



Is the Pattern of Curve reviving or exacerbating inequality : Macroeconomic Aspects

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Abstract: Research Paper would provide a glance of Various trends of recovery which depicted the 'V' shape and 'W' shape which could be consider as a good sign, still there are some reasons those contradict the above mentioned shapes. This study will enable us know whether the economy is really reviving or exacerbating inequality. Secondary Sources have been analysed in order to accumulate the information. Ongoing sinking feeling among the private investors distorts the paradigm for Consumption side as well. Fiscal stimulus should be attempted in a way to mitigate the divergence amongst the formal and informal parts of the economy. Fiscal stimulus should be in a way that could expand the consumption, government spending and employment. As a result, This would accelerate the positive externalities to exacerbate the willingness to raise the private spending.

1. Overview of Patterns of Curves:

Downsides of the economy could go for revamping the pace by perceiving the situation as an opportunity by the government into accelerated track with a targeted approach for key sectors to boost consumption, which remains weak, in the upcoming budget 2022-23. Though various trends of recovery have been analyzed which depicted the 'V' shape and 'W' shape which could be consider as a good sign, still there are some reasons those contradict the above mentioned shapes. A V-shaped recovery means there's a sharp upturn after a quick decline while a W-shaped recovery means a sharp decline in the metrics followed by a sharp rise back upward, followed again by a sharp decline and ending with another sharp rise.

1.1. Core Issue:

The missing private investment and private demand due to unused capacity can be considered as the core issue of the problem. According to RBI data, capacity utilisation at the aggregate level for manufacturing declined to 60% in Q1 of FY22, from 69.40% recorded in the previous quarter, which leaves a very little ground for private investment as it already possess the surplus capacity. Therefore, it can be said that economy is unlikely to get additional absorption of employment acquired from the engine of private Investment. With manufacturing industry not producing enough, Labour Force Participation rate ("LPR" i.e. share of labour force of the total working-age population) has slumped to nearly 40% compared to 43% before the pandemic, according to the Centre for Monitoring Indian Economy ("CMIE").

1.2 Is the Rural Economy Reviving?

The survey for Rural Business Confidence Index ("RBCI") was conducted during September & October 2021 when impact of COVID second wave largely abated, restrictions being withdrawn and vaccination drive accelerated since June 2021. With reduction in new cases and severity, business activity was getting improved¹. The RBI and the government also announced support measures to help business entities to cope up with the impact of pandemic. This might have impacted optimism and business sentiments for corporates and MSMEs.²

¹ Nayak Gayatri, "Has the Pandemic helped in reviving rural economy?" ET Bureau, Jan 12, 2022

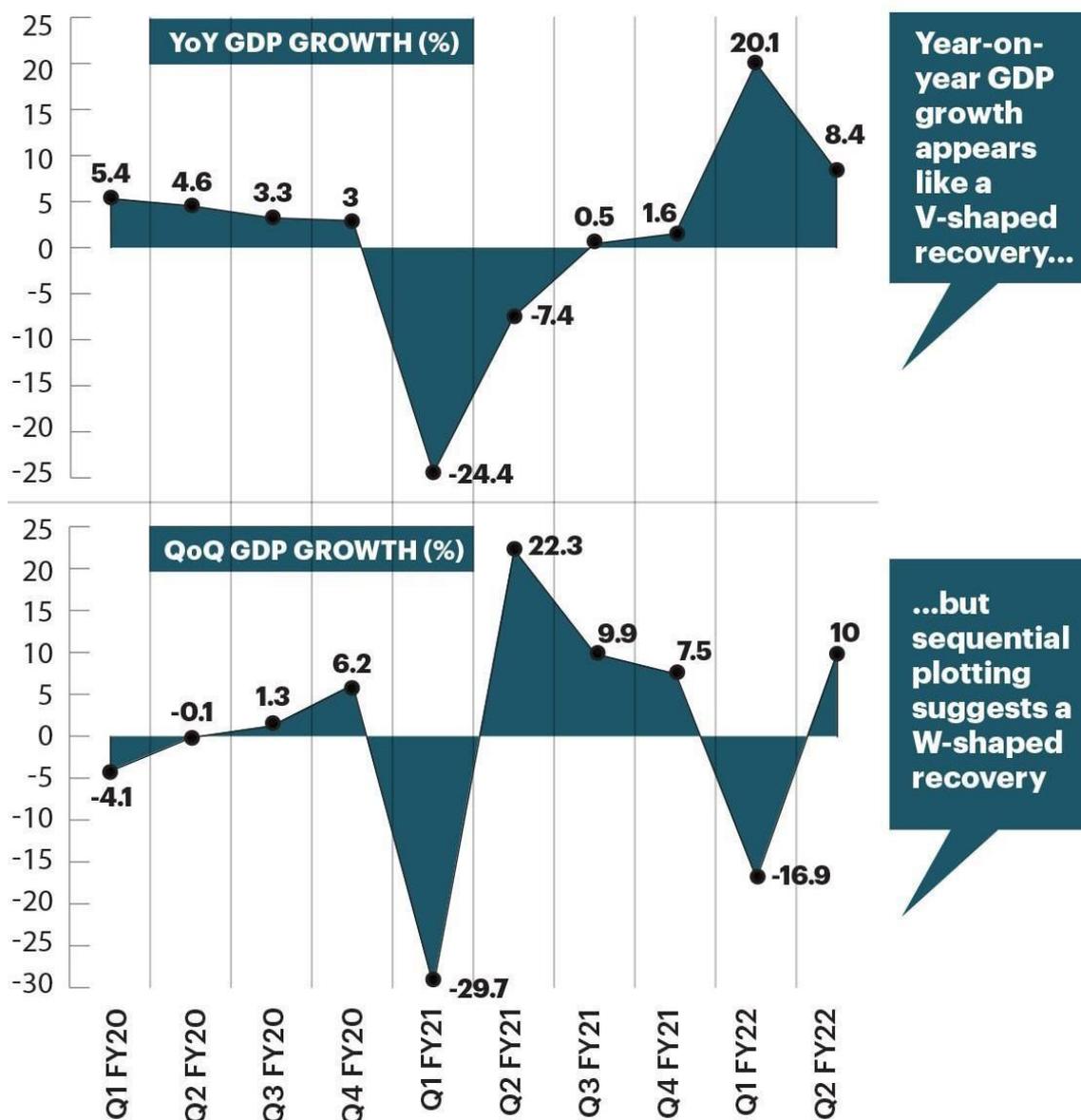
² ibi



2. Tracking the GDP Pattern

TRACKING THE PATTERN

A comparison between YoY and QoQ GDP growth



SOURCE: MOSPI



As per the above given data, -24.40% depicts a great downfall in Q1 of FY21. This was just the advent of Pandemic whereby production units were at standstill mode. Trends went down drastically. Subsequently, due to vaccination drives and other fiscal stimulus being considered, figures have shown recovery, but somewhere figures do not mirror image when it comes to rural economy, MSMEs and informal sector. This bleak picture persuades us towards ‘K’ shaped recovery pattern hereby means losing the hands to open the doors for inequalities. A K- shaped recovery occurs when, following a recession, different parts of the economy recover at different rates, times, or magnitudes. This is in contrast to an even, uniform recovery across sectors, industries, or groups of people.

2.1 Reasons for disparity:

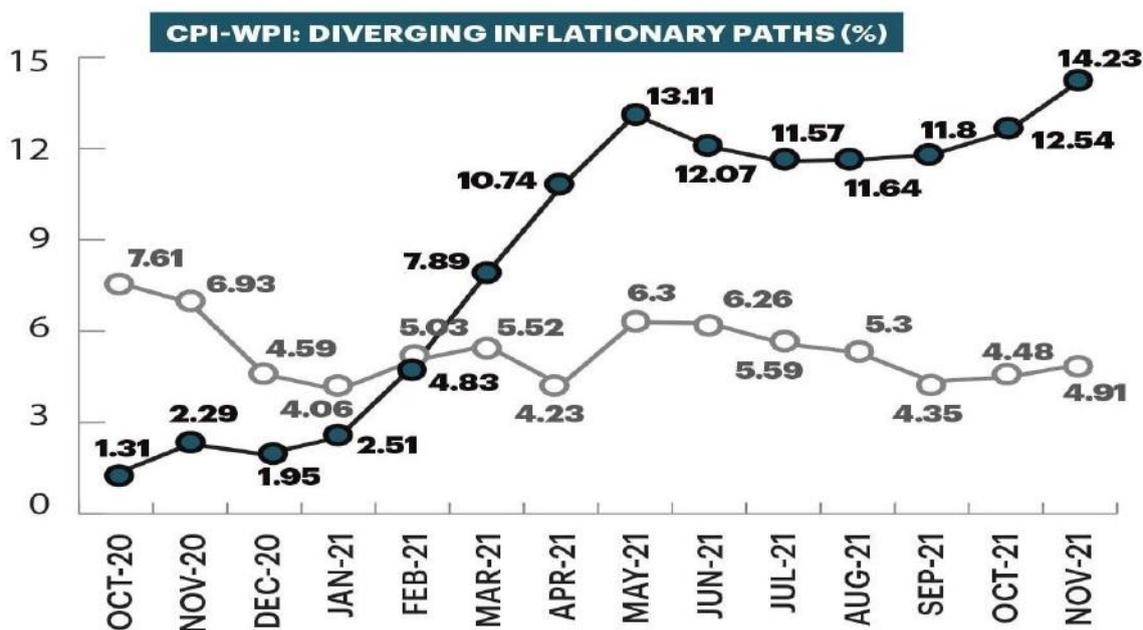
Various reasons can be listed to substantiate that the economy is moving towards a K-shaped recovery. Those can be elaborated as follows,

Firstly, Big business entities continuously raising their revenue share or market concentration somewhere restricting the competition which hampers no one but the common people. In other words, mergers and acquisitions dilutes the scale of competition however it would distort the consumer outcomes.

Secondly, Whole Sale Inflation (“WPI”) touched a series high of 14.23% Divergence between Consumer Price Index (“CPI”) and WPI would anyhow impact the economic growth. WPI discourages the productivity of the entities as it overlaps the burden of cost along with the ongoing one. Eventually, shifting the prices upwards which impact aggregate demand and particularly consumption.

CLIMBING UP

India’s wholesale inflation touched a series high of 14.23% in November



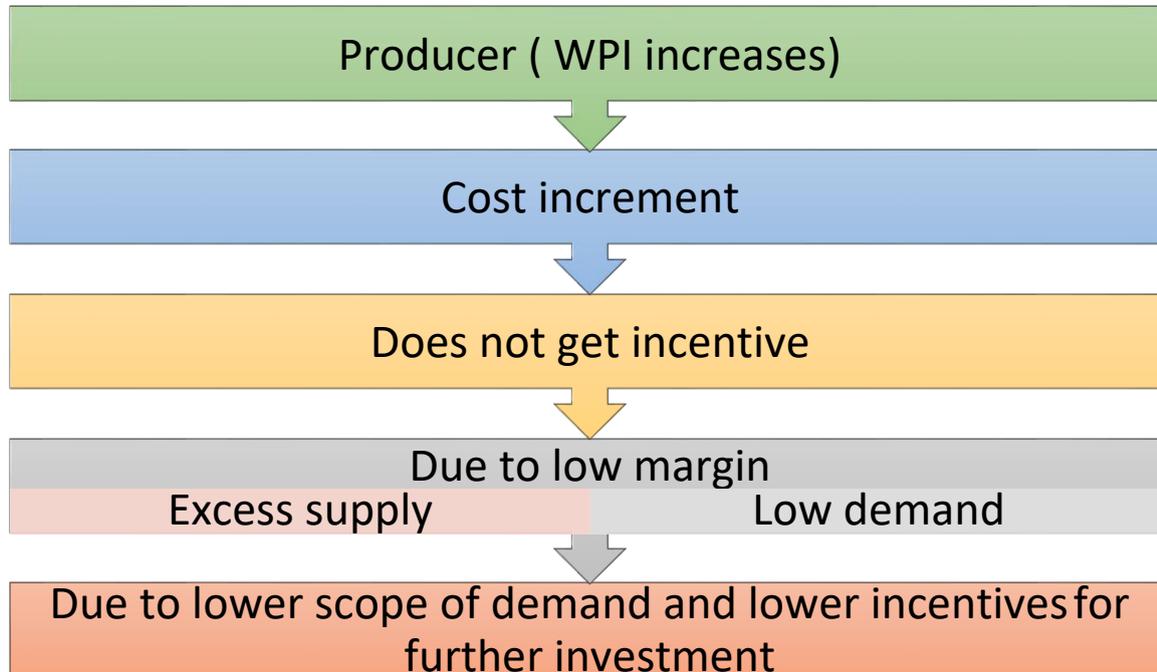
Inflation rising on account of high commodity and fuel prices

- CONSUMER PRICE INFLATION
- WHOLESALE PRICE INFLATION

SOURCE: MINISTRY OF COMMERCE AND INDUSTRY



WPI measures the average change in prices at wholesale level means very initial stage where producer sets their cost criteria that is raising at sharp 14.56% and CPI which is change in price of goods and services at retail level, measures inflation at final stage. Would it be sustainable if there is huge positive difference between WPI and CPI.



Finally, to add up to the current situation, Output Gap works as a fuel. Output Gap is the gap between output capacity and actual output. Already existing surplus productivity would no longer incentivise the investors to add in resources. This is not only distorting the productivity but reduces the supply which in turn becomes the reason for inflation and unemployment. Ultimately this raises the disparity by creating a loop for weak demand which could only be handled by large corporates and adversely impacts the MSMEs including informal sector. Nonetheless, Informal Sector has already become the reason for instability in Pandemic. Somewhere all these factors have decelerated the employment elasticity of the economy further i.e. unfortunately, the Sectors which could contribute well in the employment, now have become unaffordable/insignificant to accommodate the existing cycle.

Concerns on the way

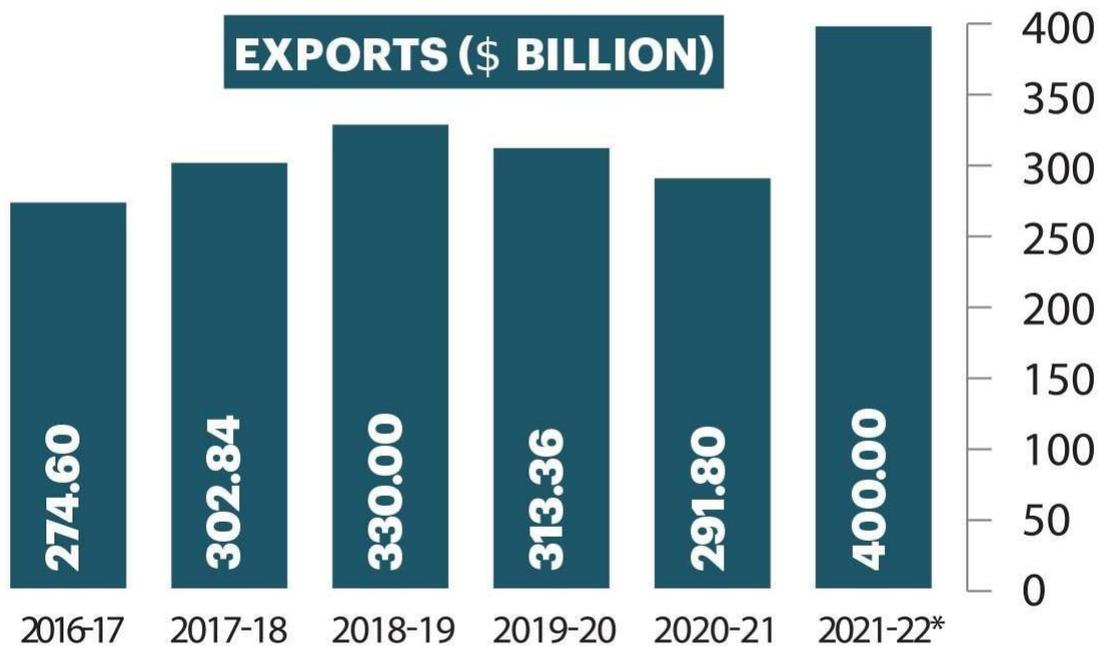
The new COVID variant Omicron has already added to the list of volatilities which again obstruct the mobility, anyway it is going to curtail demand.



3. Trends of Exports

EXPORTS RISE

Exports look set to touch the \$400-billion target for the fiscal and were already at \$263 billion by November



*TARGET FOR 2021-22

SOURCE: DEPARTMENT OF COMMERCE

This has shown the declining trends of export which raise the domestic output along with employment. Export is one of the major component of aggregate demand that could be reflected as an indicator by its competitiveness around the world. If its trends are going down to 2020- 21, does not only decline domestic output but its hold over the world demand.

3.1 Liberal Economics creates an Unfilled Gap

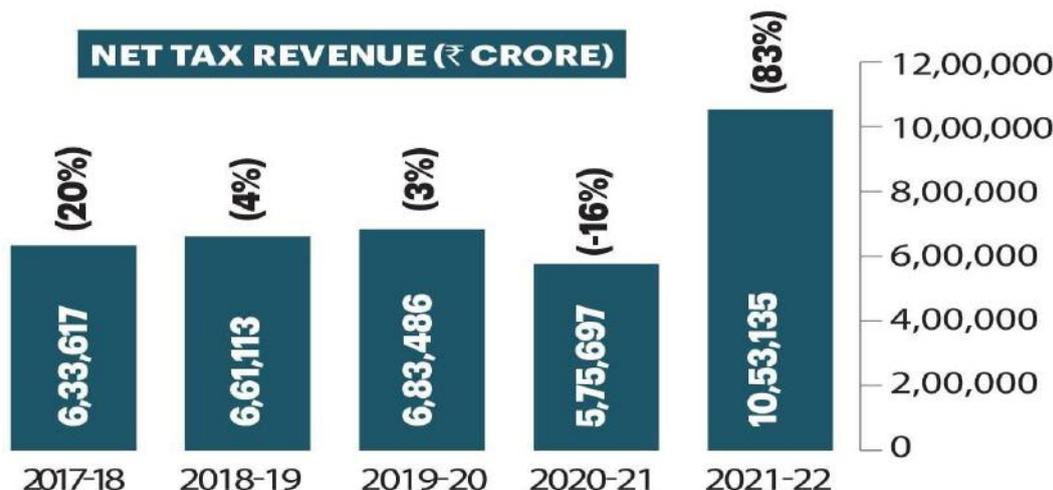
With every global crisis, be it 2007-08 or pandemic it exacerbated the divergence in inequalities. The rich get richer while million at the bottom fall off the ladder' This could vehemently drive us towards 'K' shaped curve. Till that sector starts picking up and wages start picking up, the economy is going to remain very fragile," says Mr. Sen, who is currently Country Director of International Growth.



4. Fiscal Distribution and its growth

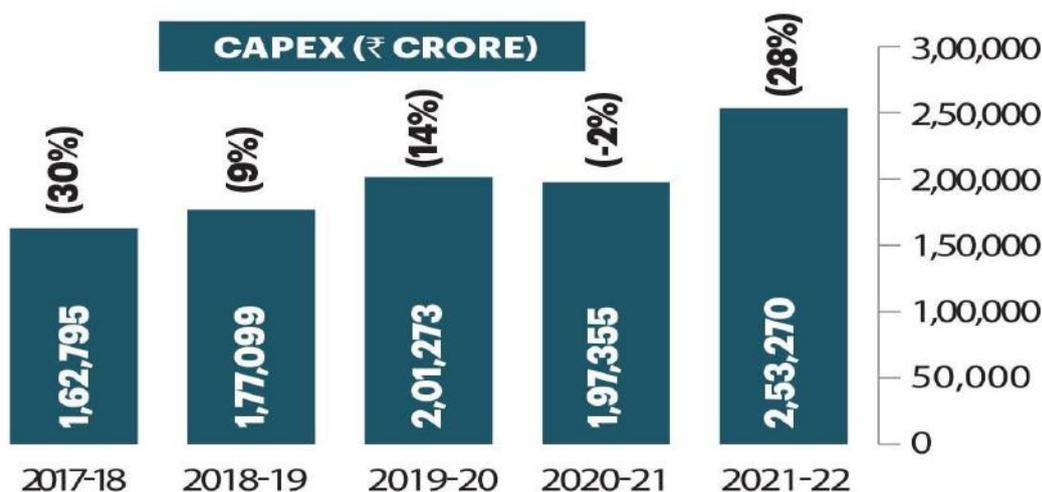
TAX POSITIVE

Revenue mop-up in 2021-22 looks to exceed budget target by 15-20 per cent, providing the government with spending buffer



CAPEX DRIVE

Pick-up in capital expenditure to act as a multiplier for growth



Figures in brackets indicate growth
 Source: Controller General of Accounts



Figures have shown decline in the Revenue (in negatives) for 2020-21 that again become matter of concern and leaves no other option but to raise the government spending due to less private Investment. Capital Expenditure has increased sharply in order to accommodate the situation.

Automatic stabilizer is any mechanism in the economy that automatically, without government intervention reduces the amount by which output changes in response to change in Autonomous Demand.⁴ Sometimes, private investors are pessimistic, are not willing to make spending so that stabilizer would be needed in the form of fiscal stimulus. Business cycle fluctuations occurring due to this pandemic in different variants could become less extreme by the stabilizer. Stimulus includes government purchase, social security contribution, etc. Each step affects level of Aggregate Demand and causes an expansion in output depending on specific policy. An increase in government spending raises consumption spending along with government purchase which is need of hour to stabilize. Besides that, at times, government subsidizes investment through an investment tax credit. Altogether, these things can contribute towards positive externalities⁵ to exacerbate the willingness to raise the private spending.

4.1 Route to go forward

Biggest stimulus for the growth will continue to be the government investment and export by having a clue from the above issue. Therefore, increment would remain gradual unlike the years where Private investors were optimist drivers. Ongoing sinking feeling among the private investors distorts the paradigm for Consumption side as well. Fiscal stimulus should be attempted in a way to mitigate the divergence amongst the formal and informal parts of the economy. Besides that, MSMEs have potential to employ huge labour force and generates high proportion of consumption in order to accelerates demand.

4.2 Inequalities Scenario

Inequalities, not only in wealth but in income could be sorted, again as per the world inequalities report, India is becoming one of the world's most unequal countries.

4.3 When public is converted to private

Rich can buy what they need, be it better health and education at their best, comparatively have greater access to opportunities. The gap between have and have not become wider. Investment Beside that liberal policies continue to ease the periphery for free forces, free trade and widening the scope of privatisation which is meant to inculcate efficiency due to competition however, it can't be neglected that when it comes to knowledge and natural resources being undertaken as intellectual property which becomes an asset of business corporation which in turn later work for greed rather than optimisation which again becomes barrier for sustenance. The ecological commons are harmed and social equity suffers.

5. CONCLUSION:

From the above analysis, the trends are depicted in 'V' and 'W' shaped pattern do not mirror the same image when it comes to sectors like MSMEs which absorb huge proportion of labour force. Instead It seems to expand the unfilled gap of large scale and small scale sectors and represents the 'K' shaped pattern. Large sectors contributes a major Proportion in supply due to more concentration as compared to Small sectors which do not only generate the employment but also play a significant role in aggregate demand. In turn, Aggregate Demand is needed to incentivize the investors. Pump priming should be considered for sustenance which not only generates the Aggregate Demand but also leading to inclusiveness. Fiscal stimulus should be in a way that could expand the consumption, government spending and employment. As a result, This would accelerate the positive externalities⁸ to exacerbate the willingness to raise the private spending. This could broadly distribute the burden over public and private spending.

It is difficult to describe the thrust of the fiscal policy perfectly with a single no, but the higher employment, trapped approach is nevertheless a useful guide to the direction of fiscal policy.

⁴ Dornbusch book, chapter-9.

⁵ By raising Aggregate demand, where investors get ready to make.

⁸ By raising Aggregate demand, where investors get ready to make investment.



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