Atmanirbhar Bharat Abhiyan

Why in news?

Atmanirbhar Bharat Abhiyan is an economic package worth Rs 20 lakh crore.

What does this package' worth mean?

- Prime Minister said that this economic package is around 10% of India's Gross Domestic Product (GDP) in the financial year 2019-20.
- Many have questioned the ability of this economic package to,
    1. Provide adequate immediate relief to the most distressed sections of the economy, or
    2. Stem the rapid decline in India's GDP growth.

Why this package seems inadequate?

- With a nationwide lockdown for the better part of April and May, the total quantum of economic activity in the country has sharply curtailed.
- [Total quantum of economic activity is measured by the monetary value of all goods and services produced.]
- Given an uncertain future for the rest of the year, many people estimate that the Indian economy will contract.
- This means the Gross Value Added (proxy for the income earned) across sectors — agriculture, industry and services — will fall.

What will happen if incomes fall?

- **Individuals** - Individuals will cut down their expenditure.
- In particular, all discretionary expenditure will come down sharply.
- **Businesses** - Seeing overall demand fall, businesses, which were already not investing, will likely postpone their investments further.
- **Government -** Government revenues will take a massive hit**.**
- This means that if the government wants to maintain its level of fiscal deficit, it will have to cut its overall expenditure this year.
- [Fiscal deficit is the gap between what it earns as revenues and what it spends.]
- These three expenditures (by individuals, businesses and government) essentially make up the GDP of India.
- **Net exports** - This is the fourth component, but with the global demand

plummeting as well, this is unlikely to help matters.
- [Net exports are the net of exports and imports.]

What is the capacity of the government?

- Of these four engines of growth, only the government has the power to spend money even when it does not have it.
- Moreover, when the government spends money, the economy moves ahead by far more than what it has spent.
- The key criticism about the economic package is that the government doesn't seem to be raising its total expenditure — at least not by the quantum required to arrest the sharp decline in GDP.

How much expenditure is needed to arrest the GDP decline?

- According to an assessment by the National Institute of Public Finance and Policy (NIPFP), the way things are going, India's GVA will contract by a whopping 13% this year under the Base case scenario.
- This assessment was published by National Council of Applied Economic Research (NCAER).
- **Base case scenario** refers to a scenario where governments (both Centre and states) bring down their expenditure in line with their falling revenues to maintain their fiscal deficit target.
- This means that India's GDP will decline by 12.5% under the Base case scenario.
- To lift growth, the governments would have to spend more and counteract the natural downward spiral of the economy.

What should the government do?

- Only if the government spends 3% of the GDP over and above what it promised to do in the Union Budget 2020-21, the economic growth will stay in the positive territory.
- Short of that, the Indian economy will contract.
- Higher public spend will come at the cost of higher levels of fiscal deficits and higher inflation.
- However, a growth contraction will come at the cost of widespread economic ruin, job losses and even deaths.

Will this economic package help?

- At present, there is no sure-shot way of knowing what will be the final level of government spending at the end of this financial year.
- Most calculations suggest that the actual government expenditure in the Atmanirbhar Bharat Abhiyan is just 1% of GDP.
- It is still not know if this 1% (of GDP) expenditure is over and above the Budgeted expenditure or will it be funded by expenditure cuts elsewhere.
- Atmanirbhar Bharat Abhiyan economic package is likely to do little for India's economic growth in this financial year.

Source: The Indian Express

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