



Management

RECHARGE THE ECONOMY; SLOWDOWN THREATENS THE \$5 TRILLION VISION

Dr. Zubair Ahmad ^{*1}

^{*1} Assistant Professor, Management Studies, Jahangirabad Institute of Technology, Barabanki, India

Abstract

The Ups and downs in Indian economy are well known to everyone. This is a routine phase and our economy boost up month after month year after year. The Central bank of our country R.B.I. is look after all the policies relating to money credit, investment and deposits. Before two years the Government of our country took a step of demonetization the results of demonetization are not good enough. The government also introduces GST sometimes back and the taxes are levied by the government on some sectors are very much this is also one of the main reasons of Economic slowdown in our country. In our country GST slab is not equal and it is not uniform on all the commodities our fuel prices are not covered under GST due to this we have to pay a heavy amount in the use of petroleum products. In every sector for example Auto mobile sector, FMCG sector Property sector there is a slowdown and the buyers have no money to buy the products.

Keywords: Economy; Slowdown; Threaten; Trillion; Vision.

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1. Introduction

The Economy of our country depends on agriculture and industry. In the first five year plan agriculture gave priority and after first plan our government also gave priority to industry in the five year plans.



The recent auto slump in India is the worst in recent memory. The monthly automobile sales dipped 18.71 per cent in July, the worst in the last 19 years. This dip was most staggering in the passenger vehicles segment, with sales plummeting by 31 per cent to 2,00,000 units. Last one heard of a similar slowdown was in December, 2000. At the time of Independence the rupee value is equal to dollar value as our import and export are equal. But after Independence import increase but export is not increase in the same ratio so today 1 dollar = 75 rupees. In present time our economy faces crises in every sector.

SIAM said, vehicles sales, across categories, was down to 18.25 lakh units in July, “down from 22.45 lakh units a year ago”. This has had a cascading effect – plants have been shut, and widespread job losses, especially of contract workers, have been reported. A Reuters report said that as many as 350,000 workers may have been laid off since April.

Hero MotoCorp, Mahindra & Mahindra, Tata Motors, Bosch, Sundaram Clayton, among others, have shut their facilities for some time, due to the slowdown. The auto industry employs 35 million people directly and indirectly, which translates into about half of India’s manufacturing output. Auto Down Across the World But then auto has been on a downward spiral the world over. Whether it’s the US, or Germany, or China, auto sales are down. A report put out by Germany’s Center for Automotive Research (CAR) says that the world car market sales will dip by “more than 4 million” in 2019.

CAR director Ferdinand Dudenhoeffer has said that the downturn, “worst since the financial crisis of 2008, could last for four years”, with the enforced introduction of electric vehicles being a contributing factor in Europe, apart from, of course, President Trump’s trade wars, and a drastic fall in China sales. Many German car majors have reported a drastic fall in China numbers.

This EV thread rings a bell here, too. In India, the government has enforced the BS VI norms (by 2020), soon followed by the EV push. These disruptions have an economic cost, too. Of course, Prime Minister Narendra Modi said in a recent interview that ICE vehicles and E vehicles can co-exist – something that has been welcomed by the industry, but EVs will come sooner than later. “Of course, this is the worst slump in recent memory. This may last for a few months,” says R C Bhargava, Chairman, Maruti, speaking to BW Business world. “I won’t buy the alarmist view that the economy is collapsing. But we need to ensure that during periods of slowdowns, we shouldn’t increase prices and burden the customers. Yet, we find that many state governments have increased road tax. They miss the national picture,” adds Bhargava. Bhargava may be optimistic, but there are tell-tale signs that have sent shockwaves through India Inc.

Sample what Britannia MD Varun Berry has to say. “Even for a Rs 5 product, if the consumer is thinking twice before buying it, then there is some serious issue in the economy,” Berry has been quoted as saying. He tells BW Business world that market growth “has halved”. It’s another matter that mainland India may still not be debating the slowdown that is here to stay.

A survey commissioned by BW Business world, in association with Havish M Consulting, which spoke to 5,000 people across 12 centres in India, finds that 50 per cent of the respondents don’t know yet that a slowdown is here.

2. Objectives

The following are the main objectives of the study:

- 1) To check the slowdown in Indian Economy due to some government measures
- 2) To find out the way of recharging Indian economy as early as possible
- 3) To recommend some remedies for overcoming from economic slowdown

3. The India Slowdown

Probably sensing this national challenge, West Bengal Finance Minister Amit Mitra recently called for “taking the economic slowdown centerstage – something that would make the Union government accountable”.

While giving this call, Mitra listed some national economic indicators –

In the April-June 2019 period, new projects announced were 87 per cent less than the corresponding period last year. While capital goods sector grew 9.7 per cent in June 2018, this year, it contracted 6.5 per cent in the same period.

IIP was 1.2 per cent in June 2019, while it was 6.9 per cent in the same period last year.

The manufacturing sector grew by 1.2 per cent in June 2019, way lower than 6.9 per cent last year June. Above all, in the January-March period, GDP growth was the lowest in five years at 5.8 per cent. The figures, but of course, tell us that a slowdown is here for real. The only solace that India can draw is that large parts of the world are also in economic turmoil.

The crisis brewing within the Indian economy has gained unanimous acceptance by now. Even the latest annual report of the RBI for the fiscal year 2018-19 (or FY19) confirmed that the Indian economy has indeed hit a rough patch. The GDP growth rate of the economy has slipped to 5 per cent in the first quarter of FY20, the lowest in over six years. This is an indication of tougher times ahead. Be it the recent collapse of the automobile sector or the rising number of non-performing assets (NPAs). The spurt in instances of job losses from automobile manufacturers to biscuit makers has led to the general acceptance of the downturn. This is the third instance of an economic slowdown for India in the past decade after the ones that began in June 2008 and March 2011.

4. Global Effect or India-Specific

“I would say that it’s part of a global phenomenon. Even the IMF has brought down its estimate of global growth from 3.6 to 3.2 per cent. We are beginning to see a substantial slowdown in European region as also in Japan. The measures that President Trump took for growth in the US have started to wear off. In our case, the slowdown is more marked than others because of the uncertainty caused before the elections and the lingering impact of the problems in the financial sector,” says Niti Aayog Vice Chairman Rajiv Kumar, when quizzed by BW Business world.

Former Chief Economic Advisor to the government, Arvind Virmani, doesn’t quite agree. He tells BW Business world: “Post-2008 financial crisis, I had said that India is a domestically-oriented,

rather than an export-oriented country. The situation remains, by and large, the same and India remains a domestic demand driven economy”.

Former RBI governor Bimal Jalan continues in the same breath: “Globally, there may be Brexit, there may be US-China tensions, there may be problems in the EU, but we are not that dependent on the global economy. It (the slowdown) appears to be cyclical and, in part due to demonetisation.”

While exports are the major component of economic activities of countries like Germany and China, India is much like the US – insulated against economic upheavals globally. But some warn against drawing hasty conclusions.

Like Dalmia Group Holdings Chairman Gaurav Dalmia says: “How do you reconcile the worst auto crisis in recent history with the rising mutual funds collections? Also, how do you reconcile the rising wages and a negative growth in advertising?”

Others are more forthright. Says Godrej group chairman Adi Godrej, talking to BW Business world: “Many sectors are not doing well. The government has also introduced some bizarre measures like imprisonment for CSR violations. A fiscal stimulus would be most welcome”.

The US-China trade war, and the impending global recession, is not going to make things easier for India. Forty-six per cent of India feels that we are not ready for a US-China trade war, finds the BW survey, quoted earlier. A slightly higher number – 48 per cent of Corporate India also feels that we may not be ready for such a scenario. BW along with Havish M Consulting also reached out to 500 corporate leaders across eight centers in the country.

5. The Roots of The Crisis

The auto crisis as also the slowdown in sectors like real estate and construction have their genesis in the NBFC logjam. The IL&FS was the tipping point. Post-IL&FS, NBFCs found it difficult to borrow from banks, and since they largely financed the auto sector, the sector was badly hit.

De-monetization and an imperfect GST rollout compounded the woes – so, while the formal economy did grow at around 7 per cent, the informal economy contracted substantially.

Sixty per cent of respondents in the BW nation survey quoted earlier were convinced that demonetisation and an imperfect GST rollout led to a contraction of the informal economy. As per the Corporate India survey, quoted earlier, fifty per cent were of a similar opinion. Many feel it was a deep-rooted malaise waiting to explode.

Says Niti’s Rajiv Kumar: “This crisis has its roots in the 2005-11 period, when banking credit grew enormously and that led to the emergence of NPAs and then banks were in no position to lend. This role was then played by the NBFCs and their assets grew at a fast pace. Some of this resulted in serious asset-liability mismatches as seen in the case of IL&FS collapse”.

Adds Virmani: “In the 2010-13 period, the current account deficit over 4 per cent. It was almost like a Balance of Payment crisis. In the post-2014 period, there have been welcome systemic

corrections, though there was a problem with two RBI Governors trying to superimpose the Chicago school of monetary policies on India”.

6. Financial Sector Reforms

Almost all stakeholders agree on the need for urgent financial sector reforms.

Speaking on the subject, Uday Kotak recently said the government should reintroduce the Financial Resolution and Deposit Insurance (FRDI) Bill. “Time has come for a strong FRDI Bill along with a strong resolution mechanism for handling stress and mortality in the financial sector. He also said that legislative changes should be made to bring down state ownership in public sector banks below 50 per cent.

Delivering the 25th Lalit Doshi memorial lecture recently, he laid a broad roadmap for financial sector reforms. He said public sector banks’ numbers should be capped at five. Public private partnerships could be explored in banking, he added. In bank re capitalization, efficient banks should get more capital. There have also been calls for RBI-mandated ratings for NBFCs. Questions have also been raised on why there are so few private sector banks in the country. In the last few years, only two private sector bank licenses have been given.

7. Needed: Long Term Reforms

While financial reforms are a must, there also need to be other structural reforms, in addition to a stimulus, to kickstart the economy are realise the \$ 5 trillion vision by 2024.

Says Marico Chairman Harsh Mariwala: “We need to address structural issues. We need to address land laws, labour laws, cost of capital, and ease of doing business”.

Apart from simplifying GST, tax reforms are crucial. “We were discussing the Direct Tax Code (DTC) way back in 2009 (when I was with the government). Ten years down the line, we don’t have even a proposal DTC proposal. It’s imperative that we have one at the earliest,” says Virmani. He also seconds Arvind Panagariya’s proposal for coastal export zones to attract supply chains from China. Among other long-term measures, agriculture needs to be reformed.

The Narendra Modi government has the political capital and time to undertake these reforms. Modi, in a way, will have to correct the impression that the government is not adequately addressing the issue. Half of the respondents in the BW nation survey, quoted earlier, think that the government is “not adequately addressing the slowdown concerns, because it has done exceedingly well on its nationalist plank”.

8. Out of The Box Thinking?

BJP MP Subramanian Swamy, a Ph D in economics, talking to BW Business world says that he saw the slowdown coming way back in 2015, and in fact documented it in a newspaper op-ed.

Swamy's new book "Reset" will be out in September where he lists some of his favourite themes like the abolition of income tax, reduction of interest rates, hiking of fixed deposit interest rates, among others to argue how "India can grow at 10 per cent per annum".

"The basic problem is that there are not many people around trained in mathematical economics," he says. While his followers – and they are a legion – have long rooted for him to be Modi's Finance Minister, is Swamy a voice that Modi needs to listen to, in this challenging period?

9. The \$ 5 Trillion Economy Vision

With a slowdown and no immediate respite in sight, is the Modi government's \$ 5 trillion vision realistic?

Swamy says that it appears that "no one has done their math". According to him, this will require us to grow at 16 per cent, which is next to impossible. The two surveys quoted earlier seem to support this view. Forty four per cent of Corporate India say this is an unrealistic target, and only half of the figure say this is an achievable target. On the other hand, 48 per cent of India feel this would be difficult to achieve, while 20 per cent feel the opposite.

Niti's Rajiv Kumar rubbishes this assessment. He says: "The estimate of 14 to 16 per cent is wrong. What we need is some 8.5 per cent in real terms and add inflation to that, say, about, 4 per cent which means 12 to 12.5 per cent. We need to reverse the slowdown to reach there in the remaining five years. I am confident that we will be able to do it with the government giving it the attention it deserves".

Adds Chief Economic Advisor Krishnamurthy Subramanian: "In the first 55 years since independence, the Indian economy grew by about \$1 trillion. Assuming an average exchange rate of Rs. 20 per dollar during that period, that translates into an increase of about Rs. 20 lakh crores in the first 55 years. From 2014 to 2019, the economy grew from about \$1.7 trillion to \$2.7 trillion. At an average exchange rate of Rs. 65 per dollar during this period, the \$1 trillion increase translates approximately to about Rs. 65 lakh crores in the last 5 years. If the Indian economy can grow about three times more in the last 5 years than it did during the first 55 years, and that too from a higher base, there is no reason why we cannot grow at about 8% in real times to reach our goal of \$5 trillion by 2024". The Modi government's stimulus package to reignite the economy may just be the first step towards realising that \$ 5 trillion India vision.

10. Fixing the Economic Slowdown

Investment in the economy is subdued due to a lack of consumer demand throughout the country including rural India. The economy is facing a slowdown and is evident with growth slipping to a five-year low of 5.8 per cent in the January to March quarter of 2019. India has faced such episodes of economic slowdown three times in the past decade. One in 2008 when economic growth fell for three consecutive quarters from June of the year, the second lasted for five straight quarters after March 2011 and the third is the current one where growth has slowed for four successive quarters and is expected to dip to 5.6 per cent during the latest quarter.

A key driver of India's growth since the liberalisation of the economy in 1991 has been its investments. Recently, the investment in the economy has been unambiguously slowing, and as per CMIE data, new investment proposals have touched Rs 9.5 lakh crore, which is the lowest since 2004-05. On the other hand, the government is spending less, as evidenced by a 30 per cent drop in capital expenditure for the June 2019 quarter. While low consumer demand and a liquidity crunch on account of the crisis in the non-banking financial (NBFC) sector is constraining private investment, fiscal constraints limit the ability of the government to revive investment. The reduction of the fiscal deficit target by the government to 3.3 per cent in a year when tax collection estimates are already over-optimistic, make an uptick in government investment seem unlikely. India's primary source of economic growth, thus, lies ineffective.

India is also experiencing a changing behaviour pattern in its workforce. Indian households are witnessing a fall in savings as credit demand is on the rise. Over the last seven years, financial liabilities as a percentage of GDP has risen from 3.3 per cent to 4.3 per cent while net financial savings have dipped from 7.2 per cent to 6.6 per cent. Meanwhile, bank deposit growth, which was over 20 per cent two decades ago has fallen to 12 per cent. Clearly, the credit culture is on the rise and is impacting the level of savings. Despite growth in insurance, mutual fund investment and pension, the gross financial savings in the economy have remained constant at 10 per cent. This is as well leaving less money for investments.



All of these trends point to the need for structural changes that cannot be substituted with minor policy tinkering. The Finance Minister has responded with measures that look at bank recapitalisation and withdrawal of the higher tax surcharge on FPIs and domestic investors. While these moves are welcome, they need to be accompanied with stronger structural reforms.”

Investment in the economy is subdued due to a lack of consumer demand throughout the country including rural India. The growth in rural incomes, which includes, but is not limited to farm incomes, should become a focal point of the country's economic policy. The idea should be to improve agricultural productivity and create alternative occupational paths in non-farm activities.

The latter can be achieved through the success of labour-intensive manufacturing, which would enable the shift of people from farms to factories. Therefore, India needs reforms that facilitate the

growth of the manufacturing sector. While labour law reform is already underway, the act of reducing multiple laws into four codes should not be an end in itself. What needs to be changed is the content that has impeded Indian manufacturers from growing big until now, as they feared application of these laws. Further, structural shifts over the long run can be achieved by tapping into the health and education sectors that long for quality improvements.

Only such long-lasting structural changes can improve the growth potential of the Indian economy and stall the possibility of another slowdown in the coming years.

11. Decoding Slowdown: Govt Needs to Raise Income Levels of Working Population to Boost Growth

Now that a decline in private consumption is pulling down economic growth, the focus needs to shift to improving wages and other measures to spur demand and savings, which does not seem to be happening now

That the Indian economy is slipping into a recession is quiet apparent. The real GDP growth has gone down from a peak of 8.2% in 2016-17 to 6.8% in 2018-19, with the fourth quarter of 2018-19 dipping to 5.8%. The first quarter of 2019-20 is expected to dip further to 5.6%. Nor for that matter the fall in private consumption, which has gone down since the second quarter of 2018-19. Private consumption has been the main driver of India's growth, contributing about 60% to GDP, and its fall is dragging economic growth further down.

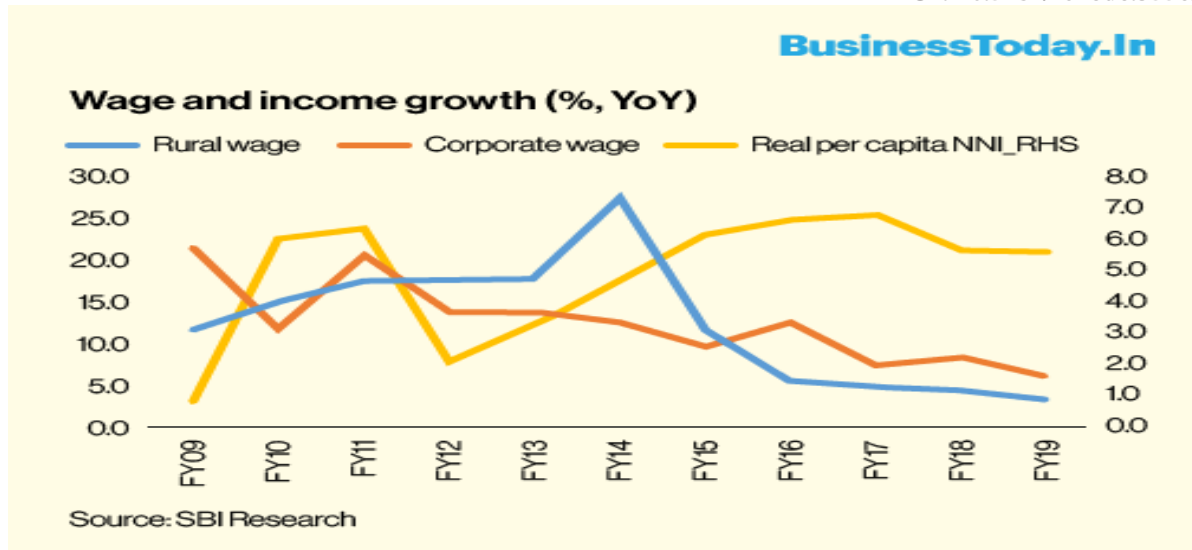
Since consumption expenditure is directly linked to income, especially for the lower and middle income working population forming the bulk of population of India, the imperative is to improve their wages to spur consumption demand.

Wage growth is also linked to savings and investment. The Economic Survey of 2018-19 gives the example of China, where higher wages drove up savings rate, to argue for well paying jobs in India and an effective minimum wage regime across the country. It notes that gross savings have fallen from 31.1% of GDP in 2015-16 to 30.5% in 2017-18 - entirely contributed by the household sector savings, which declined from 23.6% of GDP in 2011-12 to 17.2% of GDP in 2017-18. With this decline, investment rate has gone down.

Declining wage growth: A structural issue

The SBI's latest study, Root Cause of the Current Demand Slowdown, says the reasons for the current slowdown are both structural and cyclical, apart from global uncertainties. Among the structural factors, it holds a substantial decline in both urban and rural wage growth as the "most crucial" one.

It says both urban and rural wages were growing in high double digits until a few years ago. Growth in urban wages (using corporate wages as a proxy) peaked at 20.5% in 2010-11 and then went down to single digit in 2018-19 (as companies went for cost cutting "in the midst of a massive deleveraging cycle"). Similarly, rural wages peaked at 27.7% in 2013-14 and went down to less than 5% in last three fiscals. It explains that this high growth phase was unsustainable (a deadly cocktail of wage-inflation nexus).



This decline in wages hit private consumption due to stagnation in income and household savings declined, it concludes.

A 2018 RBI's working paper, Rural Wage Dynamics in India: What Role does Inflation Play?, too had pointed out that rural wages decelerated significantly after a phase of high growth. The deceleration began after November 2014 and was marked by "low inflation occasionally surpassing growth in nominal wages, pushing real wage growth to the negative territory". This phase has been labelled as a period of "rural distress".

The paper says two major factors that drove high rural wage growth between 2007 and 2013, namely, implementation and quick progress of the MGNREGS and a healthy growth of the construction sector. The significance of both "weakened" later. It adds that subnormal monsoon years of 2014-15 and 2015-16 weakened agriculture growth negatively, impacting rural wages. Though rural economy saw some revival in 2016-17 due to normal monsoon, it did not provide a significant boost to the agriculture wages.

Blueprint ready': Govt mulling fourth booster dose to revive economy

The blueprint for the stimulus is ready, which would be announced by FM Nirmala Sitharaman in the next few days, a govt official said

The first set of announcements was made on 23 August that included rollback of the enhanced surcharge imposed on foreign portfolio and domestic investors

New Delhi: The finance ministry is working on one more booster dose to give a leg-up to the economy that has hit over six-year low of 5 per cent, a senior finance ministry official said. The blueprint for the stimulus is ready, which would be announced by Finance Minister Nirmala Sitharaman in the next few days, the official said without giving further details. The government announced a slew of measures in three dosages which include a special window for real estate, export incentives, bank consolidation and sops for micro, small and medium enterprises (MSMEs) and the automobile sector.

Earlier this week, RBI Governor Shaktikanta Das had said the government has taken a number of measures to boost the economy in three phases and indicated that more steps are likely. I think with right measures taken, things should improve. It's a positive trend that the government is responding fast and I don't think we have heard the last from the government with regard to dealing with the current economic situation... My expectation is that it will be a continuous process and they would definitely be dealing with other challenges," he had said. The first set of announcements was made on 23 August that included rollback of the enhanced surcharge imposed on foreign portfolio and domestic investors in Budget 2019-20.

It was followed by announcement with regard to consolidation of 10 public sector banks (PSBs) into four on August 30.

According to the consolidation exercise, United Bank of India and Oriental Bank of Commerce are to be merged with Punjab National Bank, making the proposed entity the second-largest PSB. Syndicate Bank is to be merged with Canara Bank. Allahabad Bank will be merged with Indian Bank. Andhra Bank will be amalgamated with Corporation Bank and Union Bank of India. This would be the second round of consolidation of PSBs. Earlier this year, State Bank of India had absorbed its five associate banks and the Bharatiya Mahila Bank to form the biggest public sector lender. In another merger, Bank of Baroda had taken over Dena Bank and Vijaya Bank.

Last week, the government announced a slew of measures to boost exports and the real estate sector. During the week, the finance minister will chair the 37th meeting of the GST Council, which is expected to discuss rate revisions for various sectors, including automobiles, fast-moving consumer goods, and hotels. Besides, she will meet heads of the PSBs to discuss issues, including following up on transmission of monetary policy rates.

12. Conclusion

Our government should take steps to increase the income of the working class and to cut the GST slab on some commodities to boost up the sectors which are facing slowdown. The recent example is of BSNL & MTNL companies our government took a decision of the merger of the two companies and prepare a revival plan of the companies in this way our government should revive our trade and commerce in near future. So not any employee lost his/ her job and earn their livelihood in a best possible way. Some measures and guidelines have introduced in each sector so the difficulties will remove from the workplace and each employee, worker feel safe and secure in his/ her workplace. There is also a need to remove the middlemen from each scheme of the government. So, all benefit of the scheme should go to the scheme holder.

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*Corresponding author.

E-mail address: ghulamhonaryar@ gmail.com