

## Public Spending in India Needs to be Stepped Up

### What is the issue?

The Indian economy is still facing major demand deficiency and the government needs to step in to shore up mass consumption demand.

### What is the current public spending trend?

- India is an outlier in terms of low government spending during the pandemic.
- The Central government spending actually declined in the pandemic year 2020-21, according to the government's own report to the IMF.
- The Indian government did not ramp up public spending to enable its population to cope with the public health disaster and the massive livelihood losses resulting from the pandemic.

### What does the CSO's recently released advance estimates of GDP say?

- The CSO admits that the estimates are based on limited data and compiled using the **Benchmark-Indicator method** i.e., the estimates available for the previous year (2020-21) are extended using relevant indicators reflecting the performance of sectors.
- This method does not factor in the economic performance of MSME or self-employed people, all of which have suffered disproportionately during this period.
- There has been much talk of a V-shaped recovery, but it presents real economic output as still below the level of the pre-pandemic year.
- **Income distribution**- Per capita income has deteriorated over this period.
- Income distribution very unequal in India and it has greatly worsened during the pandemic as suggested by the [World Inequality Report 2022](#) and the India supplement to the **Oxfam report** "Inequality Kills".
- It was revealed that 84% of households in the country suffered a decline in their income while the number of Indian billionaires grew from 102 to 142.
- Sales of luxury cars and other signs of affluent living by the rich in India increased by many multiples when job loss, falling incomes and growing hunger became the norm.
- This is clearly terrible from a welfare perspective, but it also has major macroeconomic implications.

## On the decline

Figure 2

Per capita GDP

(in ₹)



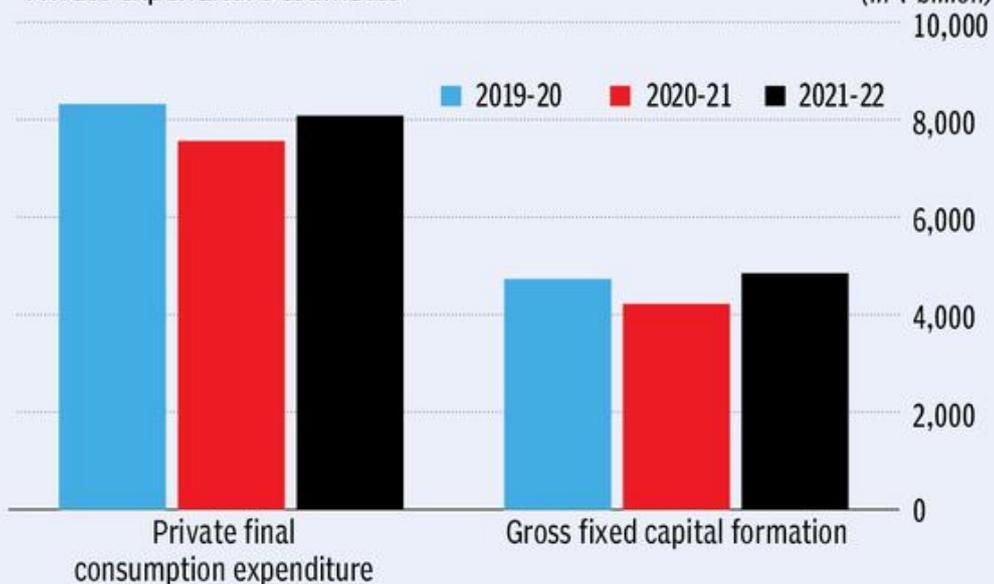
- **Consumption pattern-** The consumption of the rich tends to be more import-intensive than mass consumption.
- The impoverishment of the mass of people reflects in declining domestic demand, which in turn impacts negatively on domestic sales and profitability.
- The total private final consumption expenditure fell by nearly 10% in 2020-21 compared to the previous year.
- So, the capital formation (investment) declined in 2020-21 and the apparent recovery of investment in 2021-22 was relatively minor.

## Significant drop

Figure 3

Private expenditure estimates

(in ₹ billion)



- **Government spending-** Total government consumption spending which should have increased massively during the pandemic as it did in almost all other countries in the world remained relatively low.
- While the state government spending increased, the central government spending declined in

absolute terms over 2020-21.

## What about the public spending in Budget 2022-23?

- There are signs of significant under spending (even relative to Budget estimates) in crucial areas like health, the rural employment, essential social services and social protection programmes.
- Even the revised estimates do not provide an accurate picture, since they are presented when two months of the fiscal year still remain.
- The other numbers that matter include overall levels of public spending and the extent of proposed transfers to states, which have borne the brunt of dealing with the pandemic fallout.

### Reference

1. <https://www.thehindubusinessline.com/opinion/public-spending-in-india/article64937297.ece>

