

7 PM COMPILATION

3rd - 9th August, 2020

Features of 7 PM compilation

- ❖ Comprehensive coverage of a given current topic
- ❖ Provide you all the information you need to frame a good answer
- ❖ Critical analysis, comparative analysis, legal/constitutional provisions, current issues and challenges and best practices around the world
- ❖ Written in lucid language and point format
- ❖ Wide use of charts, diagrams and info graphics
- ❖ Best-in class coverage, critically acclaimed by aspirants
- ❖ Out of the box thinking for value edition
- ❖ Best cost-benefit ratio according to successful aspirants

Sustainable Economic Recovery by Instilling Confidence in Stakeholders

Topics: Economy

Subtopics: Inclusive growth and issues arising from it.

Reviving WTO to Secure Global Trade in COVID Times

Topics: International Relations

Subtopics: Important International institutions

Trilemma in Policy towards PSB's

Topics: Economy

Subtopics: Indian Economy and issues relating to planning, mobilization of resources.

New Economic Realities and Need of Decentralization

Topics: Economy

Subtopics: Effects of liberalization on the economy,

Rising Poverty and Hunger in India due to COVID Pandemic

Topics: Social Justice

Subtopics: Issues relating to poverty and hunger.

Demand and Growth Revival by Enhancing Minimum Wages

Topics: Economy

Subtopics: Indian Economy and issues relating to employment.

Sustainable Economic Recovery by Instilling Confidence in Stakeholders

Source: <https://www.thehindu.com>

Introduction:

COVID 19 pandemic has brought economies to a standstill. Global and domestic GDP is estimated to contract along with loss of employment, reduced investments and reduced trade. This reverses decades of progress on development and pushes many into poverty. Education and nutritional outcomes are bound to suffer due to reduced incomes. To control the damage to the economy and development, governments must act with haste by understanding underlying sentiments.

In absence of a vaccine or cure, fear of infection and death has deterred reopening of the economy in full scale. In such uncertainty, people cannot spend and firms cannot reopen production. These negative sentiments due to pandemic must be tackled to revive the economy in a sustainable manner. Monetary, fiscal and policy responses must address this anxiety and uncertainty to ensure effectiveness. Confidence must be brought back to all stakeholders – people, firms, financial institutions, international development organizations and ratings agencies.

Cash transfers needed for security of households:

Due to loss of livelihoods and incomes, MGNREGA is being sought by more people. Demand has trebled after lockdowns and reverse migration from urban centres. But it is not enough to address income anxieties of households as it has low wages and only 100 days of work.

In such a scenario, adequate cash transfers are needed to provide a sense of security and confidence to households. It can address basic needs of the households like food, sanitation, healthcare.

This has been opposed by apprehensions that it can deter people from going back to work and hence produce labour shortages. But evidence in the USA shows that it is not the case. Hence cash transfers to vulnerable households must be undertaken to inject confidence in households. This also acts as a demand generation tool in the economy which is needed for firms to reopen.

Autonomy to financial institutions for improved confidence:

Monetary and fiscal responses by India include credit expansion, credit guarantees and interest rate reductions for liquidity. But such supply side measures are not successful in an environment of uncertainty as banks become reluctant to lend.

In such a scenario, autonomy of financial institutions – RBI, banks, regulators, bankruptcy institutions – is crucial in instilling confidence in financial processes. Only then can banks lend with confidence.

Revival of firms:

When people have money to spend due to cash transfers and banks can lend capital, then firms will be more confident in reopening and investment. Hence cash transfers and autonomous financial institutions are needed to revive firms.

Other supply side steps like corporate tax cuts and trade restrictions will not be effective. Tax cuts will result in firms hoarding money due to uncertainty and also will reduce government revenues. Trade restrictions will lead to disruption of supply chains where Indian firms are involved and also can result in trade wars where other countries will restrict Indian exports.

Hence cash transfers and autonomous financial institutions are better policy options.

Need for more government borrowing:

To implement steps of cash transfers, credit guarantees, liquidity infusion in banks, fiscal resources must be available with the government. Excessive fiscal restraint will be harmful in the current economic downturn. Hence the government must borrow more to provide a stimulus to the economy.

Sources of financing fiscal deficit include:

- International development institutions like IMF, World Bank. They have constituted new instruments of borrowing for developing nations. These must be availed.
- Deficit monetization (RBI printing money to finance deficit) as last resort. This must be done with prudence to prevent negatives of such measures like inflation and wasteful fiscal expenditure.
- Disinvestment in non-strategic PSU's

Conclusion:

Underlying problem of lack of positive sentiments in the economy must be addressed for sustainable economic recovery. By instilling confidence in households (people), financial institutions, firms, we can provide stimulus towards a positive growth cycle. This will provide confidence to sovereign credit ratings and international development agencies, which in turn will enable more funding assistance to India.

Mains question:

Q.1) Demand side interventions and confidence in the financial sector is needed for reviving economic growth post pandemic. Discuss? [15 marks, 250 words]

Reviving WTO to Secure Global Trade in COVID Times

Source: <https://www.hindustantimes.com>

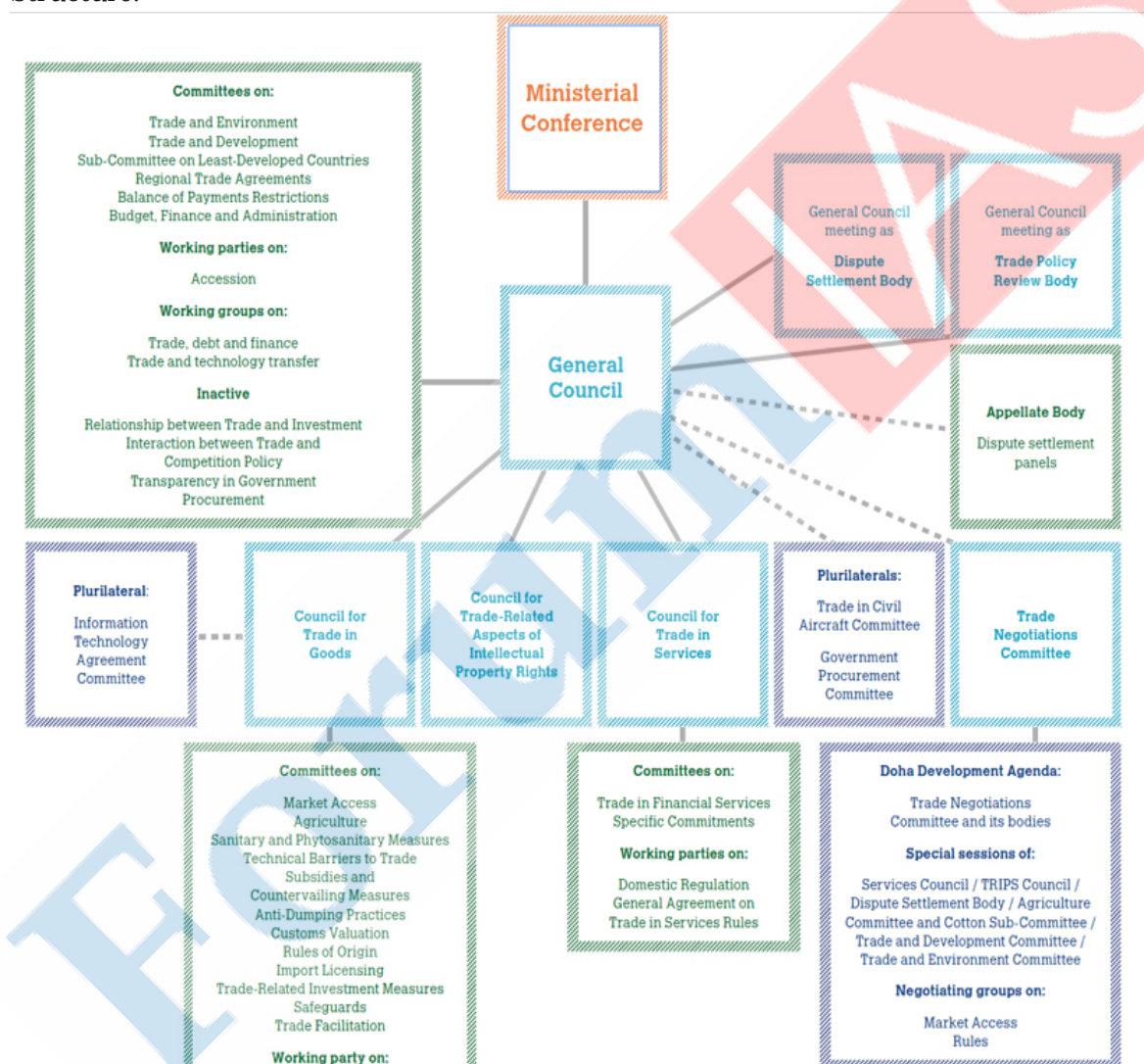
Introduction:

Relevance of WTO (World Trade Organization) in global trade rules is coming under challenge in recent years. In a world where COVID pandemic has disrupted global supply chains and trade, it is pivotal to revive WTO to ensure security and predictability of trade.

WTO – Structure and functions:

WTO was established by Marrakesh Agreement in 1995 after the conclusion of Uruguay round of negotiations.

Structure:



Main functions:

- Forum for negotiations of trade rules and agreements
- Administering and monitoring existing trade agreements like Agreement on Agriculture, Trade Facilitation Agreement.
- Dispute resolution in trade through a Dispute settlement Body (DSB) and appellate body

Importance of WTO lies in the fact that it is based on principle of equality and non discrimination

- Every country has an equal voting right
- MFN(Most Favoured Nation) mechanism ensures rights of all members are protected in trade.
- Dispute Settlement Body(DSB) enforces trade rules and provides redress to all nations irrespective of their economic size

Hence WTO is very crucial for rules based global trading regime.

Troubling times for WTO:

WTO is facing troubling times recently due to following issues:

- Difficulty in consensus building: With 164 nations, negotiations have become difficult to reach consensus
- Divergence in priorities:
 - Developing and least developed nations have priorities of the DOHA development agenda. Promoting development and correcting injustices of Uruguay round are focus for these countries
 - Developed nations are proposing new agenda on issues of e-commerce, investment facilitation, services trade, gender norms.
- Dysfunctional DSB: USA has blocked appointment of judges on DSB. This has effectively prevented the functioning of DSB.
- Increasing regional agreements and WTO plus provision on intellectual property, labour laws etc. Trans Pacific partnership between pacific countries is an example.
- Trade wars and sidelining of WTO
- US reluctance in engaging with WTO by citing multiple issues like developing country classification criteria.

These have to be addressed to bring back the relevance of WTO.

Steps to revive WTO process:

- New DG (Director General) must be appointed expeditiously. DG promotes consensus building of nations which is needed in current fragmented scenario
- Engaging with USA to bring it back into the WTO fold. Genuine concerns must be addressed which will build confidence in the process
- DSB must be revived. Without the dispute redressal mechanism the whole idea of the WTO will be defeated. Hence this must be a priority. USA must be convinced of the same.
- Limiting the agenda of the next ministerial conference to produce outcomes. This can improve confidence in the body. Only fisheries subsidies can be taken up in June 2021 ministerial.
- China and its trade practices must be addressed. Role of state owned enterprises, forced technology transfer and non-market economies must be discussed and clarified.
- Discussions must move ahead on the agenda of WTO negotiations. While developed countries issues may be considered to be included, this must not dilute existing DOHA development agenda. Agriculture issues (Public stock holding procurement, special safeguarding mechanism), Special and differential treatment rules must be finalized.
- WTO must deliberate on whether plurilateral agreements (only some countries negotiate and agree) should be part of WTO. If they are part of WTO, induction of other countries into the agreement at a later date and applicability of agreement on MFN basis to countries which are not part of agreement, must be decided.

Conclusion:

Global trade is facing uncertain times due to pandemic, protectionism and trade wars. WTO is pivotal in ensuring security and predictability in such uncertain times. Hence it is important to rejuvenate the global body to promote economic growth of the world.

Mains Question:

Q.1) WTO has become dysfunctional and irrelevant in recent times. What challenges is it facing? Suggest steps to revive WTO? [15 marks, 250 words]

ForumIAS

Trilemma in Policy towards PSB'sSource: <https://www.livemint.com>**Introduction:**

Former RBI governor, Urjit Patel has pointed out a trilemma faced by the government and RBI in policy towards PSB's (Public sector banks). Due to this trilemma, it is proposed that privatization of the banking sector must not be prevented.

What is this trilemma?

Policies towards PSB's cannot achieve following 3 outcomes at the same time:

- Have predominant public sector in banking system
- Have independent regulation by RBI
- Adhering to public debt to GDP ratio targets

Only any 2 of the 3 outcomes can be achieved.

- Predominant public sector and independent regulation by RBI:
 - For predominant public sector, PSB's will have to lend more. This will increase NPAs (Non-performing assets) with PSB's.
 - Due to independent regulation of RBI, these loans will have to be declared stressed and banks must provide adequate provisions to cover bad loans. This provisioning of bad loans will lead to reduced capital with banks.
 - To maintain capital adequacy ratio(CAR) of PSB's, the government has to infuse liquidity into them. This raises public debt to GDP ratio
- Predominant public sector and adherence to debt to GDP targets:
 - Predominant public sector leads to higher NPAs in PSBs as seen above.
 - For the government to maintain debt to GDP ratio target, it cannot provide much liquidity infusion into PSB's. Hence to maintain a healthy CAR of banks despite rising NPAs, such NPA's must not be recognized.
 - This occurs only when RBI dilutes NPA recognition regulations. Hence RBI's autonomy is compromised.
 - This pushes the NPA problem into the future where bad loans pile up and become a financial sector crisis. Hence it is undesirable. India's NPA crisis in 2015-2019 is due to such practices post global financial crisis.
- Independent regulation by RBI and Adherence to debt to GDP ratio targets: Here PSB's cannot play a dominant role. Hence even when bad loans with the private sector rises due to stringent regulation by RBI, the government need not provide capital infusion to private players. This checks any rise of debt to GDP ratio.

Considering this it is proposed that privatization of the banking sector should not be prevented. Fall of PSB share in lending from 75% to 57.5% in the last decade shows that such privatization is happening gradually.

Counterpoint to the trilemma:

Recent case of Yes bank shows that the government will still need to intervene in case of private bank failures to save the interests of depositors. In such cases, the underlying assumption in the trilemma that without predominant PSB's, the government need not infuse capital, is not justified.

This was seen even after the global financial crisis of 2008 and banking sector meltdown in advanced economies. There were huge bailouts by governments to private banks.

Conclusion:

While India does face this trilemma as proposed by the former governor, unchecked privatization may not be the solution. A balanced approach is needed where the resolution process of financial failure of private banks needs to be evolved. These norms must address how to secure depositor interests.

Mains question:

Q.1) Privatization of PSB's is the need of the day to improve efficiencies and to reduce government expenditure. Critically discuss? [15 marks, 250 words]

ForumIAS

New Economic Realities and Need of DecentralizationSource: <https://www.livemint.com>**Introduction:**

Since 1991, liberalization, globalization and free trade have been guiding principles of economic policies of nations. But as the world faces the economic consequences of COVID 19, these principles may not aid in tackling new challenges. This is because of changed ground realities in terms of factors of production like technology, barriers to trade and demand structure changes.

Changed ground realities:

Increasing diversification of supply chains: COVID pandemic has exposed limitations of dependence of supply chains on a single country. In such a scenario, nations are looking to diversify supply chains and will be averse to dependence on one country. This limits the export oriented growth model which benefited China and other east asian countries. India being a later mover, may have to pursue other strategies of growth. Specific sectors where there is competitiveness of Indian industry must be identified to promote exports.

Increasing protectionism: As countries look inward to tackle economic fallout of COVID pandemic, protectionism is on the rise. Limiting movement of people, import substitution, locating supply chains inside countries will be focused on. US limiting H1B visas, green cards is an example. In such a scenario, an export oriented growth model will have limitations.

Technology displacing labour: Earlier argument of, market reforms boosting investment which will create jobs, is no more completely valid. Technologies have been displacing low to mid tier jobs, which is accelerated by COVID pandemic. While this increases productivity in the long run, it will reduce job opportunities.

4D's – Depopulation, Declining productivity, High debt and Deglobalization are the new trends predicted by economists. This is in contrast conditions in early 21st century where globalization was seen as unstoppable phenomena.

- Depopulation will result in reduced demand as is evident in developed countries which are ageing. As developing countries reduce fertility rates, demand will fall in these countries too.

Demand structures are changing:

- Climate change based consumption patterns will increase practice of 3R's – Reduce, Reuse and Recycle. This will reduce demand for new goods
- Rent based consumption replacing ownership: Shared mobility, rental homes are examples. This reduces demand for new goods.

Reduced investments by companies: As demand reduces, companies will reduce expansions. This in turn will reduce credit in the economy. Hence banks will have to depend on equity and small firms for growth.

Geopolitical rivalry between China and USA: As the world enters a new cold war between USA and China, involved nations will have to divert their resources towards defense and security expenditure. Hence sectorally, this is a growth avenue. Other avenues are

healthcare and education. But rising tensions will introduce risk factors to global economic growth and trade as was seen in trade war.

Conclusion:

In such a complex world with fast changing dynamics, top down governance will not yield desired results. Earlier models of growth are no more relevant. Solutions must be bottom up and decentralization must be pursued. This will enable new models of growth and induce resilience locally.

Mains question:

Q.1) Principles of liberalization, globalization and free trade are no more relevant in today's new economic realities. Critically discuss? [15 marks, 250 words]

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Rising Poverty and Hunger in India due to COVID Pandemic

Source: <https://www.thehindu.com>

Introduction:

COVID-19 pandemic has brought economies to a standstill due to lockdowns and movement restrictions. Impact of this contracting economic activity is immense on the lives of those who are below the poverty line(BPL) as well as on the vulnerable who can fall below BPL level. Reduced incomes and resultant poverty are pushing people into a humanitarian crisis where there are deprivations of food and healthcare.

Emerging hunger crisis in India:

Economic crisis due to COVID has led to:

- Urban jobs in informal sector being lost where there is no job security
 - Casual wage workers, weavers, artisans, rickshaw pullers, self-employed persons are all facing loss of livelihoods
- Migrants returning to villages in fear of pandemic and also because employment opportunities in urban areas are reduced.
- Rise of unemployment to decadal highs to more than 6%

This has led to reduction of incomes of both urban households and rural households.

- Rural households which were dependent on remittances from migrant workers are now facing distress due to migrant returns.
- People and households are being pushed to BPL level of incomes. These include MSME employees, gig economy employees, domestic workers, sex workers, lower middle class households like that of teachers in private schools.

In the absence of an effective public distribution system of food, reduction of incomes has been pushing people into deprivation of food and hunger.

- Nutritional items of diet like milk, eggs, dal, vegetables, fruit, meat are being foregone.
- Only cereal based diet(rice and roti) is being consumed in lesser quantities
- Halting of midday meal scheme due to school closures is depriving nutrition to children. Further, child labour is rising, to meet income and food needs of households.

As pandemic spreads to states with weak public health systems like Bihar, the poor will face a health crisis due to lack of quality public health care and unaffordability of private health care. This will further push them into poverty and will exacerbate the hunger crisis.

The UN estimates that 40 crore people will fall into extreme poverty(less than \$1.9 per day) especially in South, South East and East Asia. Further due to lack of efficient public food distribution support, 25 crore people will face acute hunger globally.

Ineffective government responses:

- Ending of universal food support after lockdowns has reduced food availabilityfor new poor who lost their livelihoods. Only those with ration cards are being able to access the rations.
- Preferring credit expansion over cash transfers will not aid economic recoveryas demand has fallen drastically. In addition, this will not address the distress of households which have lost income and livelihoods.
- Dilution of labour laws has reduced protection to workers. Increased working hours(upto 12 hours), suspension of safeguards will weaken the bargaining power of

workers and pose health risks. This will make the livelihoods more vulnerable and hence risks rise in poverty and hunger.

Conclusion:

GHI (Global Hunger Index by IFPRI) had ranked India at 102 out of 117 in 2019. This position is going to further weaken due to the effects of the pandemic. State and civil society must move with haste to prevent this emerging humanitarian crisis of poverty and hunger. Only by sustained efforts can we regain progress towards goals of Zero poverty (SDG-1) and Zero Hunger(SDG -2).

Mains question:

Q.1) Discuss the impact of COVID 19 on food and nutritional security of India? What steps must be taken to ensure food security is provided to vulnerable people?

[15 marks, 250 words]

ForumIAS

Demand and Growth Revival by Enhancing Minimum WagesSource: <https://indianexpress.com>**Introduction**

Private consumption demand which is one of the levers of economic growth has been slowing down even before COVID pandemic in India. After the pandemic induced lockdowns and restrictions, it has fallen drastically as jobs and incomes have been lost. Economic revival needs revival of domestic demand as external demand (exports) will stay muted in the foreseeable future.

India's growth story of the 21st century was based on consumption demand. This demand came from top of the socio-economic pyramid i.e. well off and middle class. But this has reached its limit. For further growth, demand must be generated at bottom of the income pyramid i.e. informal workers. They have high propensity to consume which makes them a good source of demand, provided they have adequate income.

Incomes in India for informal workers:

PLFS (Periodic Labour Force survey), 2018-19 data points out:

- 10% of employment is formal(job security, social security like pensions, provident fund, insurance). They have decent minimum wage(about Rs.26000 per month) for adequate consumption
- Organized informal employment constitutes 14% of total workforce. Their average incomes are Rs.9500 per month. This is equal to or below minimum wage.
- Self-employed constitute 50% of total workforce with average income of Rs.8400 per month
- Casual wage workers constitute 24% of workforce with daily income of Rs.209

This shows India's employment challenge includes inadequate incomes. For self-employed and casual workers, incomes are well below decent wages which are needed for consumption of goods. These wages only ensure a subsistence level of income and cannot create demand. These incomes have to be increased to ensure that consumption demand comes from the bottom of the income pyramid.

Increasing incomes can be done by 2 ways:

- Increasing productivity growth in informal economy
- Raising minimum wages

Raising Minimum wages to improve incomes:

Code on wages act, 2019 guides minimum wage in India. Based on occupation and skills, minimum wages are set. But there is a Floor wage(Rs.178 per day as per draft rules) based on minimum living standards, which is the threshold wage in any sector(organized and unorganized) and employment(formal and informal). Any minimum wage for any sector cannot be lower than floor wage. Yet considering enforcement difficulties in the informal sector, realization of the same is challenging.

Better interventions will be:

- Focus on casual wage workers: 2 sectors where 80% of casual wage workers are present are agriculture and construction. Ensuring decent living wages in these sectors will increase incomes of casual labour and hence consumption demand. It will also increase floor wages of other informal workers due to market forces.
- Public employment programmes like MGNREGA which employ unskilled workers must ensure minimum wages are paid. Further, they must be extended to the whole

year and to urban areas. This will ensure other sectors will pay at least minimum wages in fear of labour migrating to MGNREGA.

- Criteria of setting minimum wage to be decent living standard: Current criteria in setting minimum wages is based on subsistence living and just out of poverty. It must be changed to ensure adequate income which in turn will increase consumption demand.
- Anup Sathpathy committee recommended Rs.375 as living wage.
- Minimum wage can be linked to regular informal worker incomes. This will ensure yearly upgradation of minimum wage as per PLFS data.

Conclusion:

By raising minimum wages of casual labour and public unskilled employment, consumption demand can be increased from the bottom of the income pyramid. This will not only reduce inequalities in India, but also ensure sustainable economic growth revival. This can be a complementary strategy to cash transfers to ensure minimum income guarantee to vulnerable households.

Mains question:

Q.1) Bad quality of jobs with low wages is a greater challenge for India than unemployment. Discuss? What step must be taken to ensure minimum wages in the economy?

[15 marks, 250 words]