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Economy This Week (21st Sep to 27th Sep 2020)

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1. Why the new agri laws are not anti-farmer (BL 21/9/20)

- The bill on farm produce trade has given the freedom to farmers to decide to whom they sell their produce by removing the compulsion to sell it to licensed agents of the APMC.
- Another argument against these bills is that the subject does not fall under the jurisdiction of the Centre but the Central Government has argued that it has made these laws considering the power given to it by the Constitution (inter-state trade and commerce).
- There have been concerns that with the introduction of these laws, the MSP will be withdrawn. The Centre has been arguing that as of now sales take place outside of the mandis and the MSP will not be withdrawn as the government will continue to procure food grains.
- The argument put forward by the Centre is that it is trying to restrict the powers of APMCs and opening up the space to private players.
- Though the sales in mandis attract charges (4 to 6% in Haryana and Punjab; 1 to 2% in other states), the infrastructure is not sufficient.
- Suggestions:
  - How transparency in prices will be ensured
  - No regulatory oversight on such direct sales
  - How the data will be collected and used for making policy decisions such as import/export, prices, inflation control, etc.
  - Grievance redressal mechanism provided is weak (for example, how a large number of complaints will be handled by the Sub-Divisional Magistrate)

2. Overhaul the banking system (LM 22/9/20)

- **Raghuram Rajan and Viral Acharya have called for:**
  - Privatisation of the public sector banks
  - Winding down of the Department of Financial Services (DFS)
  - Creation of bad bank
- The current system has become untenable and cannot continue to be a drain on the financial resources of the centre, rather than being an engine of growth.
- The transformation in the banking sector will not happen through incremental reforms.
- The government has not been able to implement reforms of P J Nayak Committee report and this shows a lack of steady political support.
- The government enjoys enormous power from directing bank lending; the government should wind up the DFS to show an affirmative signal and to show the intent of granting independence to bank boards.
- Improvement in operational performance of the banks through the creation of a bank holding company and incentivising the senior management with better pay and longer tenure.
- Bringing down the ownership in the banks to below 50% and reprivatisation of the banks.

3. Railways privatisation (BL 23/9/20)

- The government has removed the limit on the number of clusters a private firm can operate (earlier it had put a ceiling of three clusters). The bid will be awarded to the company that is willing to share the highest revenue with the government.
- The private company will have to pulsate charges for using the railway network developed by the government. The base haulage charges will be revised annually. In addition to this, the operator will have to pay for the energy consumed by the trains.
- The operator will be free to set market-linked fares.
- The entity winning the bid will get non-exclusive rights to procure, operate and maintain the trains for 35 years. The railways will have the right to operate its own trains or give the right to any third party to operate these routes.
- However, the railways will ensure that concessionaires will have exclusive rights to operate the trains on the paths and no new similar train shall originate from the originating station for the same destination either one hour prior or post the departure of such train. This restriction will not apply when the occupancy rates are over 80% for the last three months.
- The crew required for running the trains (loco pilots, guard) will be provided by the railways. The operator will be allowed to import a maximum of three trains. Rest will have to be either manufactured by the same company which is operating or will have to be sourced from a domestic manufacturer. The local content in the trains (apart from imports) will be 50% in line with the recent public procurement rules.

4. Discom privatisation (BS 23/9/20)

- The Union Ministry of Power has drafted the 'Standard Bidding Document' (SBD) for the privatisation of state-owned power distribution companies.
- This will act as a guiding document for state companies to offer their discoms to private companies.
- This is the first time that the Centre has provided a plan for privatisation of the discoms.
- The distribution is a state subject and; generation and transmission are under the central government.
- Under Atmanirbhar Bharat, the government has announced that discoms in the UTs would be privatised (currently cities such as Delhi, Agra, Mumbai, Ahmedabad have private discoms).
- The Ministry has suggested various options in case of stake sale here. From zero percent (no involvement of the private sector) to minority stake sale i.e. 26% stake sale.

5. The missing middle and job conundrum (LM 23/9/20)

- As per McKinsey Global Institute (MGI):
    - There are around 600 large companies which earn a revenue of over $500 mn per year.
    - Labour productivity of these firms is higher than that of the overall economy.
    - Are responsible for 40% of exports and employ 20% of the people in direct and formal workforce.
- These large firms are not enough in numbers when compared to other markets such as China, Malaysia, South Korea, etc.
- In 2018 the revenue of these firms amounted to 48% (was 58% in 2012) of nominal GDP. The contribution done by such firms in other countries such as China, Malaysia, Thailand was 1.5 to 1.6 times that of India.

- This is because the number of mid-sized firms is very low - missing middle, as these are the companies which later on grow to become big. Only 77 mid-sized firms became big between 2012 to 2018 (was 93 between 2008 to 2012).
- Why?
    - Cost of compliance is very high. Small and mid-sized firms lack resources to manage costly procedures.
        - It takes 1445 days for enforcement of contract in India against 290 days in South Korea.
    - Lack of access to low-cost capital prevents these firms from growing.
    - Way forward - India needs to triple the size of its large firms by 2030.
        - Unlocking the land supply
        - Creation of flexible labour market
        - Privatising largest 30 PSU firms
        - Efficient power distribution
        - Sector-specific policies
        - Improving in ease of doing business

6. CAG report - cess receipts (LM 24/9/20)

- The Centre retained ₹ 1.1 lakh Cr of various cesses collected, rather than transferring them to the Reserved Fund that has been approved by Parliament for such levies.
- In addition to this, ₹ 1.24 lakh Cr collected as cess on crude oil over the last decade have not been transferred to the designated Reserve Fund - The Oil Industry Development Board - and has been retained in the Centre's coffers.
- Even the GST Compensation Cess to the tune of ₹ 40806 Cr has not been transferred to the reserve fund in 2018-19.
- The government collected about 35 cesses and levies and these are to be transferred to the designated Reserve Funds and utilised for the specific intended purposes.