CHAPTER 21

BURNING SOCIO-ECONOMIC ISSUES

*Indian Planners pursued growth as an end in itself, ignoring poverty reduction and other social objectives.**

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* Jagdish Bhagwati and Arvind Panagariya, *India's Tryst with Destiny*, Collins Books, N. Delhi, 2014, p. 9.

I. BAD BANK

INTRODUCTION

The burden of bad debts, i.e., non-performing assets (NPAs) of banks, especially of the public sector banks (PSBs), has been increasing with every passing quarter for the last few years—caused by various reasons. By the end of March 2017, stressed assets of the banking system were over 12 per cent of their total loans. The PSBs that own almost 70 per cent of the banking assets, had a stress–loan ratio of almost 16 per cent. This is the main reason why for the past many quarters banks have been unwilling to process fresh loans. At the end of last quarter of the 2016-17, credit growth has become negative and the lowest in over two decades. To solve the crisis of the high NPAs, the Reserve Bank of India (RBI) has introduced multiple schemes over the last few years—Flexible Refinancing of Infrastructure (5/25 scheme), Asset Reconstruction Companies (ARC), Strategic Debt Restructuring (SDR), Asset Quality Review (AQR) and Sustainable Structuring of Stressed Assets (S4A). But these measures have not brought much relief to the banks. As conventional remedies seem to be failing to address the menace, a bit less conventional remedy is gaining ground, which suggests the Government to set up a *bad bank*.

THE CONCEPT

Theoretically, bad banks[1] work on simple concept, i.e., banks' loans are classified into two categories, good and bad. The bad loans of the banks are bought or taken over by the bad bank while the good loans are left with the bank itself. This way, bad loans do not contaminate the good assets of banks. As banks hit by the problem of bad loans become financially viable entities, they restart their lending process. While the concept of a bad bank is simple, the implementation can be quite complicated. A variety of organisational and financial options are there to design them. The RBI has signalled in favour of setting up such a bank, but it has also highlighted the concern of 'designing it properly'.

MODELS OF BAD BANK

We find four different models of bad bank in the world depending on need of the hour, which are briefly described below:

(i) **On-balance-sheet guarantee:** In this model, the stressed banks get a loss-guarantee from government for a part of its portfolio (i.e., bad assets). This is a simple and less expensive format and can be implemented quickly. Though bad loans get government guarantee, they remain on the balance sheet of the bank. It means while the bank becomes confident about its bad assets, they are still not in position to start fresh lending. This model does not fit in India's needs of today.

(ii) **Internal restructuring unit:** This model is like creating a bad bank inside the stressed bank itself. Banks put their bad debts in a 'separate unit' inside their own financial structure and set up separate management team to handle the bad assets—the team is given clear incentives. This helps banks increase transparency (as figures related to bad loans become public) and boosts confidence among their shareholders. It however, fails to enable them restart fresh lending. This model also does not look suitable for India.

(iii) **Special-purpose entity:** This model is a bit different from the two described above. The bad loans of the banks are 'offloaded' from the balance-sheet of

1. The write-up is based on the **Economic Survey 2016-17**, documents of the RBI and other Government sources.

the banks and securitised into a kind of fund that is sold off to a diverse group of investors in financial system. In case of India these securitised bad loans can be run through sector-specific special purpose vehicles (SPVs). As the problem of the NPAs is concentrated in a few sectors (like infrastructure and metals), this model looks quite useful. As the process involves the 'market' (for the pricing of the securitised bad assets) the PSBs will attract less blame in this model. As the balance-sheet of banks become clean they can start fresh lending.

(iv) **Bad-bank spin-off:** This is the most familiar model tried across the world. In this format, stressed banks shift their bad loans to a separate banking body (i.e., the bad bank). This way the risk of bad loans is smoothly transferred from the stressed banks' balance-sheet to the bad bank making banks viable to start fresh lending. Though this format looks the most suitable one for India's situation, it needs certain arrangements to be put in place, such as setting up a separate body, putting desired kind of management skill in place, information systems and proper regulatory mechanism being the major ones. This is an expensive model, too. The idea of a public sector asset rehabilitation agency (PARA) suggested by the *Economic Survey 2016-17* falls in this category. However, the PARA is supposed to address another problem also—the stressed balance-sheet of some private sector corporate entities.

CONCLUSION

The situation of the bad loans in the banking system has reached such a level that it has started hitting the investment prospects in the economy, and they need immediate attention from the Government, as per the *Economic Survey 2016-17*. If we go by the proposition of the survey, it looks suitable for the Government to think in the direction of setting up a separate body in the line of the PARA. Setting up a bad bank will only address the problem of banks' bad debt and may make them fit to restart lending. But this will not promote the cause of investment in the economy as some big corporates are unfit to borrow (on whom depends the investment prospects). It means India needs to leverage these corporate entities, too. In the aftermath of the presentation of the *Union Budget 2017-18*, the Government expressed its willingness in the direction of setting up such a body in the coming months. Meanwhile, business, industries and banks in India are waiting for the Government initiative in this regard.

2. DEMOGRAPHIC DIVIDEND

INTRODUCTION

India's turn to enjoy the opportunity of demographic dividend[2] has been repeatedly highlighted by the experts and international organisations alike. At the peak of discussion, it was covered thoroughly by the *Economic Survey 2012-13* devoting an exclusive chapter to it. As India's dependency ratio is declining fast, India will soon reach the peak of enjoying the demographic dividend—the highest economic contribution from the peak of working age (WA) population. It should be kept in mind that demography provides potential opportunity and is not destiny (as the *Economic Survey 2016-17* and *2015-16* remind). India needs to optimise the period to fill the great many economic gaps it has been fighting against since decades. Recent studies point out that India is in different situation today—from waiting to happening of the opportunity of the demographic dividend. And soon India will see

2. The write-up is based on the analyses presented in the ***Economic Survey 2016-17; 2015-16*** and ***2012-13.***

the event receding, too—the opportunity must not be missed.

Turning point: Global demographics saw a turning point in 2016—for the first time since 1950, the combined WA population (age group 15–59 years) of the advanced countries declined. As per the projections of the UNO, for the next three decades China and Russia will see their WA declining by over 20 per cent. However, India seems to be in a demographic *sweet spot* with its WA population—projected to grow by a third over the same period. Economic research of the last two decades has suggested that the higher growth rates in East Asia were driven by demographic changes. Countries with large WA populations appear to benefit more (due to higher economic dynamism) as *younger populations:*

- are more entrepreneurial (adding to productivity growth);
- tend to save more, which may also lead to favourable competitiveness effects; and
- due to growth, they have a larger fiscal base, fewer dependents and government to support.

Theory suggests that the specific variable driving the demographic dividend is the ratio of the working age to non-working age (NWA) population.

India's Demographics

India's distinctiveness: The comparison of the WA/NWA ratio between 1970 and 2015 (based on the projections of the UNO) for India, Brazil, Korea and China illustrates three ***distinct*** features about Indian demographic profile—having implications for the growth outlook of India and its states:

(i) India's demographic cycle is about 10–30 years behind that of the other countries. This indicates that India has next few decades as opportunity to catch up to the per capita income levels of the three countries.

(ii) India's WA to NWA ratio is likely to peak at 1.7, a much lower level than Brazil and China, both of which sustained a ratio greater than 1.7 for at least 25 years.

(iii) India will remain close to its peak of WA and NWA ratio for a much longer period than other countries.

The 'distinctive' demographic pattern of India has a *cause* and *consequence* for it—

Cause: All these countries started the post-World War II era with roughly the same very high total fertility rates (TFRs). In China and Korea, TFR then declined rapidly to below-replacement levels (less than two children per female), causing the share of WA population to rise until the early 2000s, then to fall as ageing began to set in. In India, however, the decline in TFR has been much more gradual.

Consequence: India should not expect to see growth surges or growth decelerations of the magnitudes experienced by the East Asian countries due to demographic dividend—and might be able to sustain high levels of growth for a longer time.

Spatial differentiation: India has a large 'heterogeneity' among the states in their demographic profile and evolution—there is a clear divide between *peninsular India* (West Bengal, Kerala, Karnataka, Tamil Nadu and Andhra Pradesh) and the *hinterland states* (Madhya Pradesh, Rajasthan, Uttar Pradesh, and Bihar):

- The peninsular states exhibit a pattern that is closer to China and Korea, with sharp rises and declines in the WA population. The difference, of course, is that the WA ratio of most of the peninsular states will peak at levels lower than seen in East Asia (West Bengal comes closest to Korea's peak because of its very low TFR).

- In contrast, the hinterland states will remain relatively young and dynamic, with a rising WA population for some time.

This divide among the states is due to their differentiated TFRs. It means, demographically, there are *two Indias*, with different policy concerns.

(i) An India which is soon to begin ageing where the elderly and their needs will require greater attention; and

(ii) A young India where providing education, skills, and employment opportunities must be the focus.

Of course, heterogeneity within India offers the advantage of addressing some of these concerns via greater labour mobility, which would in effect reduce this demographic imbalance.

Growth impacts: India's special demographic pattern will have *two* important growth consequences:

(i) It seems that the peak of the demographic dividend is approaching fast for India—peaking early 2020s—with peninsular India peaking around 2020 while hinterland India by around 2040.

(ii) The distributional impacts of growth across India will be differentiated, too. The poorer states of today will have growth in their per capita GDP higher than the richer ones. It means, demographic dividend will bring an opportunity for income convergence across the states.

Outliers: The overall encouraging pattern masks some 'interesting outliers' which will have their own impacts on the regions and the population residing there.

- Bihar, Jammu and Kashmir, Haryana, and Maharashtra are *positive outliers* in that they can expect a greater demographic dividend over the coming years than would be suggested by their current level of income. This extra dividend will help Bihar converge, while already rich Haryana and Maharashtra will pull further away from the average level of income per capita in India.
- On the other hand, Kerala, Madhya Pradesh, Chhattisgarh, and West Bengal are *negative outliers*. Their future dividend is relatively low for their level of income.

This will make the poorer states fall back, unless offset by robust reforms and growth, while the relatively rich Kerala will probably converge to the average as its growth momentum declines rapidly.

CONCLUSION

The WA population of India is about to plateau. Thus, the boost in economic growth is likely to peak within the ***next five*** years. In comparison to the East Asian economies, India's WA ratio will fall much more gradually—the reason why India may be able to avoid sharp falls in growth (as seen in case of the former). In addition, the sharp demographic differences between peninsular and hinterland India will generate wide differences in the timing of the peak, as well as opportunities to attenuate demographic imbalances via greater labour mobility. India does not need to wait longer for the time of peaking of demographic dividend—better say the opportunity is "soon-to-recede". So that this once in a centuries opportunity is not missed, it is high time that requisite reforms, policies and compatible action are all put in place as soon as possible.

3. TWIN BALANCE SHEET CRISES

INTRODUCTION

The non-performing assets (NPAs) of banks, particularly the Public Sector Banks (PSBs), have been in news for being excessively high for the past several years. Several steps taken by the RBI to solve the crises have almost failed. Meanwhile, the debt-ridden big private sector companies came in news with their declining earnings. These corporate entities spread across infrastructure to steel to real estate have been causing the real problem of NPAs to the banks. It means the remedy does not lie in only de-stressing the banks but similar remedy is needed in case of the corporate sector, too.

THE PROBLEM

Though, India has today one of the fastest growth rates in the world, for the past few years, certain financial issues have been worsening. In the aftermath of the global financial crisis (GFC) of 2007, India has been trying to come to grips with the 'twin balance sheet' (TBS)[3] problem—

(i) High NPAs of the PSBs; and

(ii) Highly stressed balance sheet of the private corporate sector.

India has taken several steps by now to recover and control the bad loans of the banks. But they have not been very effective and banks are even today under high stress. On the other hand, India has been waiting for a recovery in the corporate sector for their balance sheet to come in good health but to no avail. Meanwhile, situation has been worsening over the time:

- The stressed corporate sector has been forced to borrow more to continue their operations, as their earnings have been deteriorating. Since the GFC, till September 2016, the debts of the top 10 stressed corporate groups have multiplied five times, to more than Rs 7.5 lakh crore. These companies have been facing difficulty in even servicing their loans.
- In the meanwhile, around 12 per cent of the total loans of the PSBs turned out to be NPAs. If some private sector estimates are to be believed, the NPAs are considerably high (around 16 per cent).

3. The write-up is based primarily on the **Economic Survey 2016-17**; articles and interviews of **Arvind Subramanian**, Chief Economic Advisor, Government of India and other **official releases**.

THE SOLUTION

The TBS has started showing off its negative impacts on the economy—the private corporate sector has been forced to curb its investments while banks have been reducing their loan disbursals. To sustain growth, these trends need to be reversed. The only way to do so is by fixing the underlying balance sheet problems. The *Survey* suggests considering a different approach to address the issue of TBS—setting up a centralised 'public sector asset rehabilitation agency'—the PARA. As per it, the agency can take charge of the largest and most difficult cases, and make politically tough decisions to reduce debt.

So far, the official strategy has been to solve the TBS through a 'decentralised approach', under which banks have been put in charge of the 'restructuring' decisions. Several such schemes have been put in place by the RBI. Most of the time, this is indeed the best strategy. But in the current circumstances, effectiveness has proved elusive as banks have simply been overwhelmed by the size of the problem. The time might have come to try a 'centralised approach'—the PARA (a detailed discussion has been given in the new *'Economic Survey 2016-17'*). ***Some points*** are given below in support of the PARA.

Banks plus companies: Normally, public discussion of the bad loan problem has been centred on bank capital, as if the main obstacle to resolving TBS was finding the funds needed by the PSBs (we see Government recapitalising the banks since 2012-13 itself). Even if this capital is mobilised (might be up to three per cent of GDP), it will help only the banks to come out of red but not the stressed private corporate entities (which are behind this crisis). A sustainable remedy for these corporates is also needed.

Economic rather moral problem: Whenever public discussion starts on the TBS problem it is linked to issue of crony capitalism, which looks correct also as many a time debt repayment problems have been caused by diversion of funds. But another dimension should also be kept in mind—the problem has been caused by "unexpected changes in the economic environment", such as, the tenures of loans, exchange rates and growth rate assumptions going badly wrong. Thus, the problem is not a moral one but economic. Repetitive narratives on crony capitalism may end into punishing some but it fails us to think in the direction of incentive-based remedies.

Concentrated debts: Stressed debts are heavily concentrated in large companies, which look as an opportunity because a relatively small number of cases need to be resolved. But large cases are inherently difficult to resolve and that will be the challenge.

Debt write downs: Many of these companies are unviable at current levels of debt, requiring debt writedowns. It is believed that about 50 per cent debt write-down may be needed to restore viability among them.

Banks' difficulty: Banks have faced difficulty to resolve NPA cases, despite RBI giving them multiple choices. Among other issues, they face severe coordination problems, since large debtors have many creditors, with different interests. If PSBs think of granting large debt reductions, this could attract the attention of investigative agencies. Debt restructuring by converting debt to equity or taking over the companies and then selling them in future to a prospective buyer—will be politically difficult, if they sell it at loss.

ARCs proving futile: The Asset Reconstruction Companies (ARCs) haven't proved any more successful than banks in resolving bad debts and are too small to handle large cases. The ARC–bank relationship can be inherently distorted; for example, ARCs keep earning management fees for handling bad debts, even if they don't work them out. The new bankruptcy law (legislated in 2016-17) is yet to start functioning—even after it is enforced, considerable time will be needed before it is ready to handle the large cases.

Delay is costly: Since banks can't resolve the big cases, they have simply refinanced the debtors, effectively "kicking the problems down the road". But this is costly for the government, because it means the bad debts keep rising, increasing the cost of recapitalisation for the government and the associated political difficulties.

Functioning of PARA

Possible variants are many though the broad outlines are simple. It would purchase specified loans (for example, those belonging to large, over-indebted infrastructure firms) from banks and then work them out, depending on professional assessments of the value-maximising strategy. Once the loans are off the books of the PSBs, the government would recapitalise them, thereby allowing them to use their resources (financial and human) in making new loans. Similarly, once the financial viability of the over-indebted enterprises is restored, they will be able to focus on their operations, rather than their finances. And they will become financially fit to borrow and go for fresh investments.

Moral hazards: Such a move looks facing moral dilemma. Of course, all this will come at a price, namely accepting and paying for the losses. But this cost is inevitable. Loans have already been made, losses already incurred and because the PSBs are the major creditors, the bulk of the burden will fall on the government (though shareholders in stressed enterprises will need to lose their equity as well). The issue for any resolution strategy (PARA or decentralised) is not whether the government should assume new liability. Rather, it is how to minimise a liability that has already been incurred by resolving the bad loan problem as effectively as possible. And that is precisely what the creation of PARA would aim to do.

Capital requirements: It would require large capital, which may be managed in the following way:

- First and the most important source of it would be the government (through issues of securities);
- Second source could be capital markets (if shares in the PSBs are sold or private sector buys stakes in the PARA);
- Third source of capital could be the RBI (the central bank may transfer some government securities it is holding to PSBs and PARA—this will decrease RBI's capital, the capital of the PSBs and PARA would increase. It would create no implications for monetary policy since no new money would be created).

Risks and difficulties: Creating the PARA is not without its own difficulties and risks; the country's history is not favourable to public sector endeavours. Yet, one must ask how long India should continue with the current decentralised approach, which has still not produced the desired results eight years after the GFC, even as East Asian countries were able to resolve their much larger TBS problems within two years. One reason, of course, was that the East Asian countries were under much more pressure that they were in crisis, whereas India has continued to grow rapidly. But an important reason was that it deployed a 'centralised strategy', which allowed debt problems to be worked out quickly using public asset rehabilitation companies. In sum, current efforts have not been successful in addressing the TBS problem. New solutions must be tried. Perhaps it is time for India to consider the PARA as one such solution.

The approach of PARA could eliminate most of the obstacles currently plaguing loan resolution:

- It could solve the coordination problem since debts would be centralised in one agency;
- It could be set up with proper incentives by giving it an explicit mandate to maximise recoveries within a defined time;
- It would separate the loan resolution process from concerns about bank capital.

By mid-2017, the Government had hinted at taking some actions in this regard, however, the *Union Budget 2018-19* remained almost silent on the issue. Meanwhile, the recapitalisation process of the public sector banks got a big boost when the Government announced (in October, 2017) a sum of Rs. 2.11 lakh crores for the purpose. This way, one half of the TBS crises looks under the Government's policy priority.

4. UNIVERSAL HEALTHCARE

INTRODUCTION

It was the 12th Plan, the first official document, which advised in favour of the universal healthcare, estimating a total allocation of around 2.5 per cent of the GDP. The idea could not be implemented as the Government of the time could not commit itself to the required funds (estimated to allocate maximum 1.6 per cent of the GDP). At present, the total government expenditure (centre plus states) on healthcare is 1.4 per cent of the GDP *(Economic Survey 2016-17)*. The healthcare related sufferings in the country have been always a matter of high concern—out of pocket expenditure being one of the highest in the world (at over 70 per cent since many decades). The idea has been a major issue of the public debate. During the last General Elections, the idea kept resonating across the promises of the political parties.

THE CHALLENGES

Committing to the cause of universal healthcare at the practical level has been a daunting task for the Government, given the scarcity of resources.

To implement such a policy, the Government needs to put in place a great many physical and non-physical support systems, such as number of hospitals, adequate number of personnel, medical colleges, nursing institutes, health insurance, public deliveries of vaccines and medicines; etc. naming the major ones. To implement such a policy mobilising the required financial resources has been the biggest challenge for the governments. Developing a *financial model* was the need of the hour.

Going for the Idea

After almost two years of consultations with various stakeholders, the Government of India, finally took the final call in the direction of 'universal healthcare' when the *National Health Policy 2017* was announced by mid-March 2017. The policy focusses "Preventive and Promotive Health Care and Universal access to good quality healthcare services". The major *highlights* of the policy[4] have been discussed below.

Primary aim: The primary aim of the policy is to inform, clarify, strengthen and prioritise the role of the Government in shaping health systems in all its dimensions— investment in health, organisation and financing of healthcare services, prevention of diseases and promotion of good health through cross sectoral action, access to technologies, developing human resources, encouraging medical pluralism, building the knowledge base required for better health, financial protection strategies and regulation and progressive assurance for health. The policy emphasises reorienting and strengthening the Public Health Institutions across the country, to provide universal access to free drugs, diagnostics and other essential healthcare.

4. The write-up is based on the **Economic Survey 2016-17**, press release from the **Government of India** and other Government sources (till March 2017).

Approach change: The policy denotes important change from very selective to comprehensive primary healthcare package which includes *geriatric healthcare, palliative care* and *rehabilitative care* services. The policy advocates allocating major proportion (up to two-thirds or more) of resources to primary care followed by secondary and tertiary care. The policy aspires to provide at the district level most of the secondary care which is currently provided at a medical college hospital.

Broad principle: The broad principle of the policy is centred on Professionalism, Integrity and Ethics, Equity, Affordability, Universality, Patient Cantered & Quality of Care, Accountability and Pluralism.

Affordability: It seeks to ensure improved access and affordability of quality secondary and tertiary care services through a combination of public hospitals and strategic purchasing in healthcare deficit areas from accredited non-governmental healthcare providers, achieve significant reduction in *out of pocket expenditure* due to healthcare costs, reinforce trust in public healthcare system and influence operation and growth of private healthcare industry as well as medical technologies in alignment with public health goals.

Pluralistic design: To leverage the pluralistic healthcare legacy, the policy recommends mainstreaming the different health systems. Towards mainstreaming the potential of AYUSH the policy envisages better access to AYUSH remedies through co-location in public facilities. Yoga would also be introduced much more widely in school and work places as part of promotion of good health.

Focus on pre-emptive care: The policy affirms commitment to pre-emptive care (aimed at pre-empting the occurrence of diseases) to achieve optimum levels of child and adolescent health. The policy envisages school health programmes as a major focus area as also health and hygiene being made a part of the school curriculum.

Funding: The policy proposes raising public health expenditure to 2.5 per cent of the GDP in a time bound manner. It aims at providing larger package of assured comprehensive primary healthcare through the HWCs (Health and Wellness Centres).

Private participation: The idea of universal healthcare is very realistic to the time as it has decided to enhance the participation of the private sector in a positive and proactive way in achieving the goals of the policy. It envisages private sector collaboration for strategic purchasing, capacity building, skill development programmes, awareness generation, developing sustainable networks for community to strengthen mental health services, and disaster management. The policy also advocates financial and non-incentives for encouraging the private sector participation.

Quantitative targets: The policy assigns specific quantitative targets aimed at reduction of disease prevalence/incidence, for health status and programme impact, health system performance and system strengthening. It seeks to strengthen the health, surveillance system and establish registries for diseases of public health importance, by 2020. It also seeks to align other policies for medical devices and equipment with public health goals.

Regulatory mechanism: The policy advocates extensive deployment of digital tools for improving the efficiency and outcome of the healthcare system and proposes establishment of National Digital Health Authority (NDHA) to regulate, develop and deploy digital health across the continuum of care.

Voluntary support: The policy supports voluntary service in rural and under-served areas on *pro-bono* (free of charge) basis by recognised healthcare professionals under a 'giving back to society' initiative.

Background: The Government of India adopted an elaborate procedure for formulation of the health policy. Its Draft was placed in public domain on 30th December 2014. After detailed consultations with stakeholders and State Governments, it was further fine-tuned. Finally, by late February 2016 it received the endorsement of the Central Council for Health & Family Welfare (the apex policy making body). Since the last health policy was announced in 2002, the country has seen much socio-economic and epidemiological changes. Besides, there are some burning current challenges as well as emerging ones. To address these issues in holistic and effective way, the Government needed to come out with a newly designed and contemporary kind of health policy—the outcome is the NHP 2017.

The newly announced *(in the Union Budget 2018-19)* National Health Protection Scheme (NHPS) is a historic step in this regard. The scheme aims to cover over 10 crore poor and vulnerable families (approximately 50 crore beneficiaries) providing coverage upto Rs. 5 lakh per family per year for secondary and tertiary care hospitalisation.

5. AFTEREFFECTS OF DEMONETISATION

INTRODUCTION

Early November 2016, the Government announced a historic measure, with profound implications for the economy—the largest denomination currency notes, Rs 500 and Rs 1000, were demonetised. Eighty-six per cent of the cash in circulation thus became invalid. According to the Government, this was aimed to serve four objectives[5]:

(i) Curbing corruption;

(ii) Counterfeiting of currencies;

5. The write-up is primarily based on the Economic Survey 2016-17 and the primary sources of the Government of India released till March 2017.

(iii) Checking terrorism (as they use high denomination notes); and

(iv) Preventing accumulation of black money.

This action followed a series of earlier efforts to curb such illicit activities: the creation of the Special Investigative Team (SIT) in 2014, the Black Money and Imposition of Tax Act 2015, Benami Transactions Act 2016, the information exchange agreement with Switzerland, changes in the tax treaties with Mauritius, Cyprus and Singapore, and the Income Disclosure Scheme. This was not an unprecedented action as there were two previous instances of it—in 1946 and 1978, the latter[6] not having any significant effect on cash.

There have been reports of job losses, declines in farm incomes, and social disruption, especially in the informal, cash-intensive parts of the economy. However, a systematic analysis is not possible yet due to paucity of data. The benefits of demonetisation can be only felt in coming years—the move was more aimed at long-term goals than short-term. We may have a ***brief review*** about the impact of demonetisation on the economy and behavioural aspects in the following way.

Long-term benefits: It is too early to quantify the direction and magnitude of long-term changes. It will take *several years* to see the impact of demonetisation on illicit transactions, on black money, and on financial savings. But there are some signs pointing to change.

(a) *Digitalisation:* One intermediate objective of demonetisation is to create a *less-cash* or *cash-lite* economy. This will not only channelise more saving into the financial system but it will improve tax compliance also. Currently, India is far away from this objective: the *Watal Committee* has recently estimated that cash accounts for about 78 per cent of all consumer payments. According to *Pricewaterhouse Coopers (2015)* India has a very high predominance of consumer transactions carried out in cash relative to other countries (accounting for 68 per cent of total transactions by value and 98 per cent by volume).

People prefer cash transaction due to many reasons. It is convenient, accepted everywhere, its use is costless for ordinary people (though not of course for society at large), is anonymous, helps preserve privacy, which is not bad till it is not illicit or designed to evade tax. Digitalisation can broadly impact the three sections of society—*the poor*, who are largely outside the digital economy; the *less affluent*, who are becoming part of the digital economy having acquired Jan-Dhan accounts and RuPay cards; and the *affluent*, who are fully digitally integrated via credit cards.

(b) *Real estate:* This sector could have profound impact. In the past, much of the black money accumulated was ultimately used to evade taxes on property sales. A reduction in real estate prices is desirable as it will lead to affordable housing for the middle class, and facilitate labour mobility across India currently impeded by high and unaffordable rents.

Short-term impact: Demonetisation will impose short-term costs on the economy, which remain difficult to measure by now due to lack of the right data set. As the process has created a *large structural shock*, the underlying *behavioural parameters* of the past will be imperfect indicators of future behaviour and hence the outcomes. Although a framework of the short-term impact may be outlined:

6. In 1970, a Committee headed by former Chief Justice K.N. Wanchoo, in its interim report, recommended demonetisation of the 10, 100, and higher denomination notes to combat the scourge of black money. These denominations accounted for 86.6 percent of the then money stock.

(a) *Impact on Gross Domestic Product (GDP):* Economic activities have been affected adversely. Thus, national income will get hit also, but it will be only temporary. The GDP might be lower by 0.25 to 0.5 per cent (coming to around 7 per cent). The implementation of GST, follow-up to demonetisation and other structural reforms should put the growth to the 8–10 per cent range that India needs.

(b) *Redistribution of income:* It will redistribute resources also having following effects on the fiscal accounts of the Government:

- RBI/Government may receive some gains from the unreturned cash—wealth gains.
- Income taxes could go up as black money was deposited in bank accounts.

Against this there are three ***negative effects***. *First,* costs of printing new notes; *secondly,* costs of sterilising the surge in liquidity into the banking system (via issuance of Market Stabilisation Scheme bonds); and *thirdly,* if nominal GDP growth declines, corporate and indirect tax revenues of the centre could decline but so far there is no clear evidence.

TAPPING THE PROSPECTS

The Government needs to maximise the long-term benefits and minimise short-term costs of demonetisation. For this purpose, the following measures look beneficial:

(i) Remonetisation process should be faster.

(ii) Any windfall revenue arising from 'unreturned notes' should be used for *capital-type expenditures* and not revenue ones. As this income will be one-off, its use should be one-off.

(iii) Digitalisation must continue in medium term, though neither it is a panacea nor cash economy is bad. Balancing benefits and costs of both forms of payments will be sensible. The transition to digitalisation must be gradual and inclusive, too. Digitalisation must be incentivised and the incentives favouring cash neutralised. The cost of incentivisation must be borne by the public sector (Government/ RBI) and not the consumer or financial intermediaries.

(iv) Efforts to collect taxes on newly disclosed (and undisclosed) wealth should not lead to tax harassment by officials at all rungs of the hierarchy. A shift is needed to greater use of data, smarter evidence-based scrutiny, more reliance on online assessments with less interactions between tax payers and tax officials. Non-punitive means should be evolved to enhance tax compliance.

(v) So that demonetisation indeed proves a catalyst for long-run changes in ***behaviour***, it will be required to complement demonetisation with other non-punitive, incentive-compatible measures that reduce the incentives for tax evasion. Demonetisation was a potentially powerful stick that now needs *carrots* as complements. A ***five-pronged strategy*** could be adopted:

(a) GST should include activities that are sources of black money creation—land and other immovable property;

(b) Individual income tax rates and real estate stamp duties could be reduced;

(c) Income tax net could be widened gradually and, consistent with constitutional arrangements progressively encompass all high incomes;

(d) The timetable for reducing the corporate tax rate could be accelerated; and

(v) To reduce discretion and improve accountability, tax administration needs improvement.

CONCLUSION

The actual cost of demonetisation will be known by the end of the fiscal 2016-17 only. While the short-term gains of it will be limited in nature, the success of this move will be mainly known by its long-term effects. However, to maximise the gains out of this, the Government needs to take several other timely and rational steps to complement it. Thus, the momentum generated should not get reduced so that economy can realise the gains from demonetisation.

6. ADDRESSING INEQUALITY

INTRODUCTION

Inequality has already been an important concern in India for the Government. In the wake of globalisation process, the debate has got even louder. Meanwhile, a few recent global reports (of early 2017) put India's inequality concern on top of the global debate. Several questions related to the issue became focus of the debate among the experts and policy makers—how inequality hurts, who gets maximum hurt, how to address the problem, etc[7].

INEQUALITY CONCERNS

The latest *New World Wealth* (a Johannesburg-based company) report says India to be the second-most unequal country globally, with millionaires controlling 54 per cent of the nation's wealth. With a total individual wealth of US$5,600 billion, it's among the 10 richest countries in the world. Yet, average Indian is relatively poor. If we compare India with Japan (the most equal country in the world) situation looks even worse where millionaires control only 22 per cent of the wealth. We may have a look at the latest data from the *Credit Suisse* related to India's inequality:

- The richest 1 per cent owns 53 per cent of the country's wealth.
- The richest 5 per cent own 68.6 per cent, while the top 10 per cent have 76.3 per cent.
- At the other end of the pyramid, the poorer half competes in just 4.1 per cent of the total wealth of the nation.
- India's richest 1 per cent owned just 36.8 per cent of the country's wealth in 2000, while the share of the top 10 per cent was 65.9 per cent. Since then they have steadily increased their share in the country's wealth—the share of the top 1 per cent now exceeds 50 per cent.
- India's situation looks worse than the United States where the richest 1 per cent owns 37.3 per cent of total wealth.
- While India's finest still have a long way to go before they match Russia, where the top 1 per cent owns a stupendous 70.3 per cent of the country's wealth.

As per the new India Human Development Survey (IHDS), which provides data on income inequality for the *first time*, India's score of income equality is lower than Russia, the United States, China and Brazil—is more egalitarian than only South Africa.

INEQUALITY NEEDS TO BE CHECKED

Though inequality is found everywhere, its extremes hurt economies multi-dimensionally. As per *Oxfam*, sharp rise in inequality in India and the other countries around the world is damaging, and the governments of the countries need to make efforts to curb it. Rising inequality will have several negative consequences for the nations—slowing down poverty reduction, challenging sustainability of economic growth, compounding the inequalities between men and women, and

7. The write-up is based on several contemporary reports and Government releases such as–the **Economic Survey 2016-17, Union Budget 2017-18, World Economic Forum, Oxfam reports, Credit Suisse,** etc.

drive inequalities in health, education and across the life chances.

The World Economic Forum's *Global Risks Report 2016* (third time in series) has found 'severe income disparity' to be one of the top global risks in the coming decade. A growing body of evidence has also demonstrated that economic inequality is associated with a range of health and social problems, such as mental illness and violent crimes. This is true across both rich and poor countries. Basically, inequality does not hurt only the poor ones but everyone.

SEARCHING FOR THE REMEDIES

But the question is whether inequality is inevitable? The answer is 'no'. It is the result of policy choices. Governments can reverse the situation of increase in inequality by taking some important steps, such as rejecting market fundamentalism, opposing the special interests of powerful elites, and changing the rules and systems that have led to this situation. Governments need to implement reforms that redistribute money and power, and level the playing field. There are two main areas where changes to policy could boost economic equality, namely taxation and social spending.

(i) *Progressive taxation:* Progressive taxation method has been proved to be quite effective in this regard. In this method of taxation corporations and the richest individuals pay more tax on their incomes to the state. The increased incomes from tax on income enables the governments to redistribute resources to the poorer people across the society. Similarly, a better indirect tax regime can enhance governments' income in a big way—as is being projected out of the proposed GST of India. The role of taxation in reducing inequality has been documented in OECD and developing countries in a very logical way by now. Thus, a required kind of taxation could play a big role in this direction.

As in the latest *Oxfam* report (early 2017), India performs relatively poorly on tax front. India's total tax collections are at 16.7 per cent of GDP while its potential is about 53 per cent. Its tax structure is not very progressive since direct taxes account for only a third of total taxes. By comparison, South Africa raises 27.4 per cent of GDP as taxes, 50 per cent of which are direct taxes. Though the Government of India has projected the share of direct taxes to improve to around 60 per cent of the total tax collections in the fiscal 2017-18.

(ii) *Social spending:* Governments' spending on public services can do miracles in reducing inequality. In India, such spending of the Governments is termed as the social sector spending which includes the fund allocations on education, nutrition, food, sanitation, general health care and social protection. *Oxfam* has provided evidences from more than 150 countries (rich and poor) spanning over three decades to show that overall investment in public services and social protection can tackle inequality. The group has for many years campaigned for free, universal public services across countries.

As per the latest report of *Oxfam*, India performs poorly on its social sector spending (centre and states put together). India spends about 3 per cent on education and 1.1 per cent (though this data has improved to 1.4 per cent by 2016–17) on healthcare of its GDP, respectively. In comparison, South Africa spends more than twice as much on education (6.1 per cent) and more than three times as much on health (3.7 per cent). Though South Africa is more unequal than

India, the country performs much better in its commitment towards reducing inequality.

Conclusion

In recent years, the Government of India has become more sensitive to the issue of alarmingly high inequality in the country and looks committed to take suitable steps to check it also. Not only some effective right-based schemes have been launched in recent times but the Government has tried to address the issues related to proper identification of the beneficiaries and delivery also, with the help of Aadhar, Jan-Dhan Yojana and direct benefit transfer. Government is already on the path of reforming the tax regime. The recent move of demonetisation of high value currency notes also falls in this category, while the proposal of the universal basic income (UBI) coming from the *Economic Survey 2016-17* looks too innovative (by early March 2017, the Government has shown its willingness to go for it also). As ending extreme poverty is among the goals of the sustainable development goals (SDGs) it looks quite timely to move in the direction of checking inequality from rising first and reducing it afterwards.

7. UNIVERSAL BASIC INCOME

Introduction

In the last few years we have seen several experts suggesting for a universal basic income (UBI) for India. The idea got strengthened when the *Economic Survey 2016-17* proposed for the same—articulating very sound logic in its favour. By March 2017 the Government announced that such a scheme may be piloted by late-2017 and implemented to a limited scale by the year 2018-19. Although, before going for such a scheme[8] the Government of India (GoI) needs to settle several concerns involved with it.

An Effective Idea

We find the idea of UBI gaining ground among several countries across democracies and non-democracies—right from France to Finland to China (where a similar scheme, the *dibao*, is implemented). Such a scheme is generally proposed as a non-targeted one in which a fixed sum of cash is periodically transferred to all on individual basis. The idea is to ensure that every person in society has the means to live with a certain freedom and dignity, independent of capacity to earn or availability of employment. The idea really looks attractive as it has potential to reduce both poverty and inequality.

India already piloted such a scheme in Madhya Pradesh by 2010. *The Economic Survey 2016-17* proposed an amount of Rs 7,620 a year to be transferred into the bank accounts of the beneficiaries of the UBI. Though it is well short of what anyone might need to lead a life of leisure, it would cut absolute poverty from 22 per cent to less than 0.5 per cent. Theoretically, the UBI is proposed to be financed through recycling funds from around 950 welfare schemes (costing around 5 per cent of the GDP) presently run by the GoI aimed at offering subsidised food, water, fertilisers and many other things. A big part of Government's subsidies is enjoyed by the rich people in the country (as per the *Economic Survey 2015-17*) which can also be rejigged for this purpose.

Working Out the Scheme

There are several important issues to be settled before India launches such a scheme. A brief survey of the *major issues* involved with it is given below:

Financial model: The first and foremost issue is mobilising adequate fund for it. If we go into the

8. The write-up is based on primary sources such as the **Economic Survey 2016-17,** releases of the **Union Ministry of Finance**, the **NITI Aayog** and few issues of the journal **The Economist,** mainly.

proposal of the *'Economic Survey 2016-17'*, the advice is to recycle the funds of the existing central sector and centrally sponsored schemes run by the GoI. But such schemes cannot be shut down to start UBI. This could be done in phased way only. Till then the GoI needs to mobilise additional funds for it through budgetary or non-budgetary sources. Given the projection that once the proposed GST is implemented from July 2017, the shortfall in the tax collections is estimated to remain around Rs 66,000 crore (due to curtailment of many cesses and surcharges), budgetary support does not look a very viable option.

Though certain other positive measures are also in the pipeline, such as increased tax compliance due to emphasis on less-cash, the proposed ceiling on cash transactions, linking Aadhar to PAN for filing income tax returns and linking Aadhar to transactions, etc., the implementation of the GST is supposed to increase tax collections (though in medium term) together with checking the evasion of direct and indirect taxes.

Selecting the beneficiaries: Clues from the name suggest it to be applying on all. But as per the Survey as well as the GoI expressions, the scheme is proposed to be launched partially. In this case, the target population may be taken from the lower strata of the below poverty line. The NITI Aayog CEO has proposed it for the bottom 20 per cent of the BPL population at the time of its launch. This could be linked to the general policy framework of social justice also. This will not only keep the financial requirements on lower side but also give some time to the government to recycle the funds from several welfare schemes it either runs or sponsors. A suggestion came from the GoI in favour of transferring the cash into the accounts of women head of the family (which will promote the *ideas* of inclusive growth and women empowerment also).

The amount of transfer: How much money should be transferred though is guided by the availability of resources, it should look sizeable to show an impact on the beneficiaries. As a proposal, the NITI Aayog CEO has proposed a sum of Rs 1,000 on monthly basis while the survey proposed (more as an example) a sum of Rs 7,620 monthly. Normally, it is believed that without transferring a sizeable amount of money (which may bring in comfort to the beneficiaries), the scheme may not remain effective. Though, to begin with even a lower sum of transfer also looks good.

Financial inclusion, inclusion and exclusion, regulation and assessment, etc. are the other involved issues related to it. The scheme looks under examination and study of the GoI in present time. Once it is announced only then these concerns will settle down.

The Benefits

The welfare schemes India has been implementing have been faced with certain common problems, misallocations of funds, wastage and seepage, inclusion and exclusion factors, ghost beneficiaries, corruption, the cost of operating them, etc. being the major ones. For this and other reasons, it has been argued to give serious consideration to the idea of the UBI. This will have several merits in it missing the current redistribution schemes, such as:

(i) It will be given from above minimising several maladies of existing schemes.

(ii) It is less likely to be prone to exclusion errors.

(iii) By directly transferring money to bank accounts, and bypassing multiple layers of bureaucracy, the scope for 'out of system' leakages (in case of the PDS running up to 45 per cent) will be quite lower.

Conclusion

There are considerable challenges of implementation, which will have to be debated and addressed properly before going for the UBI.

But the challenges are not insurmountable; besides several possible ways are available to address them. As the support for the idea has come from a broad ideological spectrum, it looks as if the time for such a scheme has arrived in the country. We should think proactively in the direction.

8. LEGITIMACY IN STATE AND SOCIO-ECONOMIC TRANSFORMATION

Introduction

Democracies of the world have evolved much since they came into being. India joined the club late though it is among the most vibrant democratic economies of the world today with its own set of strengths and weaknesses. Socio-economic transformation of the country could be considered as the most prime aspiration of India. The same resonance we find throughout the period of freedom struggle, in the debates of the Constituent Assembly and the Constitution of India also. Numerous efforts have been made by the governments in this direction though the performances have not been up to the desired levels. There have been several minor reasons responsible for it, but the major reason has been the lack of financial resources to push it. The revenue that governments get by way of taxes is not a form of income only, but it is a measure of the fiscal potential of the nation, too. India has not been able to tap its actual fiscal potential by now. While its potential of tax collection is estimated to be 53 per cent of the GDP, it collects only about 17 per cent. It means a vast fiscal potential remains untapped. Given the resource crunch faced by the country, it is high time that the country moved in the direction of enhancing the fiscal capacity of the economy.

In case of India, 'income redistribution' (the recent proposal being UBI coming from the *Economic Survey 2016-17*) is suggested to be the single most important way out to promote socio-economic transformation today, provided the Government can mobilise adequate amount of fund for the process of redistribution. One very weak link to tapping fiscal capacity of the economy has been the lower legitimacy in the State.[9]

Global Experience

Higher legitimacy in state strengthens democracies in general. In case of tapping the fiscal capacity of the economy legitimacy in state has been found to be among the most important variables. In this regard, the history of developed countries suggests two important things:

(i) The foremost duty of the State is to supply 'essential services' such as, physical security, healthcare, education, infrastructure, etc.

(ii) Redistributive role of the State comes later on.

The above-described sequencing is not accidental. Unless the middle class in society perceives that it derives some benefits from the government/state, it will be unwilling to support (i.e., finance) the government moves of income redistribution. In other words, we can say that a government needs to earn the legitimacy to redistribute income from the effectiveness of its public service deliveries.

If the Government tries to redistribute income without guaranteeing effective deliveries of the public services, the middle class starts 'exiting the state' (the famous idea of Albert Hirschman, 1978)—the middle class ultimately shies away from financing the schemes of income redistribution. One important sign of exit is fewer number of tax payers—abundantly evident in case of India. By reducing the pressure on the state, middle class exit will shrivel it, eroding its legitimacy further,

9. The write-up is primarily based on the **Economic Survey 2016-17** and **2015-16** together with the **Union Budget 2017-18** and other releases of the Government of India.

leading to more exit in future. A state that is forced into inefficient redistribution, risks being trapped in a self-sustaining spiral of inefficient redistribution, reduced legitimacy, reduced resources, poor human capital investments, weak capacity and so on. The income and consumption anomaly has been specially highlighted by the *Union Budget 2017-18* where number of tax payers are miniscule to ratio of various income groups.

SUGGESTIONS FOR TODAY

It is suggested that the Government of the country should carry out their functions with utmost commitments to promote legitimacy in the State. Some of the *major steps* the state can take are as given below:

- The essential public services promised to the common citizens must reach them in an effective, transparent and non-partial way on a permanent basis.
- The visible instances of crony capitalism must be checked under which many of the times public assets are handed over to a select group of corporate houses that too at very cheaper prices by the governments.
- The issue of governance should not remain on paper only but it should show up to the citizens that the governments are committed to promote good governance.
- The menace of corruption must be rooted out with the help of transparency, greater devolution of power and involving the larger group of the stakeholders.
- People's participation should be enhanced by the governments in speedy way.

CONCLUSION

In the last few years, we have seen an increased emphasis by the Government on the above-suggested areas. Promoting the idea of 'minimum government and maximum governance' the government is not only promoting the governance factor but it is empowering the common masses, too. States have been included in the process of making the NITI Aayog the very 'vehicle of governance' (governance has been faltering more at the state level). The Government is using the different tools of information technology in every possible area to promote transparency, check corruption across the system and bringing speed in governance. Similarly, focus has shifted towards non-punitive measures of enhancing tax compliance and giving a push towards less-cash economy. Auction of public assets has become a fully online process, aimed at checking the problem of crony capitalism. Besides, the Government is committed to strengthening 'social trust' and 'co-operation' among the citizens and between the government and the masses to promote the level of happiness in citizens' lives. There is a declared shift in favour of modifying people's behaviour to achieve the desired objectives of socio-economic transformation in the country, too. Experts believe that the recent policy actions will surely improve the level of legitimacy in the State in the coming times.

9. FARM INDEBTEDNESS AND AGRIPOLICY

INTRODUCTION

Indebtedness among the farming community has always been a major concern for the Government.

Once the number of suicides by farmers increased to the alarming levels, indebtedness among the community re-entered into the domain of the public debate. Today, considered as the biggest cause of suicides by farmers, the government policies related to farm sector need re-examination and the very framework of agri-policy needs restructuring.[10]

FARM INDEBTEDNESS

For farmers' suicides, bankruptcy and indebtedness have been cited as a major cause—around 37 per cent of all suicides by the farmers today. Usually, local money-lenders were portrayed as the villain in it. But as per the latest National Crime Records Bureau (NCRB), 2015 data, 80 per cent of the farmers who committed suicides in 2015 due to 'bankruptcy or debts' had borrowed money from institutional sources (banks and registered microfinance institutions). Besides, the country has seen a threefold increase in the famers' suicide due to bankruptcy and indebtedness (from 1163 of 2014 to 3097 in 2015). In 2015, a total of 8007 farmers committed suicides due to various reasons. It was for the *first time* that the NCRB categorised farmers' suicides due to debt or bankruptcy based on the source of loans. Similar findings come from the latest 'Situation Assessment Survey of Agricultural Households in India' report of the NSSO too. Nearly 52 per cent of agricultural households in India are indebted and levels of debt are as high as 93 per cent in Andhra Pradesh and 89 per cent in Telangana, as per the report.

The changed understanding about farm suicides make at least one thing clear that by allocating more funds to enhance farm loans is not enough.

10. The write-up is primarily based on the **Economic Survey 2016-17** and **2015-16** together with the latest **NCRB** report (2015), the latest **NSSO** report (2014) and other releases of the Government of India.

FARM INCOME

The situation of farmers' income remains highly distressed in the country, as per the latest NSSO report (cited above). An agricultural household has been defined in by it as a household receiving value of produce of more than Rs 3,000 from agriculture with at least one member self-employed in farming. Interestingly, it shows that for 56 per cent of the marginal land owning families (with land less than 0.01 hectare) wage and salary employment, not agriculture, was their principal source of income. Another 23 per cent reported livestock as their principal source of income.

Average monthly income per agricultural household was estimated at Rs 6,426 while the net receipt from farm business (cultivation and farming of animals) accounted for 60 per cent of the average monthly income per agricultural household. Income from wages and salary accounted for nearly 32 per cent of the average monthly income.

About 44 per cent of the estimated agricultural households in the country had an employment guarantee scheme or MGNREGA job card. However, only 38 per cent in the lowest land class (less than 0.01 hectare) had job cards. Further, 12 per cent of all households and 13 per cent marginal land holding households did not have a ration card that entitles them to subsidised food.

INSTITUTIONAL AND NON-INSTITUTIONAL LOANS

There was a perception that except non-farm factors it was overall agrarian distress that forced farmers to suicides. Even if some suicides were caused by indebtedness, it was due to the high-handedness and exploitative behaviour of the local money-lenders on whom farmers largely depend for their loans. The official feeling was that once the spread of institutional lending gets healthier this problem will be addressed. But the latest data tell a completely different story—majority of farmers who committed suicides had taken loans from the institutional sources. It may be explained in the following way:

- Among the institutional sources, the micro-finance agencies have spread with much faster pace in recent years—the Government giving them liberal spread aimed at promoting financial inclusion in rural areas in general, and farming community in particular.
- Though micro-finance agencies are easily accessible, their interest rates are not less exploitative than the local money-lenders.
- Besides, the loan recovery method of these agencies lacks a 'human touch', which is not the case with money-lenders due to their feeling of belongingness to the same society or village.
- The case of banks is not much better other than some interest subsidies they give.

In the event of crop failures or for some other reasons, indebted farmers are available with no alternative of repaying their debt and even sustaining life. In absence of any other financial support system, such farmers are highly prone to committing suicides.

POSSIBLE REMEDIES

Given the current situation, allocation of higher funds for farm loans does not look serving the purpose (the *Union Budget 2017–18* allocating Rs. 9 Lakh Crore for it!). Such acts, on one hand have been increasing the financial burden on the exchequer, on the other hand they have not been able to protect the farmers from bankruptcy and indebtedness in the real sense either. In the changed scenario, to handle the crisis, the following steps look more suitable:

- Other than enhancing the penetration of formal/institutional lending (which increased fourfold in the last decade) there is a need of putting in place 'complementary income' support system for the farm community. Given the monsoonal and climate-related variability increasing, it looks even more apt.
- Majority of weak and marginal farmers fail to take benefit from the institutional sources of loans. This should be addressed on priority basis.
- Minimum support price operations should be able to include all of the weak farmers.
- To serve the purpose of creating additional sources of income to the farmers, the current scheme of 'skilling' and promoting agro-processing industries at the local level are needed. The scheme of 'smart cities' should be also linked to the farmers.
- Allied activities to agriculture such as dairy, poultry, fisheries, etc., should be promoted in a targeted way.
- Awareness regarding farm insurance must be enhanced among the farmers on high priority.
- The actions of the banks and micro-financing institutions should be monitored from all possible perspective at the local level.
- Once the proposed idea of 'UBI' is launched, small and marginal farmers should be necessarily included in the very first go (in case it is not launched universally, as the Government of India has indicated) taking clues form the latest findings of the NSSO reports.
- In general, the causes of 'agrarian distress/crises' should be re-examined and addressed with suitable policy actions on priority basis—a more holistic policy framework is need of the hour for the agriculture sector.

Conclusion

The latest reports remind us that little has changed for farmers in the past one decade (during which farmers' suicides have spread even in the traditional Green Revolution areas where farmers were believed to be richer and financially more secured). It clearly proves that the agriculture sector, which sustains half of the country, is still out of the real attention of Government policy, although in the last two years we see an increased focus from the Government of India on the farming sector.

10. DEGLOBALISATION—THE AFTEREFFECTS

Introduction

Countries moved on the path of globalisation under a highly legitimate global body, the World Trade Organisation (WTO) in 1995. The apprehensions of the developing nations soon diluted as they started reaping economic benefits out of it. Though the course of globalisation remained a bit chequered, it has proved to be better for the emerging economies to a large extent, the reason they are still the staunchest supporters of the process. But suddenly the world looks going in the reverse gear and the process of reverse globalisation (deglobalisation)[11] looked certain by early 2017. This course will have differentiated effects on the developed and developing economies in short- and long-term. Meanwhile, the emerging market economies will have to face their own set of challenges due to it.

Changing Global Contours

The seeds of deglobalisation process can be found in the global financial crisis of 2007-08 and the failure of the developed economies to recover from it. Recovery from the Great Recession among these economies are getting tough. Even unconventional monetary policies have been tried (pursuing for negative interest rate regime) without much results. In the wake of this several of these economies have signalled 'protectionist' rhetoric. Right from the Brexit to the rise of protectionist US (in post-Trump period) are the major signals of reversal from the process of globalisation.

The other reason for reverse globalisation is rooted in the aftereffects of the globalisation since 1995. The experiences of globalisation have not been uniform and singular for the different member nations. Some have reaped high dividends while some other have gone into huge negative trade with their trading partners. Other than the contentious issues related to agriculture, public stockholding of food, drugs patenting and climate, in past one decade, the world has increasingly debated the 'negatives' of globalisation in a very vigorous way—increasing income inequality, adverse impact on environment and climate, etc. being the major ones. Due to this, negative sentiments have been growing among the developed economies towards the process of globalisation (interestingly, these were the apprehensions of the developing countries while the WTO was under the process of negotiation, between 1985 to 1994 and even after it!).

At the G20 Summit (Baden-Baden, Germany, mid-March 2017) loud voices against globalisation were heard. The US put its concerns regarding its huge trade deficits with key G20 members, such as Germany and China. Though the country denied its desire to get into trade wars but emphatically called for a farer trade with it. Not only this, on the margins of the Summit the US clearly expressed its desire towards re-negotiating not only with the NAFTA but the WTO, too. The rise of protectionist US has virtually failed not only the G20 Summit put it has put the course of globalisation in reverse gear. The course of globalisation looks completely uncertain.

11. The write-up is based on the **Economic Survey 2016-17**, various issues of **The Economist** and other media sources.

The above-given events show as if the world (or at least the economies which matter most) has started to move slowly away from the much-celebrated idea of globalisation—*de-globalisation* taking over the world—shrinking scope for multilateral trade and economic inter-dependence. But all does not look lost—the lack of willingness towards globalisation among different economies is not of the same degree nor universal to every economy—better say it looks selective.

Impact of Regional Trade Agreements

The much-celebrated regional trade agreements look getting irrelevant given the rise of protectionist moves among the nations particularly among the developed economies. The most ambitious such agreement—Trans-Atlantic Partnership—has been derailed as the biggest force behind it, the USA, has backed out of it. How will it come without US is still not clear or whether it will die before coming into being is just anybody's guess today. Most of the regional trade agreements (for example, the NAFTA, SAFTA, etc.) involving USA and UK are in the process of transition.

Meanwhile, the situation regarding such agreements involving the developing nations are different or better say just opposite. As the course of globalisation has been proving socio-economically correct for them to a large extent they are eager to promote inter-regional and multi-lateral trades. In case of India and the BRICS it is imperative to strengthen the course of globalisation. Particularly in case of India the course of socio-economic transformation depends heavily on the success of globalisation.

The Future of Multilateralism

Experts believe that the future course of multilateralism now will depend on the actions and steps of the emerging market economies. Another school of thinking feels history repeating itself—the world looks taking the same old course which caused the demise of the General Agreement on Trade and Tariff (GAAT) by the later part of 1970s. It is still not possible to give the verdict on the fate of globalisation but things look very weak in its favour.

India's Case

As per the views of the experts and the *Economic Survey 2016-17*, India necessarily needs a vibrant multilateral trading world to pursue its socio-economic aspirations of alleviating poverty, enhancing growth rate and joining the club of developed world. For that matter, the country needs to keep pushing in favour of a multilateral world. It needs to negotiate with the countries having higher appetite for globalisation on the priority basis—sketching out some more lucrative regional and preferential trade agreements. To scale up its growth to the level of 10 per cent, India needs an active support of exports.

If developed nations are apprehensive of trading with China, it does not mean they will have same concerns towards India, too. India might help the developed nations to grow with it. While China is busy re-balancing its economy and trade (finding it difficult, too), India must not miss the opportunity to clear its intentions and prioritise its actions in this regard. India cannot afford (so the emerging market economies) deglobalisation. Rather, it should support globalisation vigorously. There are high chances of finding viable partners in the developed world itself.

Conclusion

Everything is not lost about globalisation yet. There is no clarity yet about the benefits which the US or the UK will have out of being protectionist. May be after testing the waters of protectionism they get back to the course of globalisation. As the developed nations miscalculated the impact of

WTO-promoted globalisation, chances are there that they may fail in calculating the positives and negatives of being protectionist, too. It means, the verdict on the course of globalisation is yet not out.

Meanwhile, India is busy pushing in favour of globalisation by engaging with more number of countries at higher levels such as—the proposed 'quad' (popularly called 'Asian NATO' where India aims to engage with Australia, Japan and USA) and the Regional Comprehensive Economic Cooperation (RCEP) in the south east Asian region.