

## Addressing the Economic Slowdown

### What is the issue?

- India is at a critical stage in terms of its economy with increasing fiscal deficit and growth not happening at required levels.
- In this backdrop, here is a look at the various recourses that the government could take.

### What should the government do on the investment side?

- The private sector, in its reaction to the economic slowdown, has lost confidence and is investing less.
- This is only aggravating the economic crisis.
- An RBI report suggests that business confidence, consumer confidence and capacity utilisation are down.
- The government thus has to garner resources and give a boost to the economy by increasing its investments.
- But, the slowdown has adversely impacted growth of tax revenues.

### What is required on the tax revenues side?

- The government calculated tax revenues on the assumption of a 12% nominal growth.
- But, it has been around only 9%, both in 2018 and 2019.
- So, in 2018-19, tax revenue was short by about Rs. 1.5 lakh crore.
- However, this was not reflected in the planning for the 2019-20 Budget.
- So, certainly, the revenue shortfall for the Centre will be even larger than last year when it was around Rs. 2 lakh crore.

### How does this affect the states?

- The States get 42% of the tax revenue, and so they will get Rs. 84,000 crore less this year.
- Further, the concessions in corporate taxation of Rs. 1.45 lakh crore will also mean Rs. 58,000 crore less revenue for the States.
- While the Centre has obtained [Rs. 1.76 lakh crore](#) from the RBI's reserves, no such assistance is available to the States.
- The Centre will also get the proceeds of disinvestment but that is not shared with the States.

- In essence, the States will have a larger shortfall in resources than the Centre.

### **How can the states manage this?**

- With the current GST structure, revenue from indirect taxes cannot fill the resource gap of the states.
- The States have also been complaining that they are not getting the funds that are due to them from the Centre.
- The Centre has partly responded to this by transferring more, but that raises its deficit.
- The Centre is required to give the States their share of Integrated Goods and Services Tax (IGST).
- It should also compensate the states if the revenue growth of State Goods and Services Tax is less than 14%.
- This could come from the cess collected on sin goods and luxury goods.
- One of the big contributors to GST has been the auto sector.
- But, with sales falling in the recent period, collections have declined.
- The Centre is apparently holding back the States' share of IGST and arguing that the cess collection is inadequate to compensate the States for their shortfall.

### **What are the challenges in addressing this?**

- The dilemma is that if the GST rates are increased, prices would rise and demand would further slump.
- This would further aggravate the economic slowdown and shortfall in revenues.
- One of the suggestions has been to raise the 5% slab to 6% or 10%.
- It has also been suggested that taxes on petro goods and liquor for human consumption are under the purview of the States.
- They can raise tax rates on these items as per the demands of the situation.
- But, these will be inflationary moves and demand would fall.
- The problem is compounded by the shortfall in direct tax collections.
- This is both the result of corporate tax concessions and the slowing economy.
- Income-tax rates cannot be raised now since that would be seen as inequitable.
- There are demands to reduce income-tax (I-T) rates to boost demand in the economy.
- However, a cut in I-T rates will largely benefit less than 2% of the citizens who pay a significant amount of income-tax.
- They are well-to-do and unlikely to increase consumption.

- Similarly, the cut in corporate tax rates will not boost demand since neither investment nor consumption will rise.
- The concessions to the corporate sector have narrowed the fiscal space available without raising demand.

### **What lies ahead?**

- The government has to garner resources and give a boost to the economy by increasing its investments.
- Clearly, investment will rise only when capacity utilisation improves.
- So, the government should cater to the needs of the unorganised sector where the problem actually originated from.
- If the unorganised sector is separately accounted for, the economy is in a recession and not just a slowdown.
- The fiscal deficit at all levels of government is already high, so a policy decision is needed on how much more it can be.
- If the fiscal deficit is allowed to rise further, the extra resources can be used to boost incomes in the unorganised sectors through greater public investments.

**Source: The Hindu**