

Macro Economic Issues and  
Public Expenditure  
Management

# Acknowledgement

Source: KBL Mathur (2019)  
Union Budget 2020-21

# Only for non economists

(ECONOMICS IS EXTREMELY USEFUL AS SOURCE OF EMPLOYMENT FOR ECONOMISTS )

- Economics is the study of the allocation of scarce resources.
- Microeconomics essentially examines how individual units , whether they be consumers or firms, decide how to allocate resources and whether these decisions are desirable.
- Macroeconomics studies the economy as a whole: it looks at the aggregate outcomes of all the decisions that consumers , firms and the government make in an economy.

(and an economist is an expert who will know tomorrow why the things he predicted yesterday did not happen today)

# More about Economists !

The first law of Economists :

*“For every economist, there exists an equal and opposite economist”*

The second law of Economists :

*“They are both wrong !”*

- David Wildasin

*“Economists thrive on crises”.*

T T Ram Mohan (The Hindu, 19.9.18)

# Top Six Economies in the World

Country	Nominal GDP Trillion \$	GDP PPP in Trillion \$
US	21.44	21.44
China	14.14	27.44
Japan	5.15	5.75
Germany	3.86	4.44
India	2.94	10.51
U.K.	2.83	3.04

Source : Investopedia updated on 20 March 20

# Years to double and rate of growth required

- If you divide the number 72 by the rate of interest, you get to know the number of years it will take for you to double the money.
- For instance, if the rate of interest is 9%, simply divide the number 72 by 9% and the answer is eight. This is the number of years it will take to double your money if you invest it at 9% rate of interest.

# At what growth rate and when we reach China level of per capita

- “ If the Indian Economy were to grow at an annual average of 9 per cent, it would take virtually two decades to get to China’s current size ( in Nominal dollars)”

----T N Ninan.(2015) In The Turn Of The Tortoise: The Challenge and Promise of India’s Future.

- “Even if India were to take the lead in the pace of economic reforms and social progress, it will take till 2035 to get to where China is today---- and China is not resting on its laurels.”

By Montek Singh Ahluwalia in India Today, October 19, 2015.

# GDP Average Growth rates in the recent past

	(percent)
<b>2003-08 (average of five years)</b>	<b>7.9</b>
<b>2008-09</b>	<b>3.1</b>
<b>2009-11 (average of two years)</b>	<b>8.2</b>
<b>2011 -14 (average of three years)</b>	<b>5.7</b>
<b>2014-19 (average of five years)</b>	<b>7.5</b>
<b>2019-20</b>	<b>4.2</b>

Source: RBI Annual Report 2019. August 27 2019



# “GDP is not a Measure of Human well-being”

“---focussing exclusively on GDP and economic gain to measure development ignores the negative effects of economic growth on society, such as climate change and income inequality. Its time to acknowledge the limitations of GDP .....

-----Kapoor Amit and Debroy Bibek  
(brief in the Economic Times ,7 October 2019

# Income and happiness

- “Life satisfaction in the United States has been flat for fifty years even though GDP has tripled” ..... -Martin Seligman in Flourish ,2011. Best selling author of Authentic Happiness.
- “ ....they ( and people in countries around the world) now know that GDP per capita does not provide a good picture of what is happening to most citizens in society---and in the fundamental sense, than, of how well the economy is doing. They were misled by the GDP per capita data to thinking the United States was performing well.”
- “Although it has managed to increase GDP per capita, from 1980 to 2010 by three fourths, most full time male workers have, as we have noted, seen their incomes go down.”
- ----- Joseph Stiglitz in ‘The Price of Inequality’, 2012.

# Even so Why is Growth so important?

- Best anti-dot to poverty, Human development
- Key to all macroeconomic issues
- Prime target of all economies
- Main objective of all policies
- Focus of debate and controversy

*But please remember – Growth in Income is a necessary condition, but not a sufficient condition for well being of people*

# The \$ 5 Trillion Target by 2024-25

- The Economic Survey, 2018-19 mentioned this target.
- The Union Budget 2019-20 mentioned this target
- Every day some one or the other referres to this target.

# Interesting but true

The difficulty in forecasting the \$5 trillion target assumptions, reminds one of the following from Dr Y V Reddy, Former Governor, RBI:

“ In India not only the future but the past was also uncertain”

Quoted in The Economic Times, 7 Oct 2019, by Mythili Bhusnurmath.

# Policies & Rates

**GDP Growth Rate**

**Interest Rate**

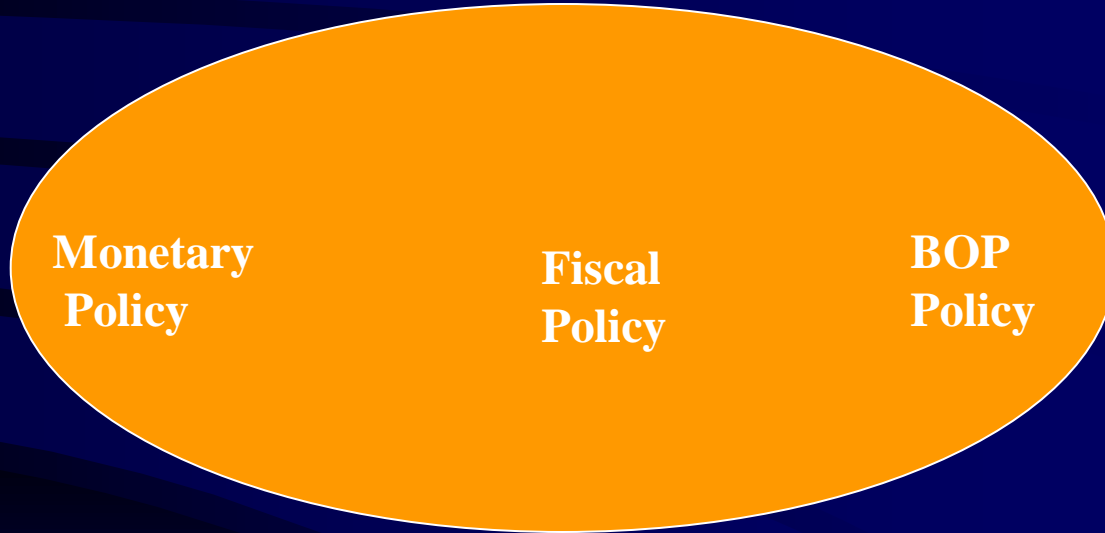
**Monetary  
Policy**

**Fiscal  
Policy**

**BOP  
Policy**

**Exchange Rate**

**Inflation Rate**



# So what is required ?

- Prudent Fiscal Management
- Stable Financial System
- Remunerative Agri sector
- Strong Infra with Power
- Competitive Industry
- Balanced International trade
- Ease of Doing Business
- Assured Health and Education system
- A Smooth Governance

# Fiscal Policy: Expenditure Management

Can the govt. lift the economy by spending more?

Three issues:

- What about the fiscal deficit target ?
- Should govt. pre-empt private sector resource?
- What if States borrow more?



# Some issues and options

- How can Govt. Revive Demand? :
- Allow some fiscal slippage
- Cut personal Income tax
- Clear all private sector dues
- Clear GST/other tax dues
- Get banks to start lending
- Set up a stressed asset fund to buy all bad debt

# A Myth

Revenue expenditure can be and should be cut sharply to increase capital expenditure.

## Reality:

A major part of the revenue expenditure is so RIGID that it can't be touched for reduction even if those who recommend are made the Finance Minister

About 55  
percent of total expenditure can't be touched  
for reduction

	Item	2020-21 BE (Rs Cr)
1	Pension	210682
2	Defence	323053
3	Subsidy (Food, Fert, Fuel)	227794
4	Interest	708203
5	Transfer to States	200447
	Total of five is 54.9 percent of 3042230 (grand Total)	1670179

# Challenges of Macro Deficits

- Fiscal Deficit
- Current Account Deficit
- Intangible: Governance Deficit, trust deficit,
- Skill Deficit

# What needs to be done to keep Macro economy away from ICU

- **Invest** in Infrastructure. Innovate (R&D)  
(Power sector is the KEY )
- **Control:** Inflation, Corruption,  
Coordination
- **Understand:** uncertainties to minimize  
them.

# And Finally

KEEP YOUR FINGERS CROSSED FOR  
MACROECONOMIC STABILITY

Because:

IF YOU WANT TO MAKE GOD  
LAUGH, TELL HIM ABOUT YOUR  
PLANS. Woody Allen

“WE PLAN-GOD LAUGHS”

Chapter 28 in ‘Advice & Dissent’: Reddy,

Y V

**Thank You!**