current reform initiatives can fuel the supply side of the equation, which will bring more imbalances in the demand side. Then how can liquidity by consumption be invigorated? Who should be favoured to infuse the spirit of consumption with immediacy? For the formalization of Indian economy the government should channelize its financial resources (public, private) to boost the immense vacuum existing at the bottom of the pyramid, the working class (Both organized and unorganized) in the form of pay rise, wages, pension, disability support, study loan, provident fund, personal and housing loan and business loan instead of disbursing a pompous amount to the corporate giants in the form of tax cut since better liquidity is achieved by those who spend their income in their local community than those who find tax havens for their money and hinder the liquidity and growth of economy. Moreover, in a critical time like this, various government schemes such as NREGS, the Public Distribution System (PDS), Pradhan Mantri Awas Yojana (PMAY) should be reincorporated as antidotes to the slowdown aiming at alleviating the failure of liquidity gear of the system. But this is only a “first field dressing”, not the cure itself since a cure must set things right indissolubly from the root.

The building is as strong as its foundation. This is what is missed by our financial advisory and governing bodies. Should the country be sustainable and transformative in its growth, the reformation should be quintessential? In the most populous democracy of the world, what else can be the authentic resource for growth than the people themselves? Before framing the way forward for Indian economy, understanding a few happenings and their whys are important.

VI. SIRENS OF STRUCTURAL SHIFT

Two third of our population is rural and agriculture, a sector that employs the largest part of the Indian labour force has a low contribution to the GDP. 69.4 per cent of the overall farming households in India (owing 1 hectare of land or less) are in chronic distress as their income is less than their consumption expenditure. This is because of the land and labour ratio imbalance. We have 4rd largest reserves of coal and yet import fuel. Non – agriculture income in India on the other end is a thing to worry as said by Chief economist Devendra Pant. India did not sign the regional comprehensive economic partnership (RCEP) free trade agreement because it does not have a competent and high efficient production system to produce in large scale and there is a surplus in service trade and deficit in manufacturing trade. A noteworthy and increased amount of skilled human capital of the country is moving overseas for employment. Foreign investment factories leaving China due to tariff war are moving to Vietnam and Bangladesh instead of India because of a less/un skilled Indian labour force for which a poor state of our public educational system is one of the underlying reasons. On the other hand, India is not in a position to offer them a good business environment due to its labour and land market policy constraints and laws which are still in the concurrent list of the constitution. All these verifiable statements emphasize one solution and one solution alone.

VII. THE WAY FORETOLD IS THE WAY FORWARD

A catalytic, inclusive and virtuous cycle of competitive skill development, infrastructure development, robust private investment (physical and social), and savings for a sustained growth. The government of India along with the ministry of skill development should focus on optimum utilization of funds granted by RBI and should establish competitive skill development bodies to instigate standard skill sets among Indian labour force along with instituting viable private investments (both manufacturing and service) which is guaranteed to create demand, introducing new technologies, increase labour productivity and allowing creative destruction (innovation) to take place. Supported by a favourable demographic phase, this will definitely create more jobs which will move an excess rural labour mass out of agriculture. This will assuage the rural distress by increasing the income of the farming households and resulting in boosting employability rate. This will efficiently involve rural economy in consumption, bringing a balance in GDP contribution among rural and urban population. In time this skill and infrastructure development come private investment strategy will bolster better capacity and scalability in production leading India towards a high efficiency production system with affordable labour cost that will impress quality foreign investments. This in point of fact will fuel the economy sustainably and can even bring back the so called certified skilled labour force working overseas back to their homeland by building trust in the economy. This transformation again, should happen along with other reformation challenges such as law and policies improvements, Research and development, reshaping the taxation system, rethinking of educational system, relaxing of trading regulations, motivating and nurturing the wealth creators of the nation (MSME's) to yield potentiality to the fullest. Wendell Berry, an American cultural critic once said "We as a nation can fight the global economy, with a strong local economy" and this is unquestionably the modus operandi that can deliver our nation out of this economic conundrum.

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