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Category: ECONOMY

1. The need to boost labour income and consumption expenditure

Syllabus: Government Budgeting

Prelims: Important macroeconomic indicators of the Indian economy – values and trends

Mains: Critical analysis of the fiscal consolidation approach envisaged under the recent budget

Economic context of the recent budget:

- The **Annual budget 2022-2023** was placed in the midst of the following challenges.

Sharp reduction in output growth rate following the pandemic:

- The Indian economy faced a record economic contraction in the first year of the pandemic (2020-21 fiscal year).
- Though **India's GDP is expected to grow by 9.2% in 2021-22 and 8% to 8.5% in 2022-23**, these estimates suggest a recovery above the pre-pandemic level of 2019-20 by a meagre 1.3% only.

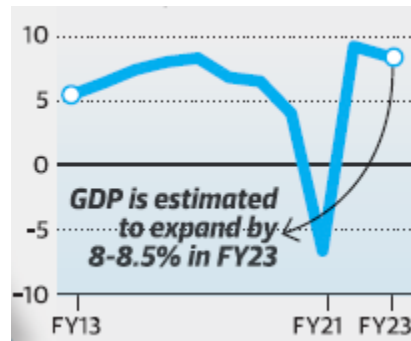


Image Source: The Hindu

Concerns over the fiscal deficit numbers:

- The fiscal stimulus during the pandemic and the lower revenue realization resulted in the **fiscal deficit** numbers reaching as high as **9.2% in the 2020-21 fiscal year**.
- This marks a large deviation from the fiscal consolidation envisaged under the **Fiscal Responsibility and Budget Management Act**.

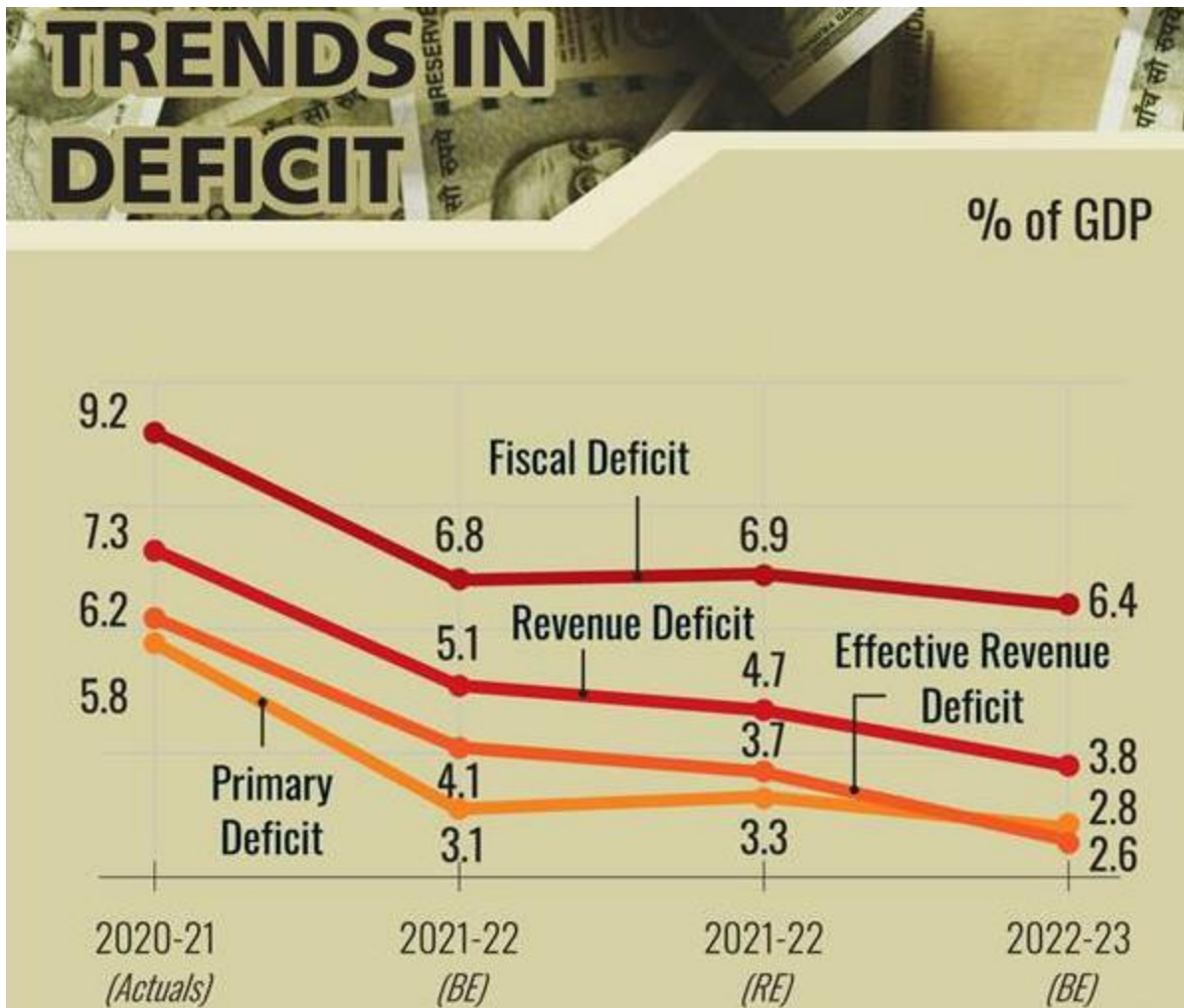


Image source: PIB

Reduction in labour income and consumption expenditure:

- While every economic crisis involves a sharp reduction in output growth rate, a specific problem in India was the **sharp reduction in labour income even as industrial profits have increased**.
- The reduction in the income share of labour has resulted in a sharp **fall in both the absolute value of consumption expenditure as well as the consumption-GDP ratio**.
- Despite signs of economic recovery in India, the real consumption expenditure remains lower as compared to 2019-20.

Structural challenges:

- Though the present challenges in the Indian economy can be mainly attributed to the disruption caused by the pandemic, notably however the pandemic in itself was preceded by perhaps the longest **episode of a growth slowdown in the Indian economy** since the liberalisation period.
- Several economists have attributed this to the **structural constraints of the Indian economy**.

Fiscal Deficit projections in current Budget:

- The Union Budget for 2022-23 has projected a **fiscal deficit of 6.4% of nominal GDP**.
- This marks a decrease from the 6.9% assumed in the revised estimates for the current fiscal year (2021-22) ending on March 31.
- This move is **consistent with the broad path of fiscal consolidation** envisaged in the last budget which set out the target of reaching a **fiscal deficit level below 4.5% by 2025-26** while also considering the need to nurture growth, through public investment, to ensure sustainable economic recovery in the post-pandemic phase.

Key shortcomings of the Budget:

Impact on revenue expenditure:

- Given that the **share of revenue and non-debt receipts in GDP has remained more or less unchanged**, fiscal consolidation would then be possible only by reducing the expenditure-GDP ratio.
- The **brunt of this expenditure compression is likely to be mostly on revenue expenditure**.

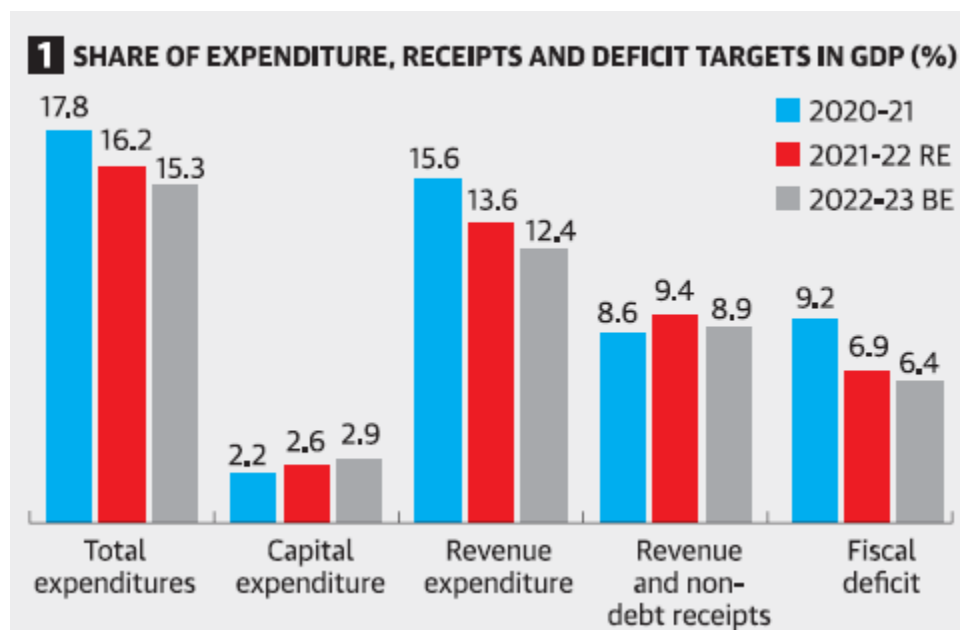


Image Source: The Hindu

Implications for development spending:

- The **brunt of expenditure compression has fallen on development expenditure**. The fiscal consolidation strategy carried out in the last few years has led the development expenditure ratio to slide downward.
 - **Development expenditure is calculated as the sum of expenditures on social services and economic services.**

4 SHARE OF CENTRE DEVELOPMENT EXPENDITURE IN GDP (%)

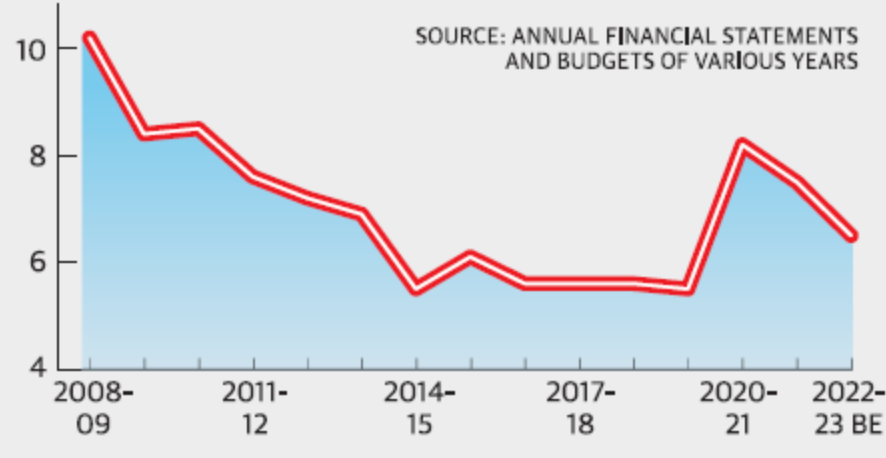


Image Source: The Hindu

Impact on income and livelihood:

- The reduction in the allocation for development expenditure ratio for 2022-23 reflects a reduction in the allocation for food subsidies, national rural employment guarantee program, expenditure in agriculture, rural development and social sector.

2 ALLOCATION IN ₹ CRORE

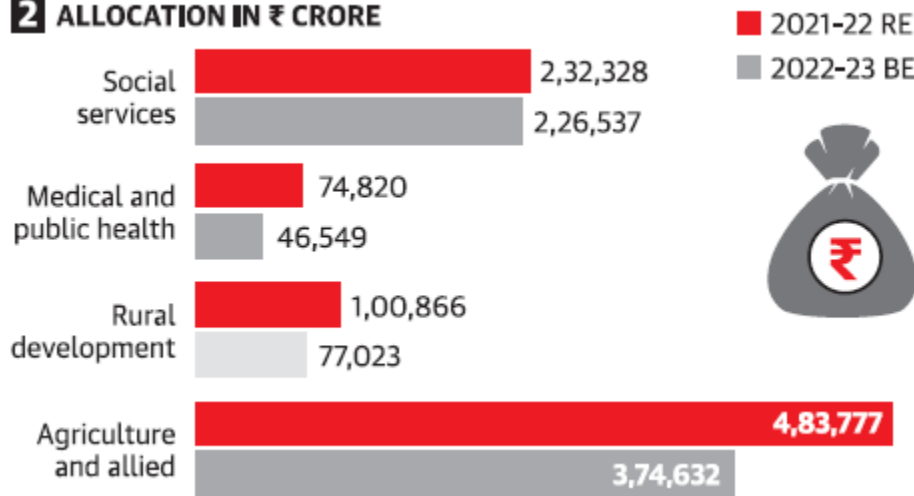


Image Source: The Hindu

- The **reduced expenditure in the rural employment programme and employment-intensive sectors like the agricultural sector** would have a marked **impact on the income levels of the general populace.**
- Expenditure compression has been often associated with the **overall fall in the allocation for total social sector expenditure.**
 - Example: The total nominal expenditure on medical and public health has registered a fall in 2022-23 as compared to 2021-22.

- Thus the reduction in the allocation for revenue expenditure would be associated with a fall in several key expenditures that **affect the income and livelihood of labour**.

Macro-economic perspective:

- The reduction in the allocation for development expenditure would have an adverse impact on labour income and consumption expenditure. This could **curtail the aggregate demand in the economy and depress the consumption expenditure** which is so very critical for the Indian economy especially for the recovery process.
- Thus the Budget's fiscal consolidation approach could be a cause of concern from the macro-economic perspective of India.

Heavy reliance on the external sector:

- The budget approach signifies a **heavy dependency on external demand for economic revival**.
- Despite the limited recovery in exports in the last few quarters, the possibility of sustained economic recovery relying exclusively on the export channel appears to be bleak at the present as different countries have already started pursuing fiscal consolidation.

Neglect of corporate tax as a revenue source:

- Despite a sharp increase in profits during the pandemic, **the corporate tax-GDP ratio has continued to remain below the 2018-19 level due to tax concessions**. This restricts revenue receipts.
- Despite the objective of fiscal consolidation, the corporate tax ratio continues to remain low.

Nut Graf

The strict adherence to a fiscal consolidation strategy is likely to result in reduced developmental expenditure which can have a marked impact on the income and livelihood of the poor and vulnerable. Apart from widening the existing economic inequality, this could also have an adverse impact on the economic revival process itself given that it dampens aggregate demand and consumption expenditure.

D. GS 4 Related

Nothing here for today!!!

E. Editorials**Category: INTERNATIONAL RELATIONS****1. A border move that will only bolster China**

Syllabus: India and its neighbourhood – relations

Prelims: Depsang Plains and other places in the news with respect to the India-China border standoff.

Mains: Significance of Depsang and the impact of delinking it from ongoing the crisis

Context

Depsang has been ruled out by the Army Chief as a “friction point” in the ongoing border crisis in Ladakh.

Depsang

- Depsang is an enclave of flat terrain located in an area the Army classifies as **Sub-Sector North** (SSN), which provides land access to Central Asia through the Karakoram Pass.
- It is a few km southeast of the important airstrip of **Daulat Beg Oldi** (DBO).
 - The Chinese army has blocked Indian patrols since 2020 at a place called **Y-junction** or **Bottleneck**.
- A joint patrol of the ITBP and Army takes place at the areas near Y-Junction once a month.
- The Y-junction is 18 km on the Indian side of the Line of Actual Control, even though the Chinese claim line lies another 5 km further west, to the east of **Burtse town**.
- Satellite imagery from November 2021 confirms Chinese deployments at the Y-junction.





Image source: Quint

Delinking Depsang

- In a television interview, the Indian Army Chief said that “out of the five or six friction points (in Ladakh), five have been solved”.
- These ‘friction points’ are Depsang, Galwan, Hot Springs, Gogra, North bank of Pangong Tso, Kailash Range and Demchok.

- The general was referring to Hot Springs while asserting that only one of the friction points remained to be resolved.
 - This implicitly ruled out Depsang as an area to be resolved.
- The attempt to delink the important area of Depsang from the ongoing crisis is worrying and has long-term strategic consequences for India.

Significance of Depsang

- Depsang plains are one of the most vulnerable regions for the Indian Army in Ladakh.
- Sub-Sector North's (SSN) flat terrain of Depsang, Trig Heights and DBO provides direct access to Aksai Chin.
- The region is suited for mechanised warfare but is located at the end of one very long and tenuous communication axis for India.
 - However, China has multiple roads that provide easy access to the area.
 - This leaves SSN highly vulnerable to capture by the PLA, with thousands of km at stake.
- SSN lies to the east of Siachen, located between the **Saltoro ridge** on the Pakistani border and the **Saser ridge** close to the Chinese border.
 - Technically, it is the only place for a physical military collusion between Pakistan and China and poses the challenges of a two-front war.
 - If India loses this area, it will be difficult to launch military operations in the **Gilgit-Baltistan** region to counter Pakistan.
- Depsang is also seen as a launchpad for a military offensive by India in Aksai Chin.

Implications of delinking Depsang

- The danger of delinking Depsang from the current border crisis is of certifying the Chinese argument, which overrules the Indian claim over the territory.
- In low populated areas like Ladakh, with limited forward deployments, regular patrolling is the only assertion of territorial claims.
- By arguing that the blockade at Y-junction precedes the current stand-off and that goes back years, the Chinese can affirm that Indian patrols never happened in this area and thus India has no valid claim on the territory.
 - With the disadvantage of being a lesser power compared to China, the argument further weakens India in negotiations.
- As demonstrated by China post the 1962 War, there should be no holding back in asserting one's claims when it comes to safeguarding the territory.
 - Denial of truth for political gains, in this case, will be detrimental to India's strategic interests.

Nut Graf

Depsang plains is a region of strategic importance to India and plays a significant role in the ongoing crisis in Ladakh. Delinking the area from the current border crisis has several geostrategic implications for India.

Category: GOVERNANCE

1. The curious case of Meghalaya's COVID-19 relief package

Syllabus: Important aspects of governance, transparency and accountability

Mains: Importance of transparency and accountability in relief and welfare schemes.

Context

This article examines the **Chief Minister's Relief Against Wage Loss scheme** of the Government of Meghalaya.

Background

- The **COVID-19 pandemic** in India has highlighted the insecurity of life and livelihood for India's vast numbers of unorganised workers, and the inadequate response of the state.
- According to the latest Oxfam report:
 - India's number of billionaires has grown significantly, while 84% have reduced income and 4.6 crore working people have plummeted into acute poverty.
 - It indicates the poor response by the state in terms of relief and social sector expenditure during the period.
 - The delivery systems of the inadequate amounts that have been allocated by the Centre and State governments.
- A public audit of an unjustified relief scheme in Meghalaya for unorganised workers provides important lessons about the importance of transparency, public participation, and monitoring those who have been affected by the coronavirus pandemic.

The Chief Minister's Relief Against Wage Loss scheme

- The Government of Meghalaya announced relief for workers affected by the COVID-19 lockdown through the Chief Minister's Relief Against Wage Loss (CRAWL) scheme.
- The announcement was made without necessary details; there was no notification about the amount of financial support.
- There was no published scheme, or guidelines with minimum norms for identifying beneficiaries, and verifying their eligibility.
 - This led to a large number of people applying for assistance.
- People did not know whether their application for support had been successful or not.
- Although payments were deposited into the bank accounts of the applicants, there were confusions about the amount of support they were supposed to get.
- Some unions of the workers brought this to the attention of the government, but there was no response.
- In October 2020, a local civil group filed an RTI application asking for the list of workers to whom payments had been made.

Inference from RTI application

- The response to the RTI was provided in December 2020 with details of around 1,60,000 people and transfers.
- The data also indicated that,
 - The scheme for financial assistance to **unorganised workers** facing a wage loss was **₹2,100**.
 - To **construction workers** registered under the Building and Other Construction Workers (BoCW) Act, it was **₹5,000**.

Response by the unions

- The unions decided to disseminate this information widely over various platforms.
- The RTI response was converted into a searchable digital database with the help of **Graamvaani**, a social tech company, via a dedicated site called “**in.**”
- This enabled people to check whether and how much money they had been transferred as per the government’s records.
- It also had the option of filing a grievance with the Chief Minister’s Office if there was any disparity in the Government’s claim.
- Using IVRS, calls were also made to 1,35,617 people to inform them that as per the Government’s record, ₹2,100 or ₹5,000 had been transferred to their bank account.

Public Audit Report

- The virtual “public audit” was planned and carried out by civil society groups and workers’ unions using digital technology during the COVID-19 restrictions which made physical verification impossible.
- **Key Findings**
 - Out of 11,509 people who responded to the IVRS calls, only 13% said that they received the full amount mentioned in the RTI response.
 - 47% received nothing, in spite of the Government records showing ₹2,100 having been transferred to each of them.
 - Nearly 8,000 people submitted individual grievances to the Chief Minister’s Office and the Labour Department.
 - Thousands of others searched through the RTI data and submitted their grievances.

Response by the Government

- The process should have been carried out by the Government, which is better equipped. Instead, the Government became defensive and refused to accept the findings.
- With a deadlock between workers and the Government, the civil society unions organised a public hearing in Shillong on World Human Rights Day, to draw focus to the issue.

Public hearing

- Chaired by Justice Madan B. Lokur, a former Judge of the Supreme Court of India, the public hearing set an example of the democratic potential and social ethos of the people.
- Over 200 workers gave up the day’s wages, and came with their bank passbooks and labour cards to show that the money had not been credited in their bank accounts more than a year after it was due.
- Justice Lokur asked the civil society groups to approach the Legal Services Authority to pursue and enforce mechanisms of grievance redress since the Department of Labour boycotted the hearing.

Implications of the proceedings

- The exercise has implications beyond Meghalaya. The Centre and various State governments have collected and spent thousands of crores, including the use of District Mineral Foundation Trust Funds, disaster relief

funds, Compensatory Afforestation Management Funds Management and Planning Authority (CAMPA) funds, etc. for “relief payments” with almost no information in the public domain.

- Expenditures made by governments under various funds for COVID-19 relief have not been subject to either statutory audits of the [Comptroller and Auditor General of India](#) or institutionalised social audits, and necessary grievance redress platforms are absent.
- The assertion of demanding transparency, and citizen-centric accountability cannot be seen as an isolated movement in a single State.
 - For example, Rajasthan has an ongoing campaign demanding an accountability law, which is drawing support.

Conclusion

The demand for transparency and accountability by the marginalised groups need to be acknowledged and should be made part of all fund support and disbursement schemes in order to make democratic participation meaningful.

Nut Graf

Lack of accountability in the welfare schemes leads to a loss of trust in the elected government as citizen-centric accountability and transparency play an important role in achieving congruence between public policy, its implementation and the efficient allocation of resources.

Category: ECONOMY

1. A disjointed response

Syllabus: Government Budgeting

Mains: Taxation on virtual digital assets and the way forward.

Context

Introduction of a tax regime for virtual digital assets in the Union Budget 2022-23.

Tax on digital assets

- The Budget 2022-23 proposes the introduction of a taxation regime for virtual digital assets that include, evolving manifestations of cryptocurrencies, codes and non-fungible tokens.
- The Budget proposed to tax all profits from transactions from such assets at 30% along with the applicable surcharge and cess, and a 1% tax to be deducted by buyers while trading in any virtual digital asset beyond a threshold.
- The tax on profits will start from April 1, 2022, and the TDS provisions aimed at creating a transaction trail for the tax authorities will start from July 1.
- The trading profits will be taxed according to crypto industry players, no deductions will be allowed on account of setting off losses from such trading or from any other capital losses.
 - The only deduction permitted would be the cost of acquiring the asset.

Inclusion of digital assets in I-T Act

- The term ‘property’ under the I-T Act is being expanded to include virtual digital assets such that the assets received as a gift shall be taxable except when received from kin.
- The taxation regime by itself does not grant legitimacy to the trade in these currently unregulated assets.

- A consultation process is underway, to determine the legal position of such assets.

Relief for investors

- The move is expected to bring in relief for the growing number of crypto investors.
- Though the Government has not yet legitimised the assets, the tax regime indicates that the hard option of an outright ban on crypto is off the table.
- The proposed legislation of the crypto law that had suggested an outright ban on cryptocurrencies now seems to be dropped from the agenda.

Way forward

- There is a need for the introduction of norms to control advertisements, that the government is worried about, luring India's youth by the Crypto players.
- There is a need for a regulatory watchdog for monitoring virtual digital assets.
- The government has to undertake speedy and proactive actions as the delay in decision making prevents the Indian start-ups and innovators from developing products and ideas that can be scaled up globally.
- In November 2021, the Government had indicated a forward-looking approach to the crypto market.
 - It is time to bring in a clear regulatory framework soon instead of ambiguous measures.

Nut Graf

Along with the taxation on the profits from digital assets, regulatory clarity will give the cryptocurrency sector a boost, accelerate its growth and unlock its potential to contribute to India's \$5 trillion economy vision.

F. Prelims Facts

1. Celebrating 100 years of Bhimsen Joshi

Context:

- 100th birth anniversary of Pandit Bhimsen Joshi.

Pandit Bhimsen Joshi:

- Bhimsen Joshi was one of the greatest **Indian vocalists from Karnataka**, in the **Hindustani classical tradition**.
- He is known for the **Khayal form of singing** and belongs to the **Kirana Gharana** tradition of Hindustani Classical Music.
- Pandit Bhimsen Joshi has been awarded the Sangeet Natak Akademi Fellowship. He also received the Bharat Ratna award in 2009.

2. Chandrayaan-3 set for launch in August

- India plans to execute the **Chandrayaan-3 mission** in August 2022.
- The Chandrayaan-3 mission is a follow-up of Chandrayaan-2 of July 2019.
 - The **Chandrayaan-2 mission aimed to land a rover (Pragyaan) on the lunar South Pole**. It was sent aboard the country's most powerful geosynchronous launch vehicle, the GSLV-Mk 3. However, **lander Vikram**, instead of a controlled landing, ended up crash-landing.

- Had the Chandrayaan-2 mission been successful, it would have been the first time a country landed its rover on the moon in its maiden attempt.

G. Tidbits

1. Accidental deaths

- Around **66 lakh road accidents occurred in India during 2020**.
- Drunk driving, use of mobile phones while driving, driving on the wrong side were major causes of road accidents.

H. UPSC Prelims Practice Questions

Q1. When a Bill is reserved by a Governor for the consideration of the President, what is the time limit prescribed by the constitution for returning the bill?

- Six Weeks
- Three Months
- Six Months
- No time limit

Answer: d

Explanation:

- Article 201 of the Indian Constitution allows the Governor to reserve bills for the consideration of the President.
- Notably, the time limit within which the President has to make a decision with regard to such a reserved bill is not mentioned in the Constitution.

Q2. With respect to River Cities Alliance (RCA), which of the following statements is/are correct?

1. It was launched by the Ministry of Jal Shakti and the Ministry of Environment, Forest and Climate Change.
2. The Alliance is open to all river cities of India. Any river city can join the Alliance at any time.

Options:

- 1 only
- 2 only
- Both
- None

Answer: b

Explanation:

- The Ministry of Jal Shakti along with the Ministry of Housing and Urban Affairs launched the River Cities Alliance (RCA).
- The River Cities Alliance (RCA) has been launched with the objective to provide the member cities with a platform to discuss and exchange information on aspects that are vital for sustainable management of urban rivers, sharing best practices and supporting innovation.
- RCA is envisaged as a facilitatory platform for initiating river-sensitive planning and development. As cities start to implement the river-sensitive development agenda, the River Cities Alliance will support them to learn from each other and inspire others to take up progressive action on this front.
- The Alliance is open to all river cities of India. Any river city can join the Alliance at any time.

Q3. Which of the following statements is/are incorrect with respect to National Adaptation Fund for Climate Change?

1. It is a Centrally Sponsored Scheme which was set up in the year 2015-16.
2. National Bank for Agriculture and Rural Development (NABARD) is the National Implementing Entity (NIE).

Options:

- a. 1 only
- b. 2 only
- c. Both
- d. None

Answer: a

Explanation:

- The National Adaptation Fund for Climate Change (NAFCC) is a Central Sector Scheme that was set up in the year 2015-16.
- The overall aim of NAFCC is to support concrete adaptation activities which mitigate the adverse effects of climate change. The activities under this scheme are implemented in a project mode.
- National Bank for Agriculture and Rural Development (NABARD) is the National Implementing Entity (NIE).

Q4. Consider the following statements with respect to cartelization:

1. The Competition Commission is responsible for enforcing the cartel laws in India.
2. Prices controlled by the government under a law is not cartelization.
3. Both companies and individuals can be prosecuted under the Competition Act.

Which of the above statements is/are correct?

- a. 1 and 2 only
- b. 2 and 3 only
- c. 1 and 3 only
- d. 1, 2 and 3

Answer: d

Explanation:

- “Cartel” includes an association of producers, sellers, distributors, traders or service providers who, by agreement amongst themselves, limit, control or attempt to control the production, distribution, sale or price of, or, trade in goods or provision of services;
 - directly or indirectly determining purchase or sale prices;
 - limiting or controlling production, supply, markets, technical development, investment or provision of services;
 - sharing the market or source of production or provision of services by way of allocation of geographical areas of the market, types of goods or services or number of customers in the market, or in any other similar way; or
 - directly or indirectly resulting in bid-rigging or collusive bidding.
- Prices controlled by the government under a law is not cartelization.
- The Competition Commission is responsible for enforcing the cartel laws in India. Both companies and individuals can be prosecuted under the Competition Act.

Q5. With reference to the water on the planet Earth, consider the following statements:

1. The amount of water in the rivers and lakes is more than the amount of groundwater.
2. The amount of water in polar ice caps and glaciers is more than the amount of groundwater.

Which of the statements given above is/are correct? [UPSC 2021]

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer: b

Explanation:

- The amount of water in the rivers and lakes is less than the amount of groundwater.
- The amount of water in polar ice caps and glaciers is more than the amount of groundwater.

I. UPSC Mains Practice Questions

1. Considering the recent spate of incidents at the border, is India right in announcing a diplomatic boycott of the Winter Olympics to be held in China? (250 words; 15 marks)[GS-2, International Relations]
2. Describe the short term and long term consequences of increased consumption expenditure on the Indian Economy. (250 words; 15 marks)[GS-3, Economy]