Gist of EPW September Week 1, 2022

The Economic and Political Weekly (EPW) is an important source of study material for IAS, especially for the current affairs segment. In this section, we give you the gist of the EPW magazine every week. The important topics covered in the weekly are analyzed and explained in a simple language, all from a UPSC perspective.

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1. India's Turn to Save the World from the Next Crisis

Context: India will assume the G20 Presidency on the 1st of December 2022 and continue till November 30, 2023.

G20

- G-20 or the Group of Twenty is a strategic multilateral grouping that consists of the world's major developed and emerging economies.
- G20 was established in 1999 as a meeting for the finance ministers and central bank governors after the Asian Financial Crisis of 1997-1998.
- The G20 members represent:
  - Over 80% of global GDP
  - About 75% of international trade
  - Close to 60% of the global population
- India has been a member of the G20 since its inception.
- **G20 Troika**: consists of countries that are presiding over the grouping in the past year, the present year, and the coming year.

Background

- The G-20 Leaders' Summit is expected to take place in New Delhi in September 2023 to which countries like Bangladesh, Egypt, Mauritius, the Netherlands, Nigeria, Oman, Singapore, Spain and the UAE will be invited as "guest countries".
- During the period of India's Presidency, the G20 Troika would be formed by India, Indonesia and Brazil which makes it the first time ever that the troika would consist of three developing countries and emerging economies.
- Discussion on key aspects such as women empowerment, digital infrastructure, health, agriculture, education, tourism, circular economy, global food security, energy security, green hydrogen, disaster risk reduction, and existing economic situation is expected to be conducted.

The underlying risks of an emerging market debt crisis

- There is a growing wave of financial stress which is expected to impact the global financial markets.
- The main causes of this crisis are said to be the combination of COVID-19-induced debt and a significant increase in the value of the US dollar.
    - Efforts to counter the appreciation of the dollar along with higher interest rates on the debt will push the world into recession.
- Further, an unprecedented global crisis looms in the wake of the Ukraine war and its impact on global food and energy prices.

The key reasons for the situation

Increase in debts

- As per the Institute of International Finance, the global debt increased by about $33 trillion in the year 2020 which is the fastest single-year jump.
    - In 2021, global debt further increased by about $10 trillion.
- Along with the rise of government and private debt, the central banks of Japan, the United Kingdom (UK), the US, and the Euro created the cash to purchase over $10.2 trillion of bonds that allowed countries to finance their new debt cheaply.
    - These countries now face record refinancing needs at a time when the global economy is slowing down.
- The yield on long-term sovereign debt is considered to be a good metric of the level of sovereign stress.
    - The yield is found to be over 25% in countries such as Tunisia and Zambia.
    - Yields in countries like Brazil, Colombia, Ethiopia, Ghana, Kenya, Nigeria, Pakistan, and Turkey have all reached around 13%.
    - Further, the yield for the crisis-affected countries such as Sri Lanka, Ukraine, El

    - Salvador, Venezuela, and Argentina was not found.
    - Experts believe that anything in double digits would be unsustainable.
    - Even India's long-term debt yields have increased remarkably but are below the double-digit mark.
- According to Bloomberg's credit default swaps prices, the market expectation of default of debts has increased significantly in about thirty countries.

Rise in the value of the dollar

- An old saying says that "when the US sneezes, the rest of the world catches a cold". This was again felt when the prices of the US dollar increased.
- The significant jump in the value of the US dollar which has increased by an average of 20% since May 2021 is also a key cause of the crisis situation. This poses three main challenges, which include:
    - Increased price of imports
    - The increased cost of servicing dollar-denominated debt
    - Pushes away foreign investors
- Foreign investors in recent months have withdrawn over $38 billion from emerging markets.

Lessons from 2008-09 financial crisis

- Various international financial organisations and institutions along with G20 leaders learned that irrespective of how small the problem is if it is not stopped or addressed it then becomes almost unstoppable.
- They also learned to act immediately and as early as possible to provide unconditional support to those players who need help.
- In 2008, the G7 finance ministers announced that they would lend all available tools to support the systemically important financial institutions and prevent their failure and take all necessary measures to liquefy the credit and money markets.
    - Additionally, they also committed to ensuring that the banks and other financial intermediaries are allowed to raise capital from public or private sources as required to reinstate the confidence and help them to continue lending to households and businesses.

Recommendations for India as it assumes G20 Presidency

- India must urge the International Monetary Fund (IMF) to increase access limits to its unconditional rapid credit and financing facilities to the pre-pandemic levels and also suspend the interest rate surcharges on heavy borrowers from the fund until the situation is normalised.
- India must also urge the IMF Board to reallocate about $100 billion of its recently issued special drawing rights (SDR) that help the holders to get access to liquidity.
    - India can also lead the demand for a new allocation of SDRs worth $650 billion by the

IMF Board.

- Under the leadership of India, it is to be ensured that the G20 agrees to a Debt Service Suspension Initiative which can also include COVID-19-related loans from the World Bank and regional development bank to the poorest and middle-income countries.
- The World Bank and regional development banks such as Asian Development Bank must be influenced to increase their efforts to unlock their complete lending capacity.
  - The Banks can collectively increase their lending by about $1 trillion per year without the need for massive capital injection.

Conclusion

India, which is assuming the role of the G20 President amidst the looming threat of global financial crisis, is entrusted with the task of providing the necessary leadership to help the world tackle the emerging market crisis.

2. Investigative Agencies and Their Hyperactivism

Context : This article discusses the recent instances of hyperactivism shown by central investigative agencies such as the Enforcement Directorate (ED) and the Central Bureau of Investigation (CBI).

Enforcement Directorate (ED)

- The Enforcement Directorate (ED) is a multi-disciplinary organisation mandated to investigate offences of money laundering and violations of foreign exchange laws.
- An "Enforcement Unit" was set up under the Department of Economic Affairs for handling Exchange Control Laws violations under Foreign Exchange Regulation Act, 1947 (FERA) in 1956.
- In 1957, this Unit was renamed "Enforcement Directorate" and in 1960, the administrative control of ED was transferred to the Department of Revenue.
- The statutory functions of the Directorate include the enforcement of the following Acts:
  - Prevention of Money Laundering Act, 2002 (PMLA)
  - Foreign Exchange Management Act, 1999 (FEMA)
  - Fugitive Economic Offenders Act, 2018 (FEOA)

Central Bureau of Investigation (CBI)

- The Central Bureau of Investigation (CBI) is the principal investigative police agency in India.
- CBI was established in 1941 as the Special Police Establishment, entrusted with domestic security.
- CBI derives power to investigate from the Delhi Special Police Establishment Act, 1946.
- CBI was established based on the recommendations of the Santhanam Committee on Prevention of Corruption.
- CBI functions under the aegis of the Department of Personnel of the Ministry of Personnel, Pension & Public Grievances.
- CBI is the nodal police agency in India, which coordinates investigations on behalf of Interpol Member countries.

Significance of central investigation agencies

- The central investigation agencies play a crucial role in upholding the morals of the Constitution and various laws of the country.
- These agencies help in undertaking in-depth investigations and successful prosecution of various offences.
- They also help in fighting corruption in public life and prevent economic as well as violent crimes.
  - Help to cleanse the governance of the country of corrupt practices.
  - These investigative agencies help bring the politicians or others who hold a higher status in society or office of power (who usually misuse their powers to escape from punishments) down to their knees.
- These also help in ensuring transparency and accountability in governance.
- They also provide leadership to Police Forces and other State government agencies.

Criticism over the functioning of various central investigation agencies

- These agencies are often criticised as "puppets in the hands of the government".
- The ruling parties in the government have often misused these agencies working under their control to weaken the opposition thereby eliminating the potential challenge in the elections.
- These are used as instruments of blackmail and intimidation by the government.
- The excessive use of these agencies for the political purpose of silencing the voices of democratic dissent has a severe impact on the principles of democracy.
- The mala fide inquiries and arrests made through these agencies for political gain have eroded

the trust of the public and the credibility of these organisations.

- Even the Supreme Court has described the CBI as a "caged parrot" and "its master's voice" in the past due to the interference of the government in the federal agency's inquiries.

Recommendations

- The focus of those in power must be on strengthening the investigative agencies such as the ED or CBI to improve basic health, educational and economic outcomes by combating irregularities.
- The government should introduce reforms to these agencies which are in line with the requirements of the modern day.
- The government should also undertake efforts to restore the credibility and legitimacy of these organisations by utilising these agencies to ensure the welfare of the common public and not for their political gains.
- Providing these important agencies with a constitutional or statutory status will help ensure autonomy.

3. Agricultural Federalism

Context

- This article argues for a reassessment of the roles of the Union and states in the agriculture sector in accordance with the spirit of the Constitution.

Background

- In 2021, the introduction and the rollback of the three controversial agricultural laws famously known as Farm Bills gave rise to a series of concerns which include:
  - Lack of discussion and consultation by the Union Government.
  - The need for ensuring greater freedom for farmers to sell their produce and lease their land.
  - Concerns about the corporatisation of agriculture being detrimental to farmers.
  - The need for market-oriented reforms.
- Focus on the actions of the Union Government without acknowledging the role and responsibility of the states despite agriculture being a state subject under the Constitution, was one of the common features of these discussions.
- Subsidies and transfers to farmers and states from the Union have largely come from three central ministries:
  - **Ministry of Agriculture and Farmers' Welfare** - which implements the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN)
  - **Department of Fertilisers** (Ministry of Chemicals and Fertilizers)

- **Department of Food and Public Distribution** (Ministry of Consumer Affairs, Food and Public Distribution) - which is involved in the decentralised procurement scheme

- This article verifies facts on the disparities across states of the Union Government support for agriculture and recommends reforms to agricultural policy.

Union Government's support to the agriculture sector

- The Union Government has acquired a lead role in shaping Indian agriculture due to situations such as the perennial shortage of food and cereals, agricultural droughts in the mid-1960s, the foreign exchange crisis and other geopolitical implications for India.
- The extended role of the Union included measures such as the adoption of green revolution technologies, dissemination through research and development services, greater use of inputs such as new seed varieties and fertilisers and procurement of crops at Minimum Support Prices (MSPs). The need also increased after the introduction of the National Food Security Act (NFSA), 2013.
- The Union Government's budgetary aid for the agriculture/farmers sector is through five major ways:
    - **Output subsidy:** Guaranteeing minimum prices and procurement
    - **Stock subsidy:** Carrying stocks, especially wheat and rice in the form of buffer requirements
    - **Fiscal subsidy:** Paying for the states' taxes and fees levied on agricultural output
    - **Fertiliser subsidy:** Providing subsidies for the use of fertilisers such as urea, di-ammonium phosphate (DAP) and muriate of potash (MOP)
    - **Direct income benefit:** Providing direct cash transfers to agricultural households under the PM-KISAN scheme

Disparities in subsidies and transfers from Union Government

- Together all the subsidies and transfers constituted about Rs. 1.9 lakh crores in 2019–20.
    - Out of this, the fertiliser subsidy alone accounted for nearly Rs. 75,000 crores, followed by PM-Kisan which accounted for Rs. 60,000 crores.
    - The transfer to state government exchequers which can be considered a fiscal subsidy constituted close to Rs. 13,000 crores.
- These Union Government subsidies and transfers lead to a benefit of Rs.18,000 to Rs. 20,000 per agricultural household annually.
    - However, there is a huge disparity between small and big farmers and between farmers today and farmers tomorrow (due to environmental factors).
- Big farmers use more fertilisers thereby receiving more fertiliser subsidies. Further, they also sell more to the government and hence receive more benefits.
- **Disparities among states:**

Figure 1b: Agricultural Subsidies Received by States (₹1,000 per agricultural household)

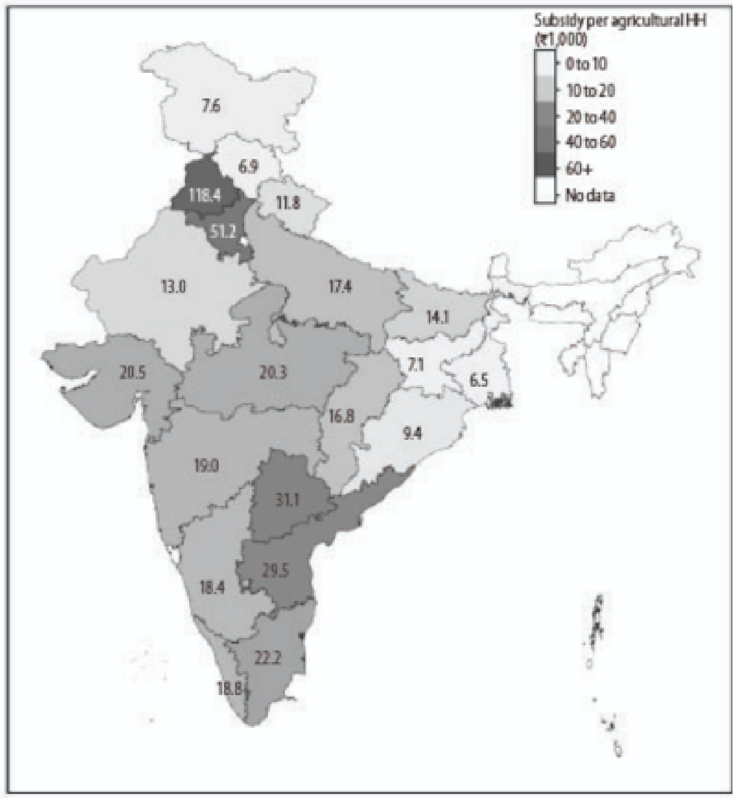

Image Source: EPW

- As seen in the above image, the State of UP is the largest beneficiary followed by Punjab, MP, Maharashtra, Andhra Pradesh, and Telangana.
- Despite not being a state from which the largest amounts of procurement take place, UP is still the largest beneficiary only because it is the largest consumer of fertilisers, especially urea, and gets the largest transfers under PM-Kisan.
- But states like Tamil Nadu and West Bengal do not get sizable benefits.

These huge regional disparities indicate why the most vocal farmers' protests against the controversial Farm Laws were seen among richer farmers from the northwestern part of the country and not among the poorer farmers or from farmers in the eastern parts of India.

Recommendations for reforming the agricultural policy

- States should have the freedom and also the responsibility to discharge their constitutional obligations to agriculture.
  - They could undertake procurement, deficiency payments, crop insurance or any combination thereof but it should be up to them and the Union Government must not

finance state government initiatives towards their farmers.
    - This ensures accountability of State governments.
- The states must not inflict externalities on other states through their agricultural policies.
    - A number of state government policies such as unchecked power and water subsidies encourage overuse of energy and water which affect the availability of water resources to neighbouring states.
    - The Union should have the power to limit such policies that have negative externalities on other states.
- The Union Government must avoid policies that negatively affect farmers and also the long-term aim must be to limit the role of the Union Government to finance better nutrition without distorting agriculture and production choices.
- The Union Government's policies must include providing broad-based national public goods such as supporting research and development, insurance, and risk-taking.
    - Also, the Union Government must have mechanisms to respond to the shocks that affect farmers across the country.
- Acknowledging the principles of the Constitution, the Union and the States must not take up measures that undermine India's 'one market'.
    - Neither the Union nor the States should impose restrictions that impede the free flow of agricultural goods within the country.

Conclusion

- Reforms going forward must be in line with the vision of the end goal based on important principles of the Constitution and federal structure.
- The Union Government has its task cut out in terms of ensuring broader public goods that affect farmers' welfare which include research on new seeds, natural resource management such as climate change impact and extending insurance benefits.
- Further, the states need to experiment with various mechanisms for reforming agriculture.