COMMENTARY ON INDIA'S ECONOMY AND SOCIETY SERIES

15

# THE STIMULUS PACKAGE IN FIVE INSTALLMENTS DOES IT MAKE THE ECONOMY MORE SELF-RELIANT?

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R. Nagaraj
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India's Economy and indeed its society has been undergoing a major change since the onset of economic reforms in 1991. Overall growth rate of the economy has increased, the economy is getting increasingly integrated with the rest of the world and public policies are now becoming very specific compared over arching framework policies of the pre-reform period. Over the past few years, a number of important policies have been enunciated, like for instance the policy on moving towards a cashless economy to evolving a common market in the country through the introduction of a Goods and Services Tax. Issues are becoming complex and the empirical basis difficult to decipher. For instance the use of payroll data to understand growth in employment, origin-destination passenger data from railways to understand internal migration, Goods and Services Tax Network data to understand interstate trade. Further, new technologies such as Artificial Intelligence, Robotics and Block Chain are likely to change how manufacturing and services are going to be organised. The series under the "Commentary on India's Economy and Society" is expected to demystify the debates that are currently taking place in the country so that it contributes to an informed conversation on these topics. The topics for discussion are chosen by individual members of the faculty, but they are all on issues that are current but continuing in nature. The pieces are well researched, engages itself sufficiently with the literature on the issue discussed and has been publicly presented in the form of a seminar at the Centre. In this way, the series complements our "Working Paper Series".

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# Contents


| | | Pages |
|---|---|---|
| 1. The Stimulus Package in Five Installments: An Introduction | *Sunil Mani* | 05 |
| 2. Covid-19 Stimulus and Atma-Nirbhar Abhiyan | *Alok Sheel* | 09 |
| 3. Deciphering the Economic Package | *R. Nagaraj* | 13 |
| 4. Agricultural Market Reforms during Covid- 19 Times: Will they make any Difference? | *Sukhpal Singh* | 16 |
| 5. Rebuilding the Rural Economy after COVID-19: The Role of MGNREGA | *P. S. Vijayshankar* | 19 |
| 6. No Package for Internal Migrants | *S. Irudaya Rajan* | 23 |
| 7. What Atma-Nirbhar Bharat means for the Indian Industry | *P. L. Beena* | 26 |
| 8. State Finance | *M. Parameswaran* | 31 |
| 9. Reforming 8 Critical Sectors | *Chidambaran G. Iyer* | 33 |

1

# THE STIMULUS PACKAGE IN FIVE INSTALLMENTS: AN INTRODUCTION

***Sunil Mani***

*(Director and RBI Professor, Centre for Development Studies)*

India's high economic growth performance started sputtering from the first quarter of 2018-19. Ever since, the rate of growth has been continually slowing down across the seven consecutive quarters. The more than two-month lockdown necessitated by the corona virus has further accentuated this fall. On June 1, one of the three big credit rating agencies, Moody's Investor Services downgraded India's sovereign rating to the lowest investment grade 'BAA3' from 'BAA2' and also maintained the outlook from 'stable' to 'negative'. Economists have been clamouring for a stimulus package, addressing primarily at impacting the aggregate demand, for quite some time. Although, the RBI and the government had announced stimulus packages to the tune of about Rs 9.92 lakh crores, it was only after the Prime Minister's speech on May 12, a much larger package was announced. This package when taken together with the earlier ones amounted to Rs 20.97 lakhs or about 10 per cent of the GDP of the country. See Table 1.

**Table 1: Overall stimulus package provided by the Atmanirbhar Bharat Package**

(Rs in Crores)

| Item | Amount |
|---|---|
| Part 1 | 594550 |
| Part 2 | 310000 |
| Part 3 | 150000 |
| Parts 4 and 5 | 48,100 |
| Sub total | 11,02,650 |
| Earlier measures including PMGKP | 192800 |
| RBI Measures (Actual) | 8,01,603 |
| Sub total | 9, 94, 403 |
| Grand Total | 20, 97, 053 |

Source: Press Information Bureau, https://static.pib.gov.in/WriteReadData/userfiles/Aatma%20Nirbhar%20Bharat%20%20Presentation%20Part%205%2017-5-2020.pdf (accessed on June 6, 2020)

(i) The stimulus package although very much welcome in reversing the economic slowdown and in managing the COVID-19 induced lockdown and the consequent loss of jobs and incomes, was addressing more on the supply side than on the demand side. In fact, there is considerable consensus among economists across a wide spectrum that what is required is demand side stimulants which can increase the purchasing power of ordinary people leading to increase in output and its growth. But there is also a counter argument that supply-side restoration through credit flows, collateral-free and guaranteed, for MSMEs, which carry no immediate fiscal outlay, but could later on can also generate incomes from which consumer demand will flow;

(ii) The size of the package has come in for some debate especially among financial analysts. Almost 12 such different estimates are available (Table 2) ranging from as low as 0.7per cent of GDP to 1.3 per cent - woefully short of the 10 per cent of GDP claimed by the government. There is also some confusion regarding the GDP figure (denominator) that is used for converting the fiscal stimulus as a percentage of GDP;

**Table 2: Differing estimates of the size of the stimulus package**

| Financial Analyst | Size (as a per cent of GDP) |
|---|---|
| Morgan Stanley | 0.7 |
| Philip Capital | 0.9 |
| Nomura | 0.9 |
| Edlweiss | 1.0 |
| Jeffries | 1.0 |
| HSBC | 1.0 |
| Kotak | 1.0 |
| Citi Bank | 1.0 |
| Elara | 1.0 |
| Bank of America | 1.1 |
| Deutsche Bank | 1.1 |
| Motilal Oswal | 1.2 |
| UBS | 1.2 |
| CARE | 1.3 |
| Heterodox Economists’ Collective | 1.5 |

Source: Own compilation

An international comparison is of the stimulus packages announced by different countries is not that straightforward, due essentially to non comparability of the data, announcement of packages in

installments at different points in time and also the use of normalizing factor (namely as a per cent of GDP). Given all such imperfections, Elgin, Basburg and Yalaman (2020) have put together some numbers which are now extensively cited. See Figure 1, for a summary of these. Although countries at the top are mostly developed nations, many emerging countries too have stimulus packages which are substantial in nature. Compared to that, the decoded stimulus package from India is very small in its size.

Source: Van Dam (2020) based on Elgin, Basbug and Yalaman (2020)

(iii) The Central government has used the current crisis to dismantle inter-state barriers on movements of agricultural produce and also for creating a legal framework for kind of contract farming. The legislation, proposed as part of the stimulus package will enable traders to buy farm produce from farmers directly anywhere in the country, even outside the regulated market yards. But by doing this, along with other legislative changes aimed at more remunerative prices for farmers, the centre seems to have usurped on the territory of the state as far as agriculture is concerned;

(iv) The government seems to have used the package as a convenient way to push through further liberalization and in some cases privatization of certain critical sectors. Under some cases, this can lead to adverse consequences for the overriding goal of enhancing self-reliance in the economy;

(v) The package announced for the short-term internal migrants was also shown to be a paltry amount when you take it on a per capita basis;

(vi) The package has once again revealed the fiscal conservatism of the Central government and its reluctance to relax the stringent ceiling on fiscal deficit to GDP ratio; and

(vii) A welcome relief in the package is the increased fiscal space given to the state governments even though under some conditions

In the following, eight different scholars analyse eight different dimensions of the stimulus package to see if it really promotes growth with increased self-reliance of the economy. Those of you would like to do more research on stimulus package by India[1] in response to both its economic slowdown and COVID-19 may find dipping into these individual analyses useful. The analyses should not be taken as definitive conclusions on the package, but is intended more at provoking an informed conversation.

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1 IMF has compiled a summary of the stimulus packages across 193 economies. See https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#I (accessed on June 7, 2020)

# 2

# COVID 19 STIMULUS AND ATMA-NIRBHAR BHARAT ABHIYAN

***Alok Sheel***

*(RBI Chair Professor, ICRIER)*

In a televised address to the nation on May 12, the PM launched the Atma-Nirbhar (self-reliance) Bharat Abhiyan with a stimulus component of rupees 20 trillion, equivalent to 10 per cent of GDP, to tide over the current Covid-19-related crisis.

The headline number is substantial and comparable with that put together in similar circumstances by advanced economies such as the US, the UK, Japan and the European Union, where the numbers range between 10 to 20 per cent of GDP. He also proposed to leverage the crisis to make India self-reliant.

India's Atma-Nirbhar Abhiyan therefore appears to be a mix of macroeconomic stabilization and structural reform policies.

The Indian package comprises executive announcements and not legislation. It is therefore difficult to cut through duplication to determine what is part of ongoing budgeted schemes, and a reiteration of policy announcements made in the past but still to be acted upon, and what is the additionality.

Be it as it may, to compare the size of the fiscal stimulus announced with those of other major economies, we need to strip away the monetary policy component (about 45 per cent) and credit through banks and NBFCs (about 30 per cent) for MSMEs and farmers.

The actual fiscal component, including the 0.9 per cent announced earlier in March, is a maximum of 2.5 per cent of GDP, comparable with China's, although most estimates place this closer to 1.5%. The new fiscal commitment is equally divided between revenue foregone, bank recapitalization and welfare measures such as direct benefit transfers, succour for migrant labour and farmers, NREGA, health, etcetera.

By way of comparison, at least two thirds of $ 3 trillion (14.3 per cent of GDP) mandated under four Acts in the US comprises additional funds directly from the Treasury. $ 1.2 trillion earmarked for Corporates and small businesses is a mix of new treasury loans and credit guarantees.

The Federal Reserve is separately chipping in through monetary easing, targeted credit support and unconventional policies, based on modern monetary theories, having expanded its balance sheet by over dollars 2 trillion since March. On apple to apple basis, the US stimulus is 25% of GDP compared to India's 10%.

The Covid 19 crisis has come at a time when the Indian economy was already in trouble, with declining private investment, a troubled banking system, stressed MSMEs and high unemployment. Policy induced lockdowns have generated additional unemployment on a vast scale, including dislocation and distress of migrant labour. Both big Corporates and MSMEs have seen their revenue shrink sharply.

The Indian stimulus package comprises mostly supply-side measures that seek to inject liquidity and credit at a time when demand for both is low. Liquidity injections by the RBI were finding their way back through reverse repo, investment in treasury bonds and stock markets rather than into real investment even prior to the Covid crisis. Credit offtake was weak, and the large overhang of non-performing assets made banks reluctant to lend. The big role assigned to them in the stimulus package can only add to this stress. Bank recapitalization and sovereign guarantee for MSME loans may provide some mitigation, but the devil lies in details and implementation.

However, there is very little in the Indian package for direct income support to individuals/ families, Corporates, MSMEs and for the States and local governments, that are at the forefront of dealing with the both the public health and livelihood crisis. Such support comprises almost half the US package.

The roots of the current crisis do not lie in the financial system, where providing liquidity plays a big role; nor is this a typical recession where the cost of money set by monetary authorities has a major role.

There is a sudden sharp contraction in both private and corporate incomes on account of public policy. Fiscal policy therefore needs to first do the heavy lifting, in emerging markets as in advanced economies, to get demand back on track before supply side measures can become effective.

This will no doubt elevate fiscal deficits to levels where developing countries might fear market revolt. The Modern Monetary Theory route is however open to them also. The Central bank can purchase sovereign bonds beyond what their markets can absorb to contain interest rates. This risks inflation down the line, but considering the gravity of the situation, a risk worth taking. Recent experience in Advanced Economies indicates that there are policy instruments such as Interest paid on Excess Reserves, available to lock in excess liquidity when required, and that supply shocks rather than excessive liquidity now drives consumer price inflation. The liquidity overhang is likely to be siphoned off into financial markets, and into other asset classes such as real estate and gold, rather than consumer prices that are now cushioned by heightened globalization.

The objectives of the structural reforms proposed by the PM are unclear at this stage. Is there a shift in focus from making India globally competitive in an open market economy, implicit in "Make in India", to making India self-reliant in a closed non-market one?

The PM also talked of making India competitive in global supply chains, and the Finance Minister's multiple television presentations talked of market friendly structural reforms. But the two objectives undercut each other. Self-reliance is reminiscent of the Nehru-Indira Gandhi era of import substitution industrialization that led to a high cost, low "Hindu" rate of growth characterized by inefficient resource allocation. A license control permit Raj and high tariff barriers were the bedrock on which this model operated.

Several post-colonial countries initially followed this model in view of the industrial success of Soviet Russia, and their earlier experience with the "imperialism of free trade". With East Asia changing tack in the seventies, China in the eighties, and the collapse of the Soviet Union coinciding with our own BoP crisis of 1991, this model was abandoned by every country that grew rapidly including our own. Sans imperialism, free trade worked for them as they were more competitive. It makes economic and geopolitical sense for emerging markets like China and India to defend free trade and globalization at a time western countries seem disenchanted with both.

Surely, the intention is not to turn the clock back! There would be areas where the country would not be competitive, so tariff walls would need to be raised to make investment in those areas profitable, or direct subsidies given, neither of which is WTO compliant. Would the state then step in and invest in these areas? It is also difficult to see India self-reliant in areas such as POL or diamond roughs that are a major part of the economy.

This is not an argument against efficiency-oriented supply side structural reforms or self-reliance in strategic areas. It is about their appropriateness and timing. Market oriented agricultural and public sector reforms announced by the FM are in the right direction. However, they are nothing new, and are awaiting implementation. Structural reforms need fiscal support to cushion the pain, over and above the fiscal support to counteract the pain of crisis. The Covid crisis has created short-term unemployment on a massive scale. Labour reforms at this juncture will only increase the pain, making several job losses permanent and magnify the travails of migrant labour.

Painful structural reforms in the midst of crisis was the original sin of IMF structural adjustment programmes, often leading to a further decline in growth. The success of India's IMF programme was contingent on consistently bucking fiscal deficit targets.

India remains the fastest growing major economy because it is in a demographic sweet zone and is a demand-driven economy in a demand-constrained world. The paramount objective at this point is to get back to potential growth by immediately stimulating demand. The stimulus package however has very little on this, with most of the outlays on the supply side over the medium to long-term.

Getting growth back to potential requires getting the confidence of private investors back on the one hand and expanding credit supply by cleaning up bank balance sheets that is long overdue, on the other. Investor confidence has been hit by policy unpredictability arising from demonetization, a complex GST, roll-back of tax reforms, increasing government intervention, and now the suddenness of the lockdown and micromanagement. There are added fears about the prognosis of Covid-19 for India, as the lockdown is lifted, on which Tuesday's address had little to say. More uncertainty now about the trajectory of the Indian model going forward would only frighten investors further. Policy predictability based on an unambiguous long-term blueprint that is seen to be adhered to is essential for investor confidence in a market economy.

(A shorter version of this opinion piece appeared in the *Business Standard* on May 17, 2020)

# 3

# DECIPHERING THE ECONOMIC PACKAGE

***R. Nagaraj***

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India faces a two-fold crisis. The COVID-19 pandemic is part of the global health emergency. To tackle it, India announced the most severe economic lockdown on March 25, 2020, leading to massive jobs and income losses. With the majority of urban workers employed informally, the lockdown triggered a reverse migration, resulting in a severe humanitarian crisis.

Even as the new cases of COVID-19 continue to grow, the economy has, expectedly, contracted. CRISIL and Fitch rating agencies have forecasted a (-) 5 per cent growth rate in 2020-21. The contraction comes on top of a growth deceleration over seven quarters: from 7.1% in Q1 of 2018-2019 to 4.7% in Q3 of 2019-2020. https://www.thehindu.com/opinion/lead/no-green-shoots-of-a-revival-in-sight-as-yet/article31016861.ece.

The Rs. 20 lakh crore (approximately 10 per cent of GDP) economic stimulus package with a vision of self-reliant India that the Prime Minister (PM) unveiled – and the Finance Minister (FM) filling in the details – is intended to address the crises mentioned above. How right is the package?

**Section I**

The package consists of numerous items, targeted at various segments of the economy. Table 1 seeks to group the initiatives in an economically meaningful way.

**Table 1:**

| FM's economic package items | % of GDP |
|---|---|
| 1 Cash outlay | 0.8 |
| 2 Contingent liabilities (implicit credit guarantees) | 2.2 |
| 3 Non-fiscal and regulatory relief | 3.0 |
| 4 Liquidity injection | 4.0 |
| 5 Total Economic package | 10.0 |

Source: Namura: India: First signs of turbulence as the economy hits growth air pocket, May 26, 2020

Liquidity support is the single largest item offering additional bank credit on more accessible terms. These initiatives are unlikely to improve credit off-take as there is little demand for it. Proof of it is that banks are depositing their surplus funds with RBI under reverse repo mechanism. They continue to do so, despite RBI dissuading them by reducing the reverse repo rate. Moreover, many of these are measures were already in place.

Similarly, contingent liabilities; these could be invoked only when private parties are unable to make the required payments, or incur business loses. Such measures could reduce potential risks of investment, but they are unlikely to encourage firms to undertake new ventures when there is no market demand on the horizon.

The package fails to adequately address the immediate problem of lack of demand, as the proposed additional budgetary expenditure is less than one per cent of GDP. The immediate stimulus is meagre relative to job losses and the reverse migration crisis at hand, and in comparison to what many countries have announced.

**Section II**

If the demand stimulus is so minuscule, what does the rest of the policy package intends to accomplish? A 2-by-2 matrix (Table 2) seems a useful way to classify the policy proposals. The rows represent demand and supply, and the columns are short term, and medium to long-term.

**Table 2:**

| | Short-term (< than a year) | Medium-Long term (> a year) |
|---|---|---|
| Demand | Free food supply, MGNREGS | |
| Supply | Credit supply, exemptions for payment of EPF and so on. | Privatisation, liberalising agricultural markets, |

The bulk of the stimulus package consists of supply-side initiatives, which, in principle, are expected to augment output growth in the medium to long term. They mostly deal with "structural reforms", meaning, allowing freer operation of markets by reducing government interventions. Such reforms assume that state interventions are a stumbling block in the efficient working of markets. Considering them desirable, they are likely to take time, however.

For instance, improving access to credit for micro, small and medium enterprises (MSMEs) is desirable. Firms would take the bank credit only when they are sure of adequate demand. Hence, making credit available does not necessarily translate into output growth.

A well-functioning market is virtuous for efficient resource allocation, but there is nothing inherent in the mechanism to maintain reasonable competition and productive outcomes. Markets fail, often. There is no certainty – either in theory or in practice - that reducing the government's role by structural reforms will necessarily improve efficiency and social welfare.

Let us take the example of energy sector reforms or agricultural marketing reforms. Initiated in the 1990s, efficiency improvement record of many of these reforms are still debatable.

Here is a puzzle: While the immediate crisis is a collapse of output leading to job losses and demand contraction, the solutions offered by the stimulus package deal mostly with supply-side factors that may be helpful in the medium to long term.

**Section III**

The concept of self-reliance was an old one – the central pillar of India's economic policy until 1991 when India embraced the free-market principles. Self-reliance is a political-economic concept meaning a nation's ability to depend mainly on itself for growth and development, in terms of consumption, saving, and investment; and ownership of assets and control of enterprises.

Self-reliance does not mean autarky. It means openness to the rest of the world, based on the strategic, and long term national interests; and, not on the principle of unilateral liberalisation of trade and investment flows.

There seems to be a contradiction between PM's call for self-reliance, and FM's agenda of structural reforms. For example, defence production is a sacred cow of self-reliance and strategic interests everywhere. For example, the US government tightly controls production, licensing and sale of defence equipment and technology. How is it that India is now prepared to throw open even defence production to foreign enterprises, also while espousing the cause of self-reliance?

Similar is the case with energy security. With India dependent on imported oil up to 80% of domestic consumption, it is highly vulnerable to the geopolitics of the Middle East. Can India sacrifice its national interest by allowing foreign control of oil supplies, and its processing and distribution?

There is a need for a serious national dialogue on the contradictions thrown up by PM's new vision of self-reliance and FM's commitment to liberalisation and privatisation.

**To sum up:**

1. The nation is passing through unprecedented health and humanitarian crises warranting a short-term demand stimulus to give temporary support of jobs and livelihoods, and to mitigate the hardships of reverse migration. However, this item of proposed expenditure constitutes just about one per cent of GDP, or one-tenth of the economic package announced.
2. The economy is shrinking for lack of aggregate demand; but, the policy package is mostly about augmenting supply in the medium to long term.
3. PM makes a clarion call for self-reliance, but the policy package FM has offered is mostly about deregulation, privatisation and opening up of even strategic defence production to private and foreign capital. These are contradictory. Moreover, neither of them is of relevance for immediate economic revival.

# 4

# AGRICULTURAL MARKET REFORMS DURING COVID- 19 TIMES: WILL THEY MAKE ANY DIFFERENCE?

***Sukhpal Singh****

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## Introduction

As a part of the Covid-19 package, the Finance Minister has announced the government intent to act on three fronts legally to open up the market for corporates. These include: i) Essential Commodities Act (ECA) relaxation for major cereal, edible oil, pulses, and onion and potato; ii) APMC reforms with a central law and iii) regulation of new channels of direct purchase and contract farming outside the APMCs with a central law yet again. Let us briefly examine the rationale and feasibility of such central legislations for freeing up agricultural markets.

## ESA

Though it is said that ECA would be amended to provide flexibility to buyers and users of farm commodities for stocking of these produce, that would still not be absolute freedom from ECA which can never be so in a country like India where agriculture is governed by both producer and consumer interests at the same time. For example, Minimum Support Price (MSP) for 24 crops is determined keeping in mind both producer and consumer interests, besides many other internal and external factors. Under the ECA, the second aspect of this relaxation is allowing larger stocks without limits for various users of farm produce like exporters, processors and traders or value chain participants in general. This sounds good from the perspective of these players but may not really help farmers directly. Still, the option of imposing stock limits for reasons of natural calamity and emergency is proposed to be retained which can be defined anyway by the state. More important aspect of this ECA reform is to do away with export bans which can really indirectly benefit the farmers giving them stable export market access.

## APMC Reforms and Central Agri Trading Act

The second aspect of legal agricultural market reforms relates to the APMC Act and the domain of APMCs. Under the proposed reform, the Union government would bring in a Central Act to permit

* The views expressed are personal.

new channels outside the APMC domain where buyers would be able to work directly with farmers without going through the APMC unlike the provision under the model APMC Act

2003, and the model APLM Act, 2017 which state that buyers can buy directly from farmers or even undertake contract farming with them, or even an entity can set up a parallel private wholesale market for facilitating buyer seller interface, but they would need to seek a license from local APMC for the same.

It is claimed that APMC Acts create barriers to inter-state and intra-state trade as a buyer has to seek license for each APMC market though in fact today, in most states, unified single license for all APMC markets within a state has been more or less allowed. The other purpose of this change is to speed up e-trading of farm produce for better and more competitive price discovery. But, whether this leads to better price discovery at state level or local *mandi* level trading or even e-NAM level is any one's guess as very little competition is seen for each farm produce lot and many times, there is no e-auction and produce is auctioned manually and then data entered into the e-portal.

It is also argued that there are no APMC type restrictions on industrial products or service sector products which can be bought by anyone from anywhere in India. This provision restricts the choice for farmers and those willing to buy her produce and creates a situation of monopsony. Further, APMC provisions are more about restrictions than regulation where the latter is good in law, but not the former. Therefore, the argument is that APMC Acts restrict free trade provided under the constitution's Article 301 and should be dismantled using this provision of the constitution.

But, these arguments for dismantling APMC Acts are not without flaws. First, the transaction between an APMC licensed trader and an outside trader who buys from this trader is not in the purview of APMC as APMC Act only deals with farmer level sale of produce (first transaction between farmer and buyer directly or through Commission Agent), not secondary or tertiary transactions after that. Second, the model APMC Act 2003 and model APLM Act 2017 provide for single license within the state and also allow direct purchase from farmers and any place can be designated as market yard. Also, E-trading and E-NAM provide for any trader from anywhere bidding electronically for the produce in a local *mandi*.

The argument for bringing in the central trading law is built on the assumption that in the 7$^{th}$ schedule, markets and fairs are under State list (entry 28) but inter-state trade and commerce are under Union list (entry 42), and the fact that entry 33 of the Concurrent list provides for overruling the State law, and, therefore, the Union can make laws on it. The State list Entry 26 has 'trade and commerce within the State' subject to the provision of Entry 33 of the concurrent list'. In fact, Entry 27 of the State list reads as: production, supply and distribution of goods subjects to the provisions of Entry 33 of Concurrent list. Furthermore, Entry 33 of the Concurrent list is about products of an industry which agriculture is not so at least till now by any provisions of policies or law. Intra- and inter-state trade in

agricultural commodities in general does not fall under that provision and there are only a limited number of products specified under this Entry. Therefore, the new law cannot be applied to all the agricultural commodities in India.

The major questions this kind of argument and proposal raise are: One, can one size fit all in a country like India where there is so much diversity in the level and nature of market structure and institutions? Second, it is one thing to think of one law for the entire country for agricultural trading (though first transaction at the farmer level can't be called trading especially when it involves contract farming and, therefore, is still part of agricultural marketing), but another to see who would regulate such transactions when they are outside the domain of APMC which are being restricted to their market yards and sub-yards only.

**Central Law on Contract Farming**

The third announcement related to legal framework for contract farming and direct purchase for fair price and quality standards and fair transactions though the term 'contract farming' is not used formally by the FM. The Concurrent list also has Entry 7 which reads as: 'contracts including partnership, agency, contracts of carriage and other special forms of contracts but not including contracts relating to agricultural land'. But, it is the Entry 33 of Concurrent list which is being used to frame a Central law as the entries 26 and 27 of the State list are subject to the provisions of Entry 33 of the Concurrent list.

It is surprising that the new contract farming legislation is being proposed under Entry 33 of the Concurrent list rather than Entry 7 which is directly about contracts, including special forms of contract. The major limitations of the applicability of these Entries (26 and 27) are that as contract farming by definition involves farm production, it cannot be treated a simple trade and commerce or even production, supply and distribution of goods as the production is with an independent producer and the latter stages are with the contracting agency.

Finally, one fails to understand why states would not be keen to reform their agricultural markets in the current times when they are competing with each other for new investments. Therefore, one needs to ask: why such far reaching and significant reforms which even affect federal structure of the country are being attempted at this time of Covid-19 and in such a haste? Are these reforms by stealth? We need to wait for the fine print of the proposed Acts and amendments to assess the real benefits for different stakeholders.

# 5

# REBUILDING THE RURAL ECONOMY AFTER COVID: THE ROLE OF MGNREGA

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## 1. Immediate Impact

Following the onset of the COVID-19 pandemic and the unprecedented national lockdown that followed in March 2020, employment, income and livelihoods of large sections of the people have got severely impacted across the country. Of the sections most affected are the unskilled labour engaged in informal sector activities in the urban and peri-urban areas, such as artisans, daily wage labourers, unorganised construction sector workers, migrant labour, small vendors, internally displaced people, women-headed households, physically challenged small producers etc. The living conditions of these sections got considerably worsened due to lack of access to essential provisions, safe drinking water and medical assistance. The COVID crisis came at a time when the rural economy was undergoing a prolonged slowdown. The Periodic Labour Force Survey (PLFS) of 2017-18 reported that unemployment was at a four-decade high. The unemployment rate was over 17% for rural men in the 15-29 age-group, which was triple the number in 2011-12 (Narayanan, 2020). It is estimated that rural India lost 21 million jobs during the same period. The recent (unofficial) data from NSS show that between 2011-12 and 2017-18, per capita consumption expenditure in rural areas declined by as much as 9% in real terms (Subramanian, 2019). Average real wages of rural workers grew at a rate of 0.5% per annum during this period (Nagaraj, 2020). Coming on top of an already bad situation, the COVID crisis made matters worse. Marketing of the Rabi season crops got severely affected since the regulated markets (mandis) were shut and public procurement began only slowly. So, a lot of farm produce was sold through exploitative private channels. Preliminary surveys conducted by our teams with farmer producers showed that there was a clear difference between the price received by the farmers and the Minimum Support Prices (MSPs), with the prices received by farmers being 90% or less of the MSPs. The more severely affected were the farmers producing perishable commodities like vegetables, milk, meat and eggs. Because of the collapse of value chains and many of the urban markets shutting down, there was an oversupply of these products in local markets leading to a drastic fall in their prices. This loss of income of farmers was partly compensated in MP by the higher public procurement of wheat, but farmers producing other commodities experienced severe losses. What was urgently required was the action on the part of the government to protect vast sections of the rural poor from the serious

economic impact of the pandemic outbreak. But very little of this nature was forthcoming So, civil society organisations like Samaj Pragati Sahayog (SPS), of which I am part, took it upon themselves to provide immediate relief to the families. The districts of Dewas and Khargone in Western Madhya Pradesh where we work, have large sections of tribal people among their population, making them even more vulnerable. We organised relief in the form of providing food and cash support to the extent of Rs. 1000 per family to about 26000 families of the area and also provided support to the farmers for taking their rabi produce to the marketing centres for public procurement. We also tried to compensate labouring families for the job and income losses they suffered during the lockdown. Soon, the government also ramped up its machinery to provide relief to the affected populations.

It is well-known that the adult and child under-nutrition rates in MP are considerably higher than the national average (MoHFW, 2016). In a lockdown situation with many of the public health services being suspended, there has been a rapid deterioration in the health condition of these sections. Public provisioning of food was confined to supplying dry rations to the needy families, which was limited to the areas where PDS was fully functional. Adding to this overall situation was the factor of migrants coming back to villages in large numbers. Since the local employment conditions were already poor, the arrival of these migrants put a severe strain on the labour market, in addition to creating the threat of the social transmission of the pandemic. Again, government action is found woefully wanting in providing help to the migrant labour (including those who transited MP en route their home states like UP, Bihar etc.). These families are presently going without food, cash or employment.

## 2. Future Challenges

Beyond immediate relief, it is clear that there are several urgent tasks that lie ahead for reviving and re-building the rural economy in the coming months. First, for food security at the household level and for ensuring that no one, including the migrant labour, goes hungry, the government should provide free rations for the next three months for all eligible rural families. Since the current level of food grain stocks is close to 80 million tonnes, far in excess of the buffer stock norms, this is an easy step to implement. Secondly, farming being the primary source of livelihoods for rural families in India, we need to ensure that Kharif sowing takes place and the area planted does not fall below 10% of what it was last year. Since value chains of seeds and essential inputs have got disturbed, this means that we need to find ways of providing these essential ingredients of farming to the families. As the impact of the crisis is likely to be an extended one, we expect that similar support will be required in the rabi season as well. Use of direct cash transfer schemes like PM Kisan Samman Yojana and raising allocations for these could be the way of doing this. Thirdly, working capital for farming has to be arranged. Banks have a huge role here in providing easy and affordable short term farm credit to finance agriculture. Many of our farmers have come together in community institutions like Self Help Groups (SHGs) which are the means of accessing bank credit. Since there is cash crunch, banks need

to come forward in re-working the repayment schedules of existing loans and also use mechanisms like interest subvention or deferment on outstanding loans. Some of these measures have been announced in the recent stimulus package of the Union government but we need to ensure that these actually reach millions of small and marginal farmers who constitute the chunk of farming population in India. Fourth, the livestock economy needs to be revived through organising support services like vaccinations, animal feed and re-establishing the marketing channels for livestock products. As discussed before, all these systems have got seriously disrupted in the past few months. This, again, can be achieved only through a step up of public expenditure for public provisioning of these services. Fifth, marketing networks of agricultural produce need to be revived. Farmer Producer Organisations (FPOs) can act as the institutional basis for the access of small and marginal farmers to organised commodity markets. They need to be supported with working capital for collection, aggregation, storage and marketing of agricultural produce in both Kharif and Rabi seasons. Arrangements like credit guarantee and loans at very low rates of interest (close to the priority sector lending rates of banks) from NABARD etc. need to be urgently organised for the FPOs. Sixth, with the unemployment situation worsening with the steady inflow of migrant labour returning to villages from cities, we need to address the huge challenge of creating employment opportunities in the rural areas.

## 3. Role of MGNREGS

In this context, an important aspect of the stimulus package offered by the Union government is an increase of allocation under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) by Rs. 40,000 crores. This takes the total allocation under the scheme to Rs. 1.01 lakh crores, which is the highest ever figure since its inception in 2006. This increase in allocation is born out of the acute awareness that MGNREGS is probably the only major instrument in the hands of the government for amelioration of distress on this scale. The role of MGNREGS as social protection for the most vulnerable is widely recognised (Narayanan, 2020; Drèze and Khera, 2016). Despite its slow and chequered progress over the years, the scheme has done remarkably well in terms of addressing deprivation and providing lean employment. It has been successful in reducing the distress migration and raising the reserve price of labour, thereby creating a wage floor in rural labour markets (Narayanan, 2020). In the past few weeks, there has been a nationwide revival of work under MGNREGS, with both governments and the civil society organisations taking up the programme in a major way. Since much of this work under the scheme currently is in creating durable assets in the countryside (such as water harvesting structures, soil erosion control and land development measures and improved irrigation systems), this may be a sustainable way of creating employment (Shah, 2016). Still, one can see that there is scope to increase coverage of the scheme further. If the promise of 100 days of lean season employment to all 14 crore job card holders is to be realised, the required allocation is Rs. 2.80 lakh crores. Public spending at this scale is bound to create a significant impact in terms of reviving rural demand, a pre-requisite for rebuilding the rural economy.

We must also realise that MGNREGS alone cannot rebuild the rural economy. A much larger public investment programme is needed for this, including many of the components mentioned in the previous section. One major contribution of the Covid crisis has been in terms of opening the eyes of the nation to the issue of migrant labour. As a number, 8 crore migrant workers have been mentioned many times in academic discussions and in the media. But what this means in terms of their role in the economy and to the employment situation in general and for rural areas in particular, was not clear till the lockdown forced many of these migrants to return home. The home states of migrant labour are still reeling under this impact and a clear programme of how to handle this issue is still nowhere in the horizon. It is fruitless to imagine that MGNREGS is the solution for providing gainful employment to all, including the migrants, in rural areas. We need a much larger effort at the national level where the core producing sectors of the economy absorb more labour so that economic growth goes hand-in-hand with increased job creation, reversing the current trend of job losses.

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# 6

# NO PACKAGE FOR INTERNAL MIGRANTS

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The COVID-19 pandemic has thrown a spotlight on the conditions of internal migrant workers throughout India. What is the total number of internal migrants in India in 2020? If we examine the trends in internal migration during 1991-2011, one can easily predict the internal migrants at 600 million in 2020. About one-third of internal migrants – about 200 million – are likely to be inter-district and inter-state migrants. Among them, at least two-third of them – 140 million are migrant workers in 2020. Most of them have temporary, casual and informal employment most vulnerable to exploitation.

One of the most suffered groups during the lockdown is undoubtedly the inter-district and inter-state migrants. The sudden announcement of the nation-wide lockdown on March 24 late night led to a widespread panic over their immediate, short- and long-term future at their states of destination. If the Government had even given a window of 5 to 7 days for the migrant workers as an exception to leave for home in special buses or trains in the beginning of the lockdown, something akin to what Bangladesh had done before imposing a similar lockdown[1], we could have avoided many of the terrible scenes we have seen all over the country during 3.0 and 4.0 of the lockdown. Incidentally, India had officially recorded only over 500 cases in the beginning of lockdown 1.0. But now as the government lifts the lockdown in phases and grants permission to go back to their homes, after two months of a lockdown has left them desperate, when the cases in India are more than 2.0 lakhs and the country is emerging as 7$^{th}$ worst-hit globally by the virus.

The terrible scenes of distress, however, caught the nation's consciousness and put pressure on the central government to act. It was in this context that the government has announced a slew of schemes under the moniker 'Atmanirbhar Bharat' or 'Self-reliant India' that is worth Rs. 20 lakh crores on May 13, which the Government stated as 10 percent of the total GDP. It is proposed to stand on 5 pillars - economy; infrastructure, 21st-century technology-driven systems, vibrant demography and demand.[2] The scheme details as 5 instalments, the second tranche of which focuses on the migrant workers and the small farmers. Additionally, on May 14, it was also announced that Rs. 1000 crores

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1 See: https://scroll.in/article/957564/not-china-not-italy-indias-coronavirus-lockdown-is-the-harshest-in-the-world

2 See: https://economictimes.indiatimes.com/news/economy/finance/latest-stimulus-package-among-largest-in-the-world/articleshow/75701976.cms

would be distributed to the states for migrant welfare under the Prime Minister's Citizen Assistance and Relief in Emergency Situations (PM-CARES) fund. Each state would be given a minimum of 10 percent or 100 crores, with additional grants to be decided on the basis of a state's population (50 per cent weightage) and the number of positive coronavirus cases it has (40% weightage). Given India has 28 States and 8 Union Territories, it is unclear how this division will takes place.

When it comes to the respective measures for migrant workers within the 'Atmanirbhar Bharat', we see only the following programmes, which we can divide into short-term and medium to long-term measures:

- Under the ambit of the Pradhan Mantri Garib Kalyan Yojana (PMGKY), food security was announced for a likely 8 crore migrant workers who are outside the ambit of National Food Security Act, 2013 or those without state ration cards, who will be provided with 5 kg rice each and 1 kg of pulses per family for the next two months. An amount of Rs. 3500 crores has been allocated for this by the centre.
- In the fifth tranche of the package, it was announced that Rs. 40,000 crores had been additionally allocated to the MGNREGS budget which is already at Rs. 61,000 crores. Earlier, on March 26, a national average minimum wage increase was announced from Rs. 182 to Rs. 202 per day.
- The scheme 'One Nation One Ration Card' that provides a universal ration card, which has complete portability in any state, is also to be implemented in its full effect. It is expected to cover 83 percent of the targeted population, some 67 crore beneficiaries, by August 2020. The scheme is stated to reach 100 percent completion by March 2021.
- Finally, The Pradhan Mantri Awas Yojana (PMAY) is to be launched for providing rental housing for migrant workers in cities that would rake in private funding under the PPP model. Further, an amount of Rs. 5000 crores has been allocated in order to provide easy credit facilities to street vendors.

It should be noted that the 8 crore beneficiaries also translate into 8 crore families. According to the Census 2011, the average household size in India is 4.5, giving a total 36 crore individuals dependent on migration. Given the average nutritional requirement of 2400 calories per person per day in rural areas and 2100 calories in urban areas, the provision of 5 kgs of rice and 1 kg of pulses over the next two months is unlikely to meet the nutritional requirements of the entire family. This could lead to starvation situations in the absence of any other means of nutritional intake.

When it comes to the NREGA, along with the increase in the allocated budget and a certain increase in person-days of work, it is also important to increase the days of work to at least 180 to 200 days of work per year, or at least 15 days per month. Furthermore, this is still a conditional arrangement based on registration for work and not an immediate measure.

In addition, the housing scheme which is stated to take at least one year, does very little or nothing to alleviate the ongoing suffering of the migrant labour.

With the lockdown cutting all sources of income, not many schemes have focused on the short-term alleviation of financial stress, the package has failed to recognise the immediate distress of migrant workers. The COVID-19 crisis has altered life and livelihood as we know it and the migrant workers have been at the receiving end of dislocation and deep distress. But none of these measures does much to alleviate their issues as of right now that is the lack of cash in hand for consumption.

Moreover, there is absolutely no mention about measures for returning international migrants. A number of international migrants have lost their livelihoods abroad and are being forced to come back to India, especially from the Gulf countries where we expect to see a return of about 10-15 lakh people out of 100 lakhs in the Gulf. This is a population that contributes a lot to Indian economy and society – Indian migrants abroad had contributed to $83 bn in remittances in 2019 alone according to the World Bank. Their return, again empty handed and with an attached stigma, presents a huge issue for the country regarding their rehabilitation, re-migration and re-integration into society. They are undergoing psychological trauma, which could lead to adverse societal cost of migration.

The government missed a huge opportunity to announce at least an ex-gratia payment to every migrant worker in the form of Rs. 25,000 in terms of a cash transfer at an emergency basis. This would be a compensation for the lost man-days of work and wages for migrant workers during the two-month lockdown. Even if we were to deposit Rs. 25,000 to every inter-state and inter-district migrant worker, earlier estimated at 140 million, this would amount to a total of 3,50,00 crores, which is about one-sixth of the package announced by the Government. Having them register for this amount at the destinations would have also given the various governments an accurate estimate of the number of stranded migrants – something that we crucially lack at present.

Finally, it is about time that we had reliable estimates of both internal and international migrants in a five year interval. Without reliable estimates, any future policy proposals for migrant labour are not going to be effective. It is important that the Government invests in a large-scale India Migration Survey by replicating the Kerala model of migration surveys.

# 7

# STATE AND THE INDUSTRY: WHAT *"ATMA NIRBHAR BHARAT"* WOULD MEAN FOR THE INDIAN INDUSTRY?

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This note intends to reflect on the policy package announced as part of *"Atma Nirbhar Bharat"* (Self-Dependent India) in order to revive the Indian industry. Another objective of this note is to analyse the stimulus package initiated during the Covid-19 pandemic crisis in order to revive the businesses and the Micro, Small and Medium Enterprises (MSME) sector. While announcing the liquidity-stimulating package through monetary policy, it should be noted that the definition of MSMEs has been revised. And therefore it is worth looking at the credibility of such a package in the context of the MSME sector since this sector contributes 22 per cent of the total employment in the Indian economy even as this sector has hardly been a beneficiary of any social security system that are normally enjoyed by the workforce in the organised sector. This sector has great significance in terms of its contribution to GDP and export earnings. According to the Ministry of Statistics and Program Implementation MOSPI, MSMEs contribute 31.8 per cent of India's total GDP (*MSME Annual Report*, 2018-19, p.27). Service sector MSMEs which consists of trade and other services contribute major share towards GDP as compared to the manufacturing MSMEs (7%). However, MSME contributes 45 per cent of the total Indian manufacturing output. This sector has established its presence in the international market as well. As of 2018-19, MSMEs accounted for 48 per cent of total exports which amounted to US $147.4 billion[1] (RBI, 2019). This marked a significant rise in its share which was 33 per cent during 2005-06. The US, the EU and Japan are found to be the major export destinations of the majority of the SSI products[2]. Based on ASI Unit-level data, as of 2014-15, organised MSME manufacturing sector accounted for only 16 percent of the total US$138 billion MSME exports (RBI, 2019 and Rahees, 2020). So it is quite clear that it is the informal sector which has played significant role towards exports from this sector.

Before making an assessment of the stimulus package and its ability to revive MSME sector, let us analyse the structural composition of the MSME sector. Table 1 reveals that there is substantial

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* I would like to acknowledge K Chandra Shekar, Ph.D scholar, CDS for the useful inputs.

1 This is also based on the information gathered from Directorate General of Commercial Intelligence and Statistics and the reply to Rajya Sabha by the Minister of MSMEs in July 2019 as reported by Sandeep Soni (see Financial Express, 23rd July 2019).

2 https://dcmsme.gov.in/ssiindia/exportmkt.htm)

growth in terms of the number and employment generation. Employment in the service sector grew much faster than in the manufacturing sector. According to a recent study, 99.7 per cent of the MSME firms are informal (See Mehrotra and Giri, 2019, p.7 for more details). 97 per cent of the labour force of MSMEs is with the unorganised/mostly unregistered micro enterprises.[3] 32 per cent of the employment of MSME sector is with the manufacturing sector while the rest is distributed between Trade (35%) and Other services (33%).

**Table 1: Structure and Growth Pattern of MSMEs (Figures in lakh)**

| | *NSS 73rd Round (2015-16)* | *Fourth All India Census of MSMEs (2006-07)* | *Annual Compound Growth Rate (%)* |
|---|---|---|---|
| No. of MSMEs (Total) | 633.88 (99.46%)* | 361.66 | 6.43 |
| Manufacturing | 196.65 | 115 | 6.14 |
| Services | 437.23 | 246.76 | 6.56 |
| No. of Employment (Total) | 1109.89 (97%)* | 805.24 | 3.63 |
| Manufacturing | 360.42 (32%) | 320.03 (39%) | 1.33 |
| Services | 749.47 (68%) | 485.21 (61%) | 4.95 |

Source: MSME Annual Report 2018-19, p.35.

Note: Service includes Trade, Electricity and Other services. Figures in bracket represent the share.
* represents microenterprises.

To further understand the structural composition of the MSME sector, 25 per cent of MSME workforce is female. 55 per cent of them are located in the urban areas. And these enterprises are highly concentrated among the top ten states which accounted for 74 per cent of the total MSMEs as of 2015-16. According to NSS 73rd Round Survey on Unorganised Sector, the top five states, namely, UP, West Bengal, Tamil Nadu, Maharashtra and Karnataka accounted for 50 per cent of the total enterprises (*MSME Annual Report, 2018*)[4].

According to the new definition (See Table 2), most of the large-sized manufacturing/service sector enterprises which have an investment up to 10 crore would be classified as small manufacturing/service sector enterprises and those which have – up to 20 crore investment would be classified as medium manufacturing/service sector enterprises. This is a substantial change in definition since

3 Notably, as of 2006-07, 84 per cent of them were unregistered enterprises. (https://dcmsme.gov.in/ssiindia/statistics/performance_table.html)

4 Surprisingly, only 10% of MSMEs (68.25 lakh) have registered under UAM (Udhyog Adhar Memorandom) filing system in the end of May 2019. This may be because they do not expect support from the government whereas they fear tax burden if they register themselves. The distribution pattern in terms of concentration of enterprises across states and sectors is Micro (89.5%), Small (11.2%) and Medium (3.9%), with the micro-enterprises have overwhelming numerical strength.

according to the earlier definition (2006), enterprises which had an investment up to 5 crore/ 2 crore were categorised as small manufacturing/service sector enterprises and those which have up to 10 crore/5 crore investment were categorised as medium manufacturing/service sector enterprises, respectively. As a result of this definitional change, most of the existing small and medium enterprises could be reclassified as micro and small enterprises since according to the earlier definition, micro-enterprises were classified as those having investment up to 25 lakh/10 lakh in manufacturing/service sectors, respectively which has now been revised upwards to 1 crore for both the sectors. And thus the so-called stimulus package initiated by Government of India would not be serving as a relief fund as far as the micro-level enterprises are concerned. In this context, we should be reminded of the aforementioned fact that 97 per cent of the labour force of MSMEs is with the unorganised/mostly unregistered micro-enterprises.

The pattern of bank lending has already been skewed against the industrial sector, particularly, the small and micro enterprises within the sector. It is also notable that the share of bank lending to the industrial sector has drastically declined from 51% to 33% during 2001 to 2019 while the share for service sector and personal loan together has increased from 36.9% to 50% during the corresponding period. Further, large enterprises secured the major share of bank lending (27.84%) while the credit deployed by the medium (1.23%), small and micro enterprises (4.35%) is much lower during 2019 (Das, 2020).

**Table 2: Existing and Revised Definition of MSME Sector**

| Existing MSME Classification | | | |
|---|---|---|---|
| *Criteria:* Investment in plant and machinery or equiment | | | |
| Classification | Micro | Small | Medium |
| Manufacturing | Investment <Rs. 25 lakh | Investment<Rs 5 cr | Investment < Rs.10 cr |
| Service enterprises | Investment <10 lakh | Investment < 2cr | Investment < 5cr |
| Revised MSME Classification | | | |
| *Composite Criteria:* Investment and Annual Turnover | | | |
| Classification | Micro | Small | Medium |
| Manufacturing and Services | Investment <1 cr and Turnover <5cr | Investment <10 cr And Turnover <50cr | Investment< 20 cr And Turnover<100cr |

*Source:* Atma Nirbhar Bharat, Part 1- Businesses including MSMEs, May 13, 2020, Government of India.

From the stimulus package, it is noticed that only 45 lakh out of 633 lakh units are expected to benefit from the 3 lakh crore automatic collateral-free loans announced for Businesses including MSMEs. Similarly, only two MSMEs are expected to benefit from the 20,000 crore debt relief

package announced for stressed MSMEs. Given the nature and composition of the MSME sector, changes in the definition and its immediate implementation, the monetary stimulus packages announced by the Government of India would certainly benefit only the existing large-sized manufacturing or service sector enterprises. Protecting wages and meeting other immediate requirements of the employees and employers should have been the right strategy if the government was concerned about the revival of this sector which was a second largest employment-creating sector.

Another policy measure announced as part of *Atma Nirbhar Bharat* has stressed the need to be 'vocal about the local' i.e., to make the local products go global. Can we achieve this with 89% of the workforce above 15 years lacking any sort of formal or informal technical or vocational training, as Basole (2014) and Sengupta et.al (2009) point out. Given the growing merchant trade deficit experienced by the Indian economy (Chaudhuri, 2015), MSME would also have contributed equally to this trade deficit. If so, what should be the strategy of the state in order to ensure raw materials or a steady supply chain to this sector? Shouldn't we try to explore the strategies through which our local market/ demand for final or intermediate goods are met with local production rather than accumulating huge financial burden against import bill? One of the biggest challenges faced by many countries including developed countries during the pandemic crisis period is the limited supply of essential commodities especially in the health sector such as medical equipments, drugs etc. How do we overcome such shortages? Should we wait for the private sector to make up for the shortage of essential supplies, through engaging in speedy implementation of the privatisation process? Given this context, should we not think of more initiative from the public sector units?

Surprisingly, such announcements did not accompany any meaningful policy measures which could facilitate to build forward and backward linkages within the economy. This is especially important when the share of Indian manufacturing sector in terms of value addition is eroding although there is a significant growth in output. It is rather apparent that the existing policies related to FDI, industry and trade would not facilitate any intended outcomes as expected. While Government of India claims that it takes forward steps such as 'Make in India' and 'Self-Dependent (*atma nirbhar*) economy', there is a lack of clarity regarding development policy measures as compared to the policy of Self-Reliance laid down by the policy makers during the Planning era.

If *"Atma Nirbhar Bharat"* should be true to the meaning of the words, we will need an entirely different economic package. Let us end this note with a quote from John Meynard Keynes (1933): "I sympathize, therefore, with those who would minimize, rather than those who would maximize, economic entanglement between nations. Ideas, knowledge, art, hospitality, travel – these are things which should of their nature be international. But let goods be homespun whenever it is reasonable and conveniently possible: and above all, let finance be primarily national".

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# 8

# STATE FINANCE

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States being at the forefront of the fight against Covid-19 and mitigating the welfare consequences of the lockdown, they are having huge increase in their expenditures. At the same time, there is also substantial reduction in their tax receipts as a major part of their tax base consists of activities belonging to non-essential category and hence restricted under the lockdown. In consequence, states are now facing acute fiscal crisis. For instance, the revenue loss that Kerala government will face in this fiscal year is pegged at Rs. 125657 crore[1]. Some of the measures announced in the package would give a temporary relief to the states. For instance, it is reported by the Finance Minister that upon Centre's request RBI increased

1. Ways and means advance limits of states by 60 percent,
2. The number of days a state can be in continuous overdraft from 14 to 21
3. Number of days a state can be in overdraft in a quarter from 32 to 50 days.

The above measures would also help the states to plan their market borrowings. The package also included an enhancement of the borrowing limit of the states. The borrowing limit of the states for the financial year 2020-21 increased from 3 percent of GSDP to 5 percent and it was stated by the Finance Minister that it would help the states to mobilise extra resources of 4.28 lakh crore. Though the extent of increase in the borrowing limit is in line with the suggestions made by the experts in this field, a larger part of this increase in borrowing limit is conditional[2]. Up to 3.5 percent, states can borrow without meeting any condition and borrowing beyond that requires states to implement reforms in four areas, (1) one-nation-one-ration card, (2) Ease of doing business, (3) Power distribution, and (4) Urban local bodies. Reform in one area allows them to enhance their borrowing limit by 0.25 percentage points and reforms in at least three areas allows them to increase their borrowing limit to 4.75 percent of GSDP.

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1 "State's revenue loss estimated at Rs. 125657" published in the daily *The Hindu* on May 15, 2020.

2 For instance Govinda Rao (2020) suggests borrowing limit of the states to be increased from the present 3 to 5 percent of GSDP.

One of the four areas where states have to implement reform in order to be eligible for higher borrowing limit is the ease of doing business, which is still not very clearly defined. The ease of doing business is there in the agenda of the present union government for some time and the so called improvement in it requires reforms in number of areas including labour. And labour market reforms are now touted as an important step towards improving the ease of doing business[3]. A modern society usually have a number of stake holders concerned with aspects like labour, environment, health, safety and so on. Therefore, investment friendliness of a region in a democratic set up needs to be evolved through negotiations and discussions and, indeed, government should take a very active role in this process. Improving the "ease of doing business index'' through methods other than negotiations in a democracy would result in disruptions and it is not good for the society and business. Therefore, tying of the enhancement of borrowing limit with reforms within a short period in areas having multi stake holders put many states in a difficult situation. Further, budging the states in this difficult situation using these kinds of conditions, in no way fits into the idea of cooperative federalism.

3 For instance see (i) Labour reform push may remove key hurdle for investors, improve ease of doing business, *Financial Express*, November 26, 2019. (ii) Apoorva Mandhani (2019) How Modi govt's labour law changes hope to raise India's 'Ease of Doing Business' ranking, The Print, July 27, 2019

# 9

## REFORMING 8 CRITICAL SECTORS

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As part of the economic stimulus package or 'Atmanirbhar Bharat', the Finance Minister announced 'Part-4: New Horizons of Growth' on 16$^{th}$ May, 2020. This part of the stimulus package focussed on the following areas:

- Fast tracking investment efforts
- Upgrading industrial infrastructure
- Reforms for commercial mining and diversified opportunities in the coal sector
- Private investments in mineral sector
- Self-reliance and policy measures for defence production
- Policies for efficient airspace management for civil aviation airports through PPP, and Maintenance Repair and Overhaul (MRO) industry
- Electricity tariff policy reform and privatisation of distribution in union territories
- Boosting private sector investment in social infrastructure
- Boosting private sector participation in space activities
- Private sector involvement in application of atomic energy research for benefit of society

The eight critical sectors that these announcements touched were coal, minerals, defence production, airports and airspace management, power distribution companies, social Infrastructure projects, space sector and nuclear energy. One can immediately infer that the common theme that runs through these announcements is that these are primarily supply side measures that encourage private sector participation. However, delivery of the desired outcome by the private sector depends completely on the policy that will be designed post this announcement, details of which are not currently available. It might be worth recalling that these announcements come at a time when there is a private investment slowdown that has been linked to the persistence of stalled projects in the country[1]. There is some merit to the argument that with Covid-19 adding to uncertainties in the world market and stress in

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1 https://www.livemint.com/news/india/fresh-private-investments-at-16-year-low-11569991612032.html, last accessed on 2 June 2020.

India's domestic financial system, private sector may be hard pressed to invest. In this short note I will focus only on few of the announcements in part 4, and its probable impact on the Indian economy.

As a part of its fast track investment efforts, the government announced that incentive schemes will be available for promotion of new champion sectors, one of which is solar photo voltaic (pv) manufacturing. This is at a time when few state governments are reneging on the contracts signed for commissioned solar projects; and are pushing for lower tariffs which affect the viability of these projects. The resultant unpredictability and sudden policy changes have led to lesser interest in recent solar project auctions. This push towards lower tariffs has also forced developers to use cheaper and lower quality Chinese cells. Intellectual property (IP) plays a very important role in the economic viability of these sunrise sectors and it is well known that India lacks IP in solar technology. Thus, it may a be a tough act for the government to attract investment for solar pv manufacturing in the country, made more difficult by the presence of Chinese and Vietnamese manufacturing, almost next door.

The government plans to provide Indian private companies a level playing field in satellites, launches, and space-based services; they also will be allowed to use ISRO's facilities. The positive spillovers arising from the interactions of the private sector and the ISRO are indeed welcome. The ISRO has created a growing industrial ecosystem with substantial Indian private sector participation. It needs to be ensured that private satellite launches and space-based services have a symbiotic effect on this industrial ecosystem. At this point of time it can safely be said that the demand that these initiatives may generate will not be immediate and this demand will not be large enough to create a long lasting multiplier effect on the economy.

Foreign Direct Investment (FDI) in defence manufacturing under the automatic route has been increased from 49 to 74 per cent. Given strong demand this move has the potential to encourage local investment and production. However, our recent defence budget for 2020-21 has had a bare minimum increase in capital outlay, which raises doubts on the quantum of demand we can generate. It has been a long-standing grievance of armed forces that supply of critical spares and equipment from Russia takes a long-time, affecting maintenance of military systems procured from that country. So much so that in 2017, the Indian Army decided to seriously pursue indigenisation of spare parts[2]. Thus, the indigenisation of imported spares announcement, as a part of the self-reliance in defence production, has been in the works for a long time. This clearly shows the difficulty in implementing this policy.

Policy reforms in aviation include efficient airspace management for civil aviation, and operation and maintenance of more airports on public private partnership (PPP) mode; which may increase

2 'Army decides to go big on indigenisation of critical spares', 23 Jul 2017, available at https://www.livemint.com/Politics/nokCzPCEITxirPDtuDJkKO/Army-decides-to-go-big-on-indigenisation-of-critical-spares.html, last accessed on 2 June 2020.

efficiency of the aviation sector. Efficiency enhancing reforms make sense when a sector is growing. Thus, announcement of these reforms now, when one of the widely expected effects of Covid-19 is contraction of global air travel, may not give expected dividends. The MRO tax regime rationalization that also has been announced was one of the outcomes of the 39$^{th}$ GST council meeting held on 14$^{th}$ March 2020.The new tax regime was likely to be effective from 1$^{st}$ April 2020. However, with 30 per cent[3] of Indian MROs being shut down in the last few years and demand for air travel being expected to nose dive in the foreseeable future; the effect of MRO tax rationalisation on the MRO industry may at best be subdued.

Finally, allowing the benefits of atomic research to reach the larger society through research reactor in PPP, irradiation facilities in PPP, and linking start up ecosystem with nuclear sector will indeed be useful. We can expect positive spillovers for the private sector. However, the tangible benefits from these measures cannot be expected immediately.

To summarize through part 4 of the economic stimulus, the government wants more private sector participation in an ‘Atmanirbhar Bharat’. Part 4 is not aimed at getting the Indian economy back in track after the Covid crisis, instead aims to make the eight critical sectors more efficient. It pushes through long pending sectoral reforms, some of which had been announced earlier. Ideally, these sectoral reforms should have been announced when the economy was on a growth phase. As always, the success of these supply side announcements depends on the detailed policy and its implementation. In times such as now, as a parcel of part 4, the government should have made a demand side push by concentrating on a sector that would not only have increased our domestic output but also given a much needed push to employment, which, unfortunately, is sorely missing in the flurry of announcements. These reforms indicate that our current policy makers probably subscribe to the long held belief that India is a supply constrained economy.

3 http://www.sps-aviation.com/news/?id=773&catId=62&h=Big-Policy-Corrective-Aero-MRO-gets-a-lifeline-with-a-big-tax-cut-from-18-per-cent-to-5-per-cent, last accessed 20 May 2020.

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