

COMMENTARY ON INDIA'S ECONOMY AND SOCIETY SERIES

19

ECONOMIC SURVEY (2020 - 21) AND UNION BUDGET (2021 - 22)

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Thiagu Ranganathan
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CDS
Thiruvananthapuram

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".

CDS welcomes comments on the papers in the series, and these may be directed to the individual authors.

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Contents

		<i>Pages</i>
1. Post Covid Economic Growth Challenges	<i>R. Nagaraj</i>	5
2. Growth, Inequality, and some “Curious” Correlations	<i>Thiagu Ranganathan</i>	18
3. Provide or Protect: The Emerging Dilemma of India's Health Sector	<i>Udaya S. Mishra</i>	22
4. Social Infrastructure, Employment and Human Development	<i>Vinoj Abraham</i>	25
5. Inflation and Price Trends	<i>M. Parameswaran</i>	28
6. Agriculture & Food Management- Some Comments	<i>Tirtha Chatterjee</i>	30
7. Innovation in India is Improving?	<i>Sunil Mani</i>	33
8. A Critique of Chapter 9 on Services from Economic Survey- 2020-21	<i>Ritika Jain</i>	39
9. Fiscal Developments	<i>Hrushikesh Mallick</i>	42
10. External Sector	<i>Chidambaran G. Iyer</i>	46

POST COVID ECONOMIC GROWTH CHALLENGES

R. Nagaraj

(Visiting Fellow, Centre for Development Studies)

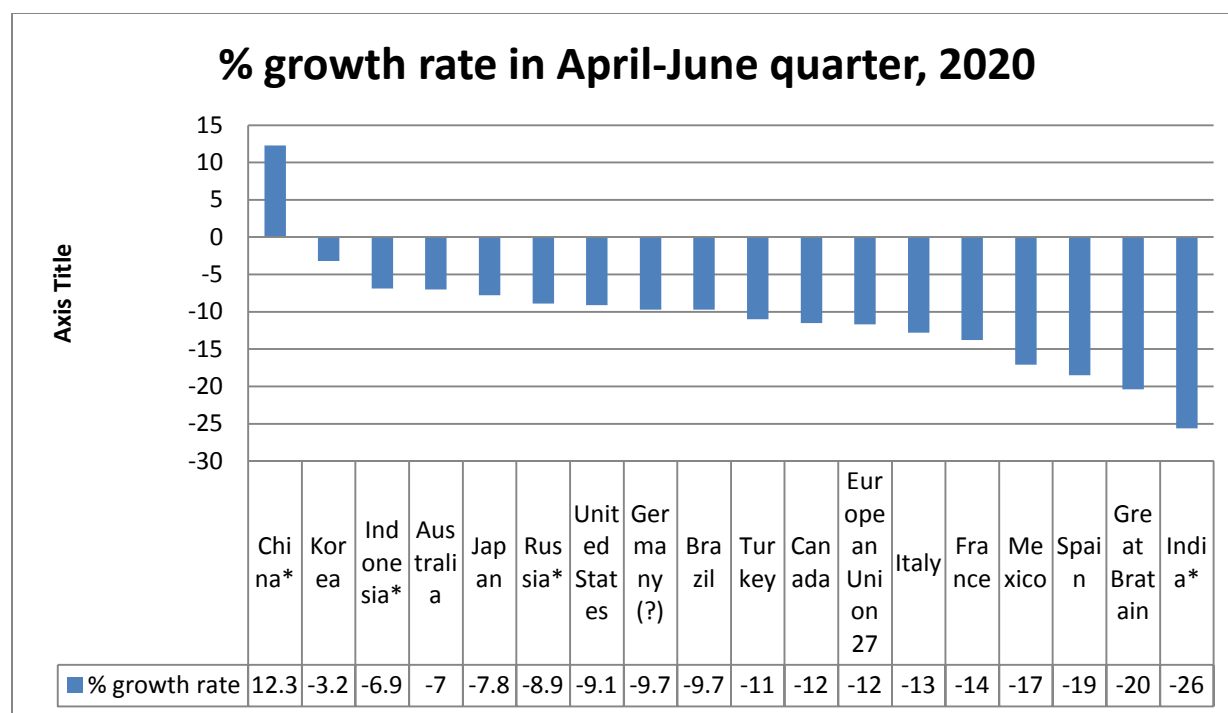
1. Introduction

Covid-19 pandemic was truly a global health shock. A lot about it is, by now, common knowledge. Yet, we still do not know how the pandemic is likely to pan out in days to come, with newer variants of the virus being discovered, and how the pandemic is likely to end. The re-imposition of partial lockdowns in states like Maharashtra show the threat of the virus is still very much with us. There are, however, some hopeful signs of getting control over the virus with the availability of vaccines.

Economic cost of the pandemic is clearer. They are devastating. As per the World Bank's latest (January) estimates, global economic output has shrunk during the calendar year 2020 by 4.3 per cent over the previous year – far worse than that during the global financial crisis of 2008. The contraction is perhaps closer to what was witnessed during the Great Depression of the 1930s.

By official accounts, India has coped with the pandemic relatively well, with the number of positive cases and deaths reported being modest, relative to the population. The government takes credit for the outcome and is proud of rolling out domestically developed and produced vaccines. India is a dominant producer of vaccines in the world, and is prepared to help the world with the supply of vaccines – called “vaccine diplomacy” in popular media.

In response to the rapidly spreading virus, India imposed an economic lockdown at 4 hours notice in late March last year. The suddenness of it caused enormous disruption to production, hardships to workers and the population at large. In the April-June quarter of 2020 (during the peak of the lockdown) India lost nearly a quarter of its output, as per IMF estimates (figure below).



For the calendar year 2020, GDP is estimated to contract by 9.6 per cent, as per the WB report in January – the only two major countries seem to have fared worse than India; they are Argentina and Mexico.

The *Economic Survey* estimates the output contraction (in real terms) to be 7.7 per cent during the financial year 2020-21, compared to the previous year 2019-20. Official sources are very optimistic about a V-shaped recovery that is underway, with a projected GDP growth rate of over 10 per cent in the next fiscal year, that is, 2021-22. This translates to about a 2 per cent rise in GDP size, compared to that in the pre-Covid year, that is, 2019-20.

1. Impact on Labour Market:

In a country like India where over 90 per cent of workers are employed in the informal sector – either as self-employed workers often working with household labour, or wage workers, without any form of social security - the abrupt lockdown was a disaster. Workers lost their jobs and livelihoods. Migrant workers (and their families) walked literally hundreds of miles to the safety of their villages. Heart-rending images of such workers in mass media are etched in popular memory. Many workers lost their lives. Sadly, there is no proper count of them.

Responding to a question in the parliament recently, the Union Minister for Labour and Employment admitted: “During nation-wide lockdown amidst Covid-19 pandemic in 2020, more than 1.14 crore (that is, 10.14 million) Inter-state migrant workers returned to their home-states... .” (as reported in wire.in dated 10-2-21).

This was perhaps for the first time the government had accepted the magnitude of the migration crisis, caused by the abrupt lockdown. This is perhaps the largest internal migration India has witnessed after the great tragedy of the partition of the sub-continent in 1947. *Azim Premji University COVID-19 Livelihoods Survey Compilation of findings* is a valuable source of factual information on the impact of the pandemic and lockdown on India's informal workers. (https://cse.azimpremjiuniversity.edu.in/wp-content/uploads/2020/06/Compilation-of-findings-APU-COVID-19-Livelihoods-Survey_Final.pdf).

Yesterday's edition of the business daily, *Livemint*, file:///C:/Users/CDS/Downloads/Long%20Story_24-02-2021%20Mint.pdf carried a long field report from Araria town in north Bihar (close to Nepal border) describing how migrant workers who returned to their villages after the lockdown are struggling to make their ends meet. They are setting up retail stores by selling their land and property, with modest sales and huge debt burden. But the only business that is apparently booming there is the sale of "cough syrup", a euphemism for illicit alcohol and drugs.

Unfortunately, the government has been reluctant to admit the gravity of the crisis caused by the sudden lockdown. However, it has claimed credit for preventing large scale death due to the virus. But the official claim seems questionable. Data put out by the IMF in October last suggests otherwise, as per a tweet by Professor Kaushik Basu (@kaushikbasu) (Table below).

Country	GDP Growth 2020 (at Constant Prices, in %)	Covid-19 Deaths Per Million Population
Bangladesh	3.8	34
China	1.9	3.0
Vietnam	1.6	0.4
Nepal	0.0	25.0
Pakistan	-0.4	30.0
Indonesia	-1.5	46.0
Sri Lanka	-4.6	0.6
Afghanistan	-5.0	38.0
Malaysia	-6.0	6.0
Thailand	-7.1	0.8
India	-10.3	83.0

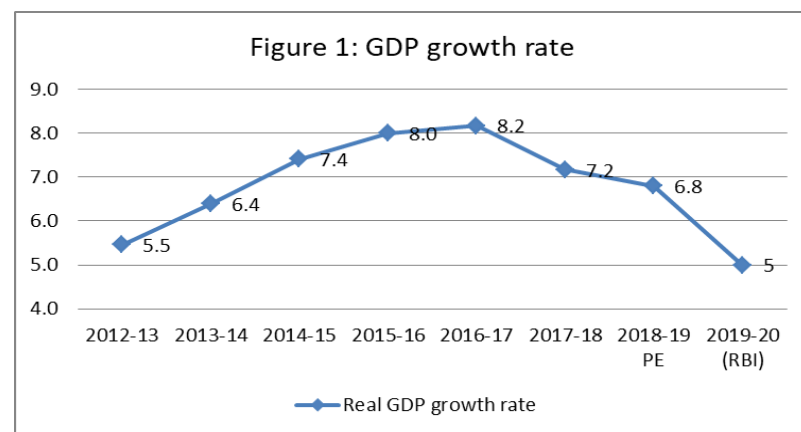
Source: IMF and Worldometer, 18 October 2020, as tweeted by @kaushikbasu, 19 October 2020

2. India's Prior Growth Slowdown:

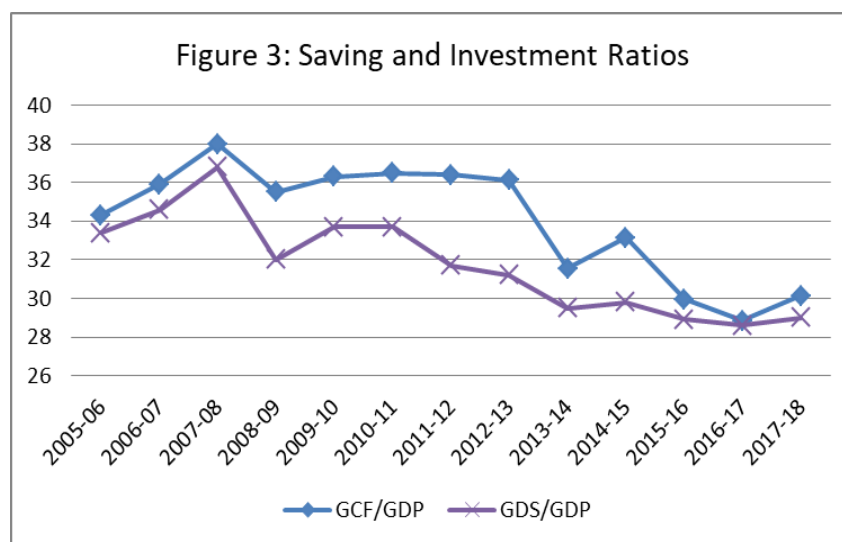
The Pandemic and economic crisis rubbed salt on the wounds of long-standing growth slowdown during the 2010s.

During this period:

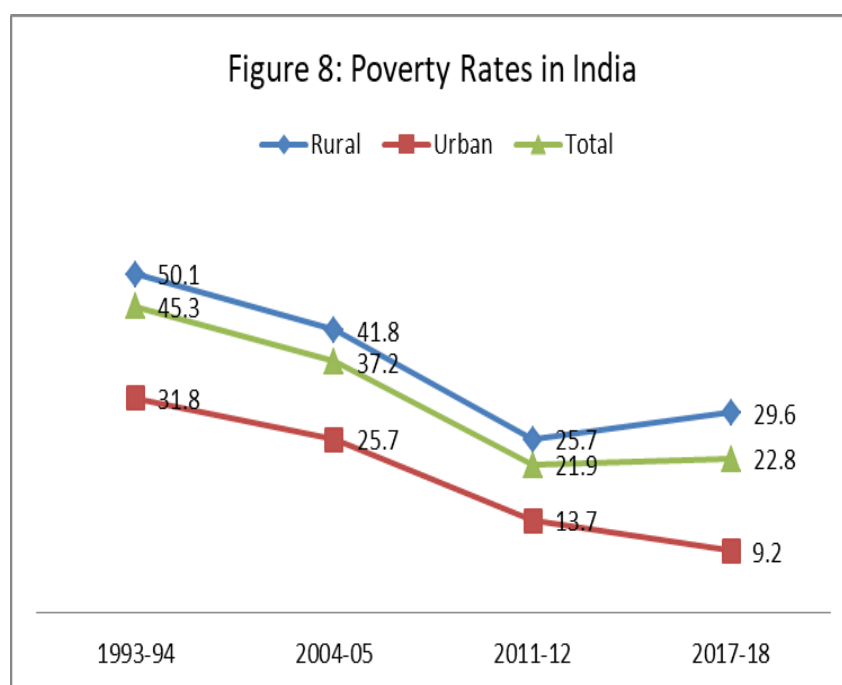
- Annual GDP growth rate (net of inflation) declined from 7-8% in 2011-12 to 4.2% in 2019-20. The actual growth rate during most of the decade was perhaps 4-5%, much lower than the growth rate during the decade of 2000s when it was 7-8% per year.
- The unprecedented collapse of fixed investment and saving rates by 7-8% points of GDP.
- Job loss growth in the 2010s, as against jobless growth previously: For the first time since India started nation-wide measurement of employment and unemployment in 1973-74, India lost jobs in the manufacturing sector: 3.5 million workers lost jobs between 2011-12 and 2017-18.
- A decline in output growth and collapse of employment resulted in a rise in the poverty rates, denting child nutrition status between 2015-16 and 2019-20 (as per partial results of NFHS survey results released recently).



Source: <https://www.theindiaforum.in/article/understanding-india-s-economic-slowdown>



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3. Response to the Crisis:

Globally, the health crisis is seen as a sudden contraction in aggregate demand, especially consumer demand, and the employer's inability to pay wages. Most governments, regardless of their political leanings, have expanded public spending to

support incomes and livelihoods. This has increased public debt-to-GDP ratios, breaching of fiscal deficit targets. It is widely accepted as the correct response to the crisis.

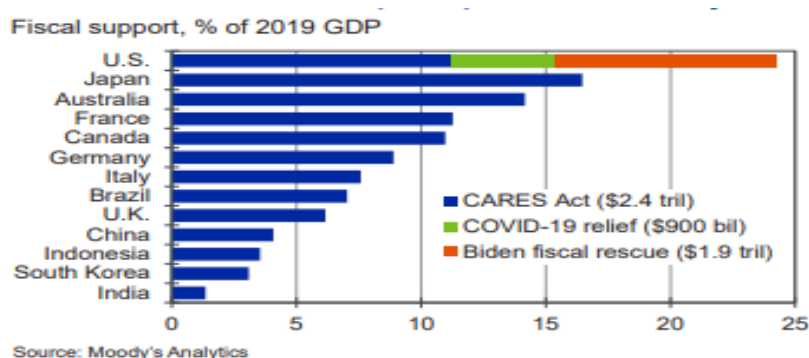
As the IMF report (IMF, 2020) said:

The steep contraction in output and ensuing fall in revenues, along with sizable discretionary support, have led to a surge in government debt and deficits. [...] global public debt is expected to reach an all-time high, exceeding 101 percent of GDP in 2020–21—a surge of 19 percentage points from a year ago. Meanwhile, the average overall fiscal deficit is expected to soar to 14 percent of GDP in 2020, 10 percentage points higher than last year.

India's response to the crisis has been quite different, however. In May last year amid the deep economic contraction and widespread criticism of inaction, the government announced a Rs. 20 billion Atma Nirbhar Bharat economic package to address the crisis. A close reading of the package showed that most of it increased credit supply, credit guarantees, but very little rise in public spending to boost consumption demand. The increased public spending is in the range of 0.9% to 1.5% of GDP, according to various estimates. This was one of the lowest fiscal support among the major countries in the world, as reported by Moody's Analytics (see figure below).

Despite much vocal support, the government's current and capital expenditures have hardly moved up in the first half of 2020-21 (April-September 2020), compared to the previous year, as reported in the quarterly *National Accounts*.

India's Response to Crisis



Source: Greg Mankiw's Blogpost dated February 11, 2021
(<http://gregmankiw.blogspot.com/2021/02/fiscal-stimulus-around-world.html>)

4. Structural Reforms, instead:

While the crisis was mainly from the demand side, government sought to improve conditions of supply by undertaking structural reforms. Direct employment creation efforts to support displaced workers and livelihoods were modest.

Border skirmishes with China made India realise its import dependence on that country. In response, Atma Nirbhar Bharat (self-reliance) agenda was initiated. The health pandemic also revealed India's limited manufacturing capacities of critical items, such as bulk drugs, and fertilisers. The PM's call for Atmanirbhar Bharat during the lockdown - reiterated in the Independence Day address - seems a tacit admission of the growing external economic threat.

The policy sought to incentivise domestic production of mobile phones and electronic hardware by PLI (production linked incentives), to achieve self-reliance in manufacturing.

The government perceived an opportunity during lockdown to bring about major changes in economic laws, without parliamentary scrutiny and oversight. The on-going agitations against the new farm laws are a response to reforms initiated.

Similarly, the government passed changes in labour laws. Currently, the government is framing rules to implement the new labour codes by April.

On the face of it, the new labour codes offer flexibility to employers to deploy workers to meet the changing requirement of production, and extend social security benefits to informal workers. However, the reality of the reforms seems far graver. In the name of flexibility, workers right to overtime pay and weekly paid leave (as per the Factories Act, 1948) seems to be compromised. Apparently, the new rules are out of line with the ILO norms to which India is a signatory. In fact, during the pandemic, the UP government sought to pass an ordinance to abrogate the labour laws (in line with the new codes). The ILO came down sharply on the state government, and the ordinance was withdrawn.

To provide greater flexibility to employers the labour codes proposes fixed-term contract for workers, in place of "permanent jobs". However, the labour code does not specify for how long the fixed terms would last. Unlike in China or Vietnam (where a worker reportedly get permanent job after two fixed terms), the Indian code does not seem have a similar provision.

The new codes make it much harder for workers to call strike. Power of labour courts seems curtailed, with greater role for administration in over-ruling industrial courts. The proposed changes seem similar to what is proposed in the new farm laws.

The recent violence at the Taiwanese Wistron's iPhone assembly factory in Karnataka is an early example of the conflicts that are likely to emerge when the new labour code gets implemented.

Critique of Structural Reforms:

What are structural reforms? They “work on the supply side of the economy. By tackling obstacles to the efficient – and fair – production of goods and services, they should help increase productivity, investment and employment” (OECD).

In other words, structural reforms may help growth when the economy is constrained from the supply side. But the economy is currently suffering from problem of aggregate demand. So, in principle, they are unlikely to be helpful in present circumstances.

The underlying idea behind structural reforms is that excessive state intervention is the binding constraints on private sector's efforts to augment supply. But in the current situation, the problem is from the demand side. Hence the reforms may not be helpful in getting the economy out of its poor output growth.

5. My Budget Wish List

Boost the government support for migrant workers with employment, income and food to cope with the unprecedented humanitarian crisis.

Double public health expenditure to 2.5% GDP in the next 3 years to face the health crisis. India has the dubious distinction of having one of the lowest public expenditure on health, as a proportion of GDP. Such a strategic plan would call for massive investment in urban drainage, sanitation and drinking water. Since building such physical facilities are labour-intensive using local resources, they would boost the employment of unskilled labour. Jean Drèze's proposal of Decentralised Urban Employment and Training (DUET) could be the scheme for building public health infrastructure using an urban employment guarantee programme.

Recently an Oxfam (a UK charity) said:

Towards the bottom of the overall health spending ranking is India, which has also made cuts to its health budget (albeit small) and has fallen to the third-last position of this ranking. This is particularly damaging when just half of India's population has access to even the most essential services and more than 70% of health spending is being met from household budgets. This has left the country woefully ill-prepared to deal with the corona virus pandemic (Development Finance and Oxfam, 2020)

Boost public investment in infrastructure to reverse the nearly decade-long economic slowdown.

Suspend fiscal deficit rules for now, subject to inflation threat.

6. Budget Announcements:

- Prima face, the Finance Minister granted 2 out of my 3 wishes – could I have asked for more?
- The directional change with respect to public investment and fiscal orthodoxy to boost growth are welcome. The Finance Minister said the government will borrow an additional ₹80,000 crore for the purpose in the next two months. The estimated fiscal deficit for FY2021-22 is 6.8% of GDP for the central government. And States are allowed a higher fiscal deficit, if the expenditure is on capital investment.
- Proposal for 137% rise in health expenditure.
- But very little to support jobs and livelihoods.

Need for caution in reading budget:

- Budget, after all, is a political statement indicative of intent. It shows broad policy direction.
- Budget is an occasion for grandstanding. A few months on, few would remember the budget promises.
- Budget is a financial statement, where the fine print matters the most.
- Hence, a need for caution in reading the budget (or over-analysing it). Need to look beyond the headlines.

7. Reality Check:

On a closer look, many of the proposals made in the budget look deceptive (as often is the case).

- 34% rise in public investment is not backed by allocation of resources, but largely contingent on realizing:
 - (i) Increased tax revenue: The budget seems to present highly optimistic estimates, as many have commented.
 - (ii) Disinvestment proceeds: Past record of meeting the targets is very poor.

- (iii) Sale of rail and road assets: a completely new ball game. These assets are mostly under implementation in public-private partnership (PPP) mode, whose property rights and contingent liabilities are hazy. Selling such public assets will be a herculean task (if at all possible).
- (iv) The government's ability to raise resources from the market, without raising interest rates for the private sector will be a challenge.
- Increase in health outlay appears like a simple amalgamation of the budgets of the department of water and sanitation with health, and one-time grant of Rs. 10,000 crore by Finance Commission for states, and Rs. 35,000 crore grant for vaccination. Excluding these, there is a shuffling of expenditure heads with apparently little substantial hike in health expenditure to strengthen public health services.

On the other hand, shockingly, there is a decline in allocation for nutrition by 27 per cent compared to last year. This in spite of the fact that child nutrition outcomes have deteriorated, between 2015-16 and 2019-20, in selected states for which data has from NFHS has become available.

8. On Privatisation:

Budget promises massive privatisation, seemingly on ideological considerations – in line with the ruling party's election slogan – “**Minimum government maximum governance**”.

- The budget ignores the past record, where a lot of disinvestment was a mere shuffling of enterprises within the government to raise revenue from cash-rich PSUs – disregarding managerial and efficiency considerations.
- Past NDA government's record in the strategic sale – a euphemism for privatisation – were mired in corruption. To refresh memory, reading Sucheta Dalal's recent reminder would do a lot of good for the current crop of policymakers (<https://www.moneylife.in/article/privatisation-lets-playback-before-we-fast-forward/62985.html>). To remind the audience, Sucheta Dalal is a well regarded independent financial journalist, who broke the story of Harshad Mehta financial scam in 1992.
- Similarly, budget's proposal to monetise (sell the revenue streams from commercial public services) railways line and toll roads are a tall order, considering that they are mostly public-private partnership (PPP) projects, often with unclear and incomplete contracts.

- Thus, privatisation is economically a questionable proposition (both in theory and experience), and full of practical hurdles. Disinvestment undertaken in the last few years was guided by the short term budgetary needs for revenue rather than to impart stock-market based discipline on the functioning of public sector undertakings (PSUs). Hence, the proposed boosting of public investment - contingent on obtaining resources by privatisation – seems hardly assuring.

9. Re-discovering Development Finance Institution (DFI):

DFI – one of the welcome initiatives proposed in the budget. I have been arguing for it for quite a while.

Since the abolition of the older generation of DFIs – that is, ICICI, IDBI and IFCI (practically) – the tenor of lending has shortened and the cost of capital has gone up for infrastructure and large industrial projects.

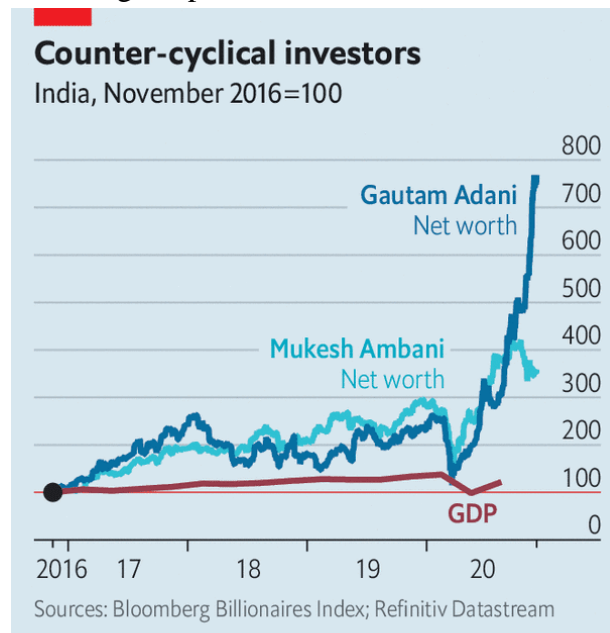
The proposed DFI seeks to fulfill borrowers' felt needs. However, the budget does not offer a clear road map for its creation. Some of the potential problems in the design of DFI are as follows:

- The government proposes to invite foreign portfolio investors (FPI) to finance the proposed DFI. This defies the simple principle that FPI investments are for short-term (or they represent hot money) in search of higher yield. Whereas DFI requires long-term low cost capital (patient capital), mostly from domestic sources – to avoid maturity and currency mismatches.
- So, unless there is greater clarity on the institutional design and secure sources of financing, the proposed DFI may be yet another pious intention without the genuine will and vision to promote a long term investment institution. Without stepping up domestic investment mostly from domestic resources, there is no hope of India clawing back to 8-9% GDP growth rate achieved during what I have called, India's *Dream Run* in the decade of 2000s.

10. Budgetary Disappointments:

Sadly, the budget has little by way of supporting 10 million migrant workers who lost jobs and livelihoods after the lockdown. Even the *Economic Survey* this year barely mentions the plight of these workers.

The recovery after the pandemic appears to be “K-shaped” with profits rising and wage rate and wage shares declining. With the stock market booming, India's propertied class has become richer during the pandemic.



The Economist

The Economist, December 3, 2020

To illustrate, the rank of the richest Indian has moved up to the 12th spot on the Bloomberg Billionaires Index in January 2021, up from about 40th rank, a year ago.

... while India's hapless migrant workers lost their toe hold in the economy. Why could not the Budget consider a special tax on the super-rich — as many countries are now mooting? The Budget does not seem to reckon with such a rise in inequality, let alone seek to redress it.

Perhaps it naïve on my part to expect it from the ruling dispensation that is doing everything to boost the animal spirits of the entrepreneurial class, as the salvation for India's current economic mess.

11. To Conclude:

- By this time around last year, economic slowdown was very evident from all available public information.
- Government was unwilling to admit it, though. Conservative economic policy and concern with inflation was dominant.

-
- Covid-19 pandemic and the economic lockdown were exogenous shocks, leading to a contraction of the output close to 8% of GDP, over the previous year, as per the official estimates.
 - The government takes credit for minimal deaths due to the pandemic and quick output recovery. Both these claims are questionable: Our neighbouring countries seem to have similar health outcomes (due to similar social and health conditions).
 - India's economic contraction is one of worst among world's major economies, baring perhaps Mexico and Argentina.
 - Conservative economic policy has meant modest fiscal stimulus to augment aggregate demand. Most of the relief package was credit and liquidity support measures, and structural reforms. These efforts, in principle, work from the supply side, whereas the real constraint on growth is from the demand side.
 - The budget has sought to boost public infrastructure investment, investment in health and large scaled privatization, as a conscious effort to veer the economy towards the ruling dispensation's ideology: "Minimum government, maximum governance".
 - There is a proposal to set up a DFI to augment supply long-term credit for infrastructure investment.
 - However, there is very little for distressed migrant workers who lost their jobs and livelihoods. Shockingly, government seems highly insensitive to the plight of the poorest, blaming the pandemic as an act of God. It is painful to realize that a nation which supported ten million refugees from Bangladesh in 1971 for about a year, failed its own migrant workers now.
 - Though impressive, the public investment proposals are under-funded in the budget, which are mostly dependent on privatization proceeds. Similarly, seemingly impressive hike in the health outlay seems like a fudge of combining various related programmes, with modest increase in budgetary allocations for health *per se*.
 - The budget seems high on rhetoric of initiating an investment-led economic revival, jettisoning fiscal conservatism for now, and commitment to shrink public sector.
 - For the reasons discussed in the lecture, the response seems to fail to come up to the challenge adequately to meet the gravest health and economic crises in post-independent India.

GROWTH, INEQUALITY, AND SOME “CURIOUS” CORRELATIONS

Thiagu Ranganathan

(Associate Professor, Centre for Development Studies)

The Economic Survey 2021 has various chapters on Indian economy. This note discusses the 4th chapter titled “Inequality and Growth: Conflict or Convergence?” in volume 1 of the Economic Survey 2021. The note first summarizes the arguments presented in the chapter on inequality and growth and presents a critical evaluation of the same.

1. Convergence of Inequality, Growth, and Wellbeing

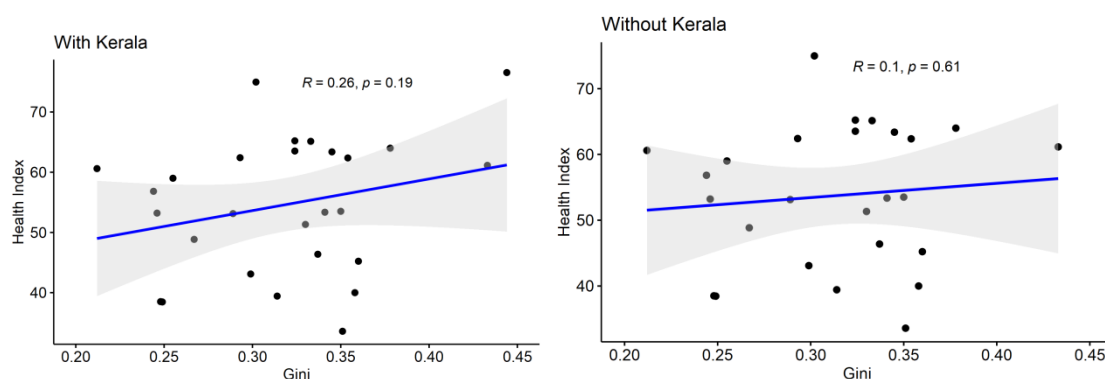
The chapter 4 sets itself to investigate the potential conflict between economic growth, inequality, and well-being in the Indian context. The chapter argues that this is a concern for advanced economies as higher inequality might lead to adverse socio-economic outcomes (as indicated by Wilkinson and Pickett (2009); Atkinson (2015); and Piketty (2020)). The chapter in the survey tests if this relationship holds in the Indian context. To do so, the chapter examines correlations of inequality and per-capita income with various socio-economic indicators – health, education, life expectancy, infant mortality rate, murder rates, percentage of drug use, mental health, and fertility. These correlations are estimated at a point in time across various Indian states. The chapter then comes up with two conclusions – the per capita income is positively related to most or all of the social indicators and that the inequality (measured as Gini index of consumption) is also positively related to almost all social indicators. According to the survey, this implies that higher inequality in Indian context may not be so problematic to socio-economic outcomes. Hence, the pursuit of growth (growing the economic “pie”) should continue without any worries about inequality. The chapter also then looks at the relationship between economic growth and poverty and suggests that only growth can reduce poverty in Indian context.

2. Issues with “curious” Correlations

It is good that the economic survey has shown some concern towards economic inequality. In the economic survey 2020, there was only one time the word “inequality” was mentioned in the whole document. This time around, the word “inequality” is mentioned 185 times in this chapter only and 202 times in the whole survey. But, unfortunately mentioning the word does not necessarily mean the survey shows a serious concern towards economic inequality. On the contrary, various scatter plots are drawn to come up with some “curious” (and some spurious) conclusions. There are three lines of contestations to the arguments made in this chapter.

First, there are issues related to the way the correlations are calculated. When we inquire about the impact of changing inequality or growth rate on socio-economic indicators, it would have been more appropriate to analyse this across time dimension than a cross-state analysis. Kanbur (2012) raises this aspect while discussing verification of Kuznet's curve. The question of concern is not whether states with higher inequality have worse socio-economic outcomes, but if increasing inequality would lead to lower achievements in socio-economic aspects. Interestingly,

this analysis across time is not even done for the country as a whole. The other kind of analysis that could have been performed to answer the question at hand would have been to consider the relation between inequality and socio-economic outcomes for states with similar per capita income. The current correlations only indicate that states with higher inequality have better socio-economic outcomes too. But, it does not establish that worsening of economic inequality will not affect the socio-economic outcomes. It is also possible that the correlations with such small sample to be affected significantly by outliers. An analysis of the states including and including Kerala shows significant differences in the correlation¹. A correlation between Gini and health index with and without Kerala is indicated below. The figures show that co-existence of sound socio-economic outcomes and high inequality in Kerala might explain some of the significant correlations obtained in the chapter. But, increasing inequality could also mean worsening of socio-economic indicators in the states like Kerala and Tamil Nadu. This could have been only corroborated by bringing the time dimension into the analysis.



The second set of concerns that the chapter raises are related to lack of engagement with the processes and mechanisms which might generate the relations that are observed in the chapter. If we were to take these relationships seriously and conclude that higher inequality is related to better socio-economic outcomes, the chapter presents no reasons for why it might be so. The chapter asserts that the trade-off between economic inequality and health or economic inequality and education, economic inequality and drug use are different in India compared to ‘advanced’ economies. But, it does not mention why it might be so. Such affinity to curious correlation and apathy to mechanisms leaves the reader and “policy maker” confused. For instance, the reader is perplexed with the inference to be drawn from the correlation which indicates states with higher inequality have lesser drug use!

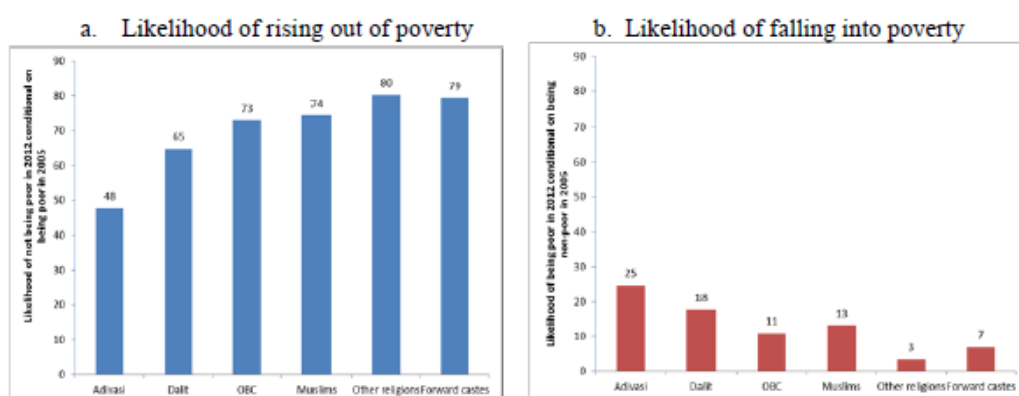
The third set of concerns relate to the normative implications of the findings. There have always been concerns related to unfettered pursuit of economic growth. In particular, there have been questions raised when economic growth has been lop-sided with dominant groups capturing a high share of the growth. The typical response to this has been that we should first let the economic pie grow and without growth there can be no division possible. It has also been justified along the lines of Kuznets (1955) that even though economic inequality increases with high growth, it will decline later. But, these responses have portrayed high inequality as a necessary “evil” as we pursue a more egalitarian economy. But, the survey seems to indicate that

¹ <https://twitter.com/MoharirAdvait/status/1357303208268414979>

high inequality is actually not even an “evil” as high inequality could be sustained with good socio-economic outcomes. It is entirely unclear whether the survey wants society to continue with high inequality as there are no problems with socio-economic outcomes or actually want us to increase it as it might improve the socio-economic outcomes! The survey ignores the intrinsic objectives to pursue economic inequality. The survey also completely ignores the role income distribution could have in achieving economic growth as well.

3. Growth and Poverty

The chapter also discusses about how economic growth had led to decline in poverty. The findings from the chapter indicate as if this relation between growth and poverty is automatic and whenever there is economic growth, there will be a decline in poverty. There have been a few more questions to be answered on nature of growth and poverty reduction. Agrawal (2015) presents the interactions between government expenditure and growth on poverty reduction. Balcazar et al. (2016) also indicate how increase in labour earnings and rise in wages of unskilled labour helped reduce poverty in India from 2005 to 2012. Without increase in wages or labour earnings or government expenditure, the GDP growth elasticity of poverty might not be the same and arguing for only growth does not seem to be a prudent policy advice. Balcazar et al. (2016) also indicate that even though poverty declined during the high-growth phase, vulnerability (likelihood of falling back into poverty) actually increased. Also, adivasis and dalits were found to be more likely to stay in or fall into poverty than others.



Source: Calculations based on IHDS, 2005 and 2012.

Source: Balcázar, C. F., Desai, S., Murgai, R., & Narayan, A. (2016). *Why did poverty decline in India? A nonparametric decomposition exercise*. The World Bank Policy Research Working Paper No. 7602.

It is also interesting that the economic survey is arguing for economic growth and defending it as if we are in a period of high economic growth. The latest quarterly GDP growth is 0.4%. Even before the pandemic, the GDP growth in India declined for eight successive quarters and fell from 8.2% in March 2018 to 3.1% in March 2020. As pointed by Ray and Kar (2020), the period from 1960 to 1980 could be classified as a period of “Inclusion without Growth” and 1980 to 2010 as a period of “Growth without Inclusion”. In the same way, the last few years could be termed as period of “neither Growth nor Inclusion”. In such a scenario and in

the wake of a pandemic which has surely widened the pre-existing economic disparities, this chapter from Economic Survey 2021 tells us not to worry about inclusion at all!

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PROVIDE OR PROTECT: THE EMERGING DILEMMA OF INDIA'S HEALTH SECTOR

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The discussion on India's health sector has been titled as '*health care takes center stage finally*' sounds amusing in the sense that capability domains like health and education should ideally be at the center stage of any progressive nation given their intrinsic connect with every sector of the economy. Nonetheless such a realization is better late than never and for India in particular with its human resource advantage (in count), attention to these two sectors have a greater dividend in the long run and in the evolving world order. While it sounds like we are turning a crisis into an opportunity in terms of a renewed focus on the health sector, the discussion is centered around increased govt spending as envisaged in the National health Policy (NHP) 2017 to realize a scenario in keeping with SDG targets and progress towards a healthy India.

Argument to raise public spending is irrefutable and the analysts provide ample evidence to suggest the positive bearing of public spending on better health outcomes on one hand and reduced adversities like catastrophic health spending and undue out of pocket expenditure on seeking health interventions on the other. This ideal proposition may well be true but India's health system is a skewed mix of public and private provisioning with complementarity between the two. Demand for health care with evolving shift in the disease burden from the communicable diseases to the non-communicable ones poses a real challenge to the health infrastructure that needs attention as regard its skewed regional divide and rural-urban disparities. In addition, strengthening public health infrastructure has got a renewed attention given the experience of the pandemic exposing the inadequacies and shortcomings of the health infrastructure in terms of distribution across the length and breadth of the country. Besides highlighting the significance of policies and programmes in place that has brought about equities in access to health care, the economic survey echoes the need for integration and regulation of the large private sector. In this regard, the two distinct highlights relate to the disparity in health care cost (both in-patient and out-patient) between the public and private provisioning alongside the differential fatality between non-utilization of health care and poor quality of health care utilized. Both these highlights makes Indian case distinct when compared with other countries and therefore greater emphasis on regulation protocols may serve towards strengthening the health system to a large extent.

The ultimate contention that explicitly appears to be the proposed alternative is to consider the path of protecting the health care cost among those unable to afford the rising costs of health care intervention. Such a recognition has resulted in numerous programmatic measures of protection in the name PMJAY, Ayushman Bharat and many others but what remains to be seen is their effective implementation through targeting the most vulnerable and move towards universal protection against the unexpected health care costs ought to rise in coming times given the evolving changes in diseases pattern.

This premise of India's health sector undoubtedly had an expectation from the budget that needed to be different to cater to the unprecedented challenges facing the health sector not only due to the pandemic but also owing to the emerging vulnerabilities along with its inequitable implications. Such expectation essentially revolve around answering questions such as whether it will reduce incidence of OOP expenditure, strengthen prevention to curtail expensive curative and rehabilitative care, increase accessibility among the under-served by an inadequate public health system alongside an exploitative unregulated private sector.

The much hyped budgetary allocation of 2.23 lakh crore for health well-being is a misnomer as it includes expenditures on a wide range of items that includes drinking water and sanitation with 60,030 crores and 2700 crores respectively. Above all this allocation includes the finance commission grant of 49000 crores and 35000 crores meant for vaccination . Hence on the net the health ministry's budget has increased only by an amount of 7000 crores. The budgetary response does not appear to have addressed the revealed shortcoming of the health system i.e. the health workforce at the bottom hierarchy like cleaners, ASHA workers, mortuary workers and many other Group D employees who remain largely contractual. These workers otherwise termed as COVID warriors have not been rewarded. Outsourcing and contracting essential services has been a routine practice that surfaced as a limitation in the event of fighting COVID emergency in terms of operational efficiency shouldered by the contractual workforce. Besides, this budget remains more or less silent on the private sector, it does not mean to say that it does not feed them anymore and is quite focused on strengthening the public health system to maintain its '*atmanirbhar*' syndrome. In fact, rather than harping on a regulatory framework towards efficient provisioning of health care in a complementary environment of public-private mix, it proposes to benefit the private hospital through a provisioning of 6400 crore sanction under AB-PMJAY (Ayusman Bharat-Prime Minister's Jana Arogya Yojana) which will be reimbursed among empanelled public and private hospitals.

The budget promises 17788 and 11024 health and wellness centres in rural and urban areas across the length and breadth of the nation. These are meant to serve as telemedicine outposts which in my view may not serve the basic health care needs but will direct patients to expensive secondary and tertiary sector private facilities.

The Lessons learnt from the COVID pandemic warrants two things i.e. a public health cadre and a health information system that is not skewed up by absence of the private sector. The need for a public health cadre is essential to counter occurrence of future COVID like emergencies that is not unexpected. The measures adopted to counter such emergencies in line with the approach adopted in the developed world is absolutely unsuitable for our circumstances. Here there is a need to make things indigenous or for need of an appropriate term *atmanirbhar* more than in other arenas of reform. Besides a public health cadre, the need for a dynamic data base of health indicators which should be reliable and be available for scientific treatment to infer policy options desirable becomes an immediate imperative. Most information being limited to public sector is the basic handicap and the information base has to rely on surveys and responses therein. The first step towards regulation needs compliance of the private sector in sharing the health information base, of course in keeping with the ethical guidelines of data sharing. The other immediate concern relates to fix cap on cost of various interventions and

diagnostics in accommodation of the quality of such services claimed to be offered by private providers.

In conclusion, health domain is not limited to sickness and its treatment rather than involving a holistic outlook of prevention, protection against events of ill health along with promotion measures of good health. This outlook needs redressal of social determinants of health that involves differential vulnerabilities to ill health among varying segments of the population with compromised living conditions as well as livelihood related risks. Finally, it appears like intents are noble without explicit understanding of the complexities of health vulnerabilities that is multi-dimensional which cannot be boxed in the dichotomy of poor and non-poor.

SOCIAL INFRASTRUCTURE, EMPLOYMENT AND HUMAN DEVELOPMENT

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The Economic Survey of 2020-21 by and large, is an attempt to showcase the government measures that were undertaken to overcome the COVID19 crisis. A reading of the chapter on Social Infrastructure, Employment and Human Development leaves the reader with a false sense that the economy was cruising towards high social and economic development but the pandemic had jeopardized the journey. Further the Government of India through its interventions was able to stabilize the economy despite the crisis. In terms of tangible measures the government had announced a slew of measures to contain the pandemic, most important of which was the lockdown during the months of March to May 2020 and the financial stimulus of sum of Rs. 20 lakh crores to be infused in a phased manner in the economy.

In terms of education, employment and human development, the survey seems to send the message that the government had taken adequate and effective measures against the crisis. And such measures had started showing positive results. Public spending on social sector had increased from 7.5 percent of GDP in 2019-20 to 8.8 percent of GDP in 2020-21. The survey notes that regular education affected by lockdown was compensated by online schooling. The government introduced several measures to make online education accessible. Similarly the lockdown period also saw the growth of the gig economy and increasing work from home in the organized sector. The quarterly PLFS, which covers the urban areas, shows improvements in the employment situation in Q4-2020 when compared to Q4-2019. The Human Development score of UNDP increased from 0.642 in 2018-19 to 0.645 in 2019-20. The survey expresses satisfaction in the fact the growth in HD score is one of the highest in the world.

A closer look at the economy, however, debunks such claims made in the survey. In terms of the claims on improvements in human development index, firstly, though the HD score had increased the HD ranking for India had fallen from 130 to 131 during 2018-19 to 2019-20 and India's HD ranking had remained at 131 since 2015-16. The HD indicators being outcome measures the official claims of having performed well belies the facts. The social indicators of human development performed particularly poorly during the last five years. Comparing the life expectancy at birth between 2010 and 2015 the gains in years was 1.9 years, which declined to 1.1 years during 2015 to 2019. The gains in expected years of schooling was by 1.2 years during 2010 to 2015 which remained stagnant at a gain of just 0.2 years during 2015-19. Yet, the percapita income growth was higher during the second period 2015-19 compared to 2010-15. The simple annual growth rate was 5.7% for the first period and 5.9% for the second period. The improvements in the HDI score is driven by the growth in per capita income while social indicators of health and education have performed poorly in HDI. There are other indicators which point to a deterioration of social development. The first social mobility index based on five key dimensions of Health; Education, Technology; Work; and Protection and Institutions prepared by the World Economic Forum ranks India as 73rd of the 82 countries in 2020. In the global hunger index (GHI) India's rank fell from 80 out of 104 countries in 2015 to 94th out of the 107 countries in 2020. With a score of 27.2, India's problem of malnutrition and hunger is

marked as 'serious'. Even when the under-five mortality in India reduced in general, deaths due to pre-maturity and low birth weight increased, especially in rural India.

With regard to employment growth the survey notes that the size of the workforce increased by about 1.64 crore and the female labour force participation rate increased from 17.5 per cent in 2017-18 to 18.6 per cent in 2018-19. These two facts are taken to be positive aspects of employment generation in the economy. However growth of labour force participation in an economy with very little social security or reservation wage is an indication of worsening life chances. When nothing to fall back on, the participation rates have to increase to keep the household income levels afloat. Estimates based on the PLFS shows that the wage growth had declined during the period 2011-12 to 2018-19. The annual average growth in wages was only 1.2 percent during 2011-12 to 2018-19 compared to 5.6 percent during 2004-05 to 2011-12. There was a negative growth in wages in urban sector during the same period. It seems that the growth in employment during the recent period is driven in part by the falling household incomes. The main driver of employment growth in an economy as is well known is its GDP growth. The period since 2015 had been marked by a slowdown in economic growth. Much before India entered the COVID19 recession growth had been bogged down by the triple blows of global financial crisis, demonetization and GST. Unemployment rates had peaked during the period 2017-18 at 6.2 percent. Thereafter in 2018-19 we see a marginal decline in unemployment rates along with rising participation among females. The indications of high unemployment rates and declining wage growth is the mark of an economy with low demand for labour, as is shown in the GDP growth rates. Despite these indicators when employment grows, especially among women, such growth must be cautiously read, as distress driven.

ILO estimated that during the pandemic about 364 million or more workers were affected by facing wage cuts, layoffs, and reduced working hours with much severe effects on casual workers, self employed and the workers with unprotected regular jobs. The Centre for Monitoring Indian Economy (CMIE) estimated that during May 2020 unemployment rate in India was as high as 23.5 per cent in May 2020. The economic collapse was much deeper in the urban areas, with manufacturing and non-essential services completely stalled. Surveys done by multiple independent agencies show that the Micro, Small and Medium Enterprises (MSME) segment in manufacturing and services took the brunt. A survey estimates that about 50 percent of the MSMEs suffered a loss of about 20-50 percent of their earnings due to the COVID crisis.

COVID-19 also pushed the pre-existing labour inequalities. Those permanent workers who were employed in the formal sector, both in the public and private sector, experienced wage cuts and wage delays for some period. But the permanence of these jobs enabled relatively safe pass through for the permanent workers during the crisis. In contrast to this the informal workers in the formal sector and the informal sector were mainly subjected to job loss followed by non-payment of wages and deferment in some cases. COVID-19 has brought the vulnerable nature of the Indian working class. The basic minimum institutional guarantees and income support to make informed and free choices for individuals are still lacking among majority of workers.

Though we don't have the official indicators of poverty as the government has not released the consumption expenditure rounds, all other indicators of the economy points to a vastly deepening economic and social crisis in India. Against this background the budget of

2021-22 is at best what can be called a conservative budget focused on conventional long term economic goals of development. The focus on long term development such as rural development, infrastructure building, education and industry incentives are well lauded goals for an economy aiming to spur economic growth through production and supply side. This is the conventional route to development, but all these have long term gestation periods. The growth first-then trickle down route rife with leakages, is a time tested and failed recipe for development. It must be clear that a demand crisis is at hand. Aggregate demand spurring economic measures, which puts money in the hands of buyers and encouraging consumption must be the immediate priority, however myopic it might sound. Because we are relevant in the long run, as Keynes would agree, only if we survive the short run!

INFLATION AND PRICE TRENDS

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The inflation targeting framework introduced in India since September 2016 is due for review by March 31st, 2021. Therefore, trends in prices and inflation assume significance. By amending the RBI Act 1934, the Central Bank was mandated to target consumer price index inflation at 4 percent with ± 2 tolerance band for the period ending on March 31st, 2021. Inflation targeting in India is done in terms of headline inflation, which closely reflects the cost of living and influences inflation expectations. The amended RBI Act 1934 also provides that RBI shall be seen to have failed to meet the target of inflation if rate of inflation remains above 6% or below 2% for three consecutive quarters. In such circumstances, RBI is required to provide explanation for the failure and to suggest remedial measures.

The underlying theoretical model of inflation targeting is the New Keynesian Philips Curve (NKPC), in which inflation arises because of the existence of positive output gap - a symptom of overheating of the economy. With the instruments at its disposal, the Central Bank is eminently positioned to control this inflation. However, in poor and developing economies, in addition to overheating of the economy, inflation can have structural reasons like agricultural supply shortage or negative shocks on energy supply. Unlike in the developed countries, where the food basket of the consumer is almost stabilised and food account for a smaller share of consumers' expenditure, in poor and developing countries food basket of the consumer is still evolving in response to growth in per capita income and food account for a larger share of the consumption expenditure. For instance in India, the weight of food and beverages in the Consumer Price Index (CPI-combined) is 54.8 percent. This implies that negative shocks on food supply or an increased demand for food, particularly for protein rich food due to increasing income, can always generates inflationary pressures. And instruments are available for the Central Bank to douse this kind of inflationary pressures. This is precisely what happened during the last four quarters when inflation crossed the upper bound as shown in the Figure 1. The following points need to be noted from the Figure 1. (1) The increase in the inflation happened before the onset of the pandemic induced supply disruptions (2) As shown in Figure 2, inflation rate crossed the upper threshold not in an overheating economy, but in one which is slowing down. (3) Whenever food price inflation is higher CPI inflation is also higher and CPI inflation is lower when food price inflation is lower. The Economic Survey also states that the increase in the food price is largely contributed by the increase in the prices of items like vegetables, eggs and meat. This suggest that to control inflation in India supply side measures are important and use of measures like policy rate to control inflation like this would result in unnecessary output contraction.

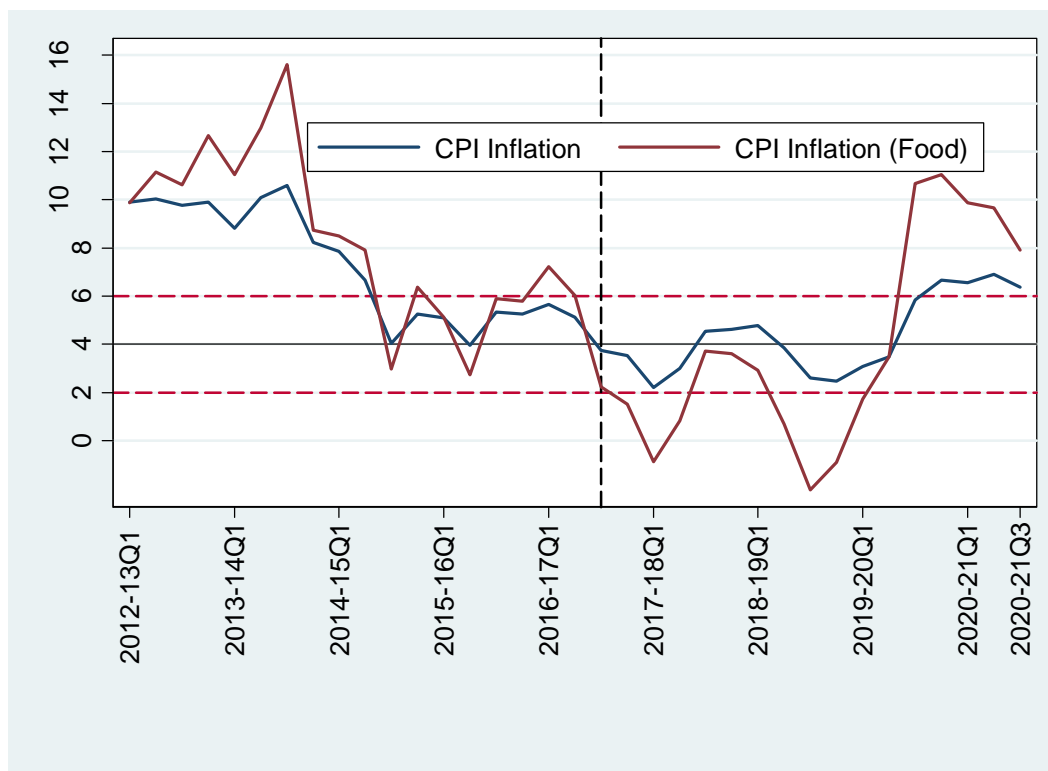


Figure 1. Trends in inflation

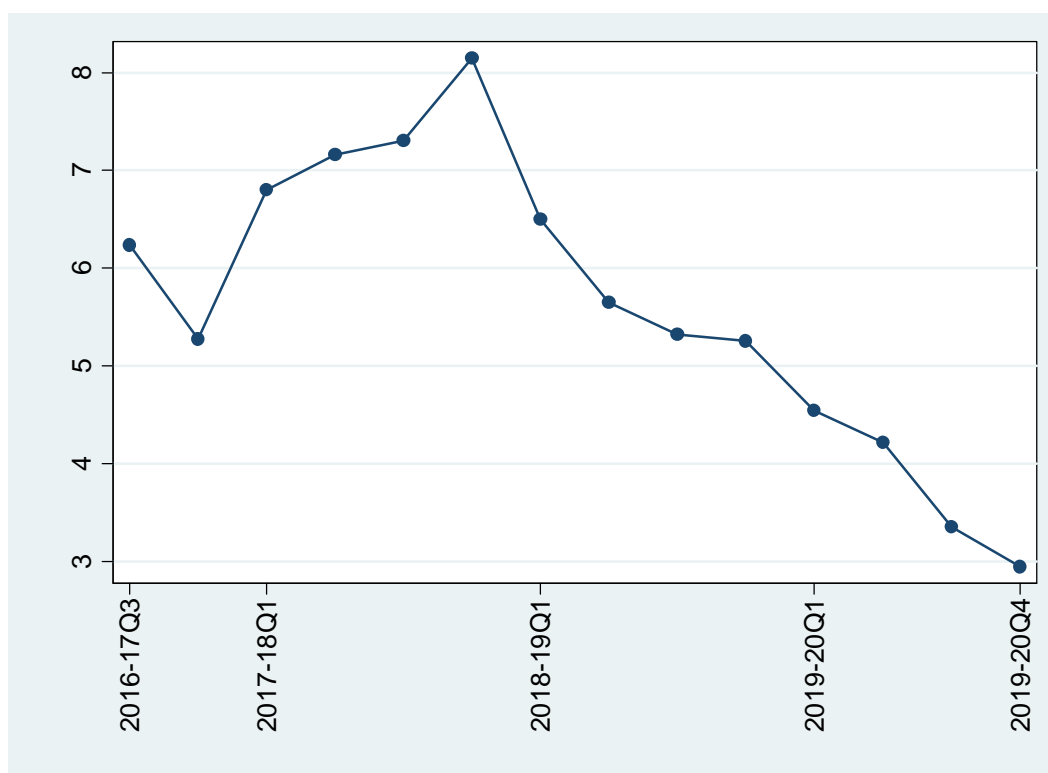


Figure 2. Quarterly growth rate of GDP

AGRICULTURE & FOOD MANAGEMENT- SOME COMMENTS

Tirtha Chatterjee

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This chapter summarizes and reviews Chapter 7 on agriculture and food management. The organisation of the chapter is as follows- Section 1 summarizes the economic survey, section 2 discusses how much of the findings of economic survey gets reflected in the budget 2021 and finally section 3 presents some of my comments on the survey.

Summary of the Chapter on Agriculture

The survey starts with applauding the resilience shown by the agriculture sector in pandemic year hurt further by the sudden lockdown in March 2020 and then discusses the schemes announced by the Central Government under the umbrella of Atma Nirbhar Bharat Abhiyan to strengthen and support agricultural sector.

The report documents that Agriculture and Allied activities sector grew at a growth rate of 3.4% where GVA of the entire economy contracted by 7.2 percent. As per the Provisional Estimates of National Income released by Central Statistical Organization in May, 2020, the share of Agriculture and Allied Sectors in Gross Value Added (GVA) of the country at current prices is 17.8% for the year 2019-20. Total food grain production (estimated at 296.65 MMT) was higher than the previous five years. Production of other crops also shows a rising trend.

The report further documents achievements in areas of agricultural credit, export sector, crop insurance, PMKISAN, food processing industry and livestock sector. It applauds the contribution of the schemes in the past year and explains the new nature of the scheme (in case they have been revised) for the forthcoming financial year. Then the report speaks in detail about the rise in procurement, increasing costs of food subsidy and extensively defends the new farm laws.

The report ends with a way forward where need for a paradigm shift is stressed in how we view agriculture from rural livelihood sector to modern business enterprise. Further, the report talks about the need for massive development of post-production infrastructure like village level procurement centres, linkages, between production and processing, development of rural markets, option of selling outside the APMC markets – warehouse up gradations and strengthening of railways freight operations, dedicated freight corridors among others are needed and are being taken up. The report stresses on the need to strengthen agricultural extension services and expanding the domain to livestock and fisheries sector as well and the immediate need to reduce the bulging food subsidy bill.

How much of it gets reflected in the Budget- 2021-22

Budget saw an increase in total spending in agriculture like previous year's budget, though most of the increase is owing to the rising food subsidy – repaying of FCI past debts. Total allocation increased by 5 percent from Rs. 1.16 lakh crore in RE 2020-21 to Rs 1.23 lakh crore in 2021-22. However, it must be noted that revised estimates for 2020-21 were 13 percent lower than budget estimates of the same year.

Despite Economic survey stressing on achievements of PMKISAN scheme fund allocated to PM- KISAN was reduced from Rs. 75000 crores to Rs. 65000 crores last year. It is interesting to note that we do not find any mention of farm laws in the budget. Further, regarding MSPs, Finance Minister did talk about how MSPs are now 1.5 percent of cost of production and that how procurement has increased in the last five years. However, the budget gives us no idea about what the government is thinking on the way forward. Possibly it is because the government is still unsure about the outcome of discussions with the protesting farmers and therefore did not want to touch the issue. However, some idea on what the government plans would have given us some insights on what the future course of action is envisaged by the government.

There has been an increase in allocation to the Rural Infrastructure Development Fund from Rs. 30000 crore to Rs. 40000 crore and it has been made available to APMCs for augmenting their infrastructural facilities like storage places, cold storages etc. If implemented efficiently, investment in APMCs is much needed. Agriculture Infrastructure Development Cess to be levied on petrol, diesel, gold and other imports, to improve facilities for production, conservation and processing of farm produce and thus “ensure enhanced remuneration for our farmers”. Funds collected from Agriculture Infrastructure development fund would be spent on investments in APMC mandis.

Despite the Finance Minister mentioning increase in procurement in the last few years, there has been a reduction in funds allocated to schemes like Market Intervention Scheme and Price Support Scheme and Pradhan Mantri Annadata Aay Sanrakshan Yojna (PM-AASHA) which ensure implementation of procurement.

Despite celebrating the scheme in the Economic Survey, Pradhan Mantri Fasal Bima Yojana did not see any additional change. In terms of marketing related spending, budget talks about including 1,000 mandis to e-NAM Agricultural credit target has been enhanced to Rs 16.5 lakh crores in FY22. But given that small and marginal farmers do not borrow from formal sources, the key is to reach farmers across the country. Amount allocated to food subsidy has increased in the present budget, but that is because there has been a correction in the budget books where the government is paying back Food Corporation of India (FCI) arrears, rather than forcing the FCI to take loans. This was a much needed step and budget needs to be congratulated for this transparency in food subsidy bills.

Some Comments

Survey does not compare the performances of existing schemes in the sector. It does not empirically evaluate the performances of existing schemes. For example, there is no mention of the much advertised scheme enam in the report. No long term plan as in how they expect agriculture to transform itself in the years ahead or what steps have to be taken to reach that destination in future.

In terms of empirical rigour, one finds lack of consistency in what metric is chosen and which years are chosen to evaluate the performance of an existing scheme. One example is that they claim that credit disbursement and gross cropped area are positively related. This claim however is not surprising, given that state with higher gross cropped area should get higher credit disbursement, everything else remaining constant. What would have been insightful would be to compare credit disbursement per unit of gross cropped area.

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INNOVATION IN INDIA IS IMPROVING?

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The issue of innovation performance or its promotion is not a topic usually discussed in India's annual *Economic Survey*. However, a complete break with this usual practice was made in 2017-18 when the Economic Survey of that year contained a chapter on innovation. The topic remained elusive in the subsequent issues and finally reappeared in 2020-21. Given the importance of innovation in maintaining and improving economic growth, the case warrants a very close look and analysis. In specific terms, the question that is relevant for us is to see whether the country's innovation performance is improving or not. This question is appropriate because of some policy initiatives by successive governments at the Centre to spur innovation. For instance, India has had a generous tax regime for performing R&D, the higher education system of the country has been tweaked to encourage more students to enrol for science and engineering courses, and increasingly the public technology procurement has been practised for some products and the startup ecosystem has been considerably revamped and incentivised. All these measures and more would have paved the way for more innovations emanating from the country. The Survey seeks to answer this by examining India's rank in a composite index of innovation, the Global Innovation Index (GII). The GII has been computed since 2007, and in the 2020 version of it, India's rank had jumped several places from 81 in 2015 to 48 in 2020. Among the seven pillars of the GII, India ranks 27th in knowledge and technology outputs, 31st in market sophistication, 55th in business sophistication, 60th in human capital research, 61st in institutions, 64th in creative output and 75th in infrastructure. However, composite indexes such as the GII are based on many indicators, some of which are abysmal innovation indicators (Skillicorn, undated, Lall, 2001). Further, Crespo and Crespo (2016) had shown that several casual combinations of conditions lead to high innovation performance in two groups of high-income and low-income groups. So any policy conclusions drawn from a country's performance-based GII ranking may not be robust.

Given this, using the tried and tested conventional indicators of innovation, we examine the country's innovation performance and see whether there has been a real improvement, as shown by India's ranking in GII.

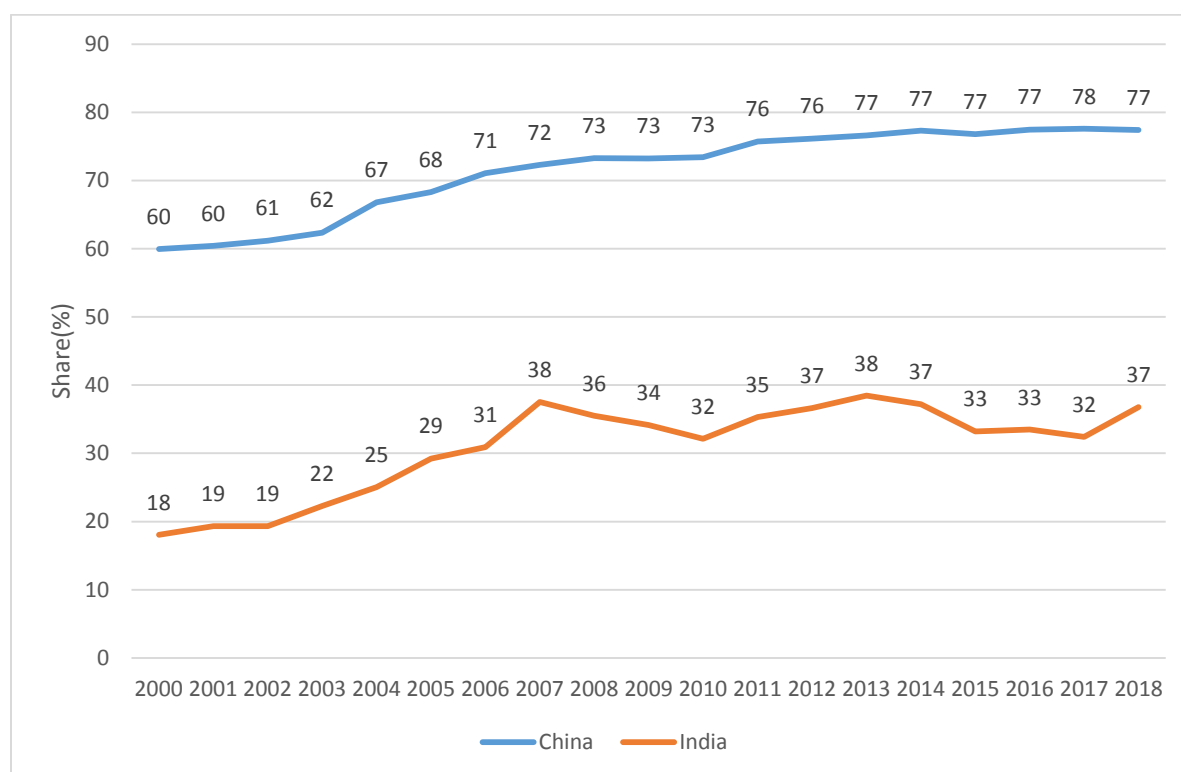
Proposition 1: Country's GERD to GDP ratio has remained virtually constant, around 0.70. It was supposed to have reached 2 in 2006-7. Among the top 10 countries globally, India has the lowest GERD to GDP ratio. See Table 1. Low research intensity reduces the scope for innovation activity with all country's National Innovation System actors.

Proposition 2: Business enterprises in the private sector continue to move forward to the core of the NIS, but the research output from the private sector in terms of patents is not much and is confined to a few industries such as the pharmaceutical the IT services industry.

Table 1: GERD across the top ten spending countries, 2018

Country	GERD (in billions of PPP \$)	GERD to GDP (in per cent)
USA	581.6	2.84
China	554.3	2.19
Japan	176.6	3.26
Germany	137.9	3.09
Korea	99.6	4.81
India	68.2	0.65
France	66.6	2.20
U K	62.1	1.72
Brazil	41.1	1.26
Russian Federation	40.1	0.99

Source: UNESCO Institute of Statistics, <http://uis.unesco.org/sites/default/files/documents/fs59-global-investments-rd-2020-en.pdf> (accessed on March 6, 2021)

Figure 1: Trends in the share of R&D in total GERD, India vs China

Source: UNESCO Institute of Statistics, <http://uis.unesco.org/sites/default/files/documents/fs59-global-investments-rd-2020-en.pdf> (accessed on March 6, 2021)

This trend was already seen in the Economic Survey of 2017-18. The share has been hovering around 37 per cent since 2007 (Figure 1)

Although this a desirable trend as the conversion of research results to commercialise products and processes is higher when business enterprises mostly perform R&D, India's record is different from those of Chinas' where the share of business enterprises has reached almost 80 per cent share of GERD. Another aspect is that nearly two-thirds of the business enterprise R&D is concentrated in just three industries, namely pharmaceuticals, motor vehicles, and the chemical industry other than pharmaceuticals. See Table 2.

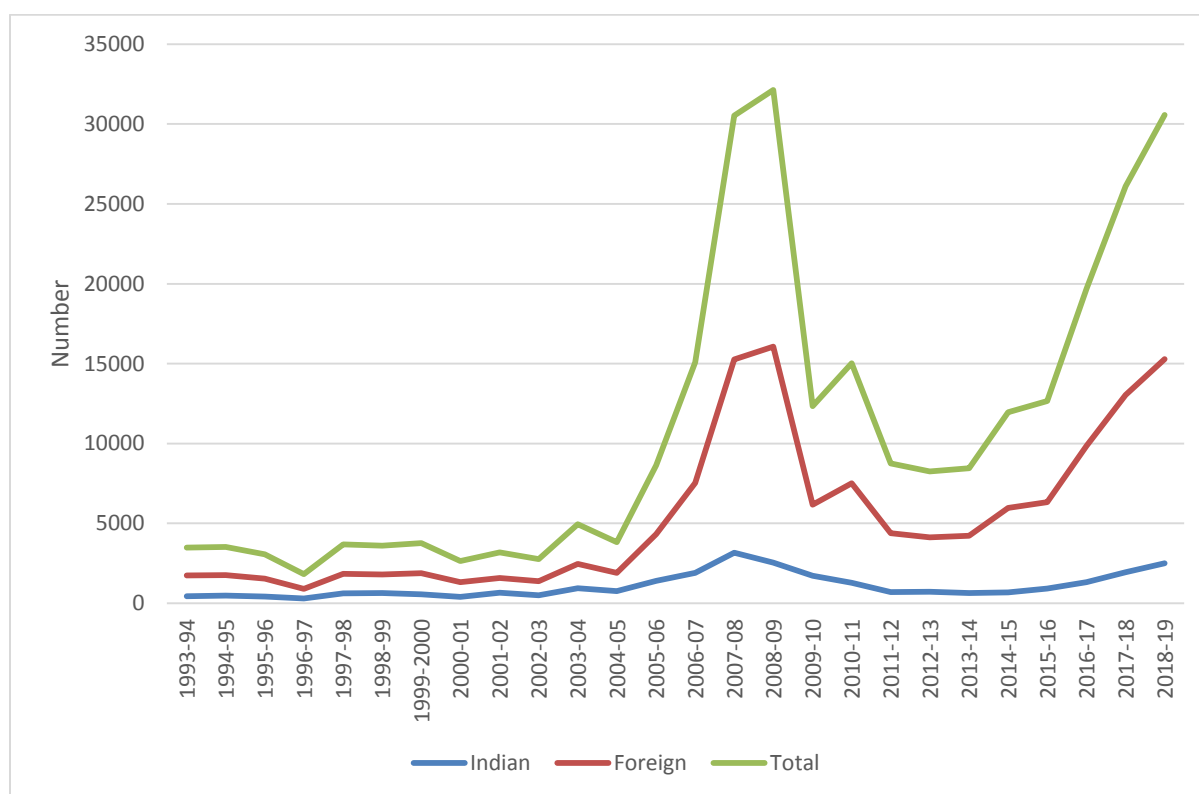
Table 2: Industry-wide distribution of business enterprise R&D in India, 2017-18

	Industry	2017-18 (Rs in Crores)	Share (%)
1	Manufacture of Basic Pharmaceutical Products and Pharmaceutical Preparations	10105.92	29.24
2	Manufacture of Motor Vehicles, Trailers and Semi-Trailers	9207.98	26.64
3	Manufacture of Chemicals and Chemical Products	3970.88	11.49
4	Manufacture of Machinery and Equipment NEC	2014.05	5.83
5	Manufacture of Computer, Electronic and other Optical Products	1983.94	5.74
6	Other Manufacturing	1968.27	5.70
7	Manufacture of Electrical Equipment	1358.62	3.93
8	Manufacture of Coke and Refined Petroleum Products	959.09	2.78
9	Manufacture of Rubber and Plastic Products	792.11	2.29
10	Manufacture of Other Transport Equipment	648.28	1.88
11	Manufacture of Food Products	330.17	0.96
12	Manufacture of Textiles	304.43	0.88
13	Manufacture of Paper and Paper Products	214.62	0.62
14	Manufacture of Basic Metals	152.86	0.44
15	Manufacture of Leather and Related Products	143.96	0.42
16	Manufacture of Fabricated Metal Products, except Machinery and Equipment	136.83	0.40
17	Electricity, Gas, Steam and Air Conditioning Supply	131.7	0.38
18	Manufacture of Other Non-Metallic Mineral Products	47.15	0.14
19	Manufacture of Wearing Apparel	38.51	0.11
20	Manufacture of Beverages	25.65	0.07
21	Manufacture of Tobacco Products	17.39	0.05
22	Manufacture of Wood and Products of Wood & Cork, except Furniture	6.8	0.02
	Total	34559.21	100.00

Source: Department of Science and Technology (2020)

Even in these industries, only a few business enterprises are engaged in R&D. In other words, the R&D culture is not uniformly distributed. Further, while there has been an increase in the number of patents granted by the Indian Patent Office, domestic inventors account for about 16 per cent of the total. The share of domestic inventors appears to have come down over the years. Industry-wise distribution of patents shows that the chemical industry other than pharmaceutical has the largest number of patents granted. The electrical sector occupies the second position while the number of patents granted to the pharmaceutical industry, although increasing, seems to have come down in terms of its share of the total. Surprisingly the motor vehicle industry, which accounts for a significant percentage of R&D investment, does not figure at all.

Figure 2: Trends in the number of patents granted to domestic and foreign inventors by the Indian Patent Office



Source: Indian Patent Office (various issues)

The Survey indicates that the domestic inventors share must increase.

In short, based on an analysis of these two conventional innovation indicators, India's innovation performance is nothing much to write home about. So an excessive reliance on composite indicators can cloud our understanding of the real picture.

Proposition 3: The main policy conclusion that the Survey draws for improving innovation performance is that the resident's share of patent applications must increase. However, the Survey does not go into the real reasons for why the resident's share is low. In our view, it is because R&D investments, especially by business enterprises, are meagre, which is because the density of scientists and engineers engaged in R&D is one of the lowest. See Table 3. Although recognised as a problem of one of the earlier innovation policies, for instance, the Science and Technology Policy 2003, it does not appear to have been adequately addressed. In this context, the budget does not have anything significant to pronounce in this direction.

Table 3: Trends in the density of R&D personnel
(Density is number per 10000 labour force)

	Personnel engaged in R&D only	Density of only R&D	Total R&D manpower engaged*	Density of total R&D personnel
1990	105936	3.35	300877	9.50
1992	95486	2.88	293348	8.85
1994	114403	3.29	314489	9.04
1996	127226	3.50	335072	9.22
1998	95428	2.51	308392	8.12
2000	93836	2.36	296343	7.47
2005	154827	3.45	391149	8.71
2010	192819	4.16	441126	9.53
2015	282994	5.93	528219	11.07
2018	341818	7.01	552969	11.34

Source: Computed from Department of Science and Technology (2020)

Note: *Total R&D manpower includes auxiliary and administrative personnel working in R&D departments

The only proposal of any consequence is an outlay for the National Research Foundation (NRF). The NRF was set up in 2019 to provide research grants practically to individual researchers and research groups, primarily in academia. According to the concept report (PM-STIAC, 2019) for the NRF, the NRF will be given an annual grant that will eventually aim to reach at least 0.1% of GDP (in current terms, approximately Rs. 20,000 crores) and will be conferred with the autonomy to set its finances, governance, and statutes. Towards this direction, the budget provides only Rs 10000 crores per year for the next five years. Also, there is very little information about the details of the NRF.

In conclusion, the budget does not appear to have picked up any of the policy conclusions reached by the Survey on ways of promoting innovations in the country.

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A CRITIQUE OF CHAPTER 9 ON SERVICES FROM ECONOMIC SURVEY- 2020-21***Ritika Jain****(Assistant Professor, Centre for Development Studies)*

The services sector is the most dominant sector in India's GDP and attracts significant foreign investment. It spans across a wide set of activities such as tourism, hotels and restaurants, transport, trade and marketing, financing, insurance, construction, real estate and so on. Chapter 9 of the Economic Survey of 2020-21 covers the services sector and its performance in India. In this write up, I attempt to provide a brief summary of Chapter 9 followed by a critique on it.

The chapter begins with acknowledging 2020 to be a peculiar year as it was marred by the COVID-19 pandemic and extended lockdowns. Contact intensive nature of the service sector led to a 16% contraction in the first half of the FY 2020-21. After the deep plunge during the lockdown, rail freight traffic, port traffic and Services Purchasing Managers' Index are all exhibiting V shaped recovery. This V shaped recovery is attributable to the optimism surrounding the mega-vaccination drive and robust recovery in consumer sentiment. In the next part, the Chapter discusses the structural reforms that were introduced in the services sector in India in the year 2020-21. Several reforms such as opening up of the space sector, removal of telecom related regulation from the IT-BPO sector, relaxation of other service providers (OSP) terms and conditions and introduction of consumer protection regulations were introduced. For instance, Relaxation of Other Service Provider (OSP) Terms and Conditions, introduced in November 2020, reduces the compliance burden of the BPO industry and enables to "Work from Home". Similarly, Consumer Protection Act, 2019- establishment of the Central Consumer Protection Authority (CCPA) aims to promote, protect and enforce the rights of consumers and was introduced in Jul, 2020

In the final part, the Chapter emphasizes on the significance of the service sector in India. Even during COVID-19 causing disruptions across the world, FDI inflows into the services sector grew 34% (YoY) from April- September 2020. Accounting for over 54% of the GVA and nearly four fifths of the total FDI inflows, the service sector contribution has remained fairly high in India for the last few years. In terms of inter-state distribution of the sector's share in GVA, 15 states have a contribution higher than 50%. In fact, states such as Delhi and Chandigarh have contributed greater than 85%. The ratio of service exports also comprises of 48% of the total exports in 2020, recording a steady rise since the last few years. The Survey chapter also celebrates the ease of doing business in the sector with shipping turnaround time becoming half in nine years to 2.62 days. Next, the start-up ecosystem has also flourished amidst the pandemic with a record of 12 additional unicorns added in 2020-21. Finally, the space sector has grown exponentially in the past six decades. Despite this, India continues to lag behind several other countries but several reforms have been initiated to engage private players and attract innovation and investment.

The twenty page chapter provides an account of the robust recovery of the services sector in the Indian economy. However, it seems to be a rather desperate attempt to ignore stagnant or sluggish performance or blame it on the pandemic. This is evident from Table 1 of the Chapter.

Table 1: Services Sector Performance in India's GVA

Sector	Share in	Growth (per cent YoY)					
	GVA (per						
	cent)	2020-21	2018-19	2019-20	2020-21	2020-21	2020-21
	(AE)	(1st RE)	(PE)	(AE)	(H1)	Q1	Q2
Total Services (Excluding construction)	54.3	7.7	5.5	- 8.8	- 15.9	- 20.6	- 11.4
Trade, hotels, transport, communication & services related to broadcasting	15.4	7.7	3.6	- 21.41	- 31.5	- 47.0	- 15.6
Financial, real estate & professional services	22.2	6.8	4.6	- 0.82	- 6.8	- 5.3	- 8.1
Public administration, defence & other services	16.7	9.4	10.0	- 3.68	- 11.3	- 10.3	- 12.2

Source: Ministry of Statistics and Programme Implementation.

Note: Shares are in current prices and growth in constant 2011-12 prices; RE: Revised Estimates. PE: Provisional Estimates. AE: Advance Estimates

The sluggish growth rate in all (except public administration, defence and other services) sectors has started from 2019-20. However, this observation has received no mention in the current Survey and it has been written by focusing only on the year 2020-21. A related observation is the omission of construction services while analysing the performance of the sector. Due to demonetization and GST, construction services has been stagnant for the past four years but the complete omission of it signals “cherry picking” pattern in analysing performance.

A second limitation is related to providing a blanket scenario of how the services sector has performed in India. However, the impact of COVID-19 and the associated lockdown will be driven by the extent of human contact intensive nature of the service, the ability to adapt to ICTs and the flexibility and feasibility of employees to work remotely. A better suited approach would have been categorising sectors that are more contact intensive and lower ability to adapt to ICTs and then examining if the recovery is a consistent pattern.

A third limitation is associated with observations related to the ease of doing business index in the service sector. The chapter boasts of a rise in ease of doing business in the sector—shipping turnaround time becoming half in nine years to 2.62 days. However, the Ease of Doing business as constructed by the World Bank is controversial. For instance, the former chief economist of the World Bank, Paul Romer had stepped down from his position at the institution for saying that Chile's rankings had been manipulated. This suggests that the ranking is unreliable but the past few Economic Surveys have celebrated improvement in the country's ranking in this suspicious indicator.

Table 4: Gross FDI Equity Inflows* into Services Sector

Services Sub-sectors	Share in Gross FDI Equity Inflows into Services sector in 2019-20 (per cent)**	Gross FDI Equity Inflows (US\$ million)			
		2018-19	2019-20	April-Sep 2019	April-Sep 2020
Financial, Business, Outsourcing, R&D, Courier, Tech Testing & Analysis	9.54	9,158	7,854	4,455	2,252
Computer Software & Hardware	74.34	6,415	7,673	4,025	17,554
Trading	4.02	4,462	4,574	2,143	949
Telecommunications	0.03	2,668	4,445	4,280	7
Information & Data Services	0.68	1,252	822	106	161

Table 4 from Economic Survey Chapter 9**Table 6: Performance of Key Sub-Sectors in India's Services Sector**

Sub-Sector	Indicator	Unit	Year				
			2016-17	2017-18	2018-19	2019-20	20
IT –BPM*	IT-BPM service revenues:	US\$ billion	139.9	151.4	161.8	174.53 (E)	
	Exports	US\$ billion	116.1	125.1	135.5	146.6 (E)	
	Domestic	US\$	23.8	26.3	26.3	28 (E)	

Table 6 from Economic Survey Chapter 9

A fourth limitation is related to a fundamental approach used in Tables 4 and 6. Both tables present trends followed by Gross FDI equity inflows and revenues over time. However, both tables present nominal values at levels without accounting for inflation or size. Any observation based on this pattern is irrelevant and not suitable for policy prescription. A third critical limitation with the current chapter of ES is moving beyond mere numbers that show performance of each of the activities in the services sector and making it about lives. The pandemic induced lockdown has unfolded asymmetric effects on the type of employment wherein the low skilled and unskilled workers faced the brunt in a more severe manner as compared to the highly skilled ones. Any discussion on the performance of services must include employment related matters especially after the pandemic that led to termination of job contracts, wage cuts and overwork.

FISCAL DEVELOPMENT

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The second chapter of Economic Survey (on “fiscal development” in Vol. 2) examines broad trends of expenditure, revenue, deficit and debt of centre and states. It describes that pandemic year 2020-21 has posed significant fiscal challenges for governments where expenditure requirement shoot up high and revenue collection drastically dipped. It recognises that fiscal policy response of the government of India (GOI) has been quite distinct and successful comparing other developed countries.

- The crisis posed the challenge of saving lives and livelihood and reviving the economy from slow down. This called for expenditure re-prioritisation. Although emphasis was placed on greater capital expenditure (to support long-term asset creation) but capital expenditure couldn't be hastened until end of second quarter, 2020 on account of spread of virus, lockdown and containment measures, to execute projects. However, with unlocking of economy, capital expenditure has gained momentum in third quarter and economy started to realise some positive impulses.
- Revenue collection from direct and indirect taxes including custom, and GST had suffered except excise on sale of petroleum products. However, observing a V-shaped GST revenue collections for 2020-21, as a result of significant improvement in collection over three consecutive months till December 2020, Economic Survey visualised a V-shaped growth recovery. The non-debt receipts such as dividend, profits and disinvestment proceeds have suffered a severe jolt.
- Based on premise that private sector is likely to incur more discretionary expenditures such as purchasing assets (precautionary savings) against high future uncertainties due to pandemic, Economic Survey claims that multiplier impact of a counter-cyclical fiscal policy is high during crisis than a boom. But comparing GOI's total stimulus (of Rs17 lakh crore) with other developed countries, the size seems to be quite meagre. The fiscal stimulus was 8.8% of GDP under Atma Nirbhar Bharat given that there was already a drastic decline in GDP during pandemic from its previous year.
- Although states have exercised greater fiscal discipline over years in restricting their deficits and debt levels in relation to GDP, but they are under severe stress during pandemic on account less realisation of overall revenues and not receiving timely GST compensation committed by centre. The states over last three years constrained by insufficient resources have witnessed decline in actual capital spending over their budgeted estimates since 2017-18. This may have adverse implication on their quality of development given high fiscal multiplier impact of capital expenditure.

- Observing general government debt-to-GDP ratio has touched around 74% in 2019-20, Economic Survey (second chapter on “Does Growth lead to Debt Sustainability? Yes, but not vice-versa” in 2nd volume) assessed sustainability of general government debt and later it focussed on examining the crowding out/ in debate.
- Claiming that debt-to-GDP ratio sustainability is supported in India from negative difference in interest rate and growth rate and, high growth rate leading to decline in debt-to-GDP ratio, It simulated debt sustainability indicators till 2030. Projecting, a similar average negative differential between interest rate-growth rate, it concluded that there is no sign of general government debt becoming unsustainable and there is existence of crowding in during reform years. It prescribes for a more proactive counter-cyclical fiscal policy as to effect higher growth during down turn. It also suggests that it is the high growth rate which contributes to sustainable debt-to-GDP ratio, without examining till what level, the debt-to-GDP would be sustainable and beyond which it would be unsustainable.

Reflection on Union Budget

- It projected fiscal deficit-to-GDP at 6.8% for 2021-22 from its revised estimate for current year at 9.5%. The total expenditure is budgeted to increase by just less than 1% (.95%) over the revised estimate for 2020-21 but this represents an increase of 14.5% over the previous budgeted estimate.
- Decomposing aggregate expenditure, one would observe that revenue expenditure is slashed by 2.72% over the revised estimate of 2020-21 but this constitutes an increase of 11.36% over last budgeted estimate.
- Capital expenditure is increased by 26% over the revised estimate but constitutes an increase of 34.49% over the previous budgeted estimate. This shows merely a expenditure switch from one head to another.
- This is done with a long-term view that capital expenditure (on infra heads) would have long-run multiplier by supporting private investment and FDI inflows. That would intensify privatisation, manufacturing activities and thereby driving make in India or Atma Nirbhar Bharat mission.
- While mostly countries have continued to rely on short-run multiplier effects of government expenditures, India has favoured long-term multiplier effect of fiscal policy and fiscal consolidation.
- This gives rise to the concern: whether the envisaged budgetary policy exercise would be effective to generate greater employment and output over short to medium-term?

- Will it help in ensuring speedy recovery from crisis? Has the budget tried to put sufficient purchasing power in hands of people for ensuring greater positive multiplier effects over short-run?
- Or, does budget believe that economy would automatically restore to normalcy with rollout of vaccine and hence there is only a need for long-term fiscal policy strategy to effect higher growth over medium to long-run?
- There may be a concern for significant inflationary pressure due to levy of agricultural infrastructure cess on petrol and diesel which are most sensitive items along with increasing import duty on cotton and edible oil and simultaneously reducing the excise duty on petroleum products to same extent. This change is effected undermining what would be states' response when their revenue share in devolution will get affected along with less GST compensation. Moreover, budget has lost sight of the effect of a simultaneous global economic recovery on international crude oil prices.
- Increase in import duties in this budget on some items along with continuation of increased import duties on several items in the last budget is likely to keep the cost of living high, mostly affecting all and the urban poor.
- Other key concern is that heavy government borrowing from market may result in crowding out effects, therefore suggesting the RBI as the manager of centre's debt either has to recourse to external official (concessional) lending overlong-term maturity which would minimise immediate repayments (and rollover risks). Alternatively, RBI should exercise an accommodative monetary policy. However, the latter may generate extra inflationary pressure and therefore, RBI has to choose an optimal strategy between both as to support government financing and maintain its monetary policy credibility of anchoring inflation within its target.

Concluding Observations

- Contrary to what the survey prescribes, looking at the projected estimates of expenditure and deficits, one would find that centre has adopted a very conservative (contractionary) expansionary fiscal policy which may have a negligible multiplier impact over short-run instead of creating more fiscal-space to quickly fix the economy from crisis and investment deflation.
- Taking a glance at long-term trend of growth of capital spending, one would see capital spending had grown at a rate of 72% at the onset of global financial crisis in 2007-08. Thus, a mere 34.50% projected growth target of capital spending in current budget over last budgeted estimate wouldn't provide a big stimuli for economic recovery in an unprecedented crisis involving significant losses to the economy.

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- Union budget by underestimating needed short-run impulses has not provided adequate direction how it will generate employment and output in short-run. The government has taken only a long-term view of the economy over future years by ignoring the fact that there was already a deflationary spirit prevailing in the economy *w.r.t.* private investment on account of lower domestic consumption before onset of pandemic.
 - State-wise allocation of expenditure in the budget shows that few states receiving high valued projects leaving the rest without any such bigger projects. This is not in the greater interest of a cooperative fiscal federalism, contrary to what current government had aimed for in its initial years.

EXTERNAL SECTOR

Chidambaran G. Iyer

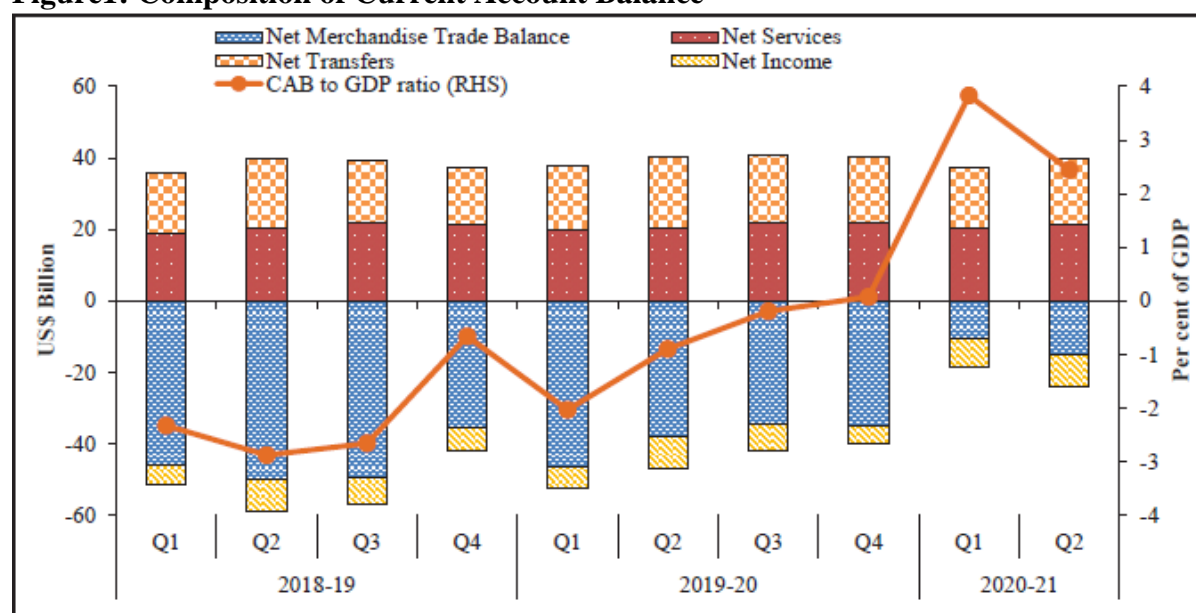
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In today's interconnected and interdependent world, a robust economy is built on a healthy external sector. India, like any other developing country, has had its share of external sector crises, lessons from which have helped us make our external sector healthier. The aim of this note is to summarize the view of the external sector as per the Economic Survey (ES) of 2020-21 and then contrast it with the announcements made for the external sector in Budget 2020-21. We begin by delineating the external sector as portrayed by the ES, this is followed by the budgetary announcements, and finally a short assessment.

Economic Survey viewpoint

Amidst an uncertain and shaky global economic environment, the ES says, India's external sector has emerged as a key cushion for resilience. As per the ES, the external balance position of India is comfortable, underlying factors for which have been the surplus current account balances for over three consecutive quarters, resumption of portfolio capital inflows, robust foreign direct investment (FDI) inflows and sustained build-up of foreign exchange reserves. In line with the contraction in global trade, during the first quarter (Q1) of FY2020-21, India's exports and imports saw a sharp contraction, with the decline in imports outweighing that in exports – leading to smaller trade deficit of US\$ 9.8 billion as compared to US\$ 49.2 billion in Q1 in the previous year. The trade deficit during the April-December, 2020-21 was US\$ 57.5 billion as compared to US\$ 125.9 billion in the corresponding period last year. A look at the composition of Current Account Balance (Figure 1) makes it apparent that the surplus was primarily due to contraction of imports (decline in imports outweighed that in exports). The ES, however, does not address the sustainability of this aspect.

Figure1: Composition of Current Account Balance



Source: Economic Survey 2020-2021, Ministry of Finance, Government of India.

On the capital side, net FDI flows recorded an inflow of US\$ 27.5 billion, 14.8 per cent higher as compared to first seven months of 2019-20. During April-December, 2020, FPI flows of US\$ 28.5 billion was recorded as against US\$ 12.3 billion in corresponding period of the previous year. These robust capital flows, drove foreign exchange reserves to an all-time high of US\$ 586.1 billion (as on January 8, 2021), covering about 18 months of imports. Everything is not rosy, as there is a small red flag that the ES raises, external commercial borrowings (ECBs), the largest component of external debt –bulk of which are in the form of commercial loans and securitized borrowings, is at US\$ 207 billion as at end- September 2020, contracted by 5.8 per cent over the level as at end- March 2020. ES expects the on-going COVID-19 pandemic to adversely impact export earnings of external commercial borrowers. To the extent such earnings are dented, ES believes that their repayment capacity would potentially get adversely impacted, thereby creating a source of potential vulnerability going forward.

ES affirms that a sustainable way for a healthy external sector balance is to enhance earnings through exports – which also give a boost to economic growth. Trade facilitation is, therefore, as per the ES, a priority of the Government for cutting down the transaction costs and time, thereby rendering Indian exports more competitive. Two recently announced schemes - Remission of Duties and Taxes on Exported Products (RoDTEP) scheme and Production-Linked Incentive (PLI) Scheme, as per the ES, are expected to boost exports.

Budget Announcements

Tariffs constituted one of the main budget announcements for the external sector; in this respect, this budget was similar to last year's budget. In the current budget duties have been raised on 1250 items, while last year, tariffs were raised on 1600 items². Another announcement that has taken exporters by surprise is a new provision under which it has been proposed that any goods entered for exportation making wrongful claim of remission or refund shall be liable to confiscation. On the FDI side, the Insurance Act, 1938 has been amended to increase the permissible FDI limit from 49 to 74 per cent in Insurance Companies and allow foreign ownership and control with safeguards. To augment funds for infrastructure and real estate sectors, debt financing by foreign portfolio investors has been enabled by making suitable amendments in the relevant legislations. Some conditions relating to prohibition on private funding, restriction on commercial activities, and direct investment in infrastructure are going to be relaxed to ensure that a large number of foreign funds invest in infrastructure in India. Deduction of tax on dividend income will now be at lower treaty rate, which is another incentive for FPI. Tax incentives have been announced for relocating foreign funds to the International Financial Services Centre (IFSC) in GIFT City, Gujarat; the budget has also allowed tax exemption for investment divisions of foreign banks that are located in IFSC.

²<https://www.livemint.com/news/india/electronics-goods-face-biggest-tariff-hikes-in-india-s-atmanirbhar-push-11612941863516.html>, last accessed on 23 February 2021.

Assessment

Given the focus of ES on exports and the subsequent budget announcements, we will focus only on a couple of issues. The trend of increasing tariffs has continued in this year's budget, in the last two years we now have raised tariffs on more than 25 per cent of the tariff lines. It has been long known in economics that pursuing export promotion is hard if you are resorting to import substitution (Lerner, 1936). In other words, if inputs to exporting industries are not available at competitive prices then achieving or maintaining export competitiveness may be an uphill task. On this front it is clear that the ES and the Budget are not on the same page.

The budget speech mentions that there is immense potential in manufacturing heavy capital equipment domestically. Though, duty rates on certain items have been revised immediately; in due course, there will be a comprehensive review of the rate structure. In some of my research on the Indian mobile phone industry, few observers have noted that our capital equipment manufacturing capability is first generation while most of the manufacturing world now uses fifth generation machines. Thus, it is hard to find reason in the thinking that by raising tariffs we can create a heavy capital equipment manufacturing industry. The time tested approach in this regard is that we first focus on raising local capability, handhold them – one of the ways here is to raise tariffs, and finally open up the sector to international competition by lowering tariffs.

The confiscation provision has already created a flutter among exporters³, there already have been submissions against the same. Exporters claim that word 'wrongful claim' in the budget announcement is subject to various interpretations and will put exporters at the mercy of field formations. In addition, rates of the RoTDEP, which came into effect from 1 Jan 2021, the scheme that is supposed to replace the existing Merchandise Exports from India Scheme (MEIS), is yet to be announced by the government. From the perspective of trade facilitation as called for by the ES, it is clear that these diametrically opposite actions on the part of the government, will not only increase transaction costs and time but also render Indian exports non-competitive.

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