

PROBLEMS WITH INDIA'S ECONOMIC STIMULUS PACKAGE:

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I'm sure it wouldn't be new to anybody's eyes if I begin by writing how hard this pandemic has been on us individually, as well as on the society as a whole. The economy has witnessed a hard hit and we can see a huge recession unfolding in front of our eyes. I, from the view point of the youth of the country, consider it my responsibility to be aware of what the government is doing and how is it going to impact the economy. Not to be equivocal, but what the government has 'promised' to do with the announcement of the Economic Stimulus Package is appreciable, but clearly not good enough. Here's why:

A calculation given by SBI suggests that the total spending from the government of India is closer to 1% of the GDP, as opposed to the said 10%, for the reasons like:

- A lot of it is loans.
- A lot of it is long term.

It is important to take this into consideration because while the money spent by the government from its own pocket i.e. via fiscal measures like tax relaxations and increased government spending have a direct effect in increasing the aggregate demand in the short run, the amount of it is considerably low(1% of the GDP) given the need of the hour.

Undoubtedly, the government went hand in hand with the central bank, introducing various monetary measures that play a role in the supply side of the economy. What the government has mostly managed is to go for the supply side measures aiming at increasing liquidity, leaving the tremendously affected demand untouched, where the latter should've been the focus. With proper execution of various schemes aiming at increasing liquidity, bond yields are bound to go down implying a significant increase in aggregate income levels in the economy, given an increase in private investments due to lower interest rates. This might also serve as an aid to government's fiscal deficit. But again, all this happens in

the long run while a 'stimulus' is a promise to affect the short run, implying immediate relief, serving the current needs of the economy.

The package doesn't address the issue of the complete collapse of the wage market and loss of wages to around 120 million people, who are now reduced to starvation and suffering in one stroke. This is one of the biggest failures of the government, as a result of which the consumption has dropped tremendously. India is in a unique situation, one the world hasn't witnessed before and thus, we need a stimulus, expansion of the economy and pulling money into it. There are various sources the govt. can pool in money from, like:

The govt. currently holds a bank deposit of Rs 80 lakh crores, even 5% of those bonds can secure the govt. about almost Rs 4-5 lakh crores, getting some of the foreign reserves and monetising them, fetching around Rs 5-6 lakh crores, cancelling travel allowances this year.. hence saving about Rs 1 lakh crores, cancelling the Central vista project for redevelopment for now, drawing in Rs 2,000 crores... and so many more ways to fetch and make money available.

Additional Rs 40,000 crores that were transferred to MGNREGA i.e. the rural employment guarantee scheme is of help for a lot of people moving back to their villages. This will prove to be clearly important as it simply means there will be more jobs for them, even though small jobs. So, that brings the total spent on MGNREGA close to Rs 100,000 crores. However, opposed to MGNREGA, direct cash transfers as suggested by the two Nobel prize winning economists from India, Amartya Sen and Abhijit Banerjee, makes sound economic sense because it would not only be an equitable but a very efficient way to actually increase demand, contrary to what the government has managed to do.

As per a report by senior economist and JNU professor, Santosh Mehrotra, it is highly unlikely that the economy will not contract this year. The finance commission has given a nominal GDP ranging from -6% to 1%. It basically implies that the tax revenues will fall by such an amount this year that much of what is intended to be spent, will actually merely enable the govt. to maintain level of expenditure for fiscal 20-21, while we needed massive increase in the fiscal expenditure. A fiscal policy i.e. increase in public expenditure and cut in proportional and excise taxes, ensures revival in the economy as mentioned earlier. It arguably deepens the fiscal deficit and if continued for a prolonged period, might bring in

inflation too but as seen in the Economic crisis of 2008, a series of preventive steps can be taken to recover from the deficit and thus, is no excuse to not adopt an expansionary fiscal policy of at least 4% of the GDP contrary to the current 1% , as happened 12 years ago, which indeed was a much shallower economic crisis.

Road transport sector, associating about 20 crore people with it, was completely neglected during these 5 tranches, even after numerous requests made by the respective sector, given that the sector is already indebted with huge loans and EMIs. In the words of Former President of India Motors Transport Association, Mr. Bal Malkit Singh, as of July, every single vehicle will require about Rs 70-80,000 in the form of insurance, taxes and others to get on to roads. No such package is mentioned by far. Also, due to the business not happening since the past 3 months, their credit and drawing limits with the bank would be reduced leaving them with no option but to bring about 25% vehicles to a halt, leaving the entire country in a major crisis due to a stop in the movement of the essential and non-essential commodities. Infrastructure Investment of Rs 1 lakh crores was announced on agriculture to help build a cold chain, which is already included in that 1% of the GDP, will get spent over a couple of years. Instead, the amount should've been spent to cater the current needs of the farmers, given Rs 2,000 is a fairly inadequate amount at this time of crisis.

What perplexes me the most is that we know what to do, we just have to allocate the money... Why is that not happening?

A large no. of announcements that were made were structural reforms i.e. long term reforms and will take several years to be executed. So, while they invite people for the long term, they might not ease the current pain that the farmers, labourers and small businesses are going through. A lot of what is announced in these 5 tranches, including APMC, privatisation of coal etc., was either already in the budget announced in February or the budget that was announced previous year in February, so it was already on the table. What we needed were things to rescue the poor, the people starving on the road right now.

I'm the youth of this country, I will behold my voice so loud that it reaches the ears of the government. I will ask questions, I will seek answers and I will hold my opinion.

By: Simerleen Kaur,

SGTB Khalsa college.

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