



DAILY NEWSPAPER ANALYSIS

THE HINDU

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**Topic: GS3 - Achieving Goal of
\$5trillion Economy**



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Expanding India's share in global space economy

Context:-

- Budget 2019-20 committed to the vision of New India based on 10 themes and it has one of the goal as achieving a \$5 trillion economy by 2024.
- India, which was an approximately \$1.85 trillion economy in 2014, and has grown to become a \$2.7 trillion economy today hence the goal of \$5 trillion economy by 2024 seems achievable.
- Allowing for an inflation rate of 5%, that requires a real growth rate of 8% or more per annum. If GDP has to grow at that rate, investment must rise sharply.
- The Budget is clear on the government's role in this process. It cannot invest too much, but it must ensure huge investments in infrastructure and elsewhere by attracting and incentivising private investors.
- Optimistically leaving this to the private sector, the government focusses on taking the benefits of growth to the rural areas, the Micro, Small and Medium Enterprises and the marginalised.

Challenges to Achieving the Goal:-

- Allocation in Budget is Not Aligned with The Goal: Going by the nominal GDP figures implicit in the

- fiscal deficit ratios provided, total expenditure of the Central government which rose from 12.7% of GDP in 2017-18 to 13.2% of GDP in 2018-19, would remain at 13.1% of GDP in 2019-20. Spending to “kick-start” growth is absent.
- **Stagnant or Cut in Allocation of Social Welfare Scheme:** If we take the six major schemes labelled “core of the core schemes”, nominal allocations, which amounted to ₹84,361 crore in 2018-19 as per the revised estimates are projected to fall to ₹81,863 crore in 2019-20. Allow for inflation and that 3% fall would imply a significant real cut.
 - In the case of the MGNREGA, the budgetary allocation for 2019-20 at ₹60,000 crore is lower than even the inadequate ₹61,084 crore spent in 2018-19.
 - Budgetary allocations for the Pradhan Mantri Gram Sadak Yojana is the same in 2019-20 as it was in 2018-19 and that for the Pradhan Mantri Awas Yojana are lower for 2018-19 than it was in the Budget for the previous year.
 - It is principally the farmer income support scheme of ₹6,000 per identified household that receives a significantly large and enhanced allocation of ₹75,000 crore. But even this has to an extent been financed by cutting allocations for other schemes.
- In effect, the goal of **accelerated, inclusive and sustainable development** receives only limited financial backing.

- **Using Route of Taxation to Provide the Thrust to the Goal:** Finance Minister is hard put to find the resources, especially because the government wants to show it is **committed to fiscal deficit reduction**, with the deficit **projected at 3.3% in 2019-20**.
 - It does make one effort at squeezing surpluses out of the system with increased taxes on the super-rich. Surcharges on those with taxable incomes in the ₹2-5 crore and above ₹5 crore ranges are to be increased so as to raise the effective tax rate applicable by 3 and 7 percentage points respectively.
 - But this gain has been partly neutralised by reducing tax rates for corporations with a turnover in the ₹250 crore to ₹400 crore range from 30% to 25%.
 - The government has also resorted to some regressive taxation. At a time when oil prices are on the rise because of American sanctions on Iran, the Finance Minister has decided to raise the duty on petrol and diesel by ₹1 per litre each.
- **Public sector sale:** The other major source of non-debt receipts is disinvestment and privatisation which is to be accelerated. Strategic sales will continue and equity even in public sector enterprises where government shareholding has reached the 51% floor is to be sold.

- That is expected to yield ₹1,05,000 crore in 2019-20, compared with the ₹80,000 crore last year.
- But, as noted, all this has not been enough to deliver resources that match the ambition goal of the new government.

Conclusion:-

- To achieve the goal of \$5 trillion economy, Budget 2019-20 fall short as it leads naturally to dependence on welfare hype and the strategy of hopelessly depending on private initiative to drive growth.
- Government must find a way for **investment led economy** which **realize 8% annual GDP growth** to achieve the target.