GS Mains Answer writing - 2019

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sir,

which approach to follow :→

(1) Do (15) questions - in good manner (and)
(5) questions - unattempt or poor

(or)

(2) Do all (20) questions - in average

In this paper, I tried to attempt all.

Q1. Labour force participation rate is number of people who are employed and seeking employment divided by total population. 16:30

19:30

Acc. to labour ~~bereau~~ bureau, India's LFPR is 52% which is further lower for females. Rural LFPR is still lower than urban.

Reasons

1. Lack of employment generation due to complex labour laws. Industries prefer to go ~~labour~~ capital intensive rather in ~~capital~~ labour intensive.

2. Demand-supply gap in skill requirement. Our education system and skill development programmes not able to provide skill set required by industries.

3. More educated prefer to remain unemployed till they find suitable job

(4) Some policy decisions like <u>demonetisation</u> made unemployment increase in informal sector. Out of frustration, people opted out of labour force who were waiting for jobs.

(5) Feminisation of agriculture made women to work in agriculture as rural males migrated for more opportunity.

Step taken

(1) Codification and simplification of labour laws is proposed to convert 44 labour codes to <u>4 central labour codes.</u>

(2) Relaxed rules for starting business, single window clearance

(3) National skill development programmes and vocational training started to meet industry requirements.

There is need to harness trade war opportunity so that our exports increase to USA & China.

Q2 Executive is accountable to legislature through budgetary process and voting on demand of grants. Any withdrawal from consolidated fund of India can not be done except through appropriation law.

The importance of parliamentary budget office is increased to ensure more accountability.

Role

(1) The parliamentary budget office (PBO) shall be permanent institution to consider demand of grants and can even suggest necessary policy changes.

(2) Currently standing committees can only check demand of grants. That role would be played effectively by PBO with domain experts.

Importance

(1) Since in parliamentary democracy, expenditure is done after due approval. Now, executive is free to

withdraw money. With BPO, they have to justify the economics of policy.

(2) Decision making in executive will be transparent and more accountable as far as budgetary allocation is concerned.

(3) Gender budgeting, expenditure on social sector schemes and other sensitive assistance like old pensions would not be neglected.

Challenges

(1) Difficult to have consensus.

(2) Constitutional amendment would be required.

(3) It would make budget process more complex.

(4) Delay and policy paralysis may haunt in PBO scenario.

However, there is need to check excessive and wasteful spending like March Rush. Hence the provision like PBO must be considered.

Q3

Micro, small and Medium Enterprises provide employment to 11 crore people; contribute 32% to GDP and have 40% share in exports. These small scale industries are evenly distributed across ~~emplo~~ country.

However it faces challenges like low technology, poor logistics and institutional credit.

Problems in institutional credit

(1) Low awareness among MSMEs about various schemes of government.

(2) Lack of collateral with small industries, to raise loan.

(3) Lack of financial reach and inclusion. Low last mile connectivity of banks.

(4) Banks hesitate to extend loan in fear of loan becoming NPA's

Steps taken by government and RBI

(1) Launch of MUDRA scheme in 2015

to refinance microfinance institutions for giving collateral free loan of 10 lakh to MSMEs.

(2) Recently, a portal launched by SIDBI to clear loan upto 1 crore in less than 1 hour.

(3) Priority sector lending scheme requires Bank to give 7.5% loans to MSMEs.

However, further things can be done.

Way forward → ~~increase~~ increase collateral free loan limit of 10 crore to 20 crore (U.K. Sinha Committee)

→ Government to speed up payments to MSMEs.

→ Grievance redressal mechanism for arbitrary decline of loans in MUDRA scheme.

Q4

Infrastructure needs of country are immense. It is said that infrastructure was needed yesterday not today. It supports all agriculture, manufacture and service sectors. India will invest Rs. 100 lakh crore in infrastructure in next 5 years (2019-20 budget). This can be possible only with public-private partnership.

Roadways has many investment model like Engineering and procurement model, built operate transfer (toll) model and built operate transfer (annuity) model.

However, there are limitation like:→

1. traffic risks.
2. huge investment required from private sector. Twin balance sheets is challenge for raising credit.

Thus, government come with Hybrid annuity model where following are the features:→

(1) EPC (40%) and BOT (annuity) 60% → Means government will pay 40% initially to private sector who will construct the road.

(2) Private sector will operate and maintain the same.

(3) Government will pay 60% in installments. Payments will be phased wise depending on completion of projects.

However challenges like traffic risk and credit availability still hinders private company. Land acquisition still a concern. There is need to resolve land issue and also promote water transport to decongest the roads.

Q6. India's fisheries sector has gained importance worldwide. Fisheries export contribute 10% of total exports. It has been source of livelihoods for millions, alternate source of income and women empowerment (women involved in sorting/cleaning of fish).

Blue economy deals with utilising resources of marine (including fisheries, seafood, collection of minor minerals) to achieve economic development.

Further it can help in following ways:→

Objective

- India has coastline of 7,515 Km. Immense potential to harness benefits of fisheries.
- It shall promote sustainable development as small fish vessels allow fish to regenerate.
- Coastal areas will develop
- Exports rise which will earn foreign exchange for India and more employment generation.

There is need to :→

1. provide running capital to fishery sector through subsidised credit.
2. Check bottom trawling
3. Subsidised equipment to be provided

However, our fishery community ensures sustainable development of coastlines. There is need to recharge acquifers, prevent coastal erosion and ~~corridor~~ coastal regulation zone amendments are good to allow blue economy flourish along with indigenous community.

The latest coastal regulation zone rules allow tourism (sustainable) at coasts for further economic development.

Q7

Electric vehicles are powered by battery (lithium ion) rather than internal combustion engine. They tend to be pollution free, zero carbon emissions and have below further advantages.

Advantages

- low operation cost as compared to petrol/diesel.
- will reduce dependency on oil.
- 80% of transport emissions from two wheelers. (Switching to electric vehicles will be useful). ~~usefull~~

Challenges

technical

- India has low manufacturing base for battery packs, cell manufacturing and lithium ion batteries.
- No charging infrastructure
- Manpower not trained, industry not ready.

Commercial → Though FAME project and recent announcement in budget (2019-20) regarding relaxation of loan limit to buy electric vehicles is welcomed but :→

→ Manufacturing sector shall require fiscal help.

→ Currently we import electric equipments, their industries need to be set up.

FAME II has approved Rs. 10,000 crore for capacity building of electric vehicle industry.

NITI Aayog has recently announced that ~~India will~~ ~~no electric~~ ~~no veh~~ ~~only electric vehicle will be sold~~ ~~after 2023~~ two wheelers ~~more~~ less then 150cc and three wheelers would be sold after 2023 and 2025 would be electric only.

There is need for automobile industry to catch up else India will become import house for electric vehicles.

Q8

India will achieve its demography peak in 2041 when 59% population would be between 19-59. India's economic structure is becoming more and more service based. There is need to absorb agriculture workforce in manufacturing sector.

India's demography change

In 2020-30 = population will grow by ~~at~~ 1% annually

In 2030-40 = 0.5% growth rate annually.

So population growth rate is declining. India's elderly population will increase and children population shall decrease.

Hence, ~~there is~~ there is requirement of comprehensive employment policy to absorb youth in employment.

Other benefits → more economic growth as demographic dividend phase will not come again.

→ China's labour is becoming expensive. Time to

Benefits

(3)

→ attract industries in India.

→ Reduced social unrest.

How to do?

→ Reform labour laws.

→ Export led growth.

→ Encourage savings to mobilise investment.

→ skill development programme.

India will soon enter demographic ~~peaks~~ peak stage, so :→ by (2041)

(1) → increase labour force participation rate for working age (59%)

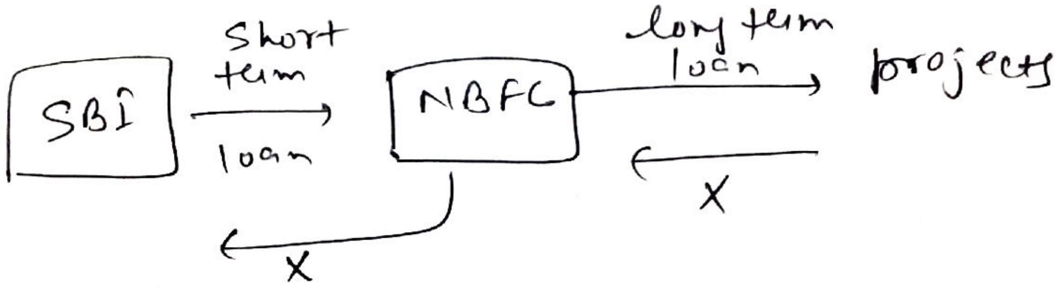
(2) → increase quality of education for children ~~(20~~ (25%)

(3) → provision of old age pension, retirement age extension and health services for elderlies (16%)

Q11

IL&FS crisis has shocked non-banking sector when it failed to repay its liability towards various banks. Some infrastructure companies have borrowed from NBFC through short term loans to finance its long term infrastructure projects.

Due to non-repayments, banks like SBI, had huge exposure towards these NBFCs, faced liquidity crisis.



~~Non~~ regulation of NBFCs

(1) Some NBFCs are regulated by National Housing bank while some are regulated by RBI. There ~~is~~ is no uniformity.

(2) No audit (proper) internal as well as from regulator. Once ratings are down, then buzzer come in market which is very late.

Crisis

(3) Due to non-availability of long term loans due to NPA crisis, low bond market, NBFCs are forced to finance projects through short term loans.

This regular liability made NBFC under pressure as ~~returns~~ returns from projects come late.

This bring liquidity crisis in the system as NBFCs fulfill 5.6% of loan needs.

Way forward

1. Proper regulation. Recently RBI has taken over regulation of all NBFCs.
2. Deepen bond market.
3. Clear projects in timely manner as many projects run overtime. Interministerial Co-operation required.
4. Regular audits.
5. Risk assessment of loans to be done properly.

Q12 Universal basic income is assured income provided to everyone without any discrimination in regular cyclical ~~mann~~ manner. Individual has right to spend according to his choice. There is no exclusion error, it enhances dignity of individual by not asking to do a job to get universal basic income.

Advantages over existing social protection scheme.

1. UBI is Directly in account so enhances financial inclusion.
2. It avoids leakage and increase decision making power of individual. They can spend where they want to.
3. Assured source of income gives them security.
4. It allows them to deal with unforeseen circumstances like death, accident. It restricts them to fall below poverty line.
5. Enhances income ~~in~~equality in society and prevents concentration of wealth.

Criticism

(1) Fiscal pressure to give UBI to all. If social sector schemes are cut to finance UBI, then crucial social sector schemes of education and health will get hindered.

(2) If it is started, then difficult to roll back.

(3) India's tax base is low. Population is high. UBI is novel idea but not practical now.

(4) It shall make people lazy and many would opt out of labour force.

(5) Chances of spending of money in liquor, unnecessary things shall enhance wastage.

(6) Rather giving income, improve people's capacity to earn.

Way forward

Social sector schemes can not be minimised. Practical idea is minimum income to marginalised which is quasi-universal basic income. PM-KISAN giving Rs 6,000/- annually to all farmers is good for start.

let people ~~tonto~~ create their capacity through education and health. Government to bring employment oppurtunity.

All 3 Capacity building + Social sector schemes + quasi-UBI

to go hand in hand.

Q13 Farm loan waivers are waiving loans taken by farmers for equipments, input cost, transport cost or labour. This has become a political tool in recent time. Regional parties and even national resort to this promise during elections.

Criticism

1. It disincentive those farmers who have paid timely. They will think not paying in future.

2. Affect credit culture.

3. Increase fiscal pressure on states.

4. It Rarely reaches needy farmers. Big farmers tend to corner this also. Farmer suicides is evident to this.

5. Not a permanent solution.

6. Farmers are reduced as vote bank through this promise/practice. Thus actual problems not addressed.

Actual problems farmers are facing

1. Low prices for their agricultural produce.

(2) Exploitation of ~~m~~ farmers in markets.

(3) Farmers do not have storage facilities, they have to sell produce with whatever price they get.

(4) Lack of easy institutional credit.

(5) Reach of minimum support price is not available to all. MSP is assured for grains, for other crops, it remains on paper.

(6) Lack of awareness about agricultural policies and benefits provided by government specially PM Fasal Bima Yojana

Farm loan waiver is short term solution and that too not a recommended one. To address rural distress, the way forward is:→

(1) Increase infrastructure, public investment, technology upgradation and irrigation facility to all.

(2) Implement eNAM

(3) Abolish Essential Commodity Act for foods.

(4) favourable export oriented policies.

Make farmers to return loans and there is need for a unified law on farm loan waivers to prevent its political use.

Q14

Startup is ~~small~~ business ~~started by people~~ not older than 10 years. It must promote innovation. During recent times, Startups in India have risen:→

Factors responsible for growth of startups

(1) Favourable policies such as startup and standup India scheme to promote technological business environment.

(2) Provisions of incubators for capacity building of start ups, venture capitalists have helped start ups to grow.

(3) Tax incentives, reduced compliance on labour laws and favourable intellectual property regimes made startup to thrive. Faster granting approval for IPRs has become a major ~~as~~ catalyst.

(4) Easy and faster institutional credit.

Challenges for startups

(1) Angel tax which means investment by venture capitals over and above market value (fair) of shares is taxable. It has been major hurdle which has been removed in ~~2018-19~~ 2019-20

budget.

(2) Skill gap between demand and supply of youngsters.

~~(3) ~~Institutional credit~~ Easy exit policies to ensure their liquidation in~~
~~(4) Proper valuation~~

(3) No easy exit policies in case business fails.

(4) Valuation process is not uniform. It is alleged their start ups are valued less due to lack of technological and innovation skill set among regulators/ authorities.

Measures

(1) Promote innovation since school level. Atal tinkering lab is right step.

(2) Easy exit policy by providing quick liquidation.

(3) Hassle free taxation environment.

Q15. Participatory budgeting is provision for budget allocation ~~and decision making~~ by allowing participation of local level bodies, concerned groups and experts from civil society.

Currently, budget is top down approach which is decided at political leadership ~~decided by~~ assisted by ~~bur bureaucra~~ bureaucracy.

The fields are fixed with minor variations every year. Participatory budgetary provides scope to expand the meaning of true democracy.

Significance

1. Local level participation and all ~~stake ho~~ stakeholders involvement would better direct budget towards needs of all people.

2. It shall provide bottom up approach → true democratic decentralisation.

3. Grassroot groups better know their needs.

4. Currently budget, funds and grants are ~~tied~~ tied to policies. less

freedom to spend elsewhere even if it is ~~...~~ ~~...~~ crucial to spend.

(5) Make social auditing effective

However there are below

Challenges:→

(1) State and Centre are reluctant to share power and allocation of budgetary decisions.

(2) Difficult to arrive at consensus. Delay in implementation.

(3) The centre knows better the needs of national security, defense and social sector schemes as it is equipped with all data sets.

Thus, it can be considered like provision of gender budgeting. Further, deliberations can be done to arrive at consensus about its need.

Q16 Narsimhan Committee (in 1998) has recommended consolidation of banks to have three layered structure :→

Level I → 3 Banks of global competitive value (for big infra needs).

↓

Level II → 6-8 National banks to cater needs of nation

↓

Level III → Banks to fulfil small sector, marginalised people needs

Benefits

① Merger and consolidation of banks shall improve balance sheet of banks, improve capital availability and reduce provisioning of capital for NPAs.

② It will address needs of large scale funds to meet infrastructure demands.

③ At global level, they can compete with their peers and have standing in international financial governance framework.

(4) Their reputation would be easy.
(5) Rationalisation of branches.

Challenges

(1) Good banks are reluctant to merge with weaker banks.

(2) Trade Unions oppose

(3) Need hard negotiations and common acceptance programme to realise it.

(4) Merger and consolidation shall only add and subtract the balance sheets. Position would improve only if actual NPA decreases and their capital increases through recapitalisation.

However, due to positives and negatives, consolidation is advisable to have international best practices at bigger banks. Recent amalgamation of Dena bank, Vijay bank and Bank of Baroda would rationalise the branches. Common IT infrastructure would be created and customer base would improve. That will reduce cost and increase revenue.

At the same time, government can not have many too big to fail banks currently SBI, ICICI and HDFC, this will bring risks. Regulatory and audit framework need to be improved and effective.

Q17 There are numerous state labour laws and 44 central labour laws that a company has to follow. This has reduced investment in labour intensive sector resulting in huge unemployment

Criticism of labour laws

(1) Complex, rigid and outdated in post liberalised economy.

(2) It restricts enterprises to grow in number. As with expansion they will have to follow more laws.

for ex. The industrial dispute act, 1948 does not allow company to fire an employee if it employees more than 100, unless proper permission.

(3) Increased cost due to less contract labour.

NITI Aayog vice-chairman says that no one in this country can follow all labour laws.

Steps taken by government

(1) Government has reduced drastically number of registers required in a firm to ease compliance

(2) Government has brought fixed term employment for some sectors.

(3) Proposal to convert 44 labour laws (central) in to 4 codes.

→ The minimum wage code (1)
→ The occupational safety and health of workers code. (2)
→ The industrial relations code (3)
→ The social welfare code. (4)

Code number (1) and (2) are approved by cabinet very recently.

Benefits of easy labour laws

(1) Increased investment. Ease of doing business will bring employment by investing labour intensive sectors such as leather, textile.

(2) To reap benefits of demography peak (2041)

(3) To achieve higher economic growth in highly competitive and protectionism world.

States should also reform their labour laws to win in competitive co-operative federalism structure.

Q 18

Special economic zone are the places where export led manufacturing and service sector is promoted. They are provided tax benefits, reduced compliance on labour laws and subsidised power, electricity.

It is promoted through Special economic zone Act, 2005 but faced below challenges.

Challenges

(1) Export led production needs quality skilled labour, technical expertise and international best practices. China has already taken edge here. Though exports have increased but not such an extent.

(2) Stiff competion from manufacturing experts of East Asian and South East Asian economies.

(3) challenge from Vietnam and Bangladesh in textile sectors. They are able to get projects due to ageing labour force of China. Indian labour laws restricted the industries to grab that opportunity.

(4) Copied approach from China could not provide results as external conditions (trade wars) and internal (NPAs, twin balance sheets) provide challenges.

Measures

(1) Improve skill level to meet industry demands.

(2) Protection of domestic industries from dumping of cheaper goods.

(3) Preference to sunrise industries like electric vehicles.

(4) Business to business co-operation at international levels.

(5) States should provide enough concessions.

(6) Land acquisition laws to be reformed in accordance to maintain balance with local level aspirations and economic growth.

(7) Quick approval and clearance on environmental issues.

Q19

Manufacturing sector in India could not absorb work force from agriculture. Growth model shifted from agriculture to service sector directly.

Manufacturing sector's contribution in GDP is around 24% which remained same if compared to 1947 or 1991.

The share of service sector has increased though.

Reason

(1) Technological upgradation has not taken place so fast. Economies of scale has improved marginally

(2) Growth model focused directly on capital intensive sector directly. At that time masses have low purchasing power. So inefficient public sector is final result.

(3) Low competitiveness.

(4) Price of manufacturing goods has increased very slowly as GDP is product of quantity and price level. Thus it remained low.

Price rise is very slow due to cheap flow of goods from abroad post globalisation; forced domestic producers to adopt economies of scale. To remain competitive, price went low overall.

Achievements of Manufacturing policy, 2011

The objectives of manufacturing policy, 2011 is to increase manufacturing base and increase share of ~~GDP~~ manufacturing sector in GDP by 5% in next 10years

The objective is far from achievement as in 2011(GDP for manufacturing was 24.0) and now it is 24.5%.

Though it has brought consciousness to prioritise our manufacturing sector.

Way forward
- → Attract investment
- → Attract industries from China escaping due to trade war and increased labour cost
- → reform labour laws
- → improved skills.

Q 20. Capital to output ratio determines the efficiency of economy. It is the amount of capital required to produce one unit of output. Lower is the (ICOR), better is the economy.

Developing country priority

(1) To improve ICOR by producing more and more output. As capital goods can only enhance production in future, so more and more capital goods needs to be fed in economy to enhance production. Better or lower is $\frac{\text{Capital}}{\text{O/P}}$ ratio better is the production.

(2) To sell excess production, the purchasing power of domestic consumers need to be increased but there is a limit. Hence developing country needs to export the excess output.

To improve investment

(1) Investment can be improved by FDI, external commercial borrowing but that is limited. FDI can not grow more

than 5-6% of GDP. ECB brings risk such as currency fluctuation may increase cost of loans.

(2) So the preferable source for investment is savings (domestic)

Domestic savings need to grow to 40% of GDP to feed into investment. But there are constraints :→

Constraints.

(1) People saving more but may not be depositing in banks. They may purchase gold or invest in real estate.

(2) Banks having more savings are unable to lend due to NPAs, twin balance sheet problem and less capital in hand.

Measures.

~~(1) Economy first need to create capital goods, so that productivity can be increased in future but that requires investment.~~

(2)

(1) Allow Banks to lend through recapitalisation. Banks must be given a push.

(2) More loans → more capital → more productivity → more employment → more savings → more loans.

(3) Industry would be able to repay loans due to exports (because productivity brings competitiveness).

Savings - investment - export is virtuous cycle that feeds into each other and animal spirits in economy thrive

Q9. Recently India has come up with e-commerce policy in lieu of expanding online retail business, transactions and purchasing. Internet connectivity (around 45 crore smart phones in India sold) is reaching all.

IT Act, 2000 provides for rules and safeguards for e-commerce and the Act recognizes such transactions but there is need to have dedicated e-commerce policy.

Need

1. Privacy concerns of people. The data of our public should not be used for politically or economically gains.
   ~~Ex~~

2. Protection of interests of consumers on e-commerce market place.

3. Provide level playing field to offline retailer and street shoppers.

4. Foreign online retailers are misusing the FDI (100% clause for online retailing in trade) by storing

Inventory. Government has come strictly on those companies.

(5) Proper regulation of e-commerce place.

(6) To bring rules in accordance with international best practices such that European Union can not deny indian software industries projects due to poor e commerce or poor data regulation.

Q10

Indian banking sector is crumbling with large NPAs having 9.6% of total loans as NPA as on 31/03/19. Due to these, private sector is unable to finance its investment needs. SEBI regulation restricts them to expand equity. The bond market in India is weak and they are made to borrow from foreign creditors.

$\boxed{\text{Need}}$ of bond market

(1) As, twin balance sheet problem has not resolved, banks face Capital crunch, recapitalisation of bank has worked to an extent. Yet, banks are not in position to finance the infrastructure needs of economy.

(2) The bond market provide reliable alternate for ~~the~~ Capital. Long term large investment needs can be fulfilled from this only.

Weaknesses

1. Reluctance to extend capital to companies on fear of becoming NPAs.
2. Mutual funds have invested their funds in equity and government sources.
3. Government has crowded out private investment.

Thus, infrastructure companies have to finance the projects from non-banking finance companies which is shadow banking. Various risks involved in this. External commercial borrowing puts pressure on companies to pay in dollars in future.

Thus, bond market need to be developed.