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Consumption Conundrum of Indian Economy

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This article is based on “The link between jobs, farming and climate” that was published in The Hindu on 01/10/2019. It talks about the nature of the economic slowdown in the Indian economy.

According to NITI Aayog, the current economic slowdown is the worst economic slowdown that India has faced since independence. Moreover, the slowdown has been witnessed in **consumption** in the Indian economy.

From many decades, **consumption has been the major driver** of growth in the Indian economy. **Income stagnation** has been the cause of consumption slowdown.

Reasons for Income Stagnation

Unemployment Crisis

- According to the government’s Periodic **Labour Force Survey** carried out in 2017-18, unemployment in the country **reached an all-time high rate of 6.1%**.
- Unemployment among rural males, in 2017-18, is four times higher than the average for the 40 years up to 2011-12.
- Unemployment among Urban Females is the highest in the 45 years since 1972-73.
- Further, this crisis got aggravated after **demonetization and poor implementation of GST**.
- Apart from it, at the heart of the unemployment problem in India were young, unemployed men aged 15 to 29 years who comprised 21.1 million or **68.3% of all the unemployed in the country**.
- **Rising number of job seekers:** The labour supply in India is getting a boost from the **rapid expansion of the working-age population in the country**.

Agriculture Crisis

- In the nine years since 2008-2009, rural income has **recorded zero or negative growth**.
- Unstable agricultural production first lowers the demand for agricultural labour and, subsequently, its supply, showing up in greater unemployment.
- Also, the increasingly erratic rainfall (due to climate change), affects crop production.

Asymmetrical Policy Response

- The government has responded to the slowing of growth by announcing a range of measures, the most prominent of them being the reduction in the corporate tax rate. However, **85% of the workforce is engaged in unorganized sector**, therefore corporate tax reduction will not bring a big change.
- According to estimates, **corporate tax reduction can increase GDP by 0.2 to 0.6%**.
- Also, a large part of corporate sales is driven by rural demand, but rural demand has slowed down, reflected in the **lay-offs by biscuit manufacturers, automobiles and other ancillary industries**.
- Policy focus is disproportionately on the tax rate, the ease of doing business in the non-agricultural sector and a fussy adherence to a dubious fiscal-balance target.
- Workforce leaving low-productivity agriculture, due to inadequate skills and industries, they are **not getting absorbed** into the organised non-agricultural sector.

Untapped Rural Consumption

- Unstable agricultural production first lowers the demand for agricultural labour and, subsequently, its supply, showing up in greater unemployment.
- This affects the investment rate as when non-agricultural firms observe slow agricultural growth, they are likely to hold their investment plans.
- Also, low agricultural export growth, the dismal banking credit, suggest that poor agricultural performance is a significant explanation of slack domestic demand.

Way Forward

- Government intervention should **comprise steps to spur demand** in the economy, by **raising the purchasing power of the masses**, especially in rural India.
- To tackle the unemployment crisis, action will be needed on multiple fronts including **investments in human capital, the revival of the productive sectors, and programmes to stimulate small entrepreneurship**.
- The government must realize that the rural picture matters not only because the largest numbers that are located there but also because of their low incomes. This means that the future growth of demand for much of industrial production is likely to come from there.

- Steps must be taken to resolve agricultural factors, which have raised the cost of cultivation.
For example land degradation involving loss of soil moisture and nutrients, and the drop in the water table, over-exploitation of fertilizer etc.
- Globally, industrial growth driven by mindless consumption is the cause of climate change, **therefore economic cost must not be at the expense of the environment.**
- Finally, any long-term solution to the problem of unemployment to which the slowing growth of the economy is related must start with agricultural production.
Intelligent governance, resource deployment and change in farmer behaviour, should be envisaged combinedly.

Drishti Mains Question

The Indian economy has been witnessing an economic slowdown in the consumption sector, which has been the major driver of the growth in the Indian economy. Analyze the nature and factors contributing to the current economic slowdown.