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Sept. 2nd, 2023

TEST 6

Economics

Completed in
3 hrs.

ECFC23L1020

Snishtha Mishra

Space for Comments:

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9)

India took the example of USSR is 5-year Planning to base its socialist plans for India's development. This method of planning has both advantages and disadvantages on industrial growth.

Positive Impact of Socialist Planning

- 1) Coordinated and channelized planning
eg: Industrial Policy Resolution of 1956 made PCUS the "Commanding Heights" of the economy.
- 2) Creation of industrial base as per Mahalanobis model, lifting India out of a situation of immiserizing growth.
- 3) Regional equity in industrial units, spread to rural areas.
- 4) focus on clay capital growth and basic goods industries like iron and steel.

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Negative Impacts of Socialist Planning

1) Inefficiency of PSUs

- overstaffing
- political interference
- lethargy

2) low pricing mechanism [administered pricing mechanism] led to black market growth.

3) lack of diversification in industrial exports.

4) Import substitution and license raj restricted growth of private sector.

As a result of socialist planning, although India's growth was supported, it was slow & eventually led to the BOP crisis of 1991.

b)

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b)

Justice Ranade's drain of wealth theory was an improvement over that of Dadabhai Naoroji under his "Poverty & Un-British Rule in India".

According to Ranade, drain of wealth in India is divided into 3 phases:

merchant capital Phase	Industrial capital Phase	financial capital Phase
- land tenure and revenue system	- differential tariff	- absence of credit to Indian capitalists.
- administrative changes	- exchange rate manipulation	- ratio crisis
- war damages costs	- import of manufactured goods	[currency manipulation]

Justice Ranade also derived the poverty line after Dadabhai Naoroji, concluding that more than 80% of the Indian population under British rule was impoverished.

Page

-C)

India's Green Revolution led to a
drastic increase in food grain production
from 69 million tonnes in 1960s to 108
million tonnes in 2017. However, the revolution
was more technical than institutional.

Technical Developments

- 1) M.S. Swaminathan introduced the HYV
~~Hybrid~~ ^{or} High Yield Variety of seeds
which was a genetically modified
version of seeds.
- 2) Chemical fertilizers and pesticides soon
entered the market.
- 3) Irrigation via canals and rivers saw an
increase in areas like Punjab, Haryana.
- 4) Increased tractorization of farm
activities for harvest, etc.

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Institutional changes were lacking:

- 1) Inadequate post-harvest infrastructure
- 2) Lack of marketing / linkages - creation with small scale industries.
- 3) Inadequate regional equity in implementation led to disparities in various regions.
- 4) Lack of credit facility.
- 5) Inadequate effect/impact of land reforms
eg: only 2% lands were reported under land ceiling law.

Thus, despite earlier efforts at creating institutional reforms, the green revolution was technically skewed and ^{relatively} unsupported by institutional change.

a)

In the 1900s, industrial changes in British India were manifold and diversified.

Negative Industrial Changes

- 1) due to prolonged crushing of handicrafts and moral economies, industrial growth was stunted especially in rural areas -
- 2) Inadequate credit support to Indian capitalists -
- 3) Differential tariff and ratio visis (currency manipulation) led to adverse terms of trade for India. such that overall growth rate was 0.5 to 0.6% per annum between 1921 and 1941.
- 4) Indian exports were reduced to 2% of global share of exports [from 20% in 1800s].
- 5) world war II depressed demand, as did the 1930s Great depression.

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Positive Industrial Change

Despite the various negative impacts, some were also positive.

- 1) Cotton exports rose during World War I contributing to Balance of Payments Surplus in India as well as jute industry.
- 2) Railways, canals and telegraph formed an infrastructural base for growth, by reducing logistics costs.
- 3) Capitalists like G.D. Birla & JRD Tata set up industrial units, creating an Indian capitalist identity. eg: iron & steel.
- 4) Woolen and carpet industries saw an expansion.
- 5) Global integration process was introduced.

Thus, despite economic drain of wealth, the industrial changes of 20th century had some positive impacts too.

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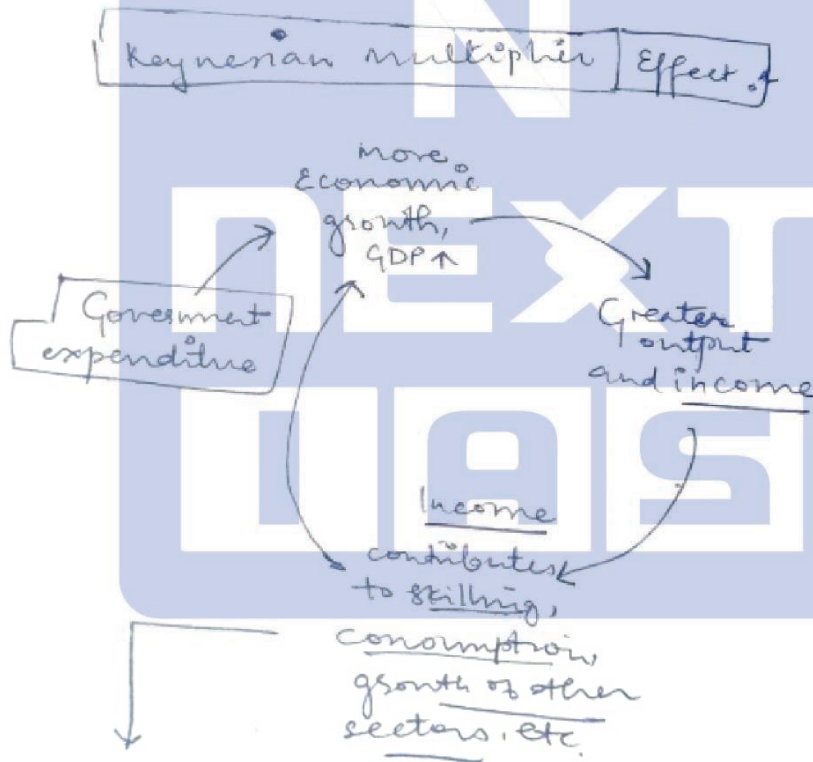
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According to Professor V.K.R.V. Rao, the Keynesian multiplier effect does not always work in developing economies due to factors like institutional & human lackings.



According to Professor Rao, the institutions that drive this part are missing in developing economies.

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Lacking Economics

- inadequate banking/credit infrastructure
- low formalization of markets
- corruption and pendency
- lack of social infrastructure for training/skilling/education etc.

It no longer holds true in India. NSO recently recorded highest growth in past 4 quarters of 7.8%.

- 1) India now has various mechanisms for training/skilling
eg: vocational education, PM Kaushal Vikas Yojna.
- 2) Institutional mechanisms are better today
eg: UDYAM portal for MSME support.
strong bond market, stock market.
- 3) Strong social infrastructure growth like hospitals and schools

Nevertheless, more investment is required to support efficient multiplier effect such that every penny we gives highest possible returns, bringing India to a stronger economy.

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(20a)

India's economy was severely de-industrialized due to British policies of plunder and loot. Handicrafts were especially affected.

Indian deindustrialization

- 1) British policies destroyed the moral economies under Mughal empires' patronage. Cheap, manufactured goods replaced handmade goods in rural areas like basket-making, weaving, etc.
- 2) Monetization of transactions created dependence on cash. As a result, the service-based economies declined as artisans looked for land to cultivate.
- 3) Linking of rural economies with railways allowed British goods to flood the economy and plunder the existing systems of handicraft based trade.

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4) Apart from handicrafts deindustrialization was also seen in the form of:

- raw material extraction
- distorted tariff policy [Indian textile exports to UK attracted 80% tariff]
- use of currency manipulation to make exports cheap (through devaluation) and imports expensive.
- inadequate protection, promotion or credit for Indian industry.
- tribals were also peasantized, leading to end of their local economies.

However, it was not just these policies that were having an impact on industrial change. Social changes had a role to play as well!

1) Education of the masses [the elite educated class] led to a shift in tastes towards British preferences as a sign of superiority.

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2) Psychological dominance in the idea of "western civilization" and "White man's burden" made the educated class look down upon Indian products and shift to British goods.

3) Absence of education/knowledge of India's drain of wealth - the concept was first introduced by Dadabhai Naoroji.

4) Lack of an Indian consciousness, drive for "modernity".

Thus, social changes created and furthered the conditions that allowed for India's deindustrialization under British rule.

5)

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5)

Cropping pattern refers to the particular way in which an agricultural field is sown in a year including how many crops, which type of crop, etc. It is dependent on climate, institutional policies and history.

During British India, various elements affected cropping pattern:

- 1) Initially, cropping in India was subsistence and localized with a strong emphasis on pulses, legumes, etc.
- 2) British introduced land revenue system and commercialization of agriculture through permanent settled
a) ~~Ryotwari~~ system [Lord Cornwallis]
b) Ryotwari [Holt Mackenzie, Andrew Read, Thomas Munroe]
c) Mahalwari [Holt Mackenzie].

This led to a shift towards commercial crops like wheat & rice.

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- 3) Commercial plantation were introduced such as indigo and grain. As a result, subsistence lands were grouped into mono-cropped regions.
- 4) High value crops and cash crops were grown, as were raw material for British industrial growth. eg- jute and cotton cultivation saw a rise.
- 5) Rural areas also became commercialized as railways connected these regions to major ports, converting subsistence cropping to cash crops.
- 6) North East Regions saw introduction of new crops entirely i.e. tea and coffee plantations in beginning.
- 7) High water-guzzling crops as canals led to increased irrigation (approx. 60% of all newly irrigated area was due to government's canal construction eg: Upper Ganga, western Yamuna, Son Canal, etc)

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Thus, cropping under British India changed to accommodate commercial cropping which is still seen today in palm oil fields, etc.

However, it also led to a system of over-irrigation, monotonous agriculture and a wheat-rice pattern that is perverse to climatic conditions.

Institutional and Commercial changes thus impacted the cropping pattern of the nation.

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monetary policy under British rule was relatively underdeveloped and mostly British-interest oriented.

Monetary Policy Elements under British Rule

1) Ratio crisis : exchange rate management was an essential part of monetary policy. Devaluation was used to make India's exports cheaper and imports from Britain more expensive. In both cases, the British treasury gained whereas India was drained.

2) money supply was directed towards certain sectors that gained over others. eg: credit policy was skewed towards British capital/entrepreneurship whereas Indian capitalists would find it difficult to avail loans.

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- 3) Inadequate formalization led to weak transmission mechanism, i.e. ~~and~~ any change in $\&$ monetary elements would have a delayed and stunted overall impact on output/growth.
- 4) Remittances outflow was uncontrolled and unregulated, allowing for disproportionate movement of capital/wealth outside of India.
- 5) Neither interest-rate targeting nor inflation targeting was followed. Instead, exchange rate consistency was major aim.

Impact of Monetary Policy

- 1) Informal Credit and slow banking evolution in India.
- 93% of total agricultural credit was sourced from moneylenders.

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- 2) deindustrialization and backwardness of Indian capitalist class.
- 3) Drain of wealth of about £100 cr between 1757 and 1815 as per William Digby.
- 4) Terms of trade distortion and missering growth impact as per Professor Bhagwati.
- 5) Fall in share of exports in global statistics from 20% (in 1800s) to a mere 2% at independence.
- 6) Inadequate industrial growth led to peasantization of Indian economy.

As a result of a weak & exploitative monetary policy ecosystem in British India, the Indian economy faced instability and low growth almost consistently in the 1st half of the 20th century.

5a)

GatiShakti is a mission to synergize infrastructure creation through the use of geospatial technology and the cooperation of 16 ministries and 28 departments of the government of India.

Pillars of GatiShakti

- 1) It brings 16 ministries under its ambit with the aim to simplify and consolidate infrastructure development.
eg: railways, roads, etc.
- 2) It seeks to increase efficiency and interoperability of infrastructure creation.
- 3) It seeks to create digital public infrastructure through data to allow greater private sector participation.
- 4) It aims to reduce duplication of efforts in infrastructure projects.

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- 5) Aim to reduce wastage of resources due to enhanced coordination and planning.
- 6) Creation of a one-stop site for all infrastructure-related information can boost logistics and trade as per the spread effect under Guinea myrdal model.
- 7) faster identification of stalled projects can support the national asset monetization plan.

Thus, Gati Shakti is an example of the productive use of digitalization to boost development and contribute to an Atmanirbhar Bharat.

5)

The Trade Related Intellectual Property Rights Schedule or TRIPS is a mechanism under the WTO that regulates domestic laws on intellectual property.

India's IPR laws

- Trademarks Act
- Indian Patents Act
- Copyright Act etc.

Indian Objections to provisions of TRIPS

1) objection to the clause on "evergreening" of patents. This allows firms to make minor changes to the product & extend their patent right indefinitely. India feels this goes against the idea of equitable distribution of gains.

2) Product vs Process Patent. According to India, process patent keeps competition alive and brings prices of essential goods down eg: pharmaceutical products.

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Product patents in developed countries allow for monopolization of certain drugs, harming equity and human development.

3) Compulsory licensing is allowed in India though TRIPS restricts its use only in emergency situations. Once again, the concern is equitable right of access.

4) COVID vaccines: India's policies allowed vaccines to reach the masses (vaccine mañtri abroad). However, other nations (eg: USA) restricted production once again allowing profit over equity.

5) Organic patents eg: gut bacteria and enzyme based products. It is illogical to patent naturally occurring substances.

The delays of the dispute settlement body of the WTO make these contentions troublesome for developing nations.

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- Q) Agricultural Infrastructure Development Programme seeks to create post-harvest infrastructure like storage, harvest, transport and marketing to support agricultural growth.

Benefit to Farmers

- 1) Reduced wastage: Currently, approximately 30% of total food harvested is lost due to post-harvest losses, as per Niti Aayog.
- 2) Greater returns to farmer - less waste and more sale means higher income, which can encourage agripreneurship.
- 3) Trickles Down Effect: higher income can take farmer out of the poverty cycle due to better education, healthcare, skillling etc.
- 4) Reduced inflation due to better storage can reduce pressure on small farmers.
- 5) Additional income can lead to development of supplementing activities like horticulture and animal harvesting.

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6) enhanced marketing can include farmers in the digital fold and connect consumers directly, reduce the tyranny of exploitative middlemen.

7) Greater linkages between agriculture & industry can lead to food processing & contribute to women empowerment through employment generation.

eg: hakhpati & didi scheme, MITRA scheme (SF), PMFME

8) Combined with SWAMITVA, better irrigation and enhanced cropping, agricultural infrastructure can support growth, sustainability and stability of agriculture: eg: crop diversification.

Approximately 45% of the population continues to depend on agriculture. As a result agricultural infrastructure can revolutionize agricultural growth and lead to an Evergreen Revolution.

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1)

Bharatmala Pariyojna seeks to create a network of roads infrastructure throughout India ranging from economic corridor regions to rural areas. Combined with the Sagar Mala and Parvatmala Schemes, these are one of the largest infrastructure projects worldwide.

Positive impacts of Bharatmala

- 1) Increased use of roads for transport can reduce logistics costs from 13%.
- 2) Reduced burden on railways for bulk transports.
- 3) Greater linkages between regions can support "spread effect" as per Gunnar Myrdal model and create scope for enhanced growth in new regions of India → inclusive growth.
- 4) Better traffic management and reduced inefficiencies of transport.

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5) Nationally interconnected networks for quick transport and supporting movement of raw materials to industry and output to ports → promote accelerator & multiplier effect.

6) Highways development for world class transport and attracting FDI.

Nevertheless, Bharatmala does create a burden on government expenditure and fiscal prudence. Combined with Gat°-Shakti°, Bharatmala can spell change for India's economic growth and harness India's demographic dividend.

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HELP or HydroCarbon Exploration & Licensing Policy was designed in 2016 to reform the oil and natural gas market of India.

It sought to resolve earlier issues:

- 1) Pricing was liberalized, subject to an upper ceiling by government.
- 2) Profit sharing was replaced with Revenue sharing to do away with misappropriation and showing high costs.
- 3) Royalty was decreased to reduce burden on firms. eg: No royalty for first 7 years.
- 4) Open Acreage licensing allowed and universal licensing introduced to reduce inefficiency.
- 5) Fracturing of plots was increased.

However, India still suffers from some backwardness in the sector due to :

- inadequate technology for drilling/ exploration.
- high costs of exploration (high fixed costs)
- policy inconsistency of the government due to changes in price ceiling.
- some firms are still governed under NEL - the earlier policy.
- only 10% of India's obvious extractable ~~area~~ has been explored so far.

Thus, HFLP supported growth of the hydrocarbon sector but still falls behind in revolutionizing its growth.

(7a)

Consumer Price Index and Wholesale Price Index are two different measures of inflation in the economy.

Divergence between CPI and WPI

CPI

WPI

1) based on a basket of goods directly consumed by the people.

2) Includes services like health.

3) Food is the largest component

4) High fluctuation due to food inflation.

5) often follows WPI

6) labour bureau releases it.

1) Based on basket of goods that are sold at wholesale level, not retail.

2) Does not include services.

3) Fuel is largest component.

4) not so much inflation ^{fluctuation}

5) heads the inflation trajectory.

6) NSO releases it.

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Currently, CPI inflation is above the 6% upper limit. However, since WPI shows 4-5% inflation, CPI can be expected to fall.

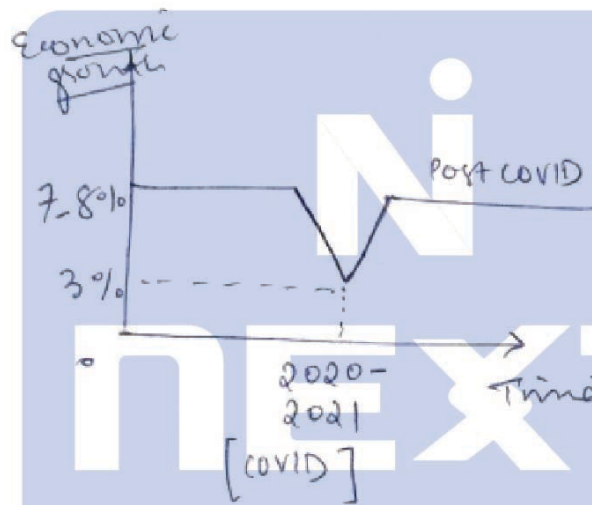
Food inflation makes CPI relatively less accurate and accountable for policy formulation. However, it gives a good picture of overall expectations & behavior in the economy. Thus, RBI uses CPI to carry out inflation-targeted monetary policy.

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- b) India's post-COVID recovery has been described as V-shaped as per the Economic Survey. This means that after a "step back", India has revived itself to its original position:



This recovery has been a result of active policy making in all sectors of the economy:

- 1) Healthcare: after a swift lockdown, healthcare services were upped through import of essential commodities like oxygen cylinders and swift roll out of vaccines as per vaccine master programme. This ensured human capital was unaffected.

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- 2) Agricultural Sector: Despite constant growth rate
- ① Agricultural Infrastructure Fund was created to boost post-harvest infrastructure
 - ② Greater resilience through schemes like Agricultural Accelerator Fund to boost agri-preneurship.
 - ③ Budget 2023-24 has introduced agricultural credit of ₹ 20 lakh crore as well as Sahakar Samsiddhi for cooperatives growth.
 - ④ Increased allocations to schemes like PM Matsya Sampada Yojana eg: 2023-24 budget: ₹ 6000 cr.
 - ⑤ PM Kisan Sampada Yojana where landed farmers receive ₹ 6000/yr through Direct Benefit Transfer.
- 3) Industrial Sector: this sector was worst hit due to physical nature of work.

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- a) policies like Emergency Credit Line Guarantee Scheme ensured credit availability to small businesses.
- b) support to gig/platform workers through formalization of work under e-shram website; provision of social security cover
- c) better logistics support through online-platforms and one-stop sites as well as service availability
eg: 18 ports now have 24x7 availability.
- d) Production linked incentives Scheme as well as Design linked Incentive Scheme to boost innovation and industrial growth.
- e) Growth of digital public infrastructure like UPI, e-Rupay e-Rupi system for service-centric fund transfers.

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However, some concerns have arisen regarding India's equity and development parameters. India fell back a rank in the HDI from 131 to 132. Poverty and inequality is at a high: 57% of total wealth is owned by top 10% of Indians as per Global Inequality Report. India continues to host 289.66 of the world's multidimensionally poor populations.

So, a V-shaped recovery does not necessarily mean an equitable recovery. As such, reforms and structural changes must continue to be implemented to foster equitable and sustainable development in India.

- Q) Fiscal Consolidation refers to the process of enhancing fiscal prudence, reducing wasteful expenditure, increasing revenues of the government and ensuring good fiscal health & stability of the economy.

Steps to Enhance Fiscal Consolidation

- 1) Reform the tax structure: [as per Laffer Curve theory]
 - reduce tax slabs
 - rationalize tax rates (direct & indirect)
 - include alcohol, petroleum, electricity under the ambit of GST.
 - expand tax base & prevent tax evasion through GST trail
- 2) Reduce wasteful expenditure through adequate planning under NIPRA Shakti and investing in circular economy.
- 3) Better funds allocation and management as well as oversight through legal mechanisms like CAG and Public Accounts Committee.

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- 4) Reduced corruption & syphoning of funds through enhanced surveillance and proactive governance.
- 5) Increasing powers of local bodies to gather tax revenue to reduce dependence on higher levels.
- 6) Asset monetization and disinvestment from non-strategic sectors to reduce wastage & gain revenue.
- 7) Cut down on freebie culture & reducing perverse subsidies.

Steps Taken to Consolidate fiscal health

- 1) National Asset monetization Pipeline - seeks to lease out brownfield assets of the government to the amount of ₹ 6 lakh crores.
- 2) Disinvestment of Air India - Bought by TATA due to high inefficiency & losses.
- 3) 15th Finance Commission Recommendation:
 - a) highest ever devolution to local governments at 4.3%

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- b) Sector-specific grants & performance-based grants to reduce wastage.
- c) Vertical devolution at 41%
[10% to go to Madhya & J&K territories].
- d) call for revenue mobilization & constitution of a High Level Committee for monitoring expenditure.
- e) Efforts to rationalize Central sector schemes through 3rd party evaluation.
- f) Introduction of GST: One Nation One Tax
- reduced cascading effects of tax
 - record levels of tax revenue
 - fiscal federalism and cooperative federalism under GST Council.
- g) Budget 2022-23 and 23-24:
- rationalization of direct tax regime
 - including gains from trade in crypto assets under taxation (30%)
 - reduced spending on schemes
(Budget of 2023-24 was not highly populist)

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6) Focus on investment-centric growth
rather than subsidy-based growth
eg: move towards making urea a
product under Nutrient-based subsidy
Scheme.

7) Considering ^{off-budget} expenditure of states as part
of reported expenditure.

The overall aim of the fiscal
consolidation should be that stated in
the Fiscal Responsibility & Budget
Management Act (FRBM) 2003. As
such there is a need to reduce
current fiscal deficit of 6.4% to 3%
and debt to GDP ratio from 83% to
60% to ensure a stable & healthy
economy.

467
The Jeevan Mission seeks to provide
55 ~~litres~~ ^{litres} of drinking water per person
per day to all rural households
through Functional Household Tap
Connections (FHTC) by 2024.

Objectives and Impacts of the JTM

- 1) The overall aim is to create social
infrastructure i.e. drinking water. This is
essential as part of SDG 6 - access to clean
drinking water.
- 2) Social (Gender) impact: it reduces the
burden of fetching water from long
distances, thereby improving health &
happiness of women with indirect impact
on children.
- 3) Reduced incidence & burden of diseases
like cholera, diarrhoea, etc.

4) Saves time and energy which can be spent at school → enhance education and human capital.

5) Cleanliness and hygiene through principle of WASH (water, ~~Sanitation~~ and hygiene) combined with DDF cities/villages & Swachh Bharat mission can transform healthcare in rural areas.

However, as per recent reports, ITM will not be able to complete its mission by 2024 with only ~ 70% rural households covered.

Nevertheless, the scheme has proved that a simple hedge like installing direct water connections can foster long run changes in an economy and its citizens.

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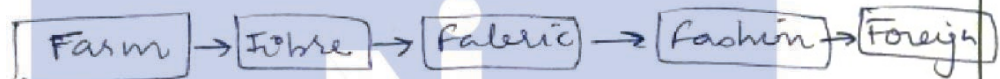
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b)

MITRA Scheme stands for mega
Integrated Textile Regions and Apparel.
This scheme aims to achieve the SF
dream of PM Modi.



PM MITRA scheme is a mission to create
integrated high capital and high skill
units that use agricultural raw
material and add value to it.

This scheme has multifold socio-
economic aims and impacts.

1) Creation of employment especially in
rural India can reduce disprised
unemployment in agriculture and
contribute to financial resilience of
rural households while reducing
out-migration.

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- 2) women empowerment through skilling, management and employment under the scheme.
- 3) linkages [as per theory of linkages, nurkse and Hirschman] between agriculture and industry, contributing to balanced growth.
- 4) Value Addition to increase returns to farmers and expand the value chain.
- 5) Export diversification and brand-creation, also a boost to "Make in India" as well as glocalization: making Indian products global as a soft power mechanism.
- 6) Enhanced technological coefficient to increase marginal labour productivity, thereby increasing output & GDP growth.



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Growth of Cotton Textile Industry :

- 1) Enhance scope of Khadi Village Industries Commission (KVIC) in setting up cottage industries & supporting skilling of youth.
- 2) Increased production of cotton as well as cotton-processing units through capital investment.
- 3) Branding of Indian cotton through Ministry of Commerce to create Khadi branding and create exportables.
- 4) Better credit provision and implementation of ECGS, RODTEP, MIRVIR to simplify exporting firms' procedures and reduce red tape.
- 5) Greater awareness generation and consumer knowledge on Khadi/cotton textile.

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6) design linked incentive for diversified products within cotton.

7) Implement foreign Trade Policy 2023 for Towns for Export Excellence with focus on khadi/cotton industry.

MITRA and cotton industry together can make Gandhi's dream of village-based industries a reality.

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Poverty alleviation has been a constant aim since Independence. According to the National Family Health survey (NFHS) (5), multidimensional poverty has reduced from 14 states having MPI $> 10\%$ (in NFHS 4) to only 7 states with MPI $> 10\%$ now. However, it still persists.

Recent steps to Alleviate Poverty
By the Government:

1) Social Infrastructure Creation

eg: hospitals, schools

PM-JAY

PM SHRI, NISHTHA, PARAKH, etc.

for health insurance

PM Digital Health Mission & Telemedicine for greater access to healthcare.

COWIN app to enhance access to COVID
vaccinations.

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2) Direct Benefit Transfer (DBT) to send funds from government to citizen without leakage, thereby ensuring basic income availability.

eg: PM KISAN Sampada Yojna

3) PM Gaib Kalyan Anna Yojana - subsidized grains provision during COVID (extended to 2024) under Public Distribution System as per National Food Security Act 2013.

4) Agricultural investment to support 45% of population dependent on it.

eg: Agricultural credit: ₹20 lakh crore
PM matsya Sampada Yojana: ₹6000 cr.
Subsidies on urea, electricity.

5) Coverage of informal workers through e-shram portal for social security provision.

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- 6) Digital inclusion through Jan Dhan -
Aadhaar - Mobile banking (JAM) trinity.
- 7) Use of Digital public infrastructure as per
India Stack to serve needs of the lower
income class. eg: UPI banking ensures
adequate credit to all small business
people.
- 8) Mahila Bachat Pakha : 7.5% interest
on deposits for all underage girls'
bank accounts introduced in Budget
2023-24.
- 9) Budget introduced National mission to
eradicate Anaemia which huts
approximately 50% women in India's
in the age (15-49) years.
- 10) Food fortification (eg: golden rice) to
address nutritional insecurity.
- 11) Lakshmi Didi Scheme to train women
and enhance their financial resilience.



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Alongside such steps there is a
need for sustainable and equitable
development such that SDG
localization is achieved and India's
poor can achieve capabilities and
opportunities just like all other
members of society, as imagined by
Amartya Sen.

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