Economic Slowdown and Investment

What is the issue?

- The current economic slowdown is much due to the slump in investment in the country.
- Here is an overview of this factor, and an analysis of the ways to boost investment.

Why is investment a unique factor?

- Investment, unlike consumption, satisfies no immediate want.
- So, business groups investing today are basically taking a bet on the future, when it would start yielding returns.
- Such bets are a function of the “state of confidence” at the time of investment.
- In that case, the investor has to be reasonably certain about the prospective yields, based on present knowledge of the future.
- The longer the time horizon the more uncertain would be this knowledge.

What is its relevance to the current economic slowdown?

- India’s economic slowdown is evident now because of consumption spending clearly falling, be it on cars or 'Rs 5 biscuit' packs.
- However, the crisis goes back longer, from the time companies stopped investing.
- It is an investment that takes form as expenditures of others and in turn, fuel further consumption and income generation.
- Clearly, investment is what creates jobs and incomes.
- As this flow of incomes from hand to hand expands the market, the “state of confidence” for businessmen to invest also goes up.
- This positive business sentiment thus reinforces the virtuous cycle.
- Thus, a good indicator of “state of confidence” is new investment proposals.

How is the recent “state of confidence”?

- The “state of confidence”, according to the Centre for Monitoring Indian Economy, was Rs 20 lakh crore in 2015-16.
- It fell to Rs 16.2 lakh crore, Rs 11.4 lakh crore and Rs 10 lakh crore in the following three fiscals.

- During April-June this year, new projects announced amounted to a mere Rs 74,000 crore, against Rs 3,45,000 crore in the same quarter of 2018-19.

What does this indicate?

- The stalling of the growth engine started from around 2015-16.
- Business confidence did revive in the initial 2 years of the Narendra Modi-led government.
- [The new project proposals may, however, not have scaled the high spirits of 2006-07 to 2010-11 period.]
- However, subsequently, there has been a steep drop with the new investment announcements in 2018-19.
- This was even below those during the last 2 years of the previous regime (2012-13 and 2013-14).

What is the implication of this?

- The low investor confidence has spilt over now to consumers as well.
- When investments dry up and there is no jobs creation, with existing employees also being laid off, people's confidence to spend takes a hit.
- The slowdown, thus, becomes visible and the earlier virtuous cycle is affected.
- It is instead replaced with a vicious downward spiral of contraction in consumer spending, incomes, jobs and investment.

How could this be addressed?

- Consumers will not spend unless they feel confident about jobs and incomes.
- Clearly, addressing the above problem cannot happen through consumption.
- So, asking banks to reduce interest rates is unlikely to make people take loans to buy homes or vehicles.
- What is desperately needed now is reviving the investment cycle.

How can investment be boosted?

- Investment, as already noted, is a function of confidence about prospective yields from capital expenditures incurred today.
- Any investment is limited by the size of the market it caters to.
- In the current situation, the private sector is unlikely to commit to any significant investment for a considerable period.
- So, it would require some other player, with a truly long-term investment time horizon, for boosting investments.
- The government/public sector can be the only possible option here.
- E.g. China; in 1990, China's annual per capita GDP, at $318, was lower than

India's $368, as per World Bank data

- But in 2018, China's per capita of $9,771 was nearly five times India's $ 2,016.
- This happened on the back of an investment-driven growth model; the state-owned enterprises invested heavily.
- By this time, China's GDP had soared from $361 billion to $13.6 trillion.
- [India's has gone up from $321 billion to $2.7 trillion between 1990 and 2018].

What lies ahead for India?

- The government should be able to risk a further slippage in its fiscal deficit targets.
- Nextly, public sector undertakings should have the necessary project execution ability and managers of good calibre.
- Going forward, land acquisition and statutory clearances are other challenges to tackle.
- In all, India should find all means to do more public investment, especially in the given situation.

Source: Indian Express