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.

- **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.

- **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

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