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THE FISCAL CHALLENGE TO KERALA'S DEVELOPMENT

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

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January 01, 2024 12:41 am | Updated 12:41 am IST

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Kerala's development possibilities are being crippled by a fiscal crisis. While the critics allege extravagance in government operations, the State government blames the Centre for its troubles. In many ways, Kerala's problems are no different from the financial difficulties faced by several other States. One of the fundamental issues they all confront is the 'vertical fiscal imbalance': the power to raise most of the taxes is entrusted with the Union government while the bigger chunk of the spending is done by the State governments.

Other than State Goods and Services Tax (SGST), the only sources of revenue for the States are stamp duty and registration fee on property transactions and on vehicles; sales tax and excise duty on a few commodities such as alcohol; and revenue from mining leases, lotteries, and so on. The States bridge the excess of expenditures over their own revenues partly with fiscal transfers, grants, and loans from the Union government and partly with their borrowings, mainly from the market. A share of the taxes collected by the Centre is devolved to the States based on a formula recommended by the Finance Commission. While earlier the States could set tax rates independently, they surrendered that right when national uniform tax rates were introduced, notably the GST regime in 2017.

The States must bear 40% of the outlay for most of the centrally sponsored schemes (CSS) or they risk losing the funds allotted for these schemes altogether. But the projects under CSS may not always be the suitable ones for the individual States given their respective development priorities. The States have also disagreed with some of the norms prescribed for availing themselves of the CSS. Over the last decade, there has been an increase in the share of surcharges and cesses in taxes collected by the Union government, which do not have to be shared with the States as per constitutional provisions. All these have weakened the fiscal autonomy of the States.

In 2021-22, Kerala raised revenues amounting to 688 billion (1 billion = 100 crore), with major contributions from SGST, sales taxes, and income from lotteries. According to the Reserve Bank of India (RBI), Kerala is among the top performers in revenue mobilisation efforts. But it is also one of the biggest spenders of government money, on a per capita basis. The per capita revenue expenditures (for day-to-day operations) in Kerala were 1.3 times higher than the

corresponding average for all the States in all developmental activities put together; 1.9 times higher in the case of health; and 3.7 times higher in social welfare. Kerala's revenue expenditures on social services alone came to 507 billion, which took up almost three-fourths of all the revenues the State mobilised on its own (all figures relate to 2021-22).

Kerala's share in the taxes devolved by the Union government to the States fell from 3.88% during the 10th Finance Commission period (1995 to 2000) to 1.93% during the 15th Finance Commission period (2021 to 2026). Notably, 1.93% is less than Kerala's share in India's population (2.6% in 2021).

Not having adequate financial resources is impairing Kerala's growth prospects. The educated youth are seeking opportunities outside the State. Translating Kerala's potential to emerge as a thriving region for knowledge-based industries requires big investments in infrastructure, research centres, and so on. However, capital expenditures undertaken by the State – equivalent to 1.87% of the State Domestic Product (SDP) – is hardly sufficient for this task.

There has been a lot of discussion about salaries and pensions to government employees, which accounted for 48.8% of all of revenue expenditures by the State. Kerala has 5,26,000 government employees, with nearly half of them employed in the fields of education or health. About half of all government employees are women compared to just one-sixth at the national level.

Public employment has been one of the prime movers of Kerala's social achievements. But the government requires many more professionals and analysts on its ranks, and much fewer 'attenders' and 'typists'. Higher education receives only a quarter of all funds allocated for education in the State. This must be reviewed given the large demand for high-quality higher education on the one hand and the absolute decline in the population of children in the school-going years on the other. Almost 30% of the expenditure on salaries is set aside for teachers in institutions run by private managements. It is time to revisit this arrangement.

Kerala will have to seek new sources of finance. One option is to borrow from the people — to begin with, mobilise savings within the State, much of which is frittered away in houses, vehicles, and jewellery. Commercial and cooperative banks and the Kerala Infrastructure Investment Fund Board could be deployed for this task. However, the hurdle to this is the general opposition to debt-financed government expenditures. The Centre has rejected Kerala's plans to seek more loans, citing that the State's debt level (38.6% of SDP) is already high. But fears of debt are unwarranted if the debt-financed expenditures can generate new incomes and jobs and savings that can pay off the debts. The State government must take the lead in preparing a detailed blueprint for Kerala's future economy, which should allay the fears about its financing plans.

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Kerala / development

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THE WOES OF PENSIONERS AND PF MEMBERS

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

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The EPFO, the administering body for the Employees' Pension Scheme of 1995, has issued the clarification in the form of frequently asked questions to enable proper implementation of the 2022 Supreme Court verdict on higher pension. File

The Employees' Provident Fund Organisation (EPFO)'s recent clarification on the implementation of the 2022 Supreme Court verdict on higher Provident Fund (PF) pension seems to have added to the woes of pensioners and PF members.

The EPFO, the administering body for the Employees' Pension Scheme (EPS) of 1995, has issued the clarification in the form of frequently asked questions to enable proper implementation of the Court's judgment. As a matter of principle, the Court had approved the payment of higher pension subject to certain conditions. It upheld the 2014 amendments where the pensionable salary cap was raised to 15,000 a month from 6,500 a month; employers were allowed to contribute 8.33% of the employees' actual pay (even if it exceeds the cap) towards EPS; and the basis for computation of pensionable salary was altered. Later, the EPFO came up with two sets of procedures — one for those who retired before September 1, 2014 (the date of effect of amendments), and one for those who retired after 2014.

In the most contentious matter of pension computation, the clarification, which states that pension will be calculated as per paragraph 12 of the EPS, also says that the date of commencement of pension will determine the applicable formula for calculation of pensionable service, pensionable salary, and pension. This has raised the eyebrows of the pensioners and PF members, as there is no reference to "the date of commencement of pension" in paragraph 2(xv), which deals with pensionable service, or in paragraph 10, which defines pensionable service, or in paragraph 11, which determines pensionable salary.

Going by the yardstick of the date of commencement of pension, the pre-2014 retirees who chose to get their pension coincidentally after the amendments get a lower pension as their pensionable salary has been worked out based on the average pay of 60 months preceding the date of exit from the pension fund. In fact, this is one of the illustrations given in the clarification. Had they opted for pension before the amendments came into effect, their pension would have been higher, as it would be based on the average pay of 12 months. Those who expected the clarification to redress their grievance are frustrated. The clarification is also silent on when the EPFO will start disbursing higher PF pension, as there are reports of some pensioners getting a higher amount. Post-2014 retirees, who are apparently getting a higher amount, feel that there is

ambiguity about the revised pension. They want a worksheet as they find that the amount they received does not match the model formula circulated by the EPFO of taking 60 months average pensionable salary.

Besides, illustrations carried in the clarification with regard to the calculation of pension for post-2014 retirees could have been simpler. They do not explain every crucial aspect concerning pension. The clarification is also silent on when the EPFO will start disbursing higher PF pension, as there are reports of some pensioners getting a higher amount. There is also a demand for incorporating the component of interest rate, announced by the EPFO from time to time, at the time of calculating pension. As MP (Rajya Sabha) M. Shanmugam of the DMK said, if the interest component is taken into account, the pension amount would at least see a rise of 2,300 per month. There is also no logic behind halving the original amount of pension at the time of making widow or widower pension.

There has been a long-standing demand for increasing the amount of minimum monthly pension beyond the present 1,000, which has been in force since the 2014 amendments. The amount should at least be increased to 3,000, which was what the Bharatiya Janata Party demanded when it was in the Opposition in January 2014. The party had also demanded that the pension be linked to the cost of living index, which is again missing in the EPS. But in March 2022, the BJP-led government informed the Rajya Sabha that the High Empowered Monitoring Committee had stated that doing this was “not feasible in view of actuarial position.” At present, the government’s contributions — around 8,715 crore for 2022-23 — are in two forms: the government pays 1.16% of the wages of up to 15,000 a month as subsidy for contribution towards EPS and additional budgetary support to ensure payment of the minimum monthly pension of 1,000 in respect of those who would otherwise be getting less. The government should increase its budgetary allocation, if not double it, to achieve a durable social security system for those who contribute heavily to the economy.

Also, there is no justification for the authorities to entertain any longer the apprehension of the corpus of the Pension Fund under the EPS getting eroded, if what the government conveyed to the Upper House in August 2023 is of any indication. The total annual contributions and the corpus balance stood at about 64.886 crore and 7.8 lakh crore, respectively, in 2022-23 against 42,376 crore and 3.94 lakh crore, respectively, in 2017-18. This has been attributed to growth in the membership as well as general increase in wages. Besides, the EPFO should be getting considerable returns, if not more, from its annual investment in exchange-traded funds too.

The government would do well to devise a system that addresses these concerns.

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FAULTY COMPULSION: ON THE ISSUE OF MGNREGS AND AADHAAR SEEDING

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

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January 03, 2024 12:20 am | Updated 12:58 am IST

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With the government refusing to extend the deadline for Aadhaar details of workers under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) to be seeded to their job cards beyond December 31, 2023, to enable payments through an Aadhaar-based payment system (ABPS), the system has now become mandatory. Alarmingly, the decision would now affect nearly 35% of job card holders for this mode of payment and 12.7% of "active" workers (those who have worked at least one day in the last three financial years), thereby putting a dampener on the demand-driven scheme for many. ABPS implementation, the Union government claims, will ensure that payments are quick, reduce rejection and plug all leaks. The government also contends that as the ABPS has been in place for MGNREGS from 2017, and because Aadhaar number availability is near universal in India, the ABPS is a robust and a safer way to transfer wages. However, the over-reliance on technical tools has resulted in problematic implementation, with beneficiaries devoid of a proper recourse for corrections in the system. Data analysed by LibTech India suggest that the names of 7.6 crore workers have been deleted over the past 21 months due to discrepancies between the Aadhaar and the job card, among other reasons, with many of these done erroneously.

There are other issues with the use of the Aadhaar-based payments — where errors in any step of the process result in payment failures. Apart from the spelling discrepancy issue between the Aadhaar and the job card of the worker, there is also the problem of mapping the Aadhaar to the wrong bank account for many. In a number of cases, payments can be diverted to some other account than the one beneficiaries prefer, and also without their consent. Claims by the government that Aadhaar use has reduced delays in wage payments have also not been borne out, according to LibTech India, with wage delays largely due to insufficient funds in the first place. Without cleaning up Aadhaar seeding and mapping with bank accounts, making the ABPS mandatory will only create further issues. The Union government must revisit this decision, and work out a way to correct the faulty seeding and mapping problems before imposing ABPS. The Ministry of Rural Development has said that it may consider an exemption from ABPS on a case-to-case basis for gram panchayats if there are technical issues, but it would be better if the Ministry conducts social audits to ascertain the extent of the problem before insisting on ABPS. MGNREGS remains a vital demand-driven welfare scheme that helps the rural poor and its implementation must not be dependent upon a faulty technological system.

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Aadhaar / contract issue-work rules / welfare / labour / banking / government / technology (general)

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GROWTH SIGNALS: ON GST REVENUES

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

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The Goods and Services Tax (GST) has yielded close to 1.65 lakh crore in gross revenues in the last month of 2023. As the Finance Ministry has highlighted, this is the seventh occasion in this fiscal year that GST revenues were over 1.6 lakh crore. The first nine months of 2023-24 have clocked a 12% rise in GST collections, with the monthly intake averaging 1.66 lakh crore, from 1.49 lakh crore in 2022-23. There is a good chance that the tax, which North Block mandarins have often lamented has not delivered as much revenue as was anticipated at the time of its launch, may end up bestowing a bonanza to the exchequer this year. The Budget had factored in monthly GST revenues of around 1.59 lakh crore, so maintaining the current rate should translate into an additional inflow of 80,000-odd crore. While this may provide some buffer for any fresh pre-poll handouts from the Centre ahead of the general election, an expected slowdown in the final quarter of the year may moderate the gains. The Reserve Bank of India’s projection was for growth to taper off from 7.7% in the first half of the year to 6.5% in the October to December 2023 quarter and further to 6% in the current quarter. December’s GST collections for transactions undertaken in November indicate some moderation in momentum already.

Both the headline number and the growth rate for December were the lowest in three months. In fact, the 10.3% growth was far weaker than the 15.1% recorded a month earlier, and just marginally better than September’s 10.2% uptick, which in turn marked a 27-month low. Deepavali, which was closer to the middle of that month, should have spurred some last minute spending boost, but that effect seems to have been insipid. Revenues from domestic transactions grew 13% in December, down from the 14-month high growth of 20% in November, suggesting that the initially healthy festive fervour may have partly hit the ‘snooze’ button. This is corroborated somewhat by e-way bills generated in November which slid to 87 million from 100 million in October. The government has emphasised resilient domestic consumption steered the economy despite global headwinds. Indicators such as car sales, which crossed the four-million mark in 2023, led by high-end sport utility vehicles, can buttress that belief. But with rural demand likely to be fragile amid bleak prospects for the farm sector, and the festive push already in the past, policymakers, for whom this is the last month of official data to base their Interim Budget premises on, must note the slowing pace while factoring in the additional inflow that seems set to exceed expectations.

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taxes and duties / General Elections 2024 / Reserve Bank of India / economy (general) / Union Budget

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THE DISPUTE ON INDIA'S DEBT BURDEN

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

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January 04, 2024 02:26 am | Updated 02:26 am IST

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The IMF, in the report, states that India's general government debt, including the Centre and States, could be 100% of GDP under adverse circumstances by fiscal 2028.

Two recent observations by the International Monetary Fund (IMF) sparked reactions from the Indian Government. First, the IMF has raised concerns about the long-term sustainability of India's debts. Second, it reclassified India's exchange rate regime, terming it a "stabilised arrangement" instead of "floating". These emerged from the annual Article IV consultation report, which is part of the Fund's surveillance function under the Articles of Agreement with member countries. The report also acknowledged India's effective inflation management and projected a balanced outlook for India's economic growth. While the remark on the exchange rate can be viewed as comments on 'excessive management', as the rupee moved in a narrow band due to Central Bank interventions, the concerns on debt sustainability can be construed as a call for more prudent management of debt in the medium term.

The IMF, in the report, states that India's general government debt, including the Centre and States, could be 100% of GDP under adverse circumstances by fiscal 2028. According to them, "Long-term risks are high because considerable investment is required to reach India's climate change mitigation targets and improve resilience to climate stresses and natural disasters. This suggests that new and preferably concessional sources of financing are needed, as well as greater private sector investment and carbon pricing or equivalent mechanism." The Finance Ministry refutes IMF projections as this is "a worst-case scenario and is not fait accompli".

There are no two arguments on the fact that government borrowings can play a vital role in accelerating development, as governments can use it to finance their expenditures and invest in people to pave the way for a better future. However, the weight of debt can act as a drag on development due to limited access to financing, rising borrowing costs, currency devaluations and sluggish growth. As noted by the United Nations, "Countries are facing the impossible choice of servicing their debt or serving their people." According to the UN in 2022, 3.3 billion people live in countries that spend more on interest payments than on education or health.

Editorial | Debt debate: On the IMF's latest India consultation details, Finance Ministry's response

Global public debt has increased more than fourfold since 2000, outpacing global GDP, which tripled over the same period. In 2022, global public debt reached a record USD 92 trillion.

Developing countries accounted for almost 30% of the total, of which roughly 70% is attributable to China, India and Brazil. Public debt has increased faster in developing countries compared to developed countries over the last decade. The rise of debt in developing countries is due to growing development financing needs — exacerbated by the COVID-19 pandemic, the cost-of-living crisis, and climate change. As a result, the number of countries facing high levels of debt increased from 22 in 2011 to 59 in 2022.

Further, the burden of debt is asymmetric between developed and developing countries as the latter — even without considering the costs of exchange rate fluctuations — have to pay higher interest rates than the former. It has been well documented that countries in Africa borrow on average at rates that are four times higher than those of the United States and even eight times higher than those of Germany. This higher borrowing costs undermines debt sustainability of developing countries, as the number of countries where interest spending represents 10% or more of public revenues increased from 29 in 2010 to 55 in 2020. IMF's worst-case scenario projections for India need to be viewed in this context of persistent debt conundrum in developing countries.

Apart from managing public debt deftly to ensure that it does not breach sustainable levels, India faces challenges in enhancing its credit ratings. As elucidated by S&P Global Ratings, "Credit ratings are forward-looking opinions about the ability and willingness of debt issuers, like corporations or governments, to meet their financial obligations on time and in full. They provide a common and transparent global language for investors and other market participants, corporations and governments, and are one of many inputs they can consider as part of their decision-making processes". Elevated debt levels and substantial costs associated with servicing debt impact credit rating.

Even with the tag of being the fastest-growing major economy and being called a 'bright spot' in the global economy, sovereign investment ratings for India have remained the same for a long time. Both Fitch Ratings and S&P Global Ratings have kept India's credit rating unchanged at 'BBB- with stable outlook'. It should be noted that BBB- is the lowest investment grade rating and India has been on that scale since August 2006. Though one could raise methodological issues and biases on the rating process, rating agencies believe that India's stronger fundamentals are undermined by the government's weak fiscal performance and burdensome debt stock. Further, India's low per capita income is a major factor that pulls down score in the sovereign rating.

The central government's debt was 155.6 trillion, or 57.1% of GDP, at the end of March 2023 and the debt of State governments was about 28% of GDP. As stated by the Finance Ministry, India's public debt-to-GDP ratio has barely increased from 81% in 2005-06 to 84% in 2021-22, and is back to 81% in 2022-23. This, however, is way higher than the levels specified by the Fiscal Responsibility and Budget Management Act (FRBMA). The 2018 amendment to the Union government's FRBMA specified debt-GDP targets for the Centre, States and their combined accounts at 40%, 20% and 60%, respectively. Part of the present high levels of debt-GDP ratio can be attributed to the disruptions due to the pandemic, which resulted in a major deterioration in the debt-GDP ratios across the board.

Adding to this are the emerging worrying signs on the fiscal front. Despite handsome growth in tax collections, there is the possibility of a fiscal slippage in FY24, according to a report by India Ratings and Research (IR&R). IR&R attributes this to higher expenditure on employment guarantee schemes and subsidies. They state that budgeted fertilizer subsidy of 44,000 crore was almost over by end-October 2023 and the Union government has now increased fertilizer subsidy to 57,360 crore. Similarly, due to sustained demand for employment under Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), a sum of 79,770 crore has

already been spent till December 19, 2023, as against the budgeted 60,000 crore and an additional sum of 14,520 crore has been allocated through the first supplementary demand for grants. Increased subsidies do not come as a surprise as the country is heading for general elections next year, but the MNREGA outlay increase raises questions about employment growth and livelihoods in rural areas. Though the IMF's debt projections could be viewed as worst-case scenarios of the medium term, the short-term challenge of sticking to the fiscal correction path in an election year might go a long way towards avoiding worst-case scenarios.

M. Suresh Babu is Professor of Economics at IIT Madras. The views expressed are personal.

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Source : www.livemint.com Date : 2024-01-05

MINT

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

The Unified Payments Interface (UPI) has turned out to be a splendid example of India’s digital success, with the platform maintaining its sharp incline in 2023. As many as 118 billion UPI transactions were carried out last year, a 60% increase from 2022, according to National Payments Corporation of India (NPCI) data. In value terms, these transfers were worth 182 trillion, up 44%.

Its volume outpacing value is a sign of the platform’s outreach, with ever more people adopting it for small payments across the country. India hasn’t gone cashless, but cash dependence has fallen more drastically than was imaginable when UPI began in 2016. Some of its increased usage is thanks to waxing telecom connectivity in far-flung parts of India, where the benefits of the so-called JAM trinity of Jan Dhan bank accounts, Aadhaar identity numbers and mobile phones are most visible.

Technology has been put to the service of financial inclusion at such a scale that Indian digital public infrastructure has attained global fame. Whether the success of this bank-to-bank transfer system will hold back India’s e-rupee project is a question that 2024 might answer. Which is better needs a thorough debate.

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IS HIGHER EDUCATION OUT OF TOUCH WITH THE SKILL REQUIREMENTS IN THE JOB MARKET?

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

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January 05, 2024 12:15 am | Updated 01:26 am IST

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Reports by private agencies state that fewer than half of India's graduates were employable in 2021. According to the Periodic Labour Force Survey, the unemployment rate among graduates is higher than in many other developing countries. Students who enrolled in college during the pandemic have now graduated and there are concerns over their employability and the quality of online education. Is higher education in India out of touch with the skill requirements in the job markets? **Furqan Qamar** and **Santosh Mehrotra** discuss the question in a conversation moderated by **A.M. Jigeesh**. Edited excerpts:

Has online learning impacted employability?

Santosh Mehrotra: There was a problem with employability well before this craze for online learning took off. It is important to understand that those who have acquired or are acquiring higher education are those who belong to at least the top 20-30% of the income distribution, so they are relatively well off; a vast majority of the country's youth don't even manage to enter higher education. Higher education enrolment rates are still about 27% (18-23-year-olds). In 2012, the unemployment rate among graduates was 20%; it shot up to 34% in 2021. Among postgraduates, it used to be 18% in 2012; it doubled to nearly 37%. Why am I saying this? Because even before the online boom, the problem with our education system was structural. A major reason for this was the massification of higher education between 2006 and 2018. Because of this, the number of private colleges grew and quality deteriorated. State governments, the Central government and the University Grants Commission did not have the capacity to regulate [them]. These universities just became exam-giving institutions. Online education is an additional problem, which perhaps Professor Qamar can speak about.

Also read | **Are graduates facing unemployment?**

Furqan Qamar: Yes, educated people are not getting jobs and therefore unemployment is an issue. But if graduates are not getting jobs in India, that could also be because the economy is not creating any jobs. That is why we have so many graduates leaving the country in search of better opportunities abroad.

Online learning did cause learning losses. We meet students who say that they missed a lot [while studying from home] and that it was a challenge to concentrate for long hours on screen.

There were learning deficiencies and that has affected the abilities of these students to acquire knowledge and become more employable. Ed-tech companies are downsizing as students themselves realised that such companies wouldn't serve their purpose.

You said that the economy is not creating jobs. Agriculture is still the largest employment-providing sector and the share of the manufacturing sector in providing jobs is coming down. So, how can skill enhancement in institutions of higher education bring changes in primary sectors?

Furqan Qamar: Agriculture in India remains largely conventional. It has not become high tech, so I don't see mainstream graduates joining agricultural professions. Even in the services sector, the jobs that are being created require a high level of knowledge. But most jobs, such as of delivery boys, are not preferred jobs for educated people although in the absence of jobs, they might be found in these jobs.

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Higher education institutions are essentially knowledge institutions. When they create new knowledge, it leads to the development of new technologies, the possibilities of new businesses, innovation, entrepreneurship, and start-ups.

Santosh Mehrotra: There are structural problems with the higher education sector. One, our research and development (R&D) expenditure as a proportion of GDP is only 0.7%. In Korea, it is 4%. So, how will new knowledge get created? Second, globally, the private corporate sector accounts for about 70% of total R&D expenditure; only 30% comes from the government. In India, the public sector accounts for some 70% of the total R&D expenditure and the private sector's contribution is relatively small. Private sector jobs in research are not growing. Third, unlike in the rest of the world, where most research takes place in universities, a very small proportion of public funding goes towards research within universities. Most of it from government sources goes towards the Council of Scientific and Industrial Research, Indian Council of Medical Research, etc. This is problematic because these public research institutions don't have the mechanism of translating their research output into actual usable products and processes which can help ordinary people. The only way we are going to solve this problem is by creating institutions that convert patents or research scientific research papers into products and processes. Or universities have to be funded more and industry will have to be associated with this. Finally, unfortunately, our country still doesn't have an industrial policy or a manufacturing strategy. Young, educated researchers are absorbed in high-value services. There are 800 multinationals which have set up their global hubs for research here. But the value of that research flows abroad.

Professor Mehrotra, some reports suggest that India has a higher percentage of employable women graduates than men. But participation of women in the workforce is very low. Does it have anything to do with skill enhancement and opportunities for education for women in India?

Santosh Mehrotra: Indeed, it does. India's female labour force participation is among the lowest in the world. It's as low as in Yemen and Saudi Arabia. But let's remember that girls are getting better educated than before. India managed to rapidly ensure gender parity at the secondary level, which is unusual for its level of per capita income. So, more and more women became better educated and their aspirations are not to get married immediately. But what are they going to do if jobs are not growing?

This is the fourth year of the 2020 National Education Policy, which promised integration of skills with traditional syllabi and curricula. How do you assess the impact of NEP in fulfilling these requirements?

Furqan Qamar: The selective implementation of the policy is a problem. Whatever is happening is happening in the name of the policy, while the policy may be providing different things. As a result, we have not seen any substantive change in the education system on the ground. Instead, it has led to controversies and confusion about what higher education institutions should do.

Let me give an example. The policy clearly said that there should be a common basis for admitting students. It also mentioned that the National Testing Agency would hopefully have these systems and processes and that people may want to use those scores as a basis for selecting students. But then the policy underscored that the decision whether to use those scores or not would be left solely to individual higher education research institutions. That is a very good articulation as far as the autonomy of higher education is concerned. But then what we saw was that the Central University Entrance Test was introduced. Then we started talking about 'one nation, one examination'. So the higher education system is quite confused.

This takes me back to an earlier question on women. In engineering or in job-oriented courses, women are in lower numbers than boys, but on the whole, on average, there are more women. But let's talk of the larger issue of social growth equity. Are Scheduled Castes, Scheduled Tribes, Muslims participating more in higher education? They are now almost close to as much as reservation provides, but they are still far lower as compared to their share in the population in the country. The policy doesn't talk about specific equity actions. The intervention strategies for promoting inclusiveness and equities for different sets of people need to different.

India's industrial training institutes (ITI) and Polytechnic colleges were helping the poor and marginalised students to learn some skills. How are they placed to address this issue of inequality in skilled employability?

Santosh Mehrotra: ITIs have grown in number as affiliated colleges have grown in number at a phenomenal rate. When you get this level of massification, the issue of quality arises. This brings me back to the NEP which exhorts the country to go from the current level of 27% of gross enrolment ratio in higher education to 50% in a matter of another 12 years. This is a bizarre goal and the government has not increased allocations as to achieve this. I have an alternative: divert students at the end of Class 10 and Class 12 away from higher education towards ITIs and better vocational training institutions. And improve quality by engaging with industry and employers.

Furqan Qamar is Professor, Department Of Management Studies, at Jamia Millia Islamia; Santosh Mehrotra is Professor in Jawaharlal Nehru University

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Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

MUMBAI : Domestically, the backdrop is that of an impending general election, and, traditionally, an incumbent government cannot present a full Union budget in such a year. Whereas, globally, the setting is that of a debate on debt and sustainability amid falling growth. But that shouldn't necessarily be the context for the upcoming budget. A myopic focus a la the developed economies or the rest of the world on just debt reduction could prove to be costly in the long term as the India story literally has miles to go. Likewise, an interim budget presented by the government before the general elections should not constrain its ambition to do what is right for an economy that is poised at a critical juncture.

The government must focus on nurturing and furthering India's human and physical capital, and invest in areas that can enhance its potential growth and usher it towards the goals of India's Amrit Kaal. The budget must provide a blueprint for steering the economy towards a sustained high-growth trajectory in a growth-starved world. This will ensure that our debt-to-gross domestic product (GDP) ratio will decline once the economy is on a higher growth path. Note, the global economy is forecast to slow even more in 2024 to approximately 2.6%. Moreover, the expectation is that conditions will weaken over the year ahead due to high interest rates, geopolitical tensions and a slowdown in the world's top economies.

So, what should the interim budget focus on?

Adherence to fiscal targets and fiscal consolidation road map: The targeted fiscal deficit for 2023-24 is 5.9%, which is a 50-basis-point reduction from 2022-23 levels. Adhering to these targets will reassure sovereign rating agencies and investors. It will also keep a lid on yields and borrowing costs that have been rising the world over.

Furthermore, it is important to re-emphasize a medium-term fiscal consolidation road map with a clear elucidation of the fiscal journey ahead. The finance minister has in the past reaffirmed the desire to bring fiscal deficit under 4.5% by 2025-26. However, an important question that follows is—should such consolidation be at the cost of spending? India's fiscal consolidation has, more often than not, been on the back of expenditure cuts. The budget must reflect a concerted effort to reinvigorate the Keynesian “animal spirit" and enhance long-term growth potential.

Quantity and Quality of spending: The quantum of the government spending is now significant in size. For e.g., in 2023-24, the overall budgeted government expenditure stands at 45 trillion. The size of spending corresponds to the size of India's real GDP back in 2002. Thus, the improvement in the efficiency and effectiveness of public spending is a non-negotiable. The capital budget and the framework should be in order to meet national development needs in a cost-effective and coherent manner. Efforts should be made to raise revenues structurally to be able to invest for future growth and sustaining high growth rates. Thus, spending more, especially on capital outlay, is as important as fiscal consolidation through higher revenues.

Maintain the investment tempo: Reiterating the need for capex boost and doubling down on such spending will be an important signal that will have positive externalities, lower the logistics costs in the economy and make India globally competitive and spur exports. The government has done a commendable job in raising capex from 1.7% in 2019-20 to 3.3% in 2023-24, the highest since 2007-08. This has had a salutary impact on the economy and job market via the capital goods and infrastructure ecosystem.

Thus, increasing capital spending by at least 25% to 12.5 trillion in 2024-25 could reaffirm these signals and help crowd in private capex that has been lagging. Sustaining the rhythm in defence capex spending will be vital given India's volatile neighbourhood and the current geopolitical backdrop. Indian manufacturing is in the middle of a multi-year revival after a "lost decade" ending in 2020. Promoting green hydrogen by expanding the definition of infrastructure sector to include various facets of the green hydrogen/ammonia ecosystem should also be looked at in view of the "global boiling". Ease of doing business and reinforcing attempts to minimize the regulatory and compliance burden imposed on the taxpayers and stakeholders in the economy and facilitating the growth of micro, small and medium enterprises must also stay high on priority.

Lastly, the budget should be non-negative with no shock to the system, as the entry into global bond indices has put the spotlight squarely on government finances and fiscal responsibility. The fiscal math and assumptions therefore must be credible. Volatility in foreign funds for funding domestic needs in the current global macroeconomic backdrop entails significant risks and costs as was seen during the global financial crisis and taper tantrum episodes.

Sachchidanand Shukla is group chief economist at Larsen and Toubro Ltd. Views are personal.

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GOOD GROWTH, LOW DEMAND: THE HINDU EDITORIAL ON THE NSO PROJECTION

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The first advance estimates of national income for the current fiscal year present a picture of an economy on steroids — of government spending. While the NSO has made bold to project real GDP growth marginally quickening to a 7.3% pace, from 2022-23's 7.2%, scrutiny of sectoral output figures that together form the gross value added, and the demand data reflected in expenditure numbers posit an economy still searching for durable drivers of consumption-led growth. While overall GVA growth is seen slowing to 6.9%, from the preceding fiscal's 7%, the agriculture, livestock, forestry and fishing sector — the bedrock of the rural economy, one of the largest providers of work and the second-largest generator of economic value outside the services economy — will see output expanding by 1.8%, the slowest in eight years and less than half of 2022-23's 4% pace. And even this pace of growth may be optimistic given the estimated shortfall in kharif output and lag in rabi sowing, particularly in paddy and pulses. Equally, the second-largest component of the services economy, the omnibus trade, hotels, transport, communication and broadcasting sector — also a large provider of jobs — is estimated to witness more than a halving in the pace of growth — to 6.3%, from 14% last fiscal. Here too, the estimates reflect the trend evident in the NSO's November 30 release of second-quarter GDP estimates, and underscore the underlying loss of momentum in the post-pandemic rebound in services.

On the demand side, private final consumption expenditure — the largest component of GDP with a share that till two decades ago exceeded 60% — is projected to log its slowest non-pandemic year expansion in more than 20 years. At 4.4%, private consumption spending growth is estimated to have been at its lowest ebb since the pandemic and accompanying lockdowns caused spending to contract by more than 5% in 2020-21, and just over half of 2022-23's 7.5% pace. With the rural economy struggling under the impact of the monsoon vagaries and the resultant weakness in farm output, demand for producers of a range of goods from soaps and detergents to packaged foods and two-wheelers is yet to regain any kind of vigour in the hinterland. Gross fixed capital formation, which includes government capital spending, remains the main bright spot and driver of momentum. The NSO pegs GFCF growing 10.3% to reach a record 34.9% share of GDP this fiscal. With the general election just ahead, policymakers face an unenviable choice — keep the spending spigot fully open to prop up growth at the risk of fiscal slippage, or tighten the purse strings and risk further loss of momentum.

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