

An Income-Push Can Boost the Economy

The Index of Industrial Production of manufactured products which slumped on a y-o-y basis by 66.6 per cent in April 2020, when the lockdown was at its peak, has since then seen the magnitude of the fall taper to 37.9 per cent in May 2020, 16 per cent in June 2020, 11.6 per cent in July 2020 and further to 8.6 per cent in August 2020.

Industrial activity is likely to have gained further momentum in September 2020, with a 4 per cent y-o-y increase in demand for electricity, a 3.9 per cent increase in GST collections, 9.6 per cent rise in e-way bills generation, 15.5 per cent rise in railway freight traffic and a 6 per cent growth in exports, among other indicators.

GST collection in October 2020 at Rs 1.05 lakh crore is 10 per cent higher y-o-y than the corresponding month in 2019. However, as per IMF's projection, India's real GDP growth is expected to contract 10.3 per cent in 2020 and is also among the few emerging economies with a double-digit contraction. On the other hand, China is expected to see a 1.9 per cent growth.

India has also seen one of the lowest credit growth. Till August, India's merchandise exports had also declined 18.3 per cent and while average inflation upto September 2020 has more-than-doubled in India, in most emerging economies, it has been lower than the same period in 2019.

In order to revive demand, the government should borrow and enhance its investments in infrastructure projects, which will create demand for ancillary industries, as also provide income to workers, which can increase spending, and thereby consumption. As the government will tax incomes and consumption, and thereby generate income, as also the infrastructure projects start generating returns in the longer term, it will set the economy on a virtuous cycle of growth and development, by paying off the debt and reinvesting in capital projects.

India is a country with a young population, with a majority of its people in the working age group. A long-drawn slowdown can lead to distress among the people due to the ensuing unemployment and loss of income. As the signs of a COVID-induced slowdown have started to recede, steps to boost incomes and demand can go a long way in giving the much-needed fillip to the economy.

Notifications

PIB

Cabinet clears India-Spain collaboration in astronomy

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1670016>

Cabinet clears India, UK collaboration in the field of telecom and ICT

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1670014>

Cabinet clears India, Israel collaboration in the field of medicine and health

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1670008>