

## **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.

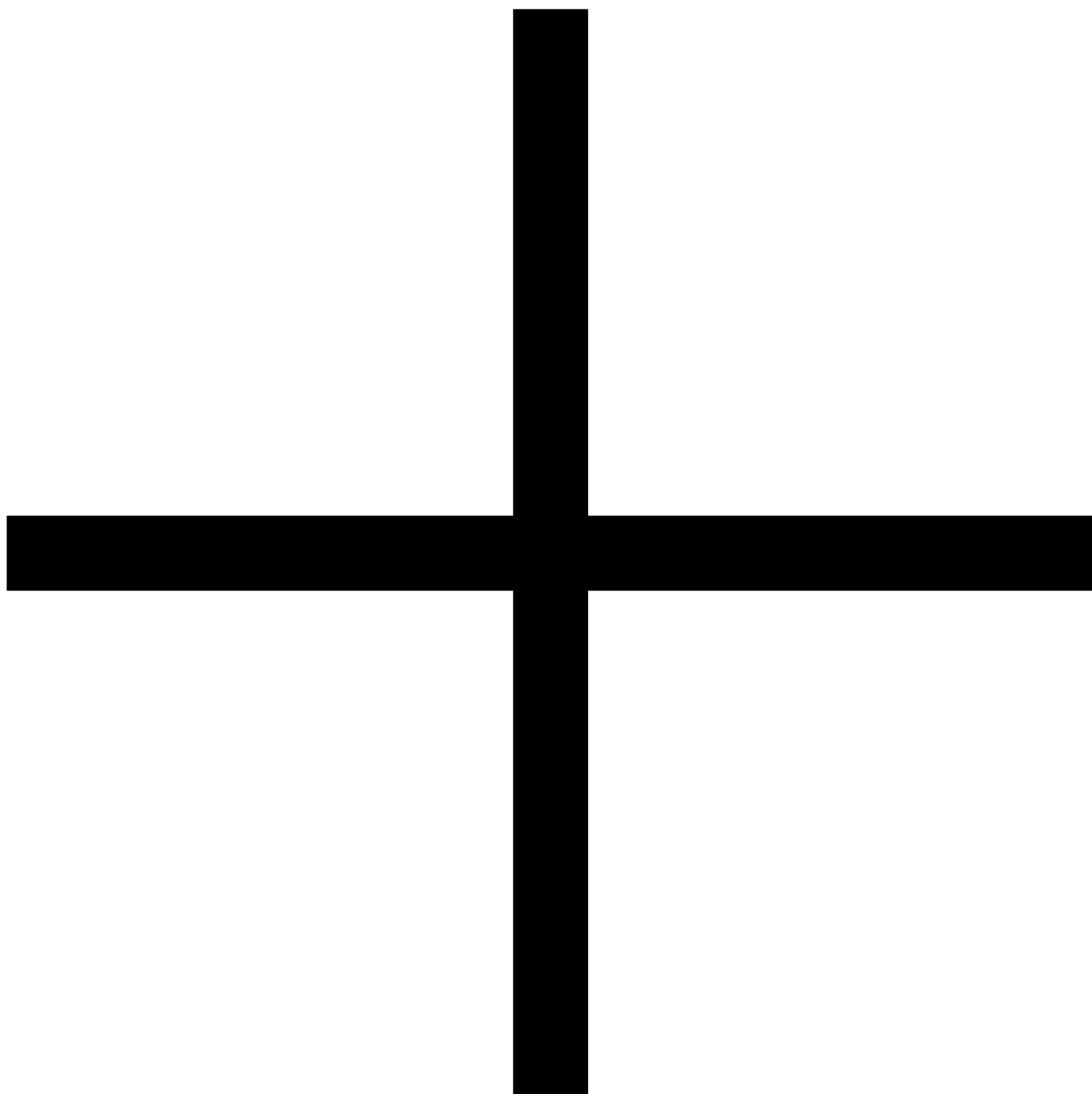
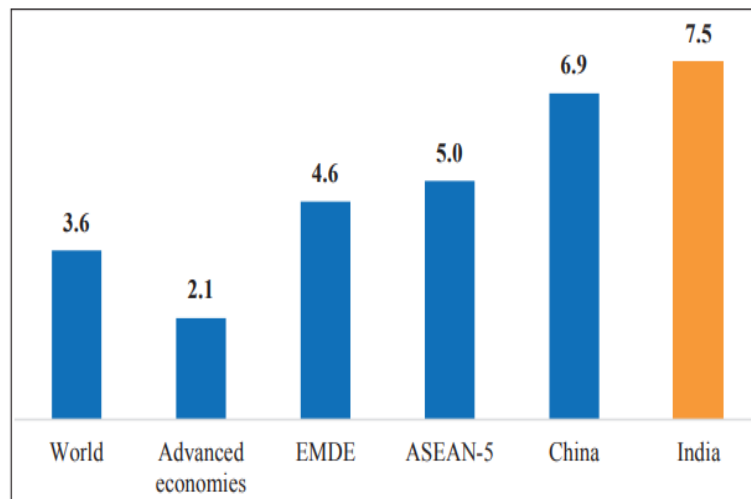


Figure 1: Growth of GDP in India and the world



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

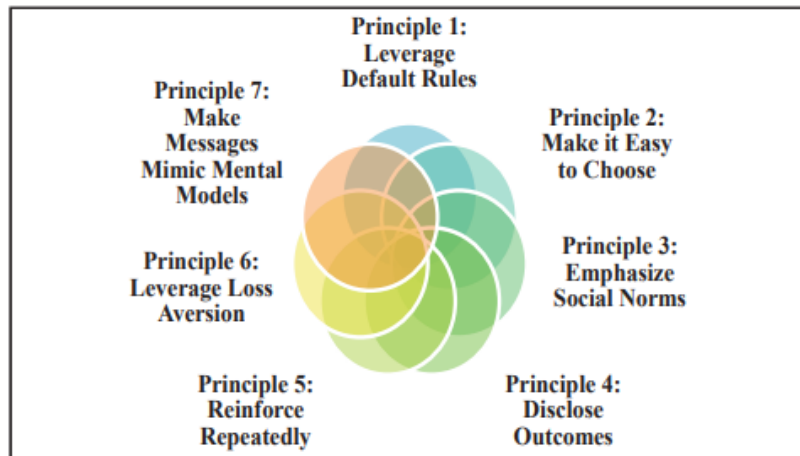
## BEHAVIORAL ECONOMICS

- 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

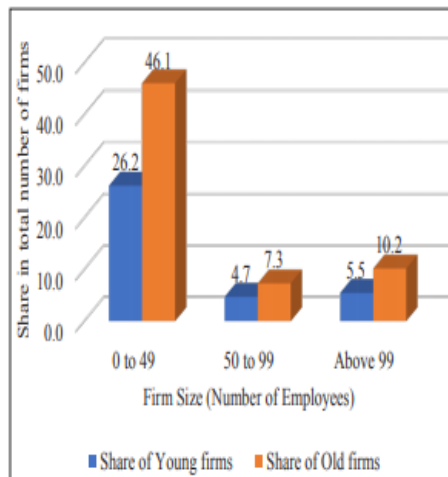


- The Survey notes Swachh Bharat Mission (SBM) and the Beti Bachao Beti Padhao (BBBP) to have successfully employed behavioural insights.
- Going forward, it suggests that insights from behavioural economics could be strategically utilised for social change including -
  - i. from BBBP to BADLAV (Beti 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

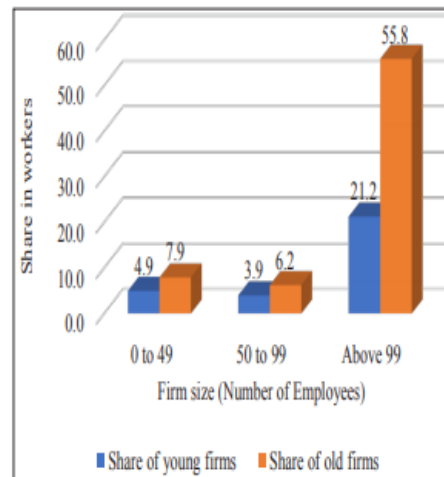
- MSMEs that grow not only create greater profits for their promoters but also contribute to job creation and productivity in the economy.
- **Share** - Dwarf firms are that with less than 100 employees but more than 10 years old.
- Dwarf firms account for more than half of all organized firms in manufacturing 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

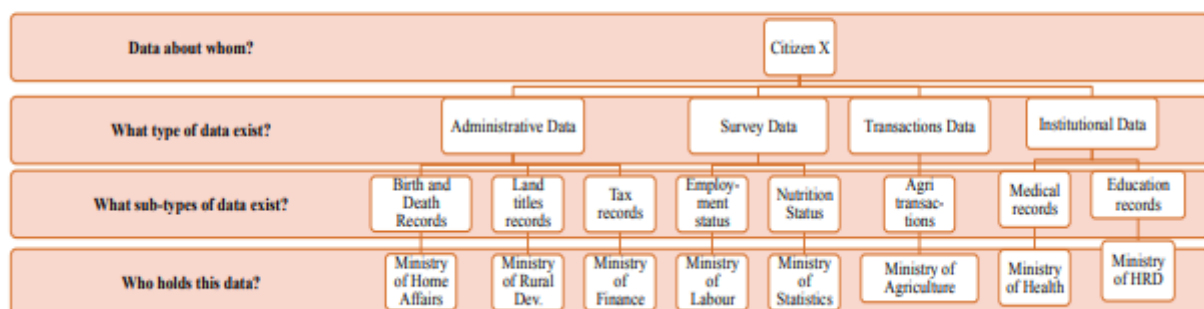
- **Job creation** - Job creation in India, suffers from policies that foster dwarfs that never grow. E.g. the Small Scale Industries (SSI) reservation policy of 1967
- In comparison, the infant firms that have the potential to grow and become giants rapidly are not given the due attention.
- Against 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**



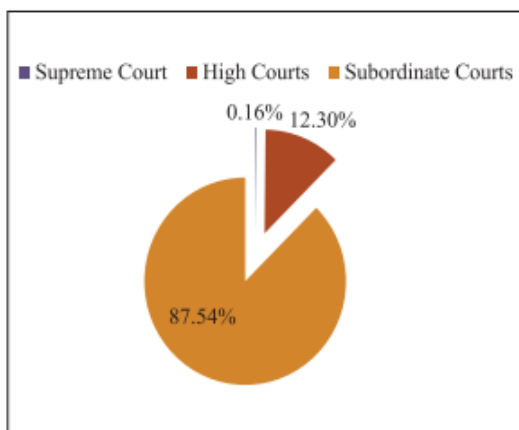
- **Data as a public good** - A public good is a product that one individual can consume without reducing its availability to others and from which no one is deprived.

- 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

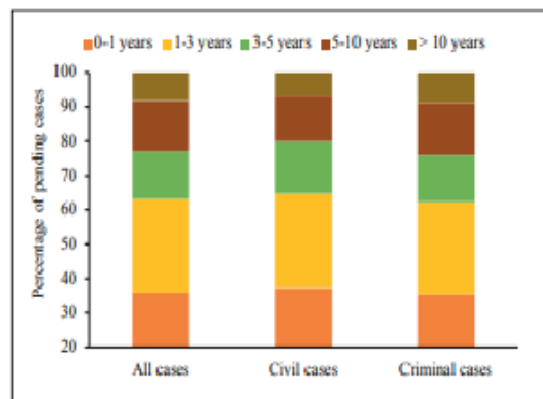
- The single biggest hurdle to the ease of doing business in India and higher GDP growth now are possibly the delays in contract enforcement and dispute resolution.
- **Pendency** - The pendency of a case on a given date is the time since the date of filing.
- More than 64% of all cases are pending for 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**

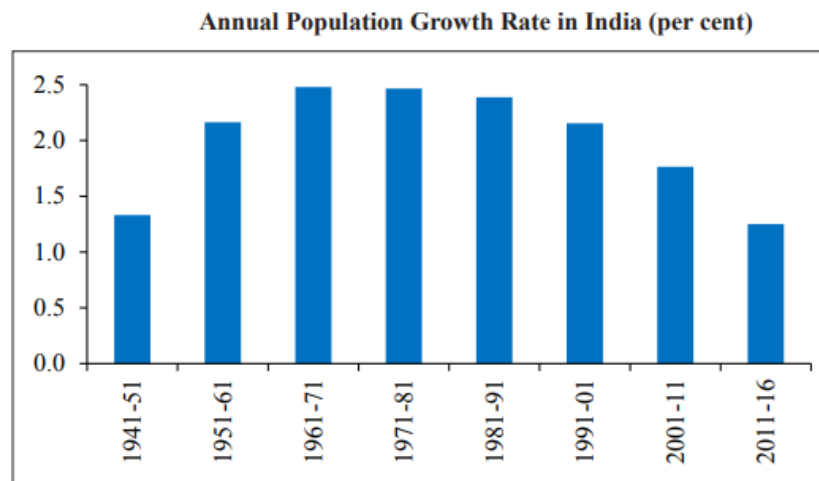
- Coinciding with the years of policy paralysis, economic policy uncertainty was the highest in 2011-12 in India.
- The uncertainty has reduced significantly over the last decade.
- Continued decline in economic policy uncertainty in India post 2015 is exceptional.
- This is because it contrasts sharply 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

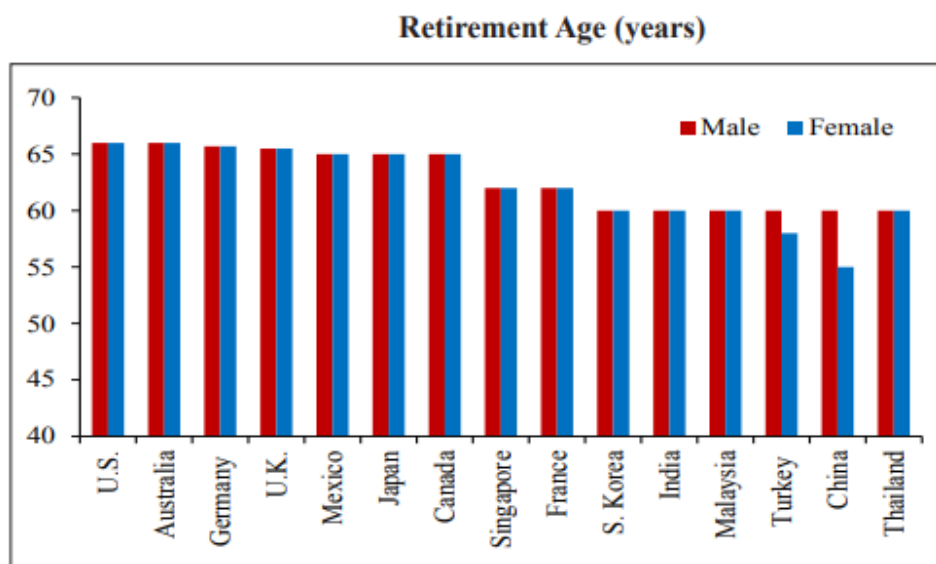
sharp declines in total fertility rates (TFR) across the country.

- 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.

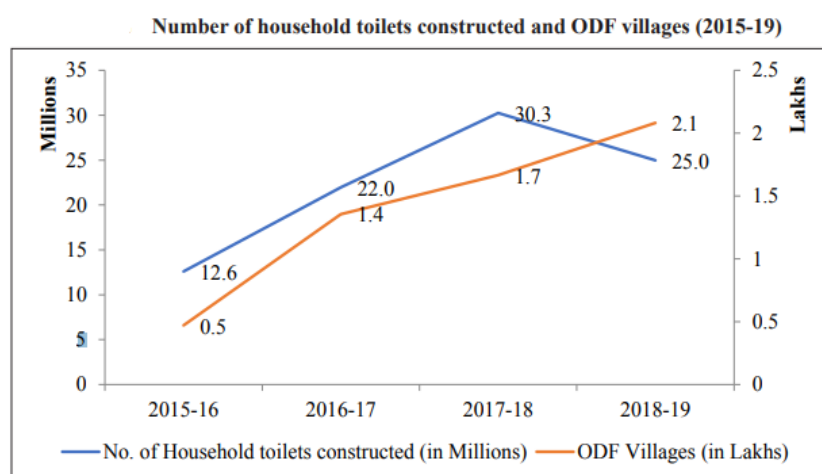
- Working-age population will grow by roughly 9.7 million per year during 2021-31 and 4.2 million per year in 2031-41.
- The proportion of elementary school-going children i.e. 5-14 age group will witness significant declines over the next two decades.
- **Suggestions** - Many states need to pay greater 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.



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.



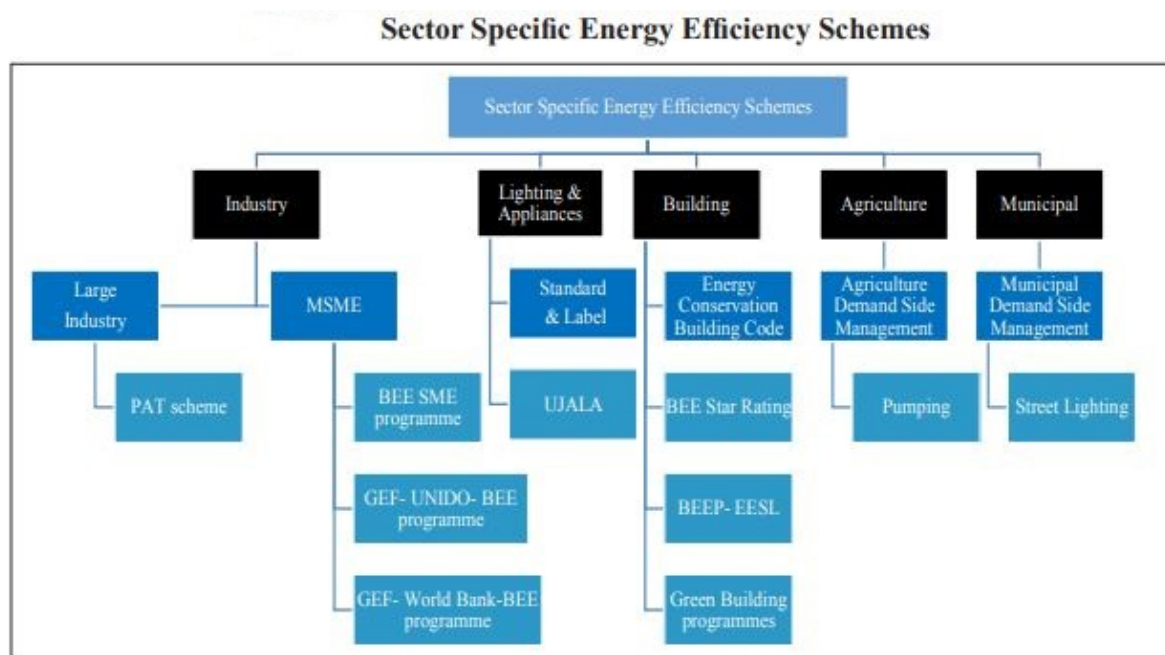
Source: Ministry of Drinking Water and Sanitation

- 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 CO<sub>2</sub> emission.

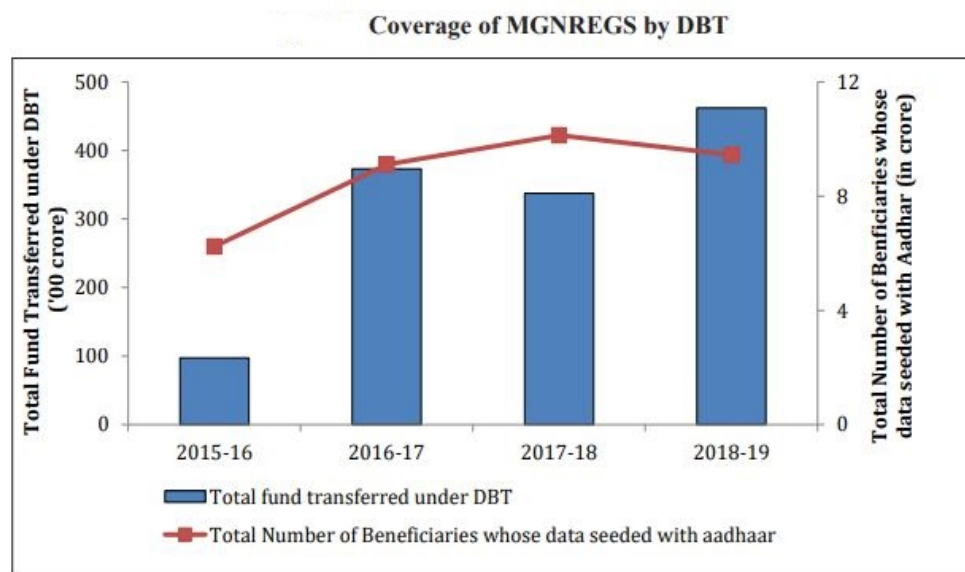


- **Electric vehicles** - The market share of electric vehicles is only 0.06% in India when compared to 2% in China and 39% in Norway.

- 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.

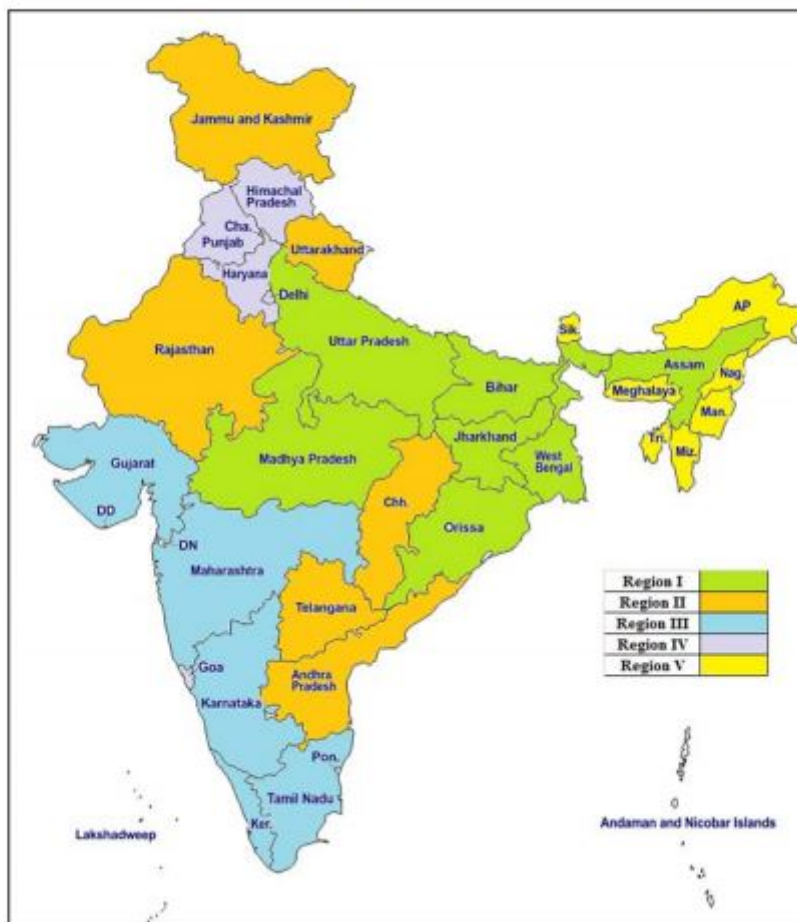
## MINIMUM WAGE SYSTEM

- 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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