



## Pointers that India is witnessing a K-shaped recovery

There is undeniably some type of recovery, but one can hardly label it V-shaped. The economic ravages of the pandemic have had an uneven impact on different socio-economic groups. The recovery we see today is more K-shaped than V-shaped, with various groups and industries recovering much more rapidly than their counterparts.

### Signs from industry

1. Government taxation policies continue to be regressive, with increased indirect taxes and lower direct taxes placing greater tax incidence on the destitute. The effects of this K-shaped recovery can be observed through the growth and consumption in specific industries.
2. Two-wheelers represent the economic situation of the lower and middle-class groups and India's small businesses. The sales of two-wheelers are the second-lowest it has been in seven years. On the other hand, premium cars and premium motorcycles have been resistant to the pandemic slowdown.

### Impact of taxation

1. Moreover, the usurious taxation policy of the Government, which insists on maintaining indirect taxes on fuel and consumer products while lowering corporate taxes, paints a picture explaining these figures.
2. The Government had recently raised taxes on textile products from 5% to 12%. While inflation soars, the incomes of the middle and lower-middle-class have at best remained constant.
3. There is tremendous pressure on the financial stability of these households, which seemingly face a sustained loss in disposable income. Besides, the figures representing those who are employed only partially explain this phenomenon.

### On jobs, NREGA

1. Over five million or 50 lakh people lost their jobs in October, according to a Centre for Monitoring Indian Economy (CMIE) report. Many of those who lost their jobs during this period is likely economically insecure and abstain from non-essential purchases. This, paired with the astronomically high food and fuel prices, delivers a deadly blow pushing families to poverty.
2. Additionally, it is prudent to look at Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) figures as it acts as a proxy for the informal sector, which employs a large portion of Indians.

25.11.2021

Thursday



<http://www.sriramsias.com>

3. In the year 2021-2022, the Government of India had cut its budget allocation towards MGNREGA by 34%. There is a greater demand now for MGNREGA jobs than in the pre-COVID-19 era.
4. The lower Budget allocation accounts for the inability to compensate workers in time and fairly. A portion of the Budget this year is spent on paying the liabilities for the previous financial year.
5. Those looking for MGNREGA work cannot afford to be unpaid for such long durations. This again ties back to placing upward pressure on unemployment figures.

### Stimulus and growth

1. Therefore, there seems to be no surprise that the consumption of two-wheelers and other such products has taken a significant hit. The U.S. and European economies have stimulated the economy bottom-up through unemployment cheques and social welfare schemes.
2. The economist, John Maynard Keynes, popularised the concept of the money multiplier and the relationship between government stimulus and economic growth.
3. It fundamentally makes great sense to prioritise those who are more likely to spend (the middle and lower-middle-class) rather than those who have a greater propensity to save.

### Think welfare schemes

1. Therefore, as discussed before, their financial situation is worsened due to the rising prices of essential goods. Moreover, the disproportional benefit of the asset price inflation favouring the upper-middle-class further displays the inherent K-shape of the recovery.
2. It is crucial that the Government addresses this phenomenon and works towards aiding the middle and lower-middle class. Social welfare schemes must be given greater importance to assist households to get through this period.
3. A seemingly viable solution is for the Government to increase progressive (direct) taxes and reduce regressive (indirect) taxes to ease the financial pressure on lower-income households.