Economy This Week (18th May to 31st May 2020)

1. Returning to a sustainable debt trajectory a big challenge (LM 22/5/20)

- Returning to a sustainable debt trajectory will be a challenge for both the centre and the state in the medium term as both have substantially increased their borrowings.
- In order to keep the debt manageable, there has to be a high growth trajectory in the medium term.
- The committee has noted that because of the situation caused by the pandemic, both centre and states have been forced to borrow more from the market. In addition to this, there has been a downward pressure on the economic activity which would be affecting debt to GDP ratio.
- The commission had earlier recommended a debt to GDP ratio of 40% and 20% for the centre and states respectively and now is in the process of redrawing this.
- The commission earlier had set the target for debt which was to be achieved by FY25.

2. Govt to create platform to map skilled workers (LM 22/5/20)

- National Skills Development Corp (implementing body of the Ministry of Skill Development) along with an AI company is working on a new platform to map skilled and certified workers with demand clusters based on industrial requirements.
- It is expected to create an ecosystem which:
    - Will reduce the dependency on the migrants.
    - Provide opportunities for the workers closer to their homes.
    - With the businesses opening up after lockdown there would be a need for skilled workers and this would be addressed under skill mapping.
- Of the total workforce in India of about 500 million, 90% are from the informal or unorganized sector.
- As per industry estimates, the lockdown has impacted 65% of manufacturing, 60% of construction and 53% of services due to the unavailability of workers.
- Skilled professionals can earn 9% more compared to unskilled workers.
- In addition to this, now there will be a demand for re-skilling of migrants as they have returned to their hometowns and would be searching for employment opportunities there itself.
- The portal is expected to be launched by mid-June.
- With migrant workers moving back to their hometowns and having alternative livelihood options available, India might shift from a situation of labour surplus to labour shortage economy.

3. Govt caps airfares for 3 months (LM 22/5/20)

- Domestic flights will have a cap on fares with upper and lower limits for a period of three months.
- For many months there has been no activity in the sector because of the lockdown imposed by the government, as a result, there has been pent up or repressed demand. The government is concerned that the companies may extort the customers. To prevent this, it has imposed the limits (upper and lower) on fares.
    - Government has created seven major fare sections/zones based on the distance and time taken to cover the distance.
    - With the capacity falling from 100% to 30% the prices could have skyrocketed.
    - 40% of the seats will have to be sold at mid price (average of highest and lowest price levels).
- This is the first time that caps on fares have been imposed for a longer duration. Government usually imposes the caps for a short duration during earthquake, floods, etc.
- Apart from this, TRAI has imposed tariff restrictions in the broadcasting sector.

- All the cities are to be connected but with only a third of the capacity is to be used by the companies.

4. Oil price pickle (TH 27/5/20)

- The government has explained that it is taking a conscious and cautious approach to pricing fuel to use the resultant savings for welfare. This is unacceptable as the crude prices have declined by 45% and the OMCs have not transferred the benefit to the consumers, this despite the fact that the prices of these have been deregulated by the government.
- The government, in May, decided to raise the excise duties on petrol and diesel for the second time in less than two months. This in the face of the dwindling revenues of the government is understandable, but the frequent changes in the excise duty structure flies in the face of deregulation of prices. Such interference during the period when the prices are low undermines the benefits that the consumers should get under deregulation of fuel prices.
- If the government has to collect higher excise, then the consumption of the fuels will have to increase. But the demand for these has been muted because of the lockdown and restrictions imposed on interstate travel.
- In addition to this, the government has set a disinvestment target of ₹ 2.1 lakh Cr in which it has also targeted stake sale of BPCL, but the private sector players will not be impressed with the lack of autonomy in the sector.

5. How India can become self reliant (TH 27/5/20)

- India embarked on the self-reliant model post independence and was ahead of most of the developing countries. However, India failed to modernize these, in addition to this, little effort was made to modernize light industries or develop contemporary consumer products. Hence, India's industrial ecosystem was characterized by low productivity, poor quality, low technology and was globally uncompetitive.
- India has completely missed out the third industrial revolution (comprising electronic goods, micro-processors, personal computers, mobile phones, decentralized production and global value chains, etc.)
    - India is the second largest consumer market for smart phones but doesn't make any of these itself.
    - Manufactures a small fraction of solar photovoltaic cells and modules.
- In the beginning of this century, the economy embarked on LPG reforms but little efforts were made to develop the advanced technology within India. The PSUs became globally uncompetitive, no efforts were put in to either make them autonomous or transition them towards new technology. On the other hand, the private sector showed little interest in these industries and no appetite for technology up gradation.
- Even today most of the R&D done in India is by PSUs, hence, there is a need for investment in PSUs and R&D is essential for self-reliance.
- Government has allowed foreign companies to enter into India and expects that the technology will be absorbed in the domestic market, but these companies closely guard their technology and merely setting up their companies in India is no guarantee of absorption of technologies.
- Way forward:
    - India may have missed the bus on many of these technologies but there is still an opportunity in areas such as solar cells, modules, aircraft, AI, robotics, automation, etc.
    - State funded research has to be scaled up (presently is about 1% of GDP).
    - Upgraded and reoriented PSUs are also critical as they have their distinctive place in the ecosystem.

- The expenditure on public education needs to upgraded including the one on skill development.