Temporary Economic Slowdown - Lessons to be learnt

What is the issue?

- Most reforms and policies which aims to weed out adverse practices cause disruptions which catch people off-guard.
- This reflects lack of preparedness and unwillingness to come to terms with reality.

What could be learnt from the slump in the automobile sector?

- The recent temporary slowdown in some sectors of the economy carry lessons that will help India prepare for such disruptions in the future.
- Take, for instance, the automobile sector.
- For decades, reams have been written about pollution, congestion, and accidents caused by the burgeoning number of automobiles in cities.
- **Solutions** - Shifting to mass transport systems that are more environment-friendly, less polluting, cheaper, faster and safer.
- There is a need for enhanced paratransit like taxis to complement public transport.
- **Reason why these solutions are feasible -**The urban infrastructure cannot keep pace with the increase in the number of automobiles.
- As the cost of owning a vehicle is so high, a new trend is seen in the developed economies that people prefer taxis to owning vehicles.
- Logistics cost in India is high compared to the developed world.

But, what is the impact of these solutions?

- **ICRA study, 2018** – In the post-GST, the turnaround time for long-haul trucks has been reduced by at least a fifth as inter-State check posts were removed.
- This means that more trips are possible per truck and this could lead to a slump in demand for new trucks.
- Therefore, productivity improvement in one sector may imply catastrophe for another one.
- After years of planning, campaigning and expenditure, more people are using public transport and paratransit options in major cities.
- We should have expected vehicle sales to fall as a result of these changes and we should have prepared for alternatives.

- The response to the current fall in sales of automobiles is worryingly indicative of how we might respond to future shocks.
- This raises the question of what will happen if the same scenario plays itself out as a consequence of reforms and campaigns in a few years.

Why is one sector's gain, another's loss?

- Wheeled luggage may result in porters in railway stations going out of business.
- Cycle-rickshaws are slowly being phased out and are being replaced by motorised vehicles.
- The fact that the coal or petroleum sectors are showing decline may not automatically imply that the core sectors are in the doldrums.
- The expectation should be that they will show decline, especially when India is investing so heavily in renewables.
- As more and more industries opt for captive renewables, thermal plants will become increasing stressed and SEBs may have to forsake their high-paying commercial and industrial customers.

What is to be understood?

- In the short run, whenever such changes take place, disruption is inevitable.
- Yet, we expect the change to be inconsequential, or the industry hopes that growth in the sector will outdo the disruptive effects of the reform.
- All this speaks volumes about the confidence we have in our own interventions.
- Our stakeholders should be **prepared for the consequences** of the country's consciously undertaken reforms.
- The inexorable march of technology, digitisation and 'green' public policies will inevitably have an impact on several industries.
- National and societal welfare, the environment and ethical governance will start taking precedence over profits for a few.
- Several sectors of the old economy will need to brace themselves for more such shocks which will be permanent and inevitable.

Source: The Hindu

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