

EFFECTIVENESS OF GOVERNMENT POLICIES DURING INDIA'S ECONOMIC SLOWDOWN

Imtiaz Ahmed, Dr. Sonia Riyat

Research Scholar, ARKA JAIN University, Jharkhand

Associate Professor, School of Commerce & Management, ARKA JAIN University,
Jharkhand

Abstract

In this paper, an evaluation of government policies as implemented during the slowdown phase of India's economy includes fiscal and monetary policies and structural policies. Analysis is made of major endeavours like corporate tax reductions, MGNREGA, and digitalisation in terms of growth and solidity. These steps held some relief but structural constraints slowed the effectiveness of these mechanisms. Recommendations highlighted policy flexibility to maintain the recovery process continuously.

Keywords

Slow economic growth, deficits, taxes, budgets, rate changes

Introduction

The challenges faced by the Indian economy during the period extending from 2016 to 2020 were diverse in nature and impact. Slowing down of GDP growth rate coupled with cut in private investment and consumption called for contingent measures. They include fiscal measures, monetary measures, and structural adjustment measures to both a short and a long-run situations.

Literature Review

Understanding India's Economic Slowdown

The period 2016 – 2020 witnessed a slowdown in the arena of India's growth and this obviously put the policy makers in a very discomfoting position of managing the economy. Real GDP growth per capita declined from 1.94% in 2015 to -6.57% in 2019-2020 period (Macrotrends, n.d.). Reasons for this decline were diverse and originated on the local as well as international levels.

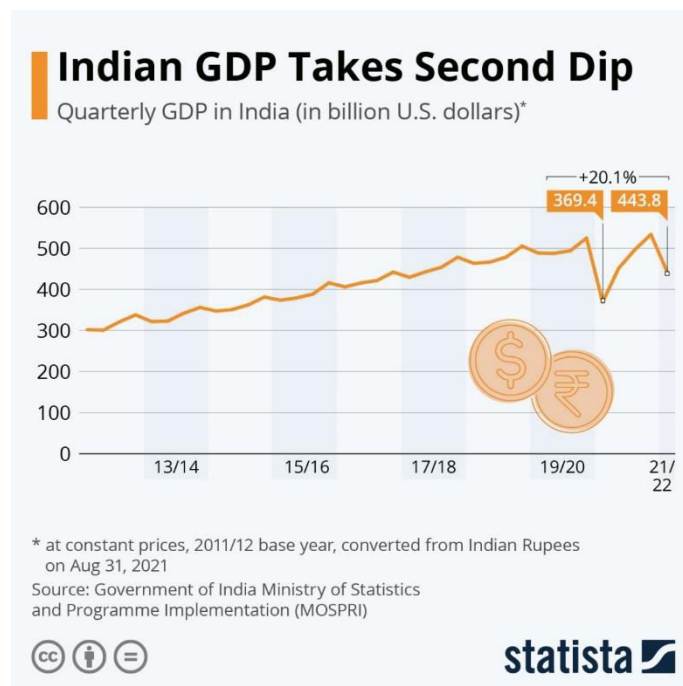


Figure 1 Indian GDP takes second dip (Statista, 2021)

The scrapping of large denomination currency notes in November 2016 led to a major contraction in cash intensive sectors, especially the unorganised sector, which provides employment to a vast population of working people in the country (Adil & Hatekar, 2020).

Arising with the implementation of the Goods and Services Tax, (GST) from July 2017, this form of taxation at first had trade and compliance breakdowns that were burdensome to SMEs (Tekwani & Raghuvanshi, 2020). Outside, the emerging global trade tensions most visibly between United States and China equally compounded economic woes alongside unstable crude oil prices. Decreased export demand joined with weak private investments and consumption put the economy on the vicious loop of less growth rate.

Fiscal Policies

The corporate tax rate that was cut in September 2019 as one of the chief policies issued by the government. For existing companies, the levy was brought down from 30% to 22% while for new manufacturing firms it was brought down further down to 15% (PIB, n.d.). The objective was to encourage private investment and FDI and to offer a competitive incentive to investors globally.

For checking the rural income and consumption decline, the government raised provisions for MGNREGA and PM-KISAN – flagship welfare programmes (Saiyyad, 2021). Through MGNREGA, those rural households which were otherwise jobless during the period of economic downfall were provided certain employment, whereas through PM-KISAN 6,000 per year money support was guaranteed to small/marginal farmers (Ministry of Agriculture and Farmers' Welfare, 2020).

The National Infrastructure Pipeline (NIP) policy was another launched in 2019 with an aim to boost up economic activity (Pratap & Gupta, 2022). Laid out in the NIP 2017–18 at ₹111 lakh

crore over five years and built on the concept of development laid by former prime minister Atal Bihari Vajpayee, it aimed at bettering infrastructure in transport, energy and urban development, and thus lead to the creation of jobs and fuel demand in the related sectors (PIB, n.d.).

Monetary Policies

The Reserve Bank of India (RBI) followed quite a proactive monetary policy to address the issues of cash constraints and boost up the trend of recovery. From February 2019 to February 2020, the RBI has lowered the repo-rate by 135 basis points putting it at an historic low of 4%. These rate cuts were accompanied by other measures in form of targeted long-term repo operations (TLTROs) and cut in the cash reserve ratio (CRR) to help put more money in to the banking system.

Banks, particularly those with high levels of NPAs were not keen to transmit lower external funding costs to borrowers. The new legislation that was passed in 2016 to address NPAs and to enhance the credit flow in the economy is the Insolvency and Bankruptcy Code (IBC) which also experienced delays in the resolution process causing an effect on lending activity.

The government and RBI also came up with sectoral credit guarantee measures like one of the most popular ones is the Emergency Credit Line Guarantee Scheme (ECLGS) for SMEs (Pandey, 2022). A part of this, ₹3 lakh crore of collateral-free loans were extended to the impacted businesses who were worst affected due to the slowdown.

Results and discussion

Structural Reforms and Long-Term Strategies

The “Make in India” campaign, which was launched earlier in 2014 regained further focus partly due to the outlay of production linked incentive (PLI) schemes in targeted sectors such as electronics, pharmaceutical and automobile manufacturing (Sakhardande et al., 2021). Farm acts of 2020 aimed at changing the nature of agricultural markets in India as the government deemed them necessary to grant more freedom to farmers with selling their products to consumers directly (Kumar et al., 2021).

These reforms met with protests from farmer groups who felt that the MSPs would be withdrawn and they would be exploited by private companies. In the same regard on the ways of dealing with the economic impact of COVID-19 the government also targeted digitalisation as one of the most important ways of economic rebooting.

The flagship programs such as Digital India, the building blocks of DBT through Aadhaar, have the targeted objectives of increasing transparency, checking leakages in the welfare schemes and improving financial inclusion (Masiero & Shakthi, 2020). The slowdown that came with the COVID-19 pandemic saw Unified Payments Interface (UPI) become one of the essential modes of facilitating cashless transactions.



Figure 2 List of Schemes launched by the Modi Government (StudyIQ, 2022)

Policies

Apart from this, in the pursuit of a self-reliant India the government has initiated one more scheme named Atmanirbhar Bharat Abhiyan (Self-Reliant India Campaign) during, May 2020 in response to the COVID-19 shutdown effects. This programme consisted of the fiscals, monetarises and reform steps having a value of ₹ 20 lakh crore which is 10% of the GDP of India.

One of these was encouraging domestic manufacturing and reducing reliance on imports as a way of encouraging innovation by local firms. This campaign major targeted sector such as defence product and medical equipment industry. However, the objectives of the initiative had a problem like regulatory challenges and small business financing.

Energy sector liberalisation was also stepped up: distribution companies (DISCOMs) were privatised, and the promotion of renewable energy was made a priority. The government awareness on the use of solar energy as illustrated by the National Solar mission and was meant to foster employment in the energy sector.

Renewable energy-infrastructure investments were supposed to fix medium- and long-term standards for economic revival and environmental problems. However, implementation of these measures at a slower pace in the less urbanized areas underlined the problem of the localization of measures, and the need to develop more effective mechanisms of implementing them.

One of the more substantial structural changes was the labour code consolidation that aimed at the rationalization and liberalization of India's enormously over-complicated Labour Laws. The Indian government in 2020 finally brought about 29 labour laws in four codes on wages; industrial relations; social security; and occupational safety and health.

Labour Market

These reforms were instituted with the view of increasing flexibility of labour markets and encourage foreign investment. However, expectation that workers' rights will be eroded and social security minimums will be inadequate led to the opposition of trade unions. Even though the changes might positively impact industrial production and ease for business, their feasibility of implementation depended on the dual roles of employers and workers.

The enhancement of infrastructure stayed a key point of large-scale plans. While the highway modernisation programme called Bharatmala was specific to the road industry for creating efficient logistics connectivity; Sagarmala, the port sector modernisation project, was specially dedicated for efficiency in this sector. Further, the goal of developing industrial corridors aimed at attracting investment and initiating regional growth. Effectiveness of some of these initiatives were only partial since they faced serious problems on land acquisition and slow implementation of the projects.

In education and Health Policies implemented under the National Education Policy 2020 and Ayushman Bharat primes and strategize human capitals development and health standards. Increasing focus on skill development, digital education, and ambitious Universal Health coverage as a part of extended & structural reforms was toward the idea of medium to long-term economic resilience but the issues of inclusion and distribution did not disappear.

Government Initiatives

The government also focused on the creation of a healthy startup culture over the long term as a way of dealing with the problem. The already existing Startup India was further propelled by steps to demystify formalities, prune the bureaucratic framework, and extend capital. The establishment of Fund of Funds for Startups (FFS) was to help in the facilitation of investment into start-ups with high growth potentials.

Nonetheless, there was some progress; however, the lack of venture capital funding and difficulties in scaling for startups in tier-2 and tier-3 cities restricted the effectiveness of such programs. In the process of housing and real estate regulation, the fight against ghost towns continued in parallel with the beginning of the Affordable Housing Fund in 2017 and the creation of a Special Window for Affordable and Mid-Income Housing (SWAMIH) in 2019.

These policies aimed at housing projects that had remained incomplete with the purpose of delivering the homes to the intended users as well as reviving one of the most labour-intensive sectors in the economy. Though all these measures improved market confidence and accelerated construction works, high inventories in urban centres exerted further pressure on the sector's revival.

Besides, the agricultural sector was included with the launch of the Pradhan Mantri Matsya Sampada Yojana (PMMSY) to develop sustainable and safe fish farming doubles farmer income. Aimed at enhancing the post-harvest facilities and developing technology under aqua culture this scheme is targeting the problem of employment generation and food security which is predominantly issue of rural areas. However, the program was not equally successful across all the states because efficiency of the administrative services and their preparedness differed from one state to another and the amounts provided also varied.

The government also wanted to overcome the export slowdown through the recently launched Remission of Duties or Taxes on Export Products (RoDTEP) scheme replacing the Merchandise Exports from India Scheme (MEIS). With the purpose of decreasing the inclined taxes within the exported commodities, the policy aimed to develop competitiveness of the Indian production.

As a measure to benefit exporters, it was criticised for low rebate rates and delayed availability of funds to provide rebate to the exporters which somewhat diluted the advantage it provide. Besides the economic measures, significance of attention to environmental concerns increased. The National Electric Mobility Mission Plan (NEMMP) paved way to the growth of electric vehicles (EVs) where economic revival is expected to go hand in hand with the growth of cleaner energy.

Conclusion

Analysing the governmental policies during the period of India economic slowdown we get to know about auxiliary relief measures and futuristic measure. With reference to fiscal and monetary tools, short-term balance was promoted, but structural shifts drew attention to implementation issues. That informs why governance needs to be policy agile given the system deficiencies as well as improved performance.

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