

THE WRONG WAY OUT

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

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Within three months of the budget session, unprecedented tax breaks have been announced outside Parliament, almost rewriting the tax regime. The government coffers will be lighter by Rs 1.45 lakh crore, and the nation will have to wait for the private corporate sector to rescue us from the slowdown. Surprisingly, there is a deafening silence on the issue of fiscal deficit despite the fact that the revenue forgone is more than 1 per cent of GDP.

Will this extraordinary measure pull the Indian economy out of the slowdown? The slowdown is essentially sluggish aggregate demand in the economy leading to a fall in production, investment, employment and income. To decipher it, we have to decode the components of aggregate demand. It should be noted that the slowdown has been years in the making with the market shrinking due to adverse terms of exchange faced by majority of the population and also due to rising structural unemployment.

With low and falling employment elasticity, the multiplier effect of GDP growth will not lead to healthy growth in private consumption demand. Employment elasticity, which indicates the percentage growth in employment for each 1 per cent change in growth, has come down from 0.4 per cent in the 1990s to 0.2 per cent for the five years preceding 2014, reaching a low of barely 0.1 per cent in recent years. Also, it has been observed that capital expenditure (capex) in the private sector has been falling for seven years.

Expenditure by the central government, as a percentage of GDP, has also been falling for the last four years. It declined from 13.3 per cent in 2013-14 to 12.2 per cent in 2018-19. Of this, capex has come down to 2.4 per cent from 3 per cent over the same period. Also, capex plans of public sector enterprises are at the lowest levels in the last 14 years.

Around 44 per cent of the labour force works in agriculture. Their share in the GDP is merely 15 per cent and is declining faster than the fall in their proportion of the labour force employed in the sector. The exit of labour from agriculture could have been a positive step towards industrialisation. But, unfortunately, it is not so. They are dropping out due to deep economic distress, and not for gainful alternative employment. This has led to two disturbing consequences: First, there is a substantial rise in the rate of open unemployment; and second, a large segment of the population, particularly women, are dropping out from the labour force.

That is the reason why the labour force participation rate of women in India has declined to 23 per cent in 2018 from 42 per cent in 2011. The overall figure (male and female) has dropped to about 50 per cent in 2018 from 63 per cent in 2011 (all figures are for the age group 15-63 from PLFS report).

The bargaining power of the working class in industries and services except in the top layer in the IT and finance sectors, has been falling over the past two decades due lax enforcement of labour laws, leading to the informalisation and contractualisation of almost 80 per cent of employment in the formal sector. The share of the labour in value-added in the formal sector has

dropped from 33 per cent in 1990-91 to 23 per cent in 2012-13.

Thus, it is unrealistic to expect that the private corporate sector or even foreign investment would invest in an economy with a shrinking market. Would they risk their capital in new ventures or expansion just because the rate of taxation is low? The Keynesian equation that rising inequality essentially leads to a shrinking market size at the macro level is being vindicated in India.

What is needed is enhanced government spending and investment, to enlarge the scope of employment guarantee to urban areas. This could save the economy from falling into a recession. The tax breaks are counterproductive, as they would almost paralyse the already weak financial muscle of the government.

The writer is member, CPM Maharashtra state committee and a CITU activist

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