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Source : www.thehindu.com Date : 2023-11-03

SLOWING MOMENTUM: THE HINDU EDITORIAL ON PALPABLE SOFTENING IN ECONOMIC MOMENTUM

Relevant for: Indian Economy | Topic: Infrastructure: Energy incl. Renewable & Non-renewable

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November 03, 2023 12:30 am | Updated 12:30 am IST

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Latest data, including the official Index of Eight Core Industries for September and S&P Global's Purchasing Managers' Index (PMI) for the manufacturing sector for October, point to a palpable softening in economic momentum. The government's provisional figures for output across the key infrastructure industries, from cement and coal to steel and electricity, show the average year-on-year growth in production eased appreciably to a four-month low of 8.1% in September, from the 12.5% pace posted in August. The pace of expansion flagged across all but one of the eight sectors, with only fertilizers registering a quickening in growth from the preceding month as farmers stocked up on the key agricultural input ahead of the rabi season. Heavy rains in the final month of the southwest monsoon season, which resulted in 13% surplus precipitation for September, also likely contributed to dampening demand and output for cement, electricity and steel, all of which saw significant slowing in growth from double-digit paces in August. Sequentially, production in fact contracted across all the eight sectors, with the overall index declining 4.8% from August's level. Coal offered the silver lining: the year-on-year growth in output of the fuel eased only slightly to a still robust 16.1% pace, from August's 17.9%, and posted just a 1.5% sequential contraction.

Independently, the more up-to-date survey-based manufacturing PMI data for October buttresses concerns that broader economic momentum may yet again be sliding for want of traction. The seasonally adjusted S&P Global India Manufacturing PMI signalled sectoral growth slid to an eight-month low last month, amid a weakening in demand, particularly for consumer goods. Factories saw new orders rise at the slowest pace in a year, with even international sales losing vigour. More worrying is the fact that less than 4% of the about 400 companies surveyed said they were adding staff, thus depressing job creation in manufacturing to the slowest level since April. Input cost inflation also accelerated. But factory gate inflation was considerably slower indicating that with demand uncertain, producers were forced to temper the pass-through of higher costs. With business confidence ebbing to a five-month low, the panellists cited rising inflation expectations as the key factor expected to dent demand and production growth over the next 12 months. And the advance estimates for lower kharif output, disconcertingly flag the fact that the farm sector may be able to offer little succour as rural incomes get hit. Policymakers have their task cut out to surmount the twin challenges of slowing growth and persistent inflation.

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economy (general) / government / fertiliser / Monsoon / coal / manufacturing and engineering / rubber product / paper and packaging product / iron and steel / agriculture

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Source : www.thehindu.com Date : 2023-11-06

REVENUE REBOUND: THE HINDU EDITORIAL ON GST COLLECTIONS

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

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November 06, 2023 12:15 am | Updated 12:15 am IST

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Gross Goods and Services Tax (GST) revenues hit their second highest monthly tally in October at a little over 1.72 lakh crore, breaking a few long- and short-term trends. To start with, they reflect a 13.4% uptick over last year's kitty, the highest so far in 2023. Moreover, it reverses a persistent deceleration in revenue growth seen through the second quarter of this financial year. From an average growth of 11.5% between April and June, the rise in GST revenues had slowed to 10.6% between July and September, with the last month seeing a 27-month low uptick of 10.2%. The Finance Ministry shall hope that this growth rate pick-up sustains so that its 2023-24 fiscal math gets some buffer from any possible spending or subsidy shocks, whether they arise from external risks such as fuel or urea prices or internal ones such as pre-election goodies like extending the free foodgrains programme. Seen over a broader timeframe, last month's mid-year indirect tax collections bely a pattern that the highest revenues are received in April as businesses close their books of accounts for the financial year. Year-end compliances had propped up this April's kitty to a record 1.87 lakh crore.

The entire bump up in October's revenues, stemming from transactions undertaken in September, may not be ascribed to a consumption spike at the onset of the festive season. Experts believe the Revenue Department's continuing crackdown on the non-compliant, and a September 30 deadline for settling any disputes that may have arisen since the GST regime's launch in 2017-18, also played a role. However, there is some indication of a recovery in domestic demand. While revenues from domestic transactions and services imports grew 13%, the revenue growth from imports that the Finance Ministry did not explicitly disclose, was sharper at 13.94%. This is not only the fastest uptick in at least nine months but also marks only the third time in seven months that goods import revenues have grown. Some of this must reflect a rebound in discretionary demand, even if this may be largely for premium or high-end goods rather than a broad-based bump. If this sustains through the festive season, revenues could hold up even if companies are reporting some weakening of demand growth in October in consumer goods, especially in rural areas. A new amnesty scheme to settle a limited set of GST demands, unveiled last week for taxpayers who failed to appeal them in time, may also bolster the kitty as it mandates firms to deposit an additional amount of the disputed levy for consideration. Anyone tracking the trajectory of GST as a high-frequency indicator to assess the economy's growth prospects must not lose sight of such factors.

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taxes and duties / imports / consumer goods / economy (general)

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Source : www.thehindu.com Date : 2023-11-07

A TELCO DOUBLE DIP ATTEMPT THAT THREATENS NET NEUTRALITY

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

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November 07, 2023 02:02 am | Updated 04:55 am IST

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‘It is imperative for all stakeholders, including policymakers, to recognise the long-term ramifications of acquiescing to the short-sighted demands of telecom companies’ | Photo Credit: Getty Images/iStockphoto

In July this year, the Telecom Regulatory Authority of India (TRAI), at the request of the government, invited a comprehensive consultation on the need and possible mechanisms for regulation of Over-The-Top (OTT) services. It seems to have stirred up a hornet’s nest.

For more than a decade now, telecom companies have seen revenue from traditional streams such as voice calls and Short Message Service (SMS) come under pressure, as competing OTT services are often free. At the same time, they have had to invest heavily in upgrading their infrastructure to handle increased data traffic, without necessarily seeing an equivalent rise in revenue. It is also their lament that OTT services are not subject to the same level of taxation and licensing fees, leading to an uneven playing field.

On the flip side, the use of OTT services has led to a surge in data consumption, which is a growing revenue stream for telecom companies.

The OTT consultation has renewed the clamour from the telecom companies that content providers such as Netflix, Amazon Prime, and Disney+ Hotstar be asked to share in the costs of bandwidth. They argue that streaming platforms are free riders, benefiting from the infrastructure built and maintained by the telecom companies. However, this argument is fundamentally flawed and sets a dangerous precedent that undermines the principle of net neutrality.

Telecom companies do not own the Internet; rather, they provide access to it. Consumers pay the telcos for access services by purchasing data plans.

By offering services that consumers desire, OTT platforms generate demand for Internet access. They also pay for the content delivery networks (CDNs) to create pathways that substantially augment the capacity of the internet to deliver their content.

Telecom companies capitalise on this demand (and the availability of OTT content) by providing connectivity to the Internet and charging subscribers for it. If they fail to cover costs, telecom companies are at liberty to increase their prices, which should go towards maintaining and upgrading their infrastructure.

One of the requirements for the operation of a fair market is that the costs and benefits of a transaction are fully accounted for in the exchange price. Therefore, any attempt to seek cross-subsidies instead of fully accounting for the costs could warrant scrutiny from the Competition Commission.

OTT services compete in their own market on the basis of variety and quality of content, the quality of streaming (such as, support for HD or better resolution or 5.1 surround sound), ease in navigation and discovery of content, and its availability on multiple devices. The consumers pay the price for these benefits as compared to the alternatives.

Similarly, in the marketplace for Internet access, the consumers are free to choose the provider that offers them the highest bandwidth, data volume, and reliability at an affordable price.

These are distinct markets because services from one are not substitutable for services in the other. Therefore, it is logical to maintain a separation of costs between these two markets.

The attempt of telcos to double dip by charging both consumers and content providers is not only avaricious but also undermines net neutrality, as stated above. To better comprehend the fallacy in telcos' demand, let us employ an analogy.

Imagine a toll plaza where specific brands or models of vehicles are charged an additional tax, directly payable by the manufacturers, because they make “popular vehicles that tend to cause congestion”. If owners of all vehicles pay the regular toll, the more popular vehicles as a category contribute a proportionally higher amount. There is no need for their manufacturers to contribute extra. On the other hand, an additional toll directly collected from the manufacturers would push up the price of popular cars for their buyers, making them less attractive.

Likewise, if OTT platforms were to acquiesce to the demands of the telcos, the incurred costs would trickle down to subscribers, either through increased subscription fees or degraded service quality for those platforms unwilling or unable to pay the toll. This outcome can only be detrimental to consumers who have come to rely on OTT services for entertainment, education, and professional pursuits.

Net neutrality is the principle that Internet access providers must treat all traffic originating from and terminating to the Internet in the same way. The idea has been developed over time, but its modern articulation may be largely credited to Columbia Law School professor Tim Wu, who coined the term “net neutrality” in a 2003 paper titled “Network Neutrality, Broadband Discrimination.” Here, Wu proposed the concept of net neutrality to promote an even playing field on the Internet, ensuring that all data is treated equally without discrimination by Internet service providers (ISPs).

Net neutrality draws from earlier notions and principles concerning common carriage, which posit that service to all customers must be provided on a non-discriminatory basis. The application of these principles to the modern Internet, with its unique technical and economic characteristics, required fresh legal and policy analysis, which Wu and others provided.

This principle that has been examined by economists (from the perspective of market competition, consumer welfare, and innovation); by legal experts (for the regulatory frameworks that govern net neutrality, and how these laws impact the rights and obligations of Internet service providers, content providers, and consumers); computer scientists and engineers (for detection and enforcement mechanisms that are technology based); and other policy analysts on how it affects different social groups, their political expression, and how it impacts fairness, justice, and equality.

Net neutrality formed the basis of TRAI’s regulation on prohibition of discriminatory tariffs for data services brought out on February 8, 2016. The regulator’s action forced the withdrawal of Facebook’s Free Basics platform and some other offerings in India. Later, on November 28, 2017, TRAI released its comprehensive recommendations, which have largely guided the adoption of this principle in India.

These steps taken by TRAI were noted elsewhere in the world. The Body of European Regulators for Electronic Communications (BEREC) and TRAI adopted a Joint Statement for an Open Internet on June 14, 2018, later reaffirmed in 2020. The two organisations agreed through this memorandum of understanding to cooperate in developing technological and policy initiatives for net neutrality. Many other countries have also adopted net neutrality, thereafter.

It is imperative for all stakeholders, including policymakers, to recognise the long-term ramifications of acquiescing to the short-sighted demands of telecom companies. Upholding the principles of net neutrality is not merely about preserving the ethos of an open Internet but is also intrinsic to fostering a conducive environment for innovation, competition, and consumer welfare, especially countries such as India where the Internet is going to be the carrier of all Digital Public Infrastructure (DPI).

R.S. Sharma is former Chairman, Telecom Regulatory Authority of India (TRAI). Sunil Bajpai is former Principal Adviser, Telecom Regulatory Authority of India (TRAI). The views expressed are personal

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Source : www.thehindu.com Date : 2023-11-10

SHOULD INDIANS WORK LONGER HOURS?

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

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November 10, 2023 12:57 am | Updated 12:57 am IST

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A worker makes candles at a factory ahead of the Deepavali festival on the outskirts of Jammu on November 6, 2023. | Photo Credit: PTI

Infosys founder Narayana Murthy recently said that young Indians should work 70 hours a week in order to compete with countries like China. Should Indians work more? **Arjun Nagarajan** and **Anamitra Roy Chowdhury** discuss the question in a conversation moderated by **Sonikka Loganathan**.

Edited excerpts:

Should Indians work more hours?

Arjun Nagarajan: I want to de-emphasise the 70-hour number. Narayana Murthy said it in the context of India being at an inflection point with the largest population and a large demographic dividend. If we miss these decades, it is difficult to move up the value chain. India cannot compare with post-war Germany and Japan (as Mr. Murthy said), but the message is about taking ownership. In the 1990s to late 2020s, Indians worked 6-7 hours per day. Germany, during its heyday (industrial revolution), worked 40% to 50% more, and South Korea in the 1980s worked 30% to 33% more. Working longer is required, but these are broad generalisations and differ across sectors.

Also read | **Why Narayana Murthy is wrong about the 70-hour work week**

Anamitra Roy Chowdhury: The International Labour Organization set the working hours at eight hours a day and 48 hours a week. India ratified this. Many suggest increasing hours. But comparing it to the industrial revolution is like going back 200 years. Post-World War II Germany, facing labour shortages, brought in immigrants to rebuild the nation, which made longer hours necessary. In India, with our labour surplus, longer hours could impact unemployment. Germany now works 34 hours a week, Japan 37. But these are developed nations. Looking at our neighbours: Pakistan works 47 hours, Bangladesh 47, Bhutan 51, Sri Lanka 36, Nepal 40, while India averages 48. We must consider our labour market contextually and not just strive to exceed others, ignoring regional working hours conditions. Though not everyone in the industry may not seriously consider a 70-hour work week, its increasing prevalence in discussions is concerning. It is not in line with either developing or developed nations.

How realistic is working 70 hours a week?

Anamitra Roy Chowdhury: Working 14 hours a day for five days, or 11.5 for six days, doesn’t account for travel, which may add another two hours. The latest Periodic Labour Force Survey data indicate a significant work hours gap between genders. This is wider in rural areas, probably due to women’s additional unpaid care work. Overall, in urban and rural areas, 5.5 hours daily versus men’s 41 minutes. Increasing work hours will inherently bias the market against women. India’s female labour force participation is already one of the lowest in South Asia. Moreover, research indicates diminishing returns for extended work hours.

Also read | **Working long hours without sufficient rest could limit worker productivity**

Arjun Nagarajan: I agree that workers shouldn’t be pushed beyond legal work hours. Research underscores the importance of a work-life balance, mental health, and physical exercise. Moreover, work hour averages vary by industry. For example, in the U.S., which is service-dominated, leisure and hospitality average around 25 hours weekly, whereas manufacturing is about 45 hours. In South Korea, the disparity is greater; transport and food services may reach 75 hours, while education is around 40. This shows that development stages and industry sectors — service or manufacturing — impact these averages. China, during its 1990 to 2012 manufacturing- and export-focused phase, saw increased work hours with negative outcomes. So, I’m not advocating that. I’m just saying it’s crucial to consider a country’s economic drivers and industry when evaluating work hours.

While Germans and the Japanese worked longer hours after World War II, in the following years, their productivity increased due to better technology and their working hours dropped sharply. But for the past 50 years, India’s productivity has been snail-paced. Will working longer hours compensate for this?

Arjun Nagarajan: In discussing India’s aim for a $5 trillion economy, the overlooked factor is often the exchange rate. In 2019, the output per worker was $74 for the U.S., $69 for Germany, and $8.7 for India. Converting these figures to local currencies for 1990, 2000, 2010, and 2019, you see different growth rates. From 1990 to 2019, the U.S. saw a 63% increase in productivity, Germany 59%, and India nearly nine times.

Also read | **The problem with the ‘70 hours a week’ line**

Anamitra Roy Chowdhury: Productivity data are better measured per hour, and in purchasing power parity terms, which reflects local prices. Different countries work different hours, so productivity should be assessed per hour, not per worker. In 2017, productivity per hour was $8 for India and $69.8 for Germany. A German worker, working about 5.72 hours a day, is 8.7 times more productive than an Indian worker. To match this, an Indian worker would need to work 52 hours a day, which is impossible. Chinese workers were 1.44 times more productive than Indians. They work 46 hours a week; if we adjust for productivity. To match this, Indians should work for 66.24 hours. That is where, I think, the 70-hour mark comes from.

Competing with China on hours brings us to unit labour cost, the labour cost to produce one unit of output. To calculate it, multiply the wage by the labour required per unit of output. This is the inverse of labour productivity, which measures output per unit of labour. If one country’s labour productivity is double another’s but the wages are the same, the more productive country has half the unit labour cost. To compete, the other country must either halve the wages or double the work hours to offset lower productivity. Therefore, asking for 70 hours of work without a wage increase effectively reduces wages, which is not viable.

The India Innovation Index report by NITI Aayog said that the gross expenditure in 2018 on R&D as a percentage of the GDP was 0.67%, one of the lowest in the world. How big a role does investment in capital and R&D play in increasing worker productivity?

Arjun Nagarajan: When comparing productivity in India with developed countries, we overlook the fact that those countries have higher automation and wages due to smaller working populations. India, being capital-starved, has a savings-investment gap mirroring the current account deficit. The priority is to optimise infrastructure and industry operations. Introducing artificial intelligence and technology could enhance worker efficiency. So, the short answer is that increasing capital investment is key to boosting worker productivity.

Data | **Putting Infosys founder Narayana Murthy's '70-hour work week' idea into perspective**

Anamitra Roy Chowdhury: Productivity should be measured by output per hour worked. It increases with higher capital accumulation and better technology, improving capital productivity. Since workers can't invest, the onus is on investors and industrialists to enhance productivity. The ideal growth strategy is to invest in raising productivity per hour, thereby reducing unit labour cost and becoming globally competitive with increased exports. This contrasts with the less desirable method of suppressing wages, which India has tended to follow. There are only so many hours that can be extended and wages that can be suppressed before negative impacts occur. Notably, wages are not just costs; they fuel consumption too.

Is it possible to maintain work-life balance while increasing worker productivity?

Anamitra Roy Chowdhury: India has a severe job crisis. The current employment structure is worrying, with a modern economy expected to have more wage labour and less self-employment. Yet, self-employed individuals make up 57% of the workforce, of which 18% are 'unpaid helpers'. The organised sector, despite only employing 10% of the workforce, contributes 45% of the output and needs expansion to boost productivity. In a subsistence crisis, work hours may increase under pressure, necessitating strict enforcement of labour laws or external interventions to maintain work-life balance.

Business Matters |**Is Narayana Murthy right in asking youngsters to work 70 hours a week?**

Arjun Nagarajan: Completely agree. Formalisation is the most important and has to happen in an organic fashion. Second, enforcing labour laws is crucial. Over and above that, what really changes the equation is leadership. Apart from the wage part of it — and wages have to be on a par with the amount of work or hours that you put in — an empathetic leadership makes a world of a difference, where the employee feels one with the firm, he loves the work that he does. Then the number of hours become a little secondary because you know you're working towards a different goal, that your needs are taken care of.

Arjun Nagarajan is Chief Economist, Sundaram Asset Management Company Limited; Anamitra Roy Chowdhury is Assistant Professor, Centre for Informal Sector and Labour Studies, JNU, New Delhi

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Source : www.thehindu.com Date : 2023-11-10

CHIP OFF THE BLOCK: THE HINDU EDITORIAL ON SEMICONDUCTOR FABRICATION IN INDIA

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

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November 10, 2023 12:20 am | Updated 08:26 am IST

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As funds for production-linked incentives (PLI) for manufacturing semiconductors lie under-utilised by upwards of 80%, the Union government must be far clearer on what it has achieved — and aims to accomplish — by continuing to spend crores of rupees on bringing more semiconductor fabrication capabilities to India. While the PLI scheme for IT hardware has a 17,000 crore outlay, the one for semiconductors and displays has 38,601 crore earmarked. On the employment and substantive value addition fronts, existing schemes in and of themselves show little promise: while chips are important for most hardware and appliances, making them employs advanced and automated systems, and manufacturing facilities employ few people for the value generated in sales. Not all big-ticket spending in the national interest translates into domestic employment, as import-heavy defence spending shows. But the central wager with these schemes, at much cost to the exchequer, lies in attracting an “ecosystem” that will increase the value addition of India’s electronics manufacturing sector. This is far from a guaranteed outcome, even if PLI benefits are availed optimally. The wager also relies on global manufacturing giants giving other benefits of a globally distributed supply chain a go-by, including cheap and accessible international transport facilities for chips.

The constellation of PLI schemes remains a wager nonetheless. And it must be bolstered by other efforts to strengthen India’s hand — encouraging semiconductor design talent to develop domestically. Some efforts here, such as the design-linked incentive scheme, show promise. But the bulk of the capital remains focused on the assembly and subsidising of large manufacturing plants, with much of the raw and even intermediate material still being imported. And with the limited scope of what the PLI funds are incentivising, multinational chipmakers are staying away from making substantive commitments, despite incentives. Private capital is also in a state of flux, with advancements in chips and emerging technologies such as artificial intelligence leaving policymakers guessing on how best to allocate resources to boost their technological position for the coming decade. These outlays must, therefore, be pegged to a tangible outcome: is this a matter of safeguarding cyber sovereignty to protect India from another pandemic-style supply chain shock, encouraging the domestic electronics industry to make electronics cheaper for Indian consumers, or asserting India as a global electronics manufacturing centre? Clarity on desired outcomes would make failures easier to spot. It would also make it possible to course correct before massive PLI spending has already taken place with little to show for the outflow.

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ACKNOWLEDGE INDIA’S ECONOMIC SUCCESSES TOO

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

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‘Along with accelerating economic growth, the government has been focusing on inclusive growth’ | Photo Credit: Getty Images/iStockphoto

The Indian economy has grown at an impressive rate in the post-COVID-19 years. In FY2023, it grew year-over-year (YoY) at 7.2%, the fastest among major economies. In FY2024, the International Monetary Fund (IMF) projects India’s YoY growth at 6.3%, again the fastest among major economies. For those yet to absorb its full import, the tagline, ‘fastest-growing major economy,’ calls for some elaboration.

The word ‘major’ in the tagline makes it clear that India’s relatively high economic growth in the global context is not on account of its small size. India is currently the fifth largest economy in the world in U.S. dollar terms and is projected by the IMF to become the third largest by 2027. An economy as large as this and growing rapidly cannot be characterised by weak domestic demand, particularly when external demand growth has been uneven and uncertain.

Some commentators contest the tagline, ‘fastest’. There is a view that post-COVID-19, YoY growth rates need to be replaced by compound annual growth rate estimated on the pre-COVID-19 year of 2019-20. This view seeks to measure annualised progress as if there was no pandemic. However, the fact is that there was a pandemic, and YoY growth rates measure progress despite the pandemic. In this perspective, the YoY growth rate of 7.2% in FY23 comprises two components: one that measures annualised progress over the pre-pandemic year and the other that measures annual recovery of the output lost to the pandemic. The latter in no way is less significant than the former.

Present-day economic dividends are also rooted in the steps taken to mitigate the economic challenges of the pre-COVID-19 period. In the first decade of this century, the Indian economy grew rapidly, propelled by strong growth in world trade and a domestic credit boom.

In the aftermath of the global financial crisis of 2007-08, growth in world trade fell, dampening the trade stimulus for economies worldwide, including the Indian economy. The domestic credit bubble also burst as high leverage in the corporate sector led to frequent defaults in repayments and a consequent surge in non-performing assets of public sector banks. The twin stresses on the balance sheets combined with elevated prices in real estate led to a lower investment rate in the Indian economy.

Public capex also could not add much to the investment rate as the new government that came to power in 2014 had no choice but to opt for fiscal discipline to address the legacy challenges of large fiscal deficits, high inflation, and a widened current account deficit. With trade and domestic investment weakening, the Indian economy grew at a rate less than its potential in the second decade, except for a couple of years when crude oil prices dropped, improved the trade balance, and supported higher growth.

The new government implemented a series of measures to lift the economy onto a higher growth path in the medium term. A calibrated liberalisation of the economy has resulted in an upward-level shift of net foreign direct investment inflows. The Insolvency and Bankruptcy Code (IBC) introduced in 2015 has successfully addressed delinquency and lowered the non-performing assets in the banking sector, setting the stage for private corporate investment to take off. The demonetisation drive of 2016 has reduced black money by improving tax compliance.

Besides, the Goods and Services Taxes (GST) rolled out in 2017 has mobilised higher revenues and unified fragmented markets to build economic synergies. The reduction in the corporate tax rate in 2019 to one of the lowest in the world has increased corporate reserves, which are being leveraged to finance higher investments. These reforms have led to a strong churning of the economy, shutting out enterprises that deviated from market principles.

In FY22, the government embarked on a large Capex programme and provided resource support to State governments to increase their Capex budget. From 1.6% of GDP in FY19, the Capex of the central government has risen to 2.7% in FY23 and is budgeted to increase further to 3.3% in FY24 — all this while containing the fiscal deficit to its budgeted ratio to GDP. The idea behind the upscaling of the Capex budget was to not only plug gaps in physical infrastructure but also to “crowd-in” private corporate investment, which was investment-ready, having repaired its balance sheet and progressed to an optimal level of capacity utilisation. Data from Axis Bank, for example, shows private corporate investment rose by 22.4% in FY23, with 15 out of 19 sectors witnessing an expansion in private capital investment.

Along with accelerating economic growth, the government has been focusing on inclusive growth, as reflected in its commitment to Sabka Saath Sabka Vikas. It has taken various steps to lift people above the poverty line. Relentless government support towards livelihood enhancement, skill development, women’s empowerment, and infrastructure development has played a vital role in reducing the incidence of poverty in India.

A report by NITI Aayog, that was released recently, showcases a remarkable decline in the prevalence of multidimensional poverty in India; 13.5 crore Indians are estimated to have escaped multidimensional poverty between 2015-16 and 2019-21, with rural areas largely driving the decline in the headcount ratio of the Multidimensional Poverty Index. Further, there has been tangible progress in rural living standards, aided by a policy focus on basic amenities. The National Family Health Survey for 2019-21 provides ample evidence of a significant improvement in an array of indicators concerning the quality of rural lives, including access to electricity, improved drinking water sources, and coverage under health insurance schemes. Various health-related indicators, such as institutional births, immunisation and health insurance coverage, have also seen an uptrend.

The government’s support for agriculture has led to fruits, vegetables, the ‘dairy and livestock products combined’, and fishery growing at unprecedented growth rates. Consequently, the share of fruits and vegetables in the food basket has increased to 19.4% in 2021. The percentage of livestock products has come to account for about 38% of the total value of agri-food. The country’s food basket is more nutritious today than ever.

As a country with a large population and a per capita GDP of nearly $2,400, India is aware of the long road ahead to achieve high-income status and a high quality of life for a majority of its citizens. It is a vindication of the success of India’s development record in a democratic polity that the steadily rising aspirations of citizens are being matched by their belief that those aspirations will be realised in their lifetime. Now, if experts realise that it is okay to acknowledge successes as it is to draw attention to shortcomings, the quality of public discourse will catch up with India’s economic progress.

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Source : www.thehindu.com Date : 2023-11-14

THE GROWTH DICHOTOMY: THE HINDU EDITORIAL ON SEPTEMBER'S INDEX OF INDUSTRIAL PRODUCTION DATA

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

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November 14, 2023 12:30 am | Updated 08:40 am IST

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In September, the Index of Industrial Production or IIP rose 5.8%, almost half the 14-month-high 10.3% growth in August. Most economists anticipated a 7% to 8% uptick in the month that marks the onset of India's packed festive calendar. September's factory output growth was the slowest in three months, but also marked a 2.4% drop in production levels compared to August. Manufacturing led the decline, with year-on-year growth dropping from 9.3% in August to 4.5% in September and production volumes declining 2% month-on-month. In August, just seven of 23 manufacturing sectors had clocked a contraction but that list expanded to nine in September, with furniture dropping 20% and apparel production almost 18%. What is more worrying is that 12 sectors recorded a sequential decline in output this September, belying hopes that firms would ramp up inventories in anticipation of festive spending. Producers' lack of confidence in consumers' impulses is reflected in consumer durables and non-durables, which were up just 1% and 2.7%, respectively, on top of a 5.5%-plus contraction last September. Sequentially, consumer non-durables, what one may broadly consider as fast moving consumer goods involving smaller-ticket spends, were down 3.5% with the lowest output levels seen since November 2022. Electricity generation also fell 6.6% sequentially in September, perhaps due to the higher rainfall recorded over August.

On the whole, September's IIP takes average factory output growth to 7.4% in the second quarter, lifting the uptick in the first half of 2023-24 to 6%. This may still weigh in well with the central bank chief's hopes of Q2 GDP growth outpacing their official projection of 6.5%. But spliced up, the IIP indicates an asymmetry in the economy and a fresh fork lies in the road ahead. Consumer goods' output was just 0.3% higher than pre-COVID-19 levels this September, with durables being the only use-based segment to record a contraction so far this year. By contrast, output has been more resilient in investment-linked sectors such as infrastructure/construction goods and capital goods, up 12.1% and 6.7%, respectively, this year. Public capex on infrastructure sectors has surely lifted output of items such as steel and cement through the first half of the year, while high inflation has eaten into all but the high-income consumers' propensity to spend. Going forward, capex spends that have been front-loaded this year may moderate and additional revenue spends ahead of the Lok Sabha election are likely, especially with sensitive commodities such as fuel, urea and food facing fresh volatility in prices. That infrastructure and construction goods' output in September was the lowest since March 2023, suggests one growth tide may be ebbing, which makes the other, more fragile consumption story even more critical to watch.

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Source : www.livemint.com Date : 2023-11-15

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Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

It's easy to look at the rise in the unemployment rate over the past six months and attribute it to a growing labour force, as Goldman Sachs Group Inc. argued over the weekend, or a normal rebalancing of the economy that will help control inflation, as I suggested last week was one possibility. Neither argument captures the nuance of labor market changes this year, and how workers should be thinking about their job prospects going forward.

While the odds of getting laid off remain very low, for the small — but growing — percentage of people who are either unemployed or looking to change jobs, conditions are arguably worse now than they've been in more than five years, outside of the pandemic. It's important not to gloss over this reality because a number of signs point to a continuing deterioration so long as the Federal Reserve keeps interest rates at a level that restrains the economy.

The softness beneath the surface of the labour market is being masked by a strength that's easy to see. The unemployment rate, at 3.9% in October, is still historically low as is the rate at which people are being laid off. The percentage of prime-age Americans who have jobs — categorized as those between the ages of 25 and 54 — is at 80.6%, higher than it was at any point between 2002 and 2019. It's accurate to say that a notably large percentage of Americans have jobs, and that they feel pretty secure in those jobs. That's the good news.

For people who are unemployed or not in the workforce but looking to find a job, the labour market can be best described as balanced, with a bias toward worsening rather than strengthening.

The rate at which workers were being hired in September was flat for a third consecutive month, holding at post-pandemic lows that resemble the environment we saw between 2015 and 2017. These were a decent few years for workers but not as strong as 2019 or 2022. The hiring rate is around the 50th percentile if we look back to the start of the data series in 2000.

The monthly consumer confidence series put out by the Conference Board asks workers whether jobs are plentiful or not, and we've seen some slippage here as well. In October, 39.4% of respondents said jobs were plentiful, around what we saw in early 2018, but a deterioration from 2019 or the latter parts of 2021 into 2022. A labour-differential index — which looks at those saying jobs are plentiful minus those saying they're hard to get — has been below the 2019 average since May. Workers might be experiencing a slowdown in the labour market not fully captured by headline payrolls prints.

Even though the layoff rate is low, the number of unemployed people is rising because hiring has slumped. The non-seasonally adjusted series of continuing jobless claims, or people who are collecting unemployment benefits, is now up by more than 25% from a year ago.

Additionally, in the monthly jobs report, the number of people who have been unemployed for at least five weeks saw double-digit percentage increases in September and October on a year-over-year basis, gains that in the past 25 years have meant the economy was already in recession.

The post-pandemic recovery, however, has been full of surprises. The economy is not currently in a recession and we're likely to see historical patterns in the labor market break this cycle. I'd rationalize the slump in the hiring rate by saying that companies had to scramble to hire workers when demand was booming in 2021 and 2022; many companies now find themselves sufficiently staffed or overstaffed as demand normalizes, keeping a lid on hiring.

On the workers' side, some may have over-extrapolated lessons from the strong labour market of the past two years and have been unreasonable in their demands, which has left them unable to find work for longer.

While this may be the right way to think about the data — and I expect the economy to skirt a recession in 2024 — it's reasonable to expect conditions to weaken from here given Fed Chair Jerome Powell believes monetary policy is "probably significantly restrictive."

Any further weakening in the hiring rate or increase in the layoff rate would shift labour market dynamics from bifurcated or balanced to one where a majority of workers begin to grow concerned about holding onto or getting a job. And if that were to happen, consumers might finally start to rein in their spending levels, creating the kind of recessionary risk the US economy has so far avoided.

Conor Sen is a Bloomberg Opinion columnist. He is founder of Peachtree Creek Investments.

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FOOD FLUX: THE HINDU EDITORIAL ON FOOD COSTS AND THE OCTOBER TIDINGS

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

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November 16, 2023 12:20 am | Updated 08:21 am IST

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In October, India’s consumer price inflation eased to a four-month low of 4.87%, while wholesale prices declined year-on-year for the seventh successive month by a minor 0.5%. Although only marginally lower than the 5% retail inflation in September, October’s price rise pace — which is exactly the same as that in June — surely represents some relief for the third successive month from July’s 15-month high pace of over 7.4%. Rural consumers still face a higher inflation of 5.1%, though. Core inflation, which excludes energy and food costs, has eased further and household services inflation dropped below 4% after several months above. The rise in prices of vegetables, which had surged over 37% in July, eased to 2.7% in October. However, the overall uptick in food costs for households stayed firm at 6.6%, virtually unchanged from September, as other essential edibles saw faster price hikes or remained at elevated levels. Some of these — like pulses (up 18.8%) and cereals (10.7%) — may be attributed to worries about the kharif output and uncertain rabi prospects as well as hikes in minimum support prices for crops. Pulses prices were up 19.4% at the wholesale level, signalling that more pass-through to retail prices is likely.

The Monetary Policy Committee of the Reserve Bank of India, which meets early December for its next review, will not be too swayed by the October tidings. As per its 5.6% average inflation projection for this quarter, down from 6.4% in the previous quarter, November and December may well see an average inflation of 5.95%, fractionally short of the central bank’s upper tolerance threshold. Excluding edible oils, whose 13.7% year-on-year drop in prices played a key role in moderating the Consumer Price Index, would have meant a 5.6% rise in prices. Base effects from last year, when the Ukraine conflict had spiked edible oil prices, will start to dissipate in coming months. Similarly, while the 6.8% inflation recorded in October 2022 helped cool price rise last month, those base effects will surely ebb this month. Retail inflation had eased to 5.88% last November, with the food price index rising just 4.7%, from 7% in the previous month. The perceived retreat of inflation last month thus may only be fleeting. Households that seem to have adjusted to the continuous recent rise in living costs, by pulling back on discretionary spends and downsizing essential consumption as per industrial output trends, are likely to remain cautious rather than loosen their purse strings anytime soon. For an economy whose resilience relies on its domestic demand buffer against global shocks, reluctant or budget-cramped consumers are the biggest headwind for policymakers to strive to address.

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STATE OF THE ECONOMY — TEMPER THE EUPHORIA

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

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November 18, 2023 12:08 am | Updated 12:08 am IST

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‘If official spokespersons enlarged the frame of economic assessment slightly, a few stark facts come into focus’ | Photo Credit: Getty Images/iStockphoto

In its semi-annual report, World Economic Outlook, ‘Navigating Global Divergences’ October 2023, the International Monetary Fund (IMF) has revised its projected GDP growth rate for India for 2023-24 to 6.3%, up from the earlier 6.1%. For India’s policymakers, it is a vindication of their short-term economic management. The success is sweeter as the IMF revised downwards world GDP growth projection, including China’s by 0.3 percentage points, to 4.2%. Official spokespersons have sought the IMF’s endorsement to silence its critics.

That the economies that were worst affected during the COVID-19 pandemic were also the ones to record a steep recovery is widely acknowledged. India, which was one of the worst affected, has followed the pattern. During the second quarter of 2020, India’s GDP contracted by 25.6%, quarter on quarter, the worst among the world’s major economies as reported by the then IMF Chief Economist, in a tweet on September 2, 2020. The output contraction in 2020-21, at 8.5% over the previous year, was one of the worst among the world’s large economies.

Taking a slightly longer view, India’s real (inflation adjusted) annual GDP growth rate slowed down from 6.8% in 2016-17 to 2.8% in 2019-20, immediately prior to the pandemic. Real per capita income level in 2021-22, at 1.09 lakh, was higher than that in 2019-20 by about 600. In the following year, 2022-23, recovery gained momentum as domestic supplies were restored and global supply chains were straightened out.

Surely, output recovery is welcome, yet its effects on employment, its quality and persistence of inflation of essential food items affecting the poor the most remain causes of concern — as many critics have highlighted. However, even focusing on output recovery, a sectoral view with trade dimension, would perhaps expose chinks on the armour, as detailed below. Policymakers need to temper their optimism by taking a slightly longer view with a wider angle — appreciating the fast-changing geopolitical underpinnings of economic policy making. It perhaps bears repetition that 2022-23 heralded the end of globalisation as we knew it (since the Berlin Wall’s collapse in 1989) with tectonic shifts in the world geopolitical order, revealing India’s persistent vulnerabilities of oil and food shocks. In fact the Finance Ministry’s Monthly Economic Review (September edition) alludes to these weaknesses.

However, the immediate concern is India’s susceptibility to its soaring deficit with China. India’s economic frailty has increased even as the net exports (exports minus imports) to GDP ratio has declined sharply. India's dependence on Chinese imports of manufactures seems structural, and not easily corrected by changes in relative prices.

It needs recollection that in May 2020, the government initiated the Atmanirbhar Bharat Abhiyan, amidst the Galwan crisis to curb Chinese imports of critical industrial products. China accounts for: 15%-16% of India's imports and a third of India's trade deficit. The trade deficit continues to rise, however ("India's Trade dilemma with China", Pal and Ray, businessline, June 20, 2023). Willy nilly, India undid many import restrictions, as domestic production was getting throttled for lack of critical Chinese inputs. The mirror image of rising Chinese imports is a steady decline in industrial growth rate, from 13.1% per year in 2015-16 to negative 3.5% per year in 2019-20 (before COVID-19). Industrial growth rates as per the Index of Industrial Production (IIP), despite its limitations, shows an alarming regression over a longer period. During the boom period (2004-05 to 2013-14), manufacturing grew at an annual average rate of 5.7%; the rate declined to 3.1% during 2014-15 and 2022-23 — the fall is acute in capital goods, plummeting from 9.7% to 1%.

From 2011-12 to 2021-22, gross fixed capital formation to GDP ratio at current prices, declined steadily from 34.3% to 28.9% — an unprecedented fall in post-independent India. And its public sector share has remained constant at 8% (National Accounts). Net foreign direct investment (excluding disinvestment and outward foreign direct investment), to current GDP ratio fell from 3.6% in 2008 to 2.4% in 2022 (World Development Indicators).

The official optimistic picture of public investment growth since FY22, based on budgetary statistics, seems suspect. Public investment has three parts: the central government, the States and central public sector undertakings (PSUs). Public investment by State governments, based on the Centre's loans and advances to States, is conditional upon policy reforms. The widely reported rise in the Centre's investment is apparently due to the merging of extra-budgetary borrowing by central PSUs with the Centre's own Budget. Hence. the projected boost in public investment seems illusory. Combining the three items, public investment seems around 6% of GDP — perhaps similar to its pre-COVID-19 levels ("Is public Sector Capex really rising?", Nikhil Gupta, businessline, January 2, 2023).

On social development, official spokespersons and critics have battled over the veracity of (questionable) multidimensional poverty measure, and the unrepresentativeness of the Global Hunger Index. Instead, the UN Development Programme's Human Development Index may be more credible and an acceptable measure. The value of India's HDI index moderated from 0.645 in 2018 to 0.633 in 2021; and, its global rank went down by one rank during 2015-21 — meaning that other countries have performed better than India.

To sum up, if official spokespersons enlarged the frame of economic assessment slightly, a few stark facts come into focus. These are: the strategic threat posed by an unrelenting rise in trade deficit with China, despite government's best efforts; its mirror image is a decline in industrial output growth rates, especially capital goods' decimation; and a decade long, unprecedented, decline in the economy's fixed investment rate; with an unchanging public sector's share in it, at least up to 2021-22; India's HDI ranking slipped by one. Official commentators would perhaps do well to engage with its critics in appreciating the gravity of economic setbacks in recent years than scoring brownie points over the IMF's short-term growth projections.

R. Nagaraj was with the Indira Gandhi Institute of Development Research, Mumbai

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MAKING SENSE OF THE EMPLOYMENT CHALLENGE

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‘It is indeed correct that Germany and Japan had a miraculous rise in the 1950s, but is the comparison with India valid?’ | Photo Credit: Getty Images

By proposing that Indians work longer to achieve a larger national output, N.R. Narayana Murthy, the founder of India’s iconic business house, Infosys, has issued something akin to a challenge to his compatriots. In particular, he proposed a 70-hour work week. To strengthen his case he has pointed to the experience of Japan and Germany after the Second World War, when citizens worked longer hours than we do on average in India today. It is indeed correct that these countries had a miraculous rise in the 1950s, but is the comparison valid? Can Indians simply choose to work longer hours to replicate their experience? This is not obvious.

Ever since the Keynesian Revolution in economics, we know that output is determined by aggregate demand, which is the demand for the total volume of goods and services produced in an economy. The demand for labour is entirely dependent upon this demand. There is no demand for labour independent of the demand for goods. Firms that employ more labour while aggregate demand has not increased will find themselves with unsold goods. So, an offer by workers to work longer hours will not ensure that they will find employment so long as firms are unwilling to hire them.

Firms are guided by the profit motive and will employ more labour only if there is increased demand for their product. Unemployment reflects just that — workers willing to work but firms unwilling to employ them for it would be unprofitable for them. The role of demand for goods and services in determining the demand for labour may be seen in the lay-offs in the ‘tech’ sector globally at the beginning of this year. Since then, Google and Amazon have shed hundreds of employees hired during the COVID-19 pandemic, when the demand for their products was high due to the lockdown or the work-from-home arrangement. In a variant of the ‘just in time’ strategy, whereby manufacturing firms are hesitant to hold an inventory of materials for long, software services companies (a segment Mr. Narayana Murthy is no doubt familiar with) optimise the number of employees ‘on the bench’, i.e., waiting to be deployed in production. So, when there is unemployment, to exhort workers to work longer hours is somewhat irrelevant, even when it is not meant to be callous.

Now, what about Germany and Japan in the early post-War years? Actually, nothing demonstrates the role of the demand for labour services being a crucial determinant of hours worked than the history of these economies. Their economies were pulverised by the relentless bombing during the Second World War. They had also experienced a decline in their workforces due to greater mortality, both from combat and the bombing. So, when it came to rebuilding these economies, the demand for labour was abnormally high. Minimally, prior to the resumption of production, the cities would have had to be cleared of rubble — a task requiring massive deployment of labour given the scale of the devastation. It is also necessary to keep in mind where the financial heft for the expansion of employment came from. In the case of west Germany, there was the Marshall Plan by which the United States had assisted the country's revival. If it had been insisted that the post-war recovery of Europe had to be confined to private enterprise, the revival would surely have taken far longer. In fact, it was out of an astute assessment of what private initiative could have achieved in the context that the World Bank, funded by western governments, was set up. So, the very high working hours clocked in post-war economies of the mid-20th century is sui generis.

Though it was not mentioned by Mr. Narayana Murthy, another economy that saw long working hours in this period was South Korea. Some of its features are similar to those that had prevailed in Germany and Japan then. It too was recovering from a war, though a different one, and its resurgence was supported by considerable foreign aid received from the U.S., of which it was an ally. However, a political aspect beyond finance, common to all these three countries, is a strong nationalistic element that is likely to have accompanied their post-war reconstruction. It is not inconceivable that there was a voluntary supply of effort to rebuild the nation after a shared catastrophe imposed by 'foreigners'.

There was an additional dimension in Korea though — a dictatorship that saw the commandeering of able-bodied men to work in the countryside on large-scale projects of preparing the land for raising agricultural productivity. There is insufficient recognition of the fact that the manufacturing success of the east is underpinned by prior success in agriculture. The high working hours that contributed to this are unlikely to have been witnessed in a system in which labour was allocated according to consideration of profit. The case of high working hours in Germany and East Asia in the middle of the last century, backed by public funding and coercion, is not an experience helpful to understanding the present in India (a market economy where firms are driven by consideration of profit and coercion is ruled out). In the economic rise of the three countries mentioned, it was post-war reconstruction that provided the demand for greater output in the first instance. Longer workdays had followed.

Does it mean, then, that there is an iron law of the market pinning us down helplessly to high unemployment through low aggregate demand in India? Not at all. There are two strategies economic policy here can attempt. The first is to use the global market or world demand to grow the domestic economy, but India's goods would have to be globally competitive. Here, the experience of South Korea is relevant. As most of the produced inputs into production are available to all countries via trade, a country's competitiveness is ultimately determined by the productivity of its workforce and the physical infrastructure that complements labour. The strength and dexterity of a workforce, manifested as productivity, is related to its health and skill. In both these categories, India's workers are at a disadvantage compared to the most successful economies of Asia. To have not brought its workers on a par with the rest has prevented India from using the world market to grow. It can do so now

A second route to greater output and employment is to expand the domestic market — and thus aggregate demand. To see how this can be done, recognise that the economy produces both food and non-agricultural goods and services. These are placed differently in relation to our consumption needs. If food can be produced at lower cost, the real income of the majority of Indian households would rise. They would now have more to spend on non-agricultural goods and services having satisfied their need for food. This would generate the demand needed to spur production in the rest of the economy. And with this, output will also grow, and in turn employment, with or without the longer hours in question.

In conclusion, it cannot be emphasised enough that Mr. Narayana Murthy’s proposal that Indians work for 70 hours a week is surely meant for those in the formal sector, where specified work hours and a minimum wage stipulation exist. Ethnographic studies of India’s informal sector show that in some of its segments, unorganised workers are already labouring this long at very low wages and without any such protection. Here, the challenge is to activate the long arm of the law to ensure acceptable working conditions that encompass fewer hours, higher wages, and more equipment to lessen the physical burden of labouring.

Pulapre Balakrishnan is an economist

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PAROCHIAL LAW: THE HINDU EDITORIAL ON THE HARYANA LAW GUARANTEEING 75% RESERVATION TO LOCALS IN PRIVATE SECTOR

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The Punjab and Haryana High Court has done the right thing by quashing the Haryana State Employment of Local Candidates Act, 2020 that provides for 75% reservation to State domiciles in the private sector in jobs that provide a monthly salary of less than 30,000. The court stated that it was beyond the purview of the State to legislate on the issue and restrict private employers from recruiting people from the open market. It also held that the Act was violative of equality guaranteed under Article 14 and freedom under Article 19 of the Constitution. The court said that by allotting 75% reservation for “locals”, the Act militates against the rights of citizens of the rest of the country, and that such acts could lead to other States coming up with similar enactments, in effect putting up “artificial walls” throughout India. It argued that the Act was imposing unreasonable restrictions on workers’ right to move freely throughout the territory of India. The court termed the requirements on private employers stipulated in the Act as akin to those under “Inspector Raj”.

Other States such as Andhra Pradesh and Jharkhand have also enacted similar legislation. The Andhra Pradesh High Court observed that the State’s Bill, passed in 2019, “may be unconstitutional”, but it is yet to hear the case on merits. Workers move to other States seeking job opportunities that are relevant to their skills and abilities. If States build walls and impose restrictions that prevent job seekers from other States from accessing opportunities, citizens of poorer States will have to eke out a living within their own regions. This will affect the economy of the entire country. While legislation that seeks to reserve blue collar jobs for locals is problematic and unconstitutional, there is a reason why there is resentment among locals in better-off States over their jobs being taken up by “migrant” workers and which has compelled their governments to come up with knee-jerk protectionist measures. There are more than a few private employers who exploit the migrant labour market as such workers tend to work long hours for low wages with little or no social protection and benefits. This creates a segmentation of the labour market with low-wage migrant workers on the one side and local workers with better bargaining power on the other. If States are truly concerned about protecting workers’ rights, they should ensure that migrant workers in all establishments enjoy basic labour rights that are legally due to them, thereby creating a level playing field for all workers. This will also be a curb on exploitative practices by employers. Protectionism in the labour market is not the answer.

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COAL ISN’T EASY TO EXCLUDE FROM SUSTAINABLE DEVELOPMENT

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Heavy machines operate at an open cast coal mine in Khammam, Telangana, January 10, 2022. | Photo Credit: G.N. Rao/The Hindu

The world is highly dependent on fossil fuels, which produce 80% of the total energy supplied. In 2022, oil, coal, and gas accounted for 30%, 27%, and 23% of the world’s total energy, while solar and wind energy sources together contributed only 2.4%. Further, the per capita energy supplied in India during 2022 was 37% of the global average, and only 26% of that of China. Since per capita energy is directly related to the Human Development Index, we can expect that India’s energy needs will continue to grow in the foreseeable future.

Electricity security is achieved only by having a reliable and stable supply of electricity that can always match the demand at an affordable price. Only 10.4% of the 36.44 exajoules of India’s primary energy consumption in 2022 are from renewables (hydroelectric, solar, and wind); coal and oil gas account for 55.1% and 33.3%, respectively. Coal-fired thermal power plants (TPPs) generated 74.3% of India’s electricity during FY 2022-2023; generation by TPPs continues to grow to meet demand. The country’s coal sector plays a vital role in infrastructure development and in the power, steel, cement, and aluminium industries, which employ millions of people.

Further, India’s cumulative emissions from fossil fuels and industry between the start of the industrial revolution in 1750 and the end of 2021 are only 3.3% of the global total, far behind those of Europe (31%), the U.S. (24.3%), and China (14.4%). Fulfilling the development needs of 17% of the world’s population, which lives in India, is also a fundamental duty to which we must attend, failing which ‘sustainable development’ will simply be an empty catchphrase.

Most of the critical materials required for grid-scale battery storage are controlled by the top three producers – especially China – and batteries will become cost-effective only after 2030. Against this backdrop, India must focus on increasing the efficiency of its TPPs to reduce emissions while ramping up nuclear energy and enhancing pumped storage to integrate more solar and wind energy into the grid.

According to Central Electricity Authority (CEA) projections for FY 2031-2032, India’s national grid can absorb 924 TWh of electricity from various renewable energy sources by progressively adding 47 GW of battery storage capacity and 27 GW of pumped storage projects by FY 32. The tariffs of pithead TPPs are only 40% of the current round-the-clock tariffs for solar plants backed by battery storage in India today. Further, any major increase in battery storage capacity in India will require the import of critical minerals like lithium, cobalt, nickel, and graphite, which are controlled by other countries (mainly China), posing significant risks to India's energy security.

Ninety-six percent of the coal used by TPPs in India comes from domestic mines and is key to why electricity is so affordable in India. Therefore, the CEA's National Electricity Plan projects that TPP capacity in India will reach 259-262 GW by FY32, from 212 GW in FY23.

However, recent projections indicate that only 19 GW of pumped storage projects and 18 GW battery storage capacity additions are expected by FY32, which will require a further 23 GW of TPP capacity to be added to the grid by then – above the 40 GW of new TPP capacity projected by the CEA.

To balance this with India's long-term goal of reaching net-zero by 2070, the country must continue to implement clean coal technologies to reduce the power sector's emissions.

Coal deposits in India generally contain high levels of ash (35-50%) compared to those mined in other major coal-mining countries, like Australia, China, and the U.S. Burning coal with more ash leads to the erosion and eventual failure of boiler tubes and other components, affecting the plant's availability, efficiency, and performance.

The transport of unwashed raw coal to TPPs located more than 500 km from the mines also means transporting millions of tonnes of ash-producing non-coal material, congesting India's over-stretched road and rail transportation systems.

The practice in all major coal-producing countries is that the coal miner washes the run-of-mine coal (i.e. coal with impurities) at the pithead and dumps the rejects in the mine, before dispatching the washed coal of higher calorific value to consumers.

The government can mandate miners to supply only washed coal to all TPPs located more than 500 km from mines or ports to reduce carbon dioxide emissions and other environmental pollution. The coal-washing charges can be regulated as a part of the tariff determination process to protect consumers.

Indian coal – other than that from Assam and Meghalaya – has lower sulphur content than that mined in other coal-rich countries, and about one-sixth of that of coal used in Chinese power plants. However, TPPs in India also have some of the tallest stacks in the world, and most of them are in regions where the flue gas' exit velocity coupled with favourable weather conditions allow sulphur dioxide emissions to be dispersed far and wide.

According to the U.N. Intergovernmental Panel on Climate Change, historical sulphur dioxide emissions have created a cooling effect by producing sulphate aerosols that block some of the incoming solar radiation and enhance cloud formation, masking global temperature rise by 0.5 degrees Celsius.

However, the projected reduction in the gas's emission in China by the use of flue gas desulphurisers (FGDs) in their TPPs could result in an increase in the global average temperature between 2016 and 2050 by about 0.6 degrees Celsius.

Retrofitting existing TPPs with FGDs, to comply with current emission norms, could increase their specific coal consumption by 1.5-1.7%, leading to correspondingly lower energy efficiency and higher emission intensity. Such retrofitting also requires thousands of crores in capital investments and tariff hikes, not to mention temporary plant shutdowns.

Currently, retrofitting FGDs in operating TPPs has been delayed in India because TPPs are unable to shut down: coal-fired power generation has increased by 11% in the last seven months over the corresponding period in FY 2022-23.

In this milieu, the government can implement a 'graded priority' of power plant pollutants: particulate matter, carbon dioxide, sulphur dioxide, nitrogen oxides, and mercury, in that order. This way, India can reduce particulate emissions by 99.97% by installing the cost-effective, high-performance electrostatic precipitators and reserve FGDs for TPPs near urban areas.

Some 30% of the current TPP capacity in the country is from supercritical or ultra-supercritical technologies, which are also being installed in the 35 TPPs under construction. TPPs based on advanced ultra-supercritical technology (AUSC), with a proven efficiency of 46%, will also reduce carbon dioxide emissions by 15% compared to TPPs equipped with supercritical technology.

Integrated gasification combined cycle (IGCC) power plants also have efficiencies of 46-48% and can capture carbon dioxide.

Taken together, the Government of India can incentivise projects to prove IGCC or AUSC technologies at scale before 2030. To enhance round-the-clock zero-carbon electricity generation, the Indian government can encourage NTPC – India's largest power generator – to repurpose some TPP sites to install small modular nuclear reactors under the overall supervision of the Atomic Energy Regulator, while complying with international safeguards.

Global warming is the result of the combustion of fossil fuels, not just coal. Such a challenge can be tackled only according to the principle of 'common but differentiated responsibilities and respective capabilities' enshrined in the U.N. Framework Convention on Climate Change (UNFCCC) and in the Paris Agreement.

It's theoretically elegant to argue that switching to renewable energy will generate investments and jobs – but it may not work so smoothly in practice since the electricity grid must meet the peak demand at all times. The efficient operation of TPPs is critical for India since they ensure that peak and off-peak demands are met continuously, at affordable costs.

For India, low-carbon development is not a choice but a necessity, and the steps to achieve this are reflected in the 'Long-term Low-Emissions Development Strategy' it submitted to the UNFCCC.

The authors hope that developed countries will take the lead in combating climate change and provide new and additional climate-specific financial resources and technology transfer to developing countries as under the provisions existing under the UNFCCC and the Paris Agreement.

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A $5 TRILLION ECONOMY, BUT FOR WHOM?

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

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“India’s economic growth pivots on capital, productivity and labour, and data show that for over four-fifth of Indians, the $5 trillion economy is a bridge too far” File | Photo Credit: AP

Last week, at an election rally in Chhattisgarh, Prime Minister Narendra Modi announced that he is extending the Pradhan Mantri Garib Kalyan Ann Yojna, a scheme providing 5 kg of foodgrains free every month to beneficiaries of the National Food Security Act, by five years because he does not want any citizen to sleep hungry. This means that 80 crore Indians will still be receiving free foodgrains to stave off hunger in 2028. This is the year the government expects India to become the third largest economy in the world, with a GDP of $5 trillion. Will large swathes of Indians still be hungry with a GDP of $5 trillion? Who will benefit from the five-year dash to these targets?

For reference, let’s take a look at Japan today, the third largest economy by GDP in the world. In Japan, there is reportedly a death by suicide every 20 minutes. About 15 lakh Japanese have not left their homes for years, a form of severe social withdrawal known as *hikikomori*. Old parents rent actresses who come in on Sunday to call them ‘Mom’ and ‘Pop’ because their own daughters don’t visit any more. Every day, dead people are discovered in tiny apartments days or weeks after they died; these are called *kodokushi* or lonely deaths. Clearly, Japan’s climb to the third position economy-wise has not lifted all boats equally; it has tossed the weak to the margins where they languish because economic growth on steroids has unpicked the safety catch of family and community ties.

For 40 years, Japan was the world’s second largest economy, powered by manufacturing and exports. But after the 2008 world financial crisis, the wheels came off the Japanese economy. Japan’s population started spending less, exports shrank, and government incentives dried up. On the other hand, China enjoyed a manufacturing boom and dislodged Japan to become the world’s second-largest economy by GDP.

On losing rank, however, Japan displayed remarkable ego-free economic diplomacy. As soon as the economy plunged to the third position, Japan’s leadership publicly welcomed China’s ascent, stating that sustained demand from the (then) most populous country could only be good for Japan’s exports. Even if this statement was made partially to save face, the two economies intertwined immediately. Today, China is Japan’s largest trading partner, proving that in the world political economy it pays to embrace your main competitor, even if you are *Vishwaguru* (global teacher). This ego-free ‘activism’ has ensured that Japan has held on to the third position in world GDP rankings for the last 14 years.

But let us return to the parallel story in Japan. As the high-value industrial economy took centre stage, the strength of personal and professional relationships withered and the multi-generational family and social structure became atomised. This was a perfect storm in the lives of the traditional, semi-skilled workforce. Workers moved from the countryside and satellite towns to cities expecting ‘salaryman’ jobs, but many discovered that they were not trained for the technological tsunami sweeping the high-growth sectors. They fell through the cracks into financial collapse and social withdrawal.

Today, the Government of India claims that the country is on the cusp of an economic tsunami. How does the sprint to the target of $5 trillion bode for citizens, especially the 80 crore who will still be on free rations in 2028? India’s economic growth pivots on capital, productivity and labour, and data show that for over four-fifth of Indians, the $5 trillion economy is a bridge too far.

Consider capital: in 2021, 1% of the population owned about 41% of the nation’s wealth, while 50% owned 3% of its wealth, according to Oxfam. In such an environment, the dash towards a $5 trillion economic trophy lies in the grip of the resource-rich power brokers who will seize the initiative. But ironically, it is the low-resource citizens who are funding the investment for the proposed $5 trillion economy: approximately 64% of the total Goods and Services Tax (GST) came from the bottom 50% of the population, and the top 10% contributed 3% of GST. At the same time, the contribution of labour, the other driver of growth, is hamstrung due to dubious educational and skill attainments and halting digital literacy. Productivity is just beginning to get a boost through the creation of digital and physical infrastructure.

The government is aware that the rich are moving into pole position to deliver the $5 trillion target just before the 2029 general election. Clearly, this will bolster upscale India’s influence and power abroad, and the Prime Minister’s primacy in the world.

The government’s tools and sectors for achieving this goal were identified by the Minister of State for Finance, Pankaj Chaudhri, in Parliament on August 2023 as “digital economy, fintech, energy transition, climate change… GST, Insolvency and Bankruptcy Code, decrease in corporate tax, Make in India, Start-Up India, Production Linked Incentives”, all prefaced by the mandatory mantra “inclusive growth”. But these cutting-edge sectors and tools are not native to the 80 crore marginalised citizens and to crores of others. They cannot seize the opportunities on offer in Artificial Intelligence or data science or robotics or fintech — either now or in the next five years.

There are also other issues with Mr. Modi’s guarantee that India will be the third largest economy in five years. First, with a per capita income of $2,400, India ranks 149 among 194 countries in 2022. Since per capita income is a keen index of a population’s well-being, note that the average Japanese at $34,000 is considered better off than the average Chinese at a $13,000, even though China has outstripped Japan in world GDP rankings. What is India’s per capita income projected to be at $5 trillion? There are no official estimates available.

Second, the nub of the chase to $5 trillion GDP is in its distribution, or the inequality index. This index, generated by World Economics, is on a scale of 0-100. A high value indicates a more egalitarian society. The values of both China and Japan are more than 50. These countries appear to be sharing their economic fortunes more evenly than India, which has a value of 21.9.

Will the divide between the two Indias deepen with the $5 trillion target? India might be on its way to achieving this goal, but most of the population still remains marooned in the slow lanes of an older India, watching as the new caravans storm past.

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Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

The 1991 structural reforms, designed to transform India's economic policy framework from a highly dirigiste system to a more liberalized, market-oriented system, mainly addressed the policy and regulatory framework at the national level. Much still remains to be done at that level. However, the next phase of reforms will have to be directed at reforms in the states. Structural reforms at this level have hardly been addressed, barring some piecemeal efforts in a few states.

It is important to note in this context that there are very large differences in levels of development across Indian states, in some ways larger differences than those among different countries of Europe. To illustrate, the per capita income in Goa is seven times higher than in Bihar. Even if we exclude small states like Goa and Delhi as 'special cases', huge gaps remain, Haryana's per capita income is five times that of Bihar.

Per capita income by itself is an inadequate measure of development, but similar large differences are seen in levels of social development and infrastructure services as well. At 75 years, the life-expectancy in Kerala is ten years longer than 65 years in Uttar Pradesh (UP). In education, primary level enrolment rates are 90-100% in most states, but large differences appear at higher levels. Enrolment in higher education is over 51% in Tamil Nadu, compared to less than 15% in Bihar. Power consumption in Gujarat is seven times higher than in Bihar, while road density (state highways and district roads) is again seven times higher in Kerala than in Jharkhand.

These large inter-state differences in levels of social and economic development are both a challenge and an opportunity. They are a challenge because they point to the huge distance which some of these states have to travel, especially the so-called BIMARU states of Bihar, Jharkhand, Madhya Pradesh, Chhattisgarh, Rajasthan, UP and Uttarakhand, for India to achieve its aspirational goal of becoming a developed country by 2050, i.e., within a hundred years after independence from colonial rule.

These large differences are also a challenge because the states are diverging, not converging. In particular, the southern and western states of Tamil Nadu, Karnataka, Kerala, Andhra Pradesh, Telengana, Maharashtra and Gujarat are pulling away from the other states, especially the BIMARU cluster. However, BIMARU states remain demographically dominant. Their share of India's population is well over 40% and rising. This translates politically into a very large share of Members of Parliament (MP) in the Lok Sabha. This growing geographic cleavage between economic power and political heft may worsen after the expected delimitation exercise. It is likely to make India's politics even more fractious than it already is.

However, as stated, apart from challenges, these large inter-state differences also present opportunities. It is a long-established tradition in development economics, led by the pioneering work of Colin Clarke and Simon Kuznets, to test theories and identify robust regularities in development processes from inter-country comparisons. It was evocatively captured by the Japanese economist Akamatsu in his pre-World War II 'flying geese' paradigm, where the geese following in line learn lessons from the geese ahead in line, culminating in a single leading goose—which, of course, was Japan in his thinking. Multilateral development institutions often advise less developed countries on strengthening policies, processes and institutions based on the 'best practices' observed in more developed countries.

The difficulty with this approach in the international context is that often there are large differences in historical legacy or the prevailing developmental ecosystems across countries which make lessons from such inter-country comparisons infructuous. Policies and processes that work well in one country may not work in another.

However, these legacy or ecosystem differences mostly disappear in inter-state comparisons within a country. States have a shared historical legacy, the same administrative and judicial system, the same tax system and a common market. These natural controls provide a much more robust basis for learning development lessons.

It must be emphasized that these lessons are to be learnt and reforms prioritized not in some overarching sense, but at the level of individual sectors or services. This is because a state which may be leading in some sectors or services may be lagging behind in others. Reform priorities will not be the same for all states. Thus, Gujarat is a leading state in power supply, other infrastructure and industrial development, but it lags on social development. Maharashtra, a leading state in life expectancy and road density, lags in power consumption and per capita government spending. A state needs to prioritize reforms in areas where it is lagging.

That said, no single state can aspire to excel in everything. In some key areas like education, health and infrastructure, all states should aspire to catch up with the best. Beyond that, the principal of comparative advantage should apply, and every state should leverage its relative strengths compared to others. Even states which are lagging behind in many fields will be lagging more in some fields than others. Those should point to their reform priorities, especially in education, health and infrastructure.

To conclude, large development differences across Indian states pose challenges as well as opportunities. The opportunities can be leveraged to overcome the challenges. But whether state-level political leaderships have the necessary vision and humility to learn reform lessons from other states is a key question.

These are the author’s personal views.

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