Boosting Demand

Why in news?

The Centre has come up with an innovative option to spur consumption in the economy without any fiscal impact.

What are the moves made?

- **Allowances** - The 45 lakh or so Central government employees have been offered an interesting scheme.
- If they spend, on GST goods, up to thrice of their leave travel assistance and their leave encashment amount, 45% of that spending will be borne by the Centre.
- The Centre would have paid those allowances to its employees anyway; hence, the net fiscal outgo is negligible.
- **Festival advance** - The Centre's festival advance of ₹10,000 is repayable over ten months; for now, they will boost the economy.
- These moves are made to propel the economy into positive territory in quick time.

What is the Centre trying to do?

- The Centre appears to be infusing some sort of a 'Pay Commission effect' into the economy.
- It is notable that the Sixth Pay Commission award coincided with the 2008 financial crisis, and worked as a significant demand stabiliser.

What is the problem?

- For an economy that registered a 20% real fall in Q1 in private consumption, this scheme can make a difference if government employees bite the bait.
- The question, of course, is whether they will.
- Given the tax breaks built into the offer, the scheme is not unattractive.
- But the issue is that people are still worried about their finances in the context of the pandemic and its impact on the economy.
- So, will they boldly spend such large sums on non-essential items is the question that needs an answer.
- This amount can be spent on consumer durables, furniture, renovation of

homes and two-wheelers, if not low-end cars.
- All these sectors can generate significant employment, provided they are GST registered entities.

Will the festival allowance have an impact?

- The festival allowance is likely to spur general spending.
- The Centre has assumed a promising multiplier by mentioning a demand creation of ₹28,000 crore.
- This includes ₹9,000 crore that the States will most probably fork out for their employees.
- As for the States' coffers, the higher demand is expected to push up GST collections to their benefit as well.

Why this move is welcomed?

- The Centre has rightly extended its 'stimulus' to the capital expenditure (capex) side.
- It has pushed an additional expenditure of ₹25,000 crore, in addition to the outlay of over ₹4 lakh crore for this fiscal.
- However, its ₹12,000 crore interest-free loan to the States is rather modest given their dire financials.
- Also, given the delayed impact of capex on output, the demand effect would be less than ₹73,000 crore set out by the Centre.
- Nevertheless, the package is innovative and significant.

Source: Business Line

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