

Economic Survey 2018-19 Highlights - Part I

Click [here](#) for Part II and [here](#) for Part III

Why in news?

The Union Minister for Finance and Corporate Affairs, Ms. Nirmala Sitharaman tabled the Economic Survey 2018-19 in the Parliament.

What are the key highlights?

GROWTH

- During the last 5 years, India's economy has performed well.
- The trickle-down theory has worked well during this period.
- The pathways opened under this have carried the benefits of growth and macroeconomic stability to the lower levels of the economy.

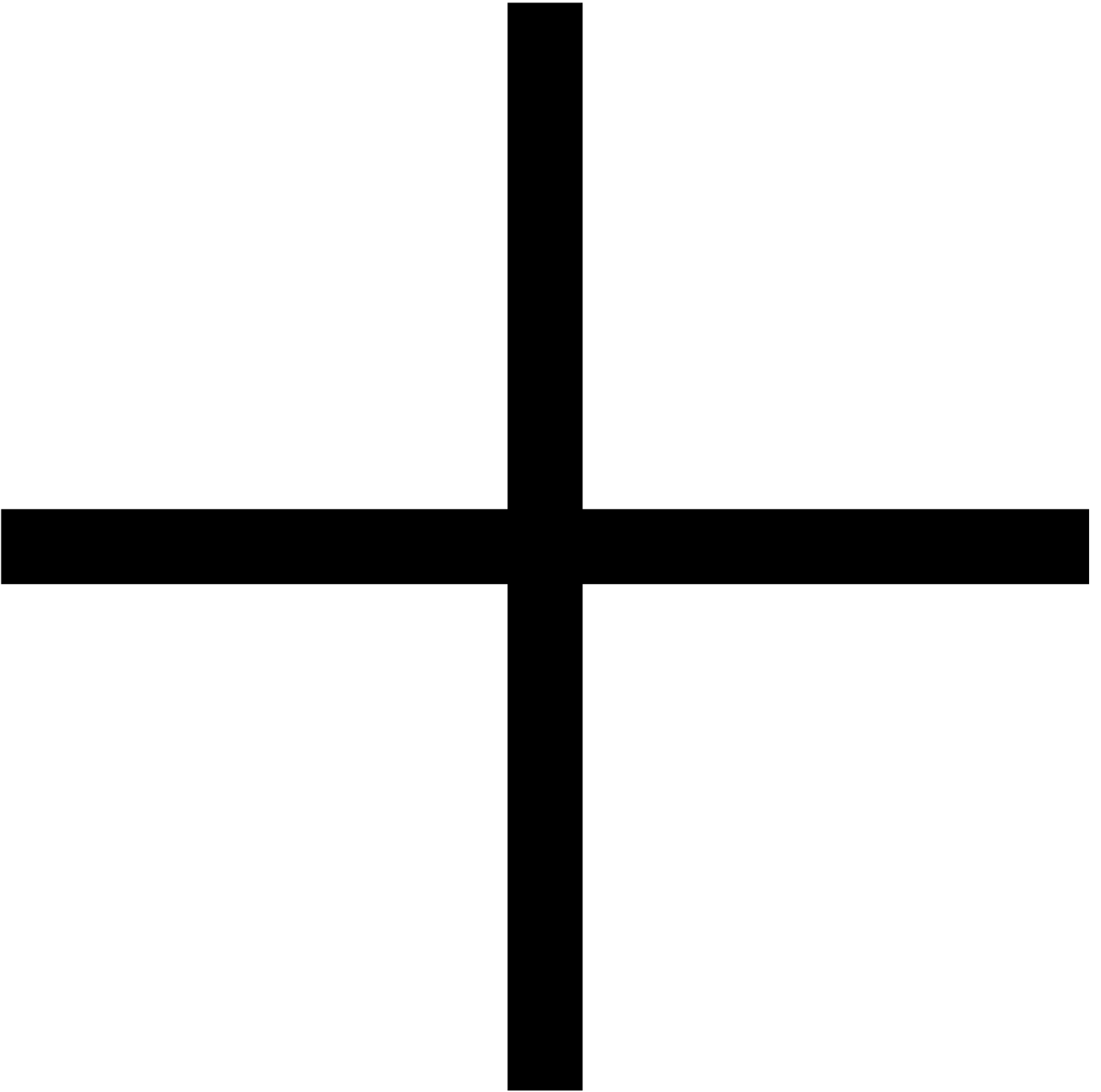
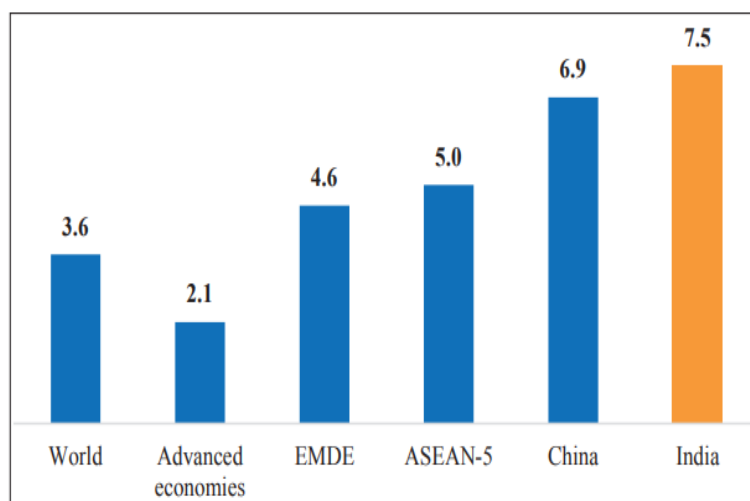


Figure 1: Growth of GDP in India and the world



Source: World Economic Outlook, April 2019, IMF

Note: (1). EMDE – Emerging Market and Developing Economies; (2). ASEAN-5 composed of 5 countries: Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

- **\$5 trillion economy** - PM, in the NITI Aayog's 5th Governing Council meeting held recently, called for making India a [\\$5 trillion economy](#) by 2024.
- The Survey, in this context, calls for a sustained real GDP growth rate of 8%.
- **"Virtuous cycle"** - A growth rate of 8% can only be sustained by a "virtuous cycle" of savings, investment and exports.
- Importantly, this has to be catalysed and supported by a favourable demographic phase.
- Private Investment - The Economic Survey 2018-19 calls for private investment as the key driver of growth, jobs, exports and demand.
- Investment, especially private investment, is the key factor that -
 - i. drives demand
 - ii. creates capacity
 - iii. increases labour productivity
 - iv. introduces new technology
 - v. allows creative destruction
 - vi. generates jobs
- In this context, the Survey rules out the idea that investments would displace jobs.
- When examined across the entire value chain, capital investment only fosters job creation.
- This is because the production of capital goods, research & development and supply chains only generate jobs and not otherwise.
- The Survey emphasizes in this line that job creation would be driven by this virtuous cycle.
- Exports - Of the three (savings, investments and exports), exports must form an integral part of the growth model.
- This is because higher savings prevent domestic consumption as the driver of

final demand; exports would be a sustainable avenue to boost growth.

- **Rationale** - In postulating the above growth model, the Survey departs from traditional Anglo-Saxon thinking.
- The survey thus notes that an economy is either in a virtuous or a vicious cycle and never at an equilibrium, unlike what economic theories assume.
- With this, the Survey identifies the following as the key ingredients for a self-sustaining virtuous cycle -
 - i. Presenting data as a public good
 - ii. Emphasizing legal reforms
 - iii. Ensuring policy consistency
 - iv. Encouraging behavior change using principles of behaviour economics
 - v. Nourishing MSMEs to create more jobs and become more productive
 - vi. Reducing the cost of capital
 - vii. Rationalizing the risk-return trade-off for investments

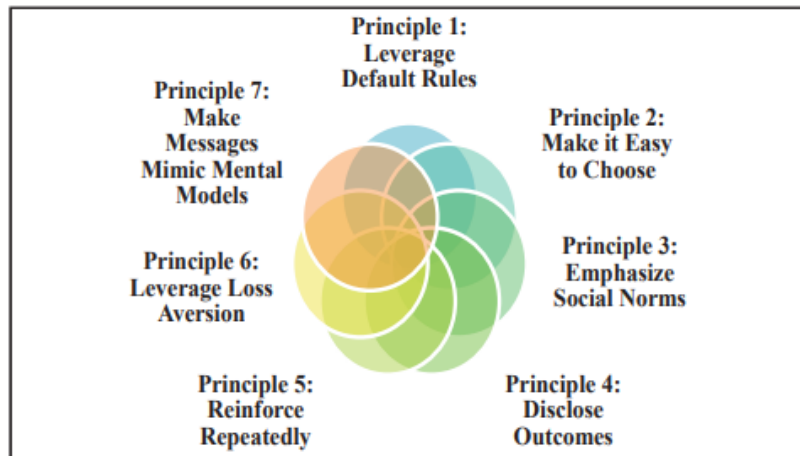
BEHAVIORAL ECONOMICS

- Decisions made by real people often deviate from the impractical robots theorized in classical economics.
- Behavioural economics, in effect, takes into account the psychology of human behaviour.
- It, thereby, provides insights to 'nudge' (influence) people towards desirable behaviour.



- The key principles of behavioural economics are
 - i. emphasising the beneficial social norm
 - ii. changing the default option
 - iii. repeated reinforcements

Figure 12: Principles of Behavioural Economics

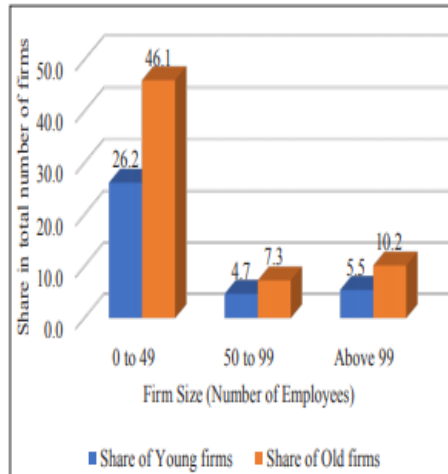


- The Survey notes Swachh Bharat Mission (SBM) and the Beti Bachao Beti Padhao (BBBP) to have successfully employed behavioural insights.
- Going forward, it suggests that insights from behavioural economics could be strategically utilised for social change including -
 - i. from BBBP to BADLAV (Beti Aapki Dhan Lakshmi Aur Vijay Lakshmi)
 - ii. from Swachh Bharat to Sundar Bharat
 - iii. from “Give It Up” for the LPG subsidy to “Think about the Subsidy”
 - iv. from tax evasion to tax compliance

MSME GROWTH

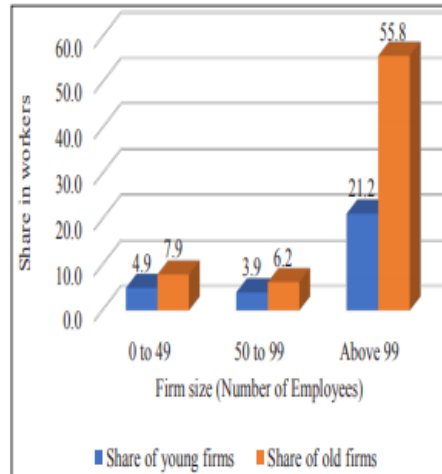
- MSMEs that grow not only create greater profits for their promoters but also contribute to job creation and productivity in the economy.
- **Share** - Dwarf firms are that with less than 100 employees but more than 10 years old.
- Dwarf firms account for more than half of all organized firms in manufacturing by number.
- However, their contribution to employment is only 14% and to productivity is a mere 8%.
- In contrast, large firms (more than 100 employees) accounts for only about 15% by number.
- But they account for three-quarters of such employment and close to 90% of productivity.

Figure 1(a). Share of dwarfs versus others in number of firms (as of 2016-17)



Source: ASI Firm level data

Figure 1 (b). Share of dwarfs versus others in employment (as of 2016-17)



Source: ASI Firm level data

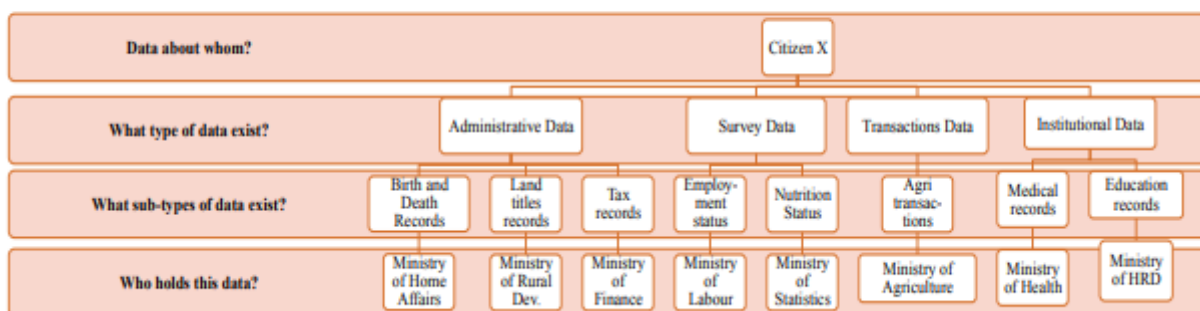
- **Job creation** - Job creation in India, suffers from policies that foster dwarfs that never grow. E.g. the Small Scale Industries (SSI) reservation policy of 1967
- In comparison, the infant firms that have the potential to grow and become giants rapidly are not given the due attention.
- Against the widespread perception, small firms destroy jobs as much as they create. [Click [here](#) to read on Industrial Policy]
- In contrast, large firms create permanent jobs in larger numbers.
- Also, young firms create more jobs at an increasing rate than older firms.
- So, size-based incentives (that are provided irrespective of firm age) and inflexible labour regulation (which contain size-based limitations) further contribute to the above problem.
- **Way forward** - The Survey suggests policy focus on enabling MSMEs to grow by addressing and eliminating the current limitations.
- All size-based incentives must have a sunset clause of less than 10 years with necessary grand-fathering (fixing a cut-off date for exceptions)
- Flexibility in labour laws creates a more conducive environment for growth of industry and employment generation.
- So, deregulating labour law restrictions can create significantly more jobs.
- This was evident with the recent changes in Rajasthan when compared to the rest of the States.
- [In 2014, Rajasthan was the first State that introduced labour reforms in the major Acts.
- It was found that the changes in laws increased the number of larger firms in Rajasthan than the Rest of India.]
- The Survey suggests direct credit flow to young firms in high employment elastic sectors by re-calibrating Priority Sector Lending (PSL) guidelines.
- The ultimate objective is to accelerate employment generation.

- Focus must be on service sectors having high spillover effects on other sectors, helping create more jobs.
- E.g. tourism growth widely reflects in hotel & catering, transport, real estate, entertainment etc.

DATA

- Given technological advances in gathering and storage of data, society's optimal consumption of data is higher than ever.
- **Government's role** - The private sector may invest in harnessing data where it is profitable.
- But, government intervention is needed in social sectors of the country where private investment in data remains inadequate.
- Governments already hold a rich repository of administrative, survey, institutional and transactions data about citizens.
- But, these data are scattered across numerous government bodies and thus the need now is merging these distinct datasets.
- This would generate multiple benefits with the applications being limitless.
- E.g. the benefits of using technology in welfare schemes include -
 - i. improving end-to-end governance
 - ii. creating a robust evidence-based implementation framework in partnership with the States
 - iii. streamlining the processes
 - iv. timely transfer of funds to implementing agencies and beneficiaries
 - v. plugging of leakages
- The Survey cited the e-NAM (National Agriculture Market) and Direct Benefit Transfers (DBT) as governments' successful initiatives in this regard.

Illustration: Data about a hypothetical citizen X is dispersed across multiple, unconnected datasets



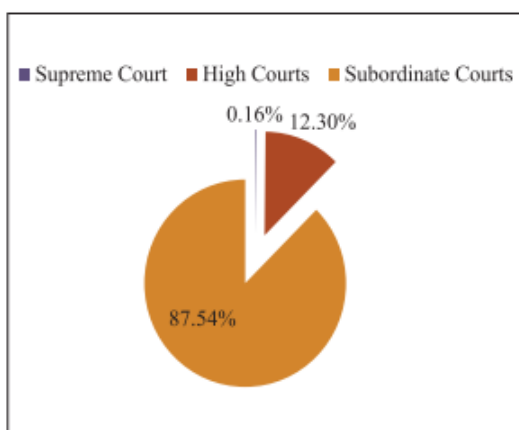
- **Data as a public good** - A public good is a product that one individual can consume without reducing its availability to others and from which no one is deprived.

- The government must play a role in creating data as a public good, especially of the poor and in social sectors such as education and health.
- Sophisticated technologies already exist to protect and share confidential information.
- So, data can be created as a public good within the legal framework of data privacy.
- However, in doing so, care must also be taken to not impose the elite's preference of privacy on the poor.
- The Survey sums up that as data of societal interest is generated by the people, it should be "of the people, by the people, for the people."

EASE OF DOING BUSINESS - JUDICIARY

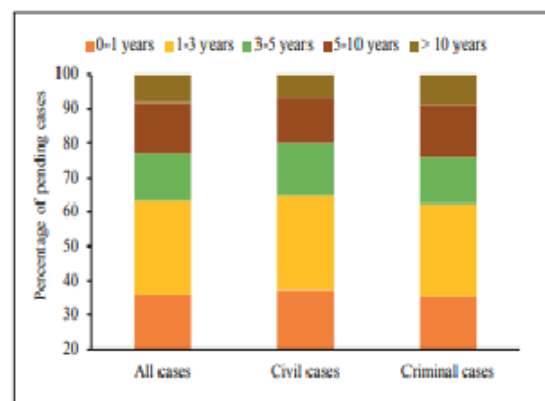
- The single biggest hurdle to the ease of doing business in India and higher GDP growth now are possibly the delays in contract enforcement and dispute resolution.
- **Pendency** - The pendency of a case on a given date is the time since the date of filing.
- More than 64% of all cases are pending for more than one year.
- Around 87.5% of pending cases are in the District and Subordinate (D&S) courts.
- Notably, Odisha, Bihar, West Bengal, Uttar Pradesh and Gujarat have higher average pendency for both civil and criminal cases as compared to the national averages.
- Punjab and Delhi have the least average pendency of cases.

Distribution of Pending Cases among different levels of Courts in India



Source: Supreme Court of India and NJDG, 2019.

Distribution of Pending Cases (age-wise) in D&S courts



Source: NJDG, As on May 31, 2019.

- **Disposal** - Disposal time is measured as the time span between the date of filing and the date when the decision is passed.
- The trends among the states in disposal of cases are similar to the

distribution of average pendency of cases across states.

- **Way forward** - It was found that a case clearance rate (CCR) of 100% could be achieved by merely filling out the vacancies in the lower courts (2,279 judges) and in the High Courts (93 judges).
- [The Case Clearance Rate (CCR) is the proportion of cases disposed of in a given year to the number of cases instituted (not necessarily the filing date) in that year, expressed as a percentage.]
- This, notably, is possible even without the efficiency gains.
- Given the potential economic and social multipliers of a well-functioning legal system, investing in this area is key to India.
- Assessments of efficiency gains and additional judges required to clear the backlog in 5 years suggest that the numbers are large but achievable.
- The states of Uttar Pradesh, Bihar, Odisha and West Bengal need special attention in this regard.

POLICY UNCERTAINTY

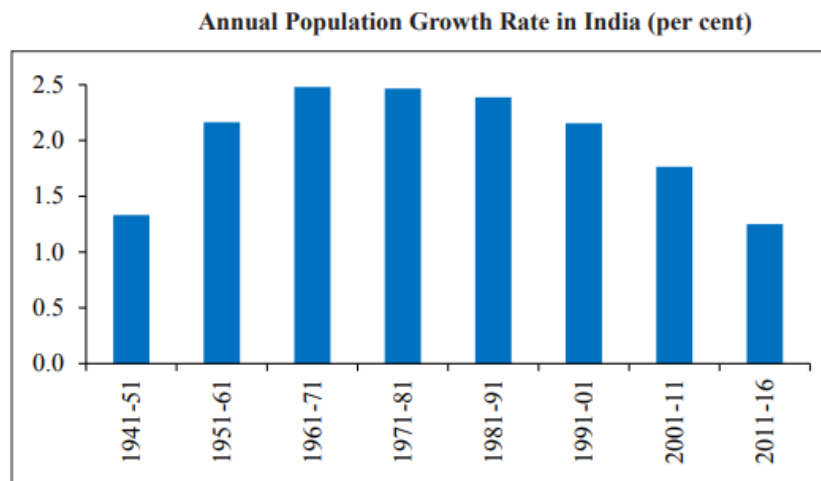
- Coinciding with the years of policy paralysis, economic policy uncertainty was the highest in 2011-12 in India.
- The uncertainty has reduced significantly over the last decade.
- Continued decline in economic policy uncertainty in India post 2015 is exceptional.
- This is because it contrasts sharply with the increase in economic policy uncertainty in major countries, especially the U.S.
- **To be done** - An increase in economic policy uncertainty dampens investment growth in India for about five quarters.
- Generic economic uncertainty cannot be largely controlled.
- However, policymakers can reduce economic policy uncertainty, as it is essential to foster a salutary investment climate in the country.
- The Survey proposes reduction in economic policy uncertainty by way of:
 - i. Consistency of actual policy with forward guidance
 - ii. Quality assurance certification of processes in Government departments

INDIA'S DEMOGRAPHY AT 2040

- India is set to witness a sharp slowdown in population growth in the next two decades.
- The country as a whole will enjoy the “demographic dividend” phase.
- However, some states will start transitioning to an ageing society by the 2030s.
- Significantly, population in the 0-19 age bracket has already peaked due to

sharp declines in total fertility rates (TFR) across the country.

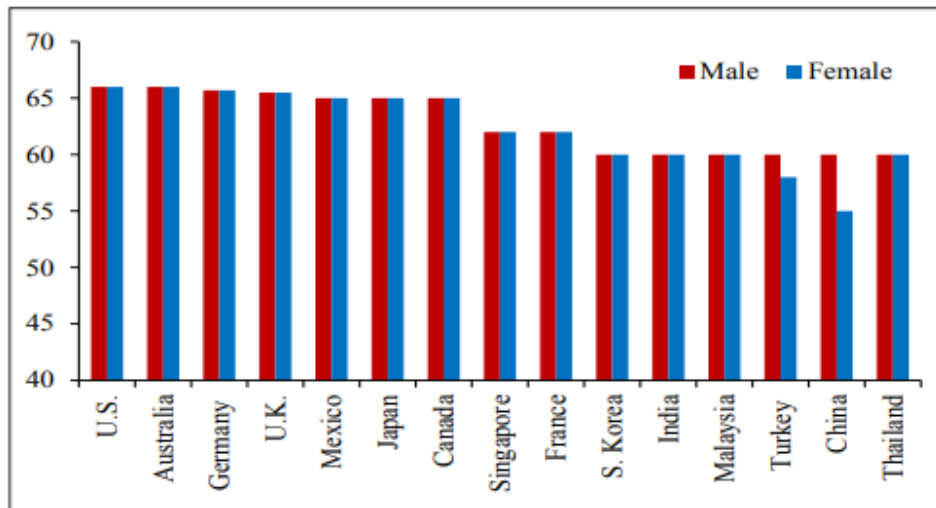
- The national TFR is expected to be below replacement rate by 2021.
- [Total Fertility Rate (TFR) - the average number of children born per woman.
- Replacement level of fertility - TFR at which a population exactly replaces itself from one generation to the next, without migration i.e. the TFR needed to keep the population the same from generation to generation.]



Source: Census 2011, International Institute for Population Sciences (IIPS) estimates.

- Working-age population will grow by roughly 9.7 million per year during 2021-31 and 4.2 million per year in 2031-41.
- The proportion of elementary school-going children i.e. 5-14 age group will witness significant declines over the next two decades.
- **Suggestions** - Many states need to pay greater attention to consolidating/merging schools to make them viable, rather than building new ones.
- At the other end of the age scale, policy makers need to prepare for ageing.
- Investing in health care and increasing the retirement age in a phased manner are crucial in this regard.

Retirement Age (years)

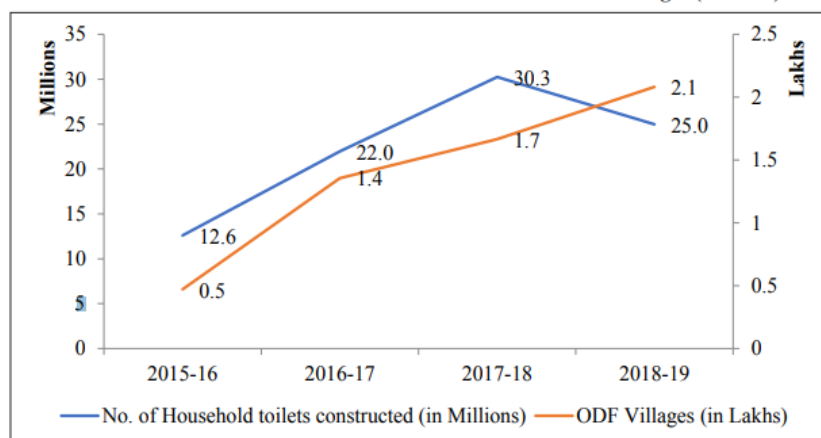


Source: Country-specific pension documents, OECD.

SWACHH BHARAT MISSION

- SBM, one of the largest cleanliness drives in the world, has brought in a remarkable transformation and traceable health benefits in India.
- Through SBM, 99.2% of the rural India has been covered; since October 2, 2014, over 9.5 crore toilets have been built all over the country.
- Also, close to 5,64,600 villages have been declared ODF (Open Defecation Free).
- Becoming ODF has reduced deaths due to diarrhoea, malaria especially in under-5 children, stillbirths and new-borns with weight less than 2.5 kg.
- SBM has thus improved the overall child health and nutrition in the country.
- This effect is particularly pronounced in districts where Individual Households Latrine (IHHL) coverage was lower earlier.

Number of household toilets constructed and ODF villages (2015-19)



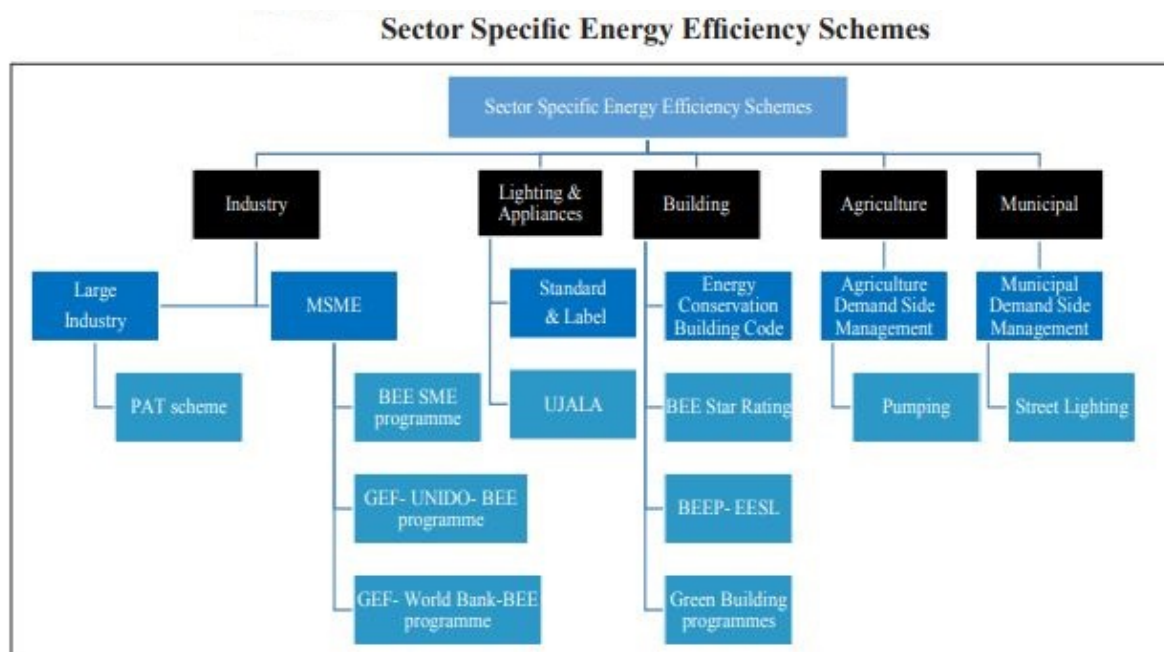
Source: Ministry of Drinking Water and Sanitation

- Notably, financial savings from a household toilet (positive impacts) exceed the financial costs to the household by 1.7 times, on average, and 2.4 times for poorest households.

- Going forward, SBM needs to incorporate environmental and water management issues for sustainable improvements in the long-term.

AFFORDABLE, RELIABLE AND SUSTAINABLE ENERGY

- **Per-capita energy consumption** - India has a per-capita energy consumption of about one-third of the global average.
- With this, India has to increase its per capita energy consumption at least 2.5 times.
- This is essential to increase the country's real per capita GDP by \$5000 per capita, in 2010 prices, to enter the upper-middle income group.
- **HDI** - Additionally, if India has to reach the HDI (Human Development Index) level of 0.8 it has to quadruple its per capita energy consumption.
- [HDI level of 0.8 corresponds to high human development.]
- **Renewable energy** - India has set ambitious targets for renewable energy and has been undertaking one of the world's largest renewable energy expansion programmes in the world.
- Now, globally, India stands 4th in wind power, 5th in solar power and 5th in renewable power installed capacity.
- The share of renewables (excluding hydro above 25 MW) in total electricity generation has increased from 6% in 2014-15 to 10% in 2018-19.
- However, thermal power still plays a dominant role at 60% share.
- **Energy efficiency programmes** in India have generated cost savings worth more than Rs. 50,000 crore and a reduction in about 11 crore tonnes of CO₂ emission.

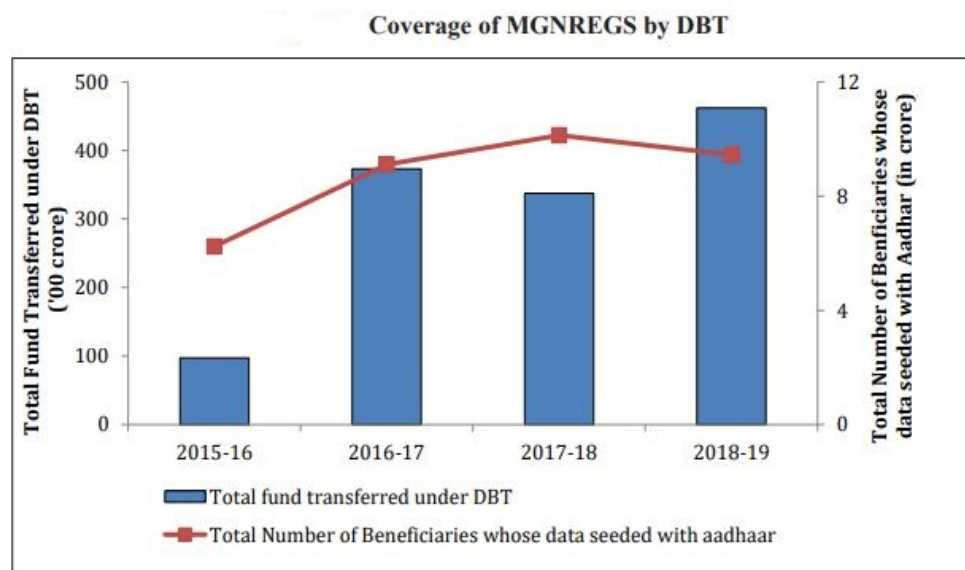


- **Electric vehicles** - The market share of electric vehicles is only 0.06% in India when compared to 2% in China and 39% in Norway.

- Access to fast charging facilities must be fostered to increase the market share of electric vehicles.

TECHNOLOGY FOR WELFARE SCHEMES - MGNREGS CASE

- Use of technology in streamlining MGNREGS has helped increase its efficacy.
- Adoption of NeFMS (National electronic Fund Management System) and DBT (Direct Benefit Transfer) in MGNREGS has significantly helped in reducing the delays in the payment of wages.



Source: DBT Bharat portal

- Both demand and supply of work under MGNREGS has increased, especially in districts suffering from distress.
- Workforce participation of the vulnerable sections of the society viz., women, SC and ST has increased under MGNREGS during times of economic distress.
- The Survey thus noted that skillful use of technology along with efficient monitoring of the effectiveness of government schemes could give substantial results.

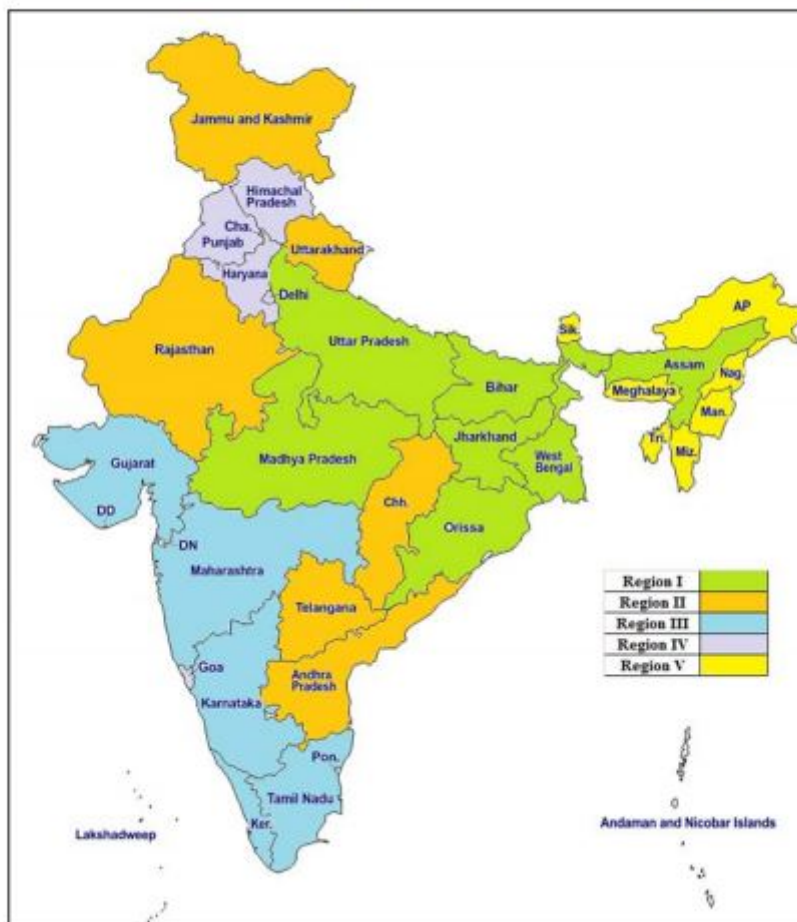
MINIMUM WAGE SYSTEM

- The present minimum wage system in India is complex with 1,915 minimum wages defined for various scheduled job categories across various states.
- One in every three wage-workers in India is not protected by the minimum wage law.
- In this backdrop, the Survey supports the rationalization of minimum wages as proposed under the [Code on Wages Bill](#).
- It calls for fixing Minimum Wages for four categories namely, unskilled,

semi-skilled, skilled and highly skilled.

- This, it suggests, should be based on geographical region and should cover all workers, irrespective of any wage ceilings.
- A National Floor Minimum Wage should be notified by the Central Government, varying across five geographical regions.
- Minimum wages by states should be fixed at levels not lower than the 'floor wage'.
- Such minimum wages can be notified based either on the skills or on geographical region or on both grounds.

Figure 9: Geographical regions as determined by the Expert Committee on determining the methodology for fixing the National Minimum Wage, 2019



- The survey has also proposed a 'National level dashboard' under the Ministry of Labour & Employment for regular notifications on minimum wages.
- The Survey also suggested having in place a Toll-free number to register grievance on non-payment of the statutory minimum wages.
- In all, the Survey promotes an effective minimum wage policy as an inclusive mechanism for more resilient and sustainable economic development.

Source: Ministry of Finance Website



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