Gist of EPW May Week 3, 2023

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 analysed and explained in a simple language, all from a UPSC perspective.

1. Fallacies of Triple Test Doctrine and Backward Classes Reservation in Local Self-government

Introduction:

- Following the Supreme Court's decision, Uttar Pradesh (UP) became the third Indian state, after Maharashtra and Madhya Pradesh, to implement reservations for backward classes in urban local body (ULB) elections, based on the "triple condition" regime.
- The Krishna Murthy case in 2010 marked the beginning of the triple test, where the Supreme Court established a separate constitutional basis for affirmative action in local self-government.
- The court argued that reservations in urban and rural local bodies should not be mechanically applied based on reservations in educational institutions and government service, emphasising the need for empirical investigation into political participation hurdles.
- The constitutional bench later ruled that backward classes in local bodies were not the same as socially and educationally backward classes, upholding the validity of state-specific legislations for determining reservation quantum and beneficiary groups.
- The triple test was solidified in the Vikas Kishanrao Gawali case in 2021, where the Supreme Court required the fulfilment of three conditions before enacting reservation for backward classes, including the establishment of a dedicated commission, specifying reservation quantities on a local body basis, and staying within the 50% vertical reservation limit.

- This led to complications in local body elections in several states.

Social and Political Backwardness:

- The Krishna Murthy judgement by the apex court raised questions regarding the relationship between different types of backwardness and the interests of individuals and communities, highlighting the significance of social sciences.
- The apex court in this case distinguished between political backwardness and social and economic backwardness, overlooking the systemic nature of backwardness and treating political backwardness as incidental.
- Historically, the concept of backwardness has been primarily associated with social backwardness rooted in the caste system, as affirmed by the First and Second Backward Classes Commissions and the Mandal Commission.
- Several significant judgments, such as the Minor P Rajendran v State of Madras (1968) case and the Indra Sawhney judgement (1993), emphasised the centrality of social backwardness and its connection to caste.
- The Indra Sawhney judgement recognized caste as a socially homogeneous class and acknowledged that backward classes considering caste should be identified for the purpose of reservation and empowerment.
- The Krishna Murthy judgement, along with other rulings like Vikas Kishanrao Gawali and Mahajan, departed from the understanding that social backwardness underlies all forms of backwardness and introduced the idea of political backwardness independent of social backwardness.
- This approach neglected the historical context and dissociated backwardness from the caste structure.

Political Dynamism and Reservation:

- Analysis of data from Uttar Pradesh reveals that OBC elected representatives are primarily concentrated at lower levels of urban local bodies, lacking representation in higher positions such as mayors.
- The Supreme Court's judgement seems to be based on the assumption that OBCs hold political dominance in various states. However, the internal heterogeneity of the group challenges broad conclusions about the absence of a relationship between different aspects of backwardness within the entire category.
- Empirical evidence contradicts Krishna Murthy's proposition to separate individual benefits from educational and employment reservation and the community gains from political reservation.
- Affirmative action in India has shown that individual gains often translate into community action, as exemplified by the backward class movement led by beneficiaries of land reforms and Dalit empowerment movements.

- A nuanced understanding of socio-economic realities would enhance the Supreme Court's ability to protect the interests of marginalised groups effectively.

2. The Disqualification Debate

Context: There has been a number of disqualifications of the MP and MLA in the country giving rise to debate around the legality of disqualification.

Detail:

- The **Representation of People Act, 1951 mandates** to disqualify a person of his or seats in assembly or parliament if they are given an imprisonment of **more than 2 years under Section 8(3).**

Conditions under which an MPor MLA can be disqualified:

- **Articles 102(1) and 191(1)** of the Constitution of India lay down the disqualifications for MPs, MLAs, and members of legislative council.
  - In addition to being **"disqualified" for holding an "office of profit"** under the central and state governments, being of **"unsound mind," "an undischarged insolvent**," an alien/foreigner, or for having voluntarily acquired the citizenship of a foreign state, a person/member can be disqualified **"by or under any law made by Parliament.**
- **Parliament enacted the RPA, 1951**, with provisions disqualifying persons
  - convicted of offences" (Section 8),
  - grounds of corrupt practices" (Section 8A),
  - for corruption and disloyalty" (Section 9),
  - for "government contracts" (Section 9A),
  - for holding "office of profit under government company" (Section 10), and
  - for "failure to lodge account of election expenses" (Section 10A).
- **Section 8 of the RPA** is at the heart of the present disqualification debate.
  - **Section 8(3) covers all laws not mentioned in Sections 8(1) and (2)** under which a conviction involving a two-year sentence, would disqualify a convicted person for the duration of the sentence and an additional period of six years.
  - **Disqualification under Section 8 comes into effect "from the date of conviction**.
- **Lily Thomas v Union of India and Others and Lokprahari v Union of India and Others—** The convicted immediately stand disqualified if given an imprisonment of 3 years and more.
  - **In 2013, Section 8(4) of the RPA, 1951 was declared unconstitutional in Lily Thomas (2013) and Lok Prahari (2013)**

A Question of Electoral Integrity:

- According to the Association for Democratic Reforms, as of 23 August 2021, 363 MPs and MLAs disclosed criminal cases in the affidavits submitted while filing their nomination papers.
  - **Their trials were pending in the courts for six to seven years. Indeed, 24 Lok Sabha MPs had 43 criminal cases pending against them for 10 years or more. Thus, in the absence of Section 8(4), the long pendency of cases without conviction has protected MPs from disqualification.**

Recommendation:

- **In its 170th report (1999) on electoral reforms, the Law Commission** recommended disqualification of candidates against whom charges had been framed under any section of the IPC, Customs Act and Sections 10 to 12 of the Unlawful Activities (Prevention) Act, Section 7 of the Religious Institutions (Prevention of Misuse) Act, 1988, and the Protection of Civil Rights Act, to prevent the criminalisation of politics.
- **In 2011, the non-governmental organisation (NGO), Public Interest Foundation,** petitioned the Supreme Court to enhance the ambit of Section 8 of the RPA, 1951 to disqualify "candidates" and "members" against whom serious criminal charges had been framed.

Specious resolution of the cases against the lawmaker is essential to make our political system clean and transparent. It will enable citizen to have greatr trust in the system.

3. The Anatomy of Crony Capitalism in India

What is crony capitalism:

- Crony capitalism is a term describing an economy in which success in business depends on **close relationships between business people and government officials**.
- It may be exhibited by **favouritism in the distribution of legal permits, government grants, special tax breaks, or other forms of state interventionism.**
  - In India, crony capitalism is a **direct result of the licence permit raj** and the subsequent adoption of the liberal and neo-liberal economic policies of successive governments, irrespective of the political parties they belong to.
- Crony capitalism is a **system of favouritism and partiality where only a few selected business persons or business houses are showered with special treatment** from the political class and the bureaucracy.
  - Such a precipitation of rewards and concessions are provided not because of the superior or outstanding talent that they possess or the distinctive abilities they have inherited, but out of predilections and predispositions.

Stats related to crony capitalism:

- India ranked seventh in the crony capitalism index 2021, prepared by the Economist.

- According to this report, **crony capitalism wealth accounts for 8% of the Indian GDP.**
    - The 20 most profitable firms produced 14% of total corporate profits in 1990, 30% in 2010 and 70% in 2019.
    - Crony capitalism has instigated huge income inequality. **The Oxfam report reveals that 10% rich hold 77.4% of total national wealth, whereas the bottom 60%, only 4.8% of it.**

Crony capitalism and socialism:

- Crony capitalism is contradictory to the ideas of socialism as well.
    - Socialism advocates **the principles of common ownership of the means of production, equality, equity, justice, and community.**
    - Crony capitalism on the other hand is an economic **doctrine that benefits well only with fascism and other such extreme ideologies**. The reason is simple: nepotism, favouritism, and partiality are at their zenith in totalitarian regimes.

The Indian Context:

- Our Constitution **provides for democratic socialism where both capitalism and socialism** interplay in the form of a mixed economy.
    - Democratic socialism envisages relative equality and not the absolute equality that pure socialism endeavours to achieve.
    - Therefore, programmes for **alleviating income inequality, regional disparity and eradication of poverty have been the primary goal of the political system**.
    - The adoption of the **liberalisation, privatisation, and globalisation policies** opened up new horizons for the market economy.

Crony capitalism and social system:

- The roots of crony capitalism can be found in the Indian social system itself.
    - The v**arna system and its by-product, the caste system, can be attributed as the major forces that favoured the emergence of crony capitalism.**
    - The most important features of the caste system are **nepotism, favouritism, partiality and prejudice.**
- The **hegemony of some castes on political power and the means of economic production**, in addition to their purported caste coalitions for ostracising the lower castes of the social hierarchy from the circles of power, led to the phenomenon of crony capitalism.

Impact on the Indian democratic setup:

- It eliminates the competition by **creating a monopoly market.** The capitalist resorts to **predatory pricing** as he can sell his goods at throwaway prices which have become possible by the favours and concessions he has obtained from the political leadership and the bureaucracy.
    - **Once the monopoly is established they exploit consumers.**
- The income and savings of the poor and the lower-middle class are steadily eroded which eventually leads to increased poverty and greater dependence on government patronage to meet even the basic needs.
- The income inequality engendered by the phenomenon creates a social hierarchy of the haves and have-nots.

4. Financial Inclusion and Remittance Services

What is financial Inclusion:

- Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way.
- Financial inclusion has been identified as an **enabler for 7 of the 17 Sustainable Development Goals.**

Financial inclusion and remittances:

- In India, it is observed that the use of financial institutions/mobiles as remittance channels have **improved from 2017 to 2021**, especially for the lower-income people.
    - The Rangarajan Committee has identified **"payments and remittance facilities"** as an important component of financial inclusion besides the three basic services: credit, savings, and insurance
- The econometric analysis **conducted for both conventional and digital modes of remittance transmission** shows that while the banking infrastructure matters for formal remittance transmission, the poorer countries are able to address the problem of lack of adequate infrastructure by using the mobile platform.
- Access to remittance channels is particularly **crucial for internal migrant workers**, who generally leave their families back home and regularly remit their savings for the upkeep of their families.
    - Remittances from migrants are **used to meet various living expenses of a family and are known to reduce poverty and improve overall living standards.**

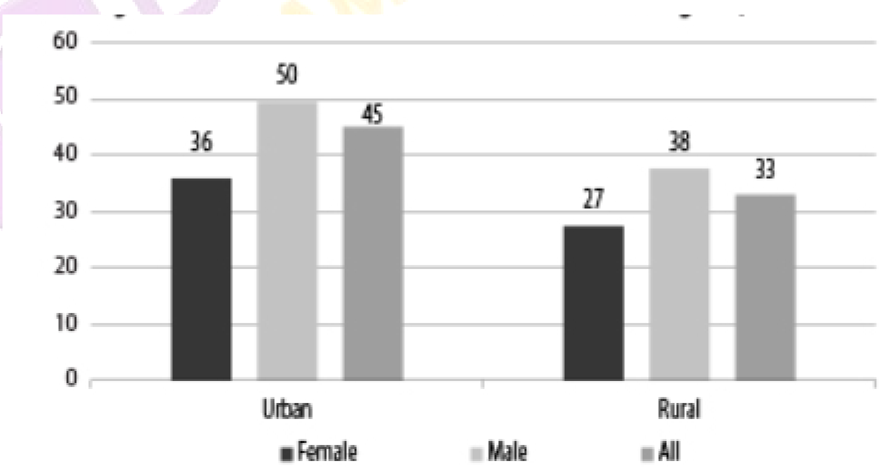
Observation made:

- The **Findex data shows** that of those who received remittances, **around 40% still send money through informal agents/friends/families in cash.** This implies that many still do not use even the traditional banking channel.
- There is a considerable reduction in the use of informal remittances channels between 2017 and 2022 and an increase in the use of the formal remittance channels by the poorest income category.
  - **Despite this, the use of informal channels and cash-based transfer of funds continue to prevail.**

Importance of remittances:

- The amount of money that the domestic migrants remit may be small, but it reaches a large number of households. **This significantly impacts the receiving households and the local economy.**
  - The increase in household income leads to a rise in the demand for goods and services, consequently boosting the local economy.
- The flow of remittances, leads to **redistribution of resources** from developed to lesser developed areas.
- Money from remittances also **helps repay existing debts,** thus relieving households from spiralling further into indebtedness.

Image: money send through mobiles



Source: EP&W

Issue with existing channels:

- **Bank outreach is low in less developed nations,** and the recipient may have to travel long distances to reach the banks.

- Due to these reasons, **migrant labourers prefer to transfer money through informal ways**, even if the households have bank accounts.
  - **They send money through friends and relatives despite it being inefficient and time-consuming.**

Measures required to fix the problems:

- **Deeper penetration of the banking network** would encourage people to follow the banking channel.
- **Reduction of cybercrime and fraud online** would help people to develop greater trust in the digital ecosystem.
- **Increase in the level of literacy** among the people would make them more aware about the benefits of digital banking.
- Some training focusing on the poor, low-educated and unemployed receiving remittances would be useful.

5. Multiplier Effect of MGNREGA-induced Inflow of Money

What is the money multiplier effect?

- The multiplier effect refers to an increase in the final income due to any new injection of spending.
- **The size of the multiplier depends upon households' marginal propensity to consume (MPC). The multiplier also depends on the distribution of income.**
  - Since the MPC of a poor household is usually higher than that of a rich household, the increase in income in favour of the poor household will increase the value of the multiplier.

MGNREGA and Money Multiplier:

- The **core objective of the Mahatma Gandhi National Rural Employment Guarantee Act is to promote rural development and reduce poverty** by supplementing private employment in the rural Indian economy with public employment.
- This programme was **expected to improve agricultural productivity** by developing the rural infrastructure and also combatting poverty in the process.
  - **It was a short-term employment programme to generate income and help consumption smoothing for poor households during the lean agricultural seasons.**
- To achieve a more than **3% reduction rate of rural poverty per annum**, it is essential that agriculture **grows annually at 4% to 5%**, especially in the regions with a high concentration of poor.

Outcome registered:

- The **increased employment of labour will result in higher incomes and higher expenditures.**
- The labour households spent part on items produced inside the village (rice, pulses, vegetable, etc.) and this has led to a **rise in the income level of the people in the village.**
- The injection of money into the village economy with the help of the MGNREGA fund generates additional demand for goods produced in the village.
- The **increase in demand is much more for the non-agricultural sector than for the agricultural sector** and this shows that the primitive character of the villages has undergone transformations.
    - **The demand for education services shows very high growth in all the villages**.
- Vegetable and animal husbandry has high demand growth due to MGNREGA's introduction, showing a transformation in demand for food away from carbohydrate (cereal) consumption.
- **Good growth of demand in transport also shows the transformation in rural activity.**
- The **highest increase in income is seen for the agricultural labour and farmers** in most of the villages, as they are the major beneficiaries of MGNREGA and their percentage expenditure on food is the maximum.

Image: Consumption Patterns

Sector-wise Percentage Increase	Bajesukdebpur	Manikpur	Dwaripara	Ramchandrapur Ditiyakhanda
Rice	2.25	1.55	3.63	4.13
Pulses	5.15			
Potato		8.88	0.9	
Sesame		24.11	0.43	0.66
Sunflower	4.63			
Animal husbandry	5.14	6.21	5.04	17.56
Vegetable	5.13	18.63	14.12	62.69
Pumpset		1.9	1.17	2.58
Power tiller	2.35	3.2	1.97	2.35
Construction	4.94	3.99	3.58	2.63
Education	4.87	12.01	28.76	18.03
Barber		22.34	8.89	6.5
Carpenter	4.81	5.62	5.5	2.19
Grocery	5.23	10.33	8.54	4.43
Potato vendor			0	
Transport	3.94	9.21	11.38	12.39
Percentage increase in total demand	3.8	3.94	2.99	5.65

Image source: EPW

- There is an **increase in demand and expenditure on rice**, and the person-days of employment in the whole of the economy (owing to an increase in the production of this sector) rise as per the value of the multiplier.

Limitations:

- The **small and marginal households were unable to earn sufficient money** to purchase durable high-value capital goods through the MGNREGA income. With limited money, they could only afford traditional capital for agricultural production.
- **They had no collateral to get a loan** and were left with the only option of borrowing capital from the large farmers to purchase fertilisers as well as other kinds of agricultural inputs.

NREGA has played a **very important role in the upliftment of the rural economy and employment opportunities for the people.** In order to raise the effectiveness of NREGA it is imperative that the loopholes that exist in the system must be plugged out.

6. Under-reporting of Income by Wealthy Indians

Stats related to tax in India:

- The direct **tax gross domestic product (GDP) ratio** of the country **(a little above 6%)** is lower than several developing countries.
- The affluent Indians and those representing the corporate sector often complain about the **"excessive" income tax rates applicable to them**.
    - **They criticise the multiple taxes levied on their capital income and the excessive tax rates and cesses applicable to the top income levels.**

Image: Total reported income as a percentage of wealth

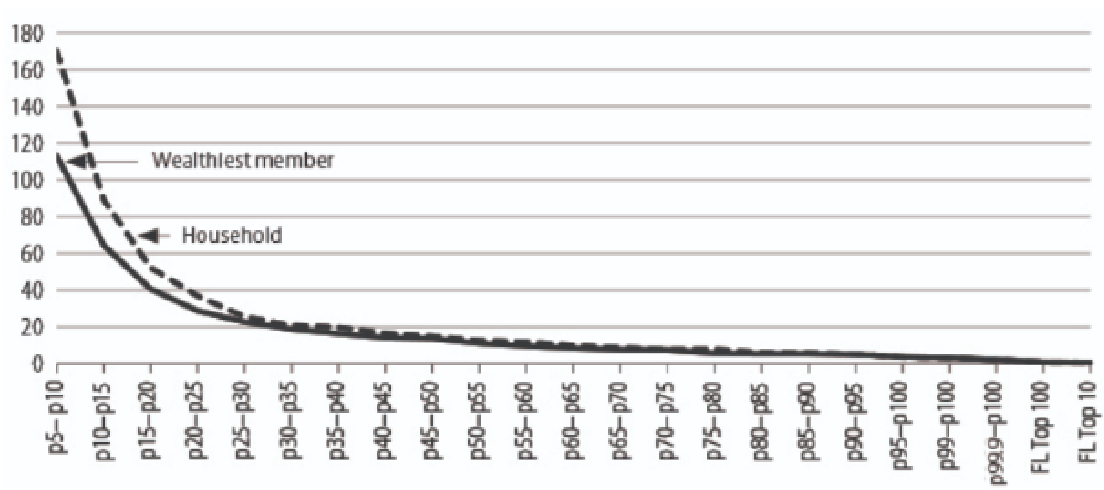


Image source: EPW

- On average, the wealthier a family is, the smaller the income it reports relative to its wealth. **But, the 5% of least wealthy families reported income more than five times (500%) their wealth,**

and the reported income of the wealthiest 1% of families amounted to just 3%–4% of their wealth.
  - **For the wealthiest 0.1%, the total reported income added up to less than 2% of their wealth.**
- The income reported as taxable by the **wealthiest 1% of households is merely 2%** of their wealth.
  - **The total income-wealth ratio reported by the top 20% of the wealth pyramid is less than a third of the national average.**

Missing Income at the Top

- Average returns on equity tend to be much higher, **typically upward of 15%.** As most of the wealth of the super-affluent groups is held as equity, their capital income has to be at **least 10% of their wealth, even after factoring in the corporate taxes.**
  - On account of their capital income, the total income of the affluent groups should be at least equivalent to one-tenth of their wealth, even if we totally disregard their labour income. **However, the income levels reported by them are strikingly low.**

Image: Total reported income as a percentage of national income

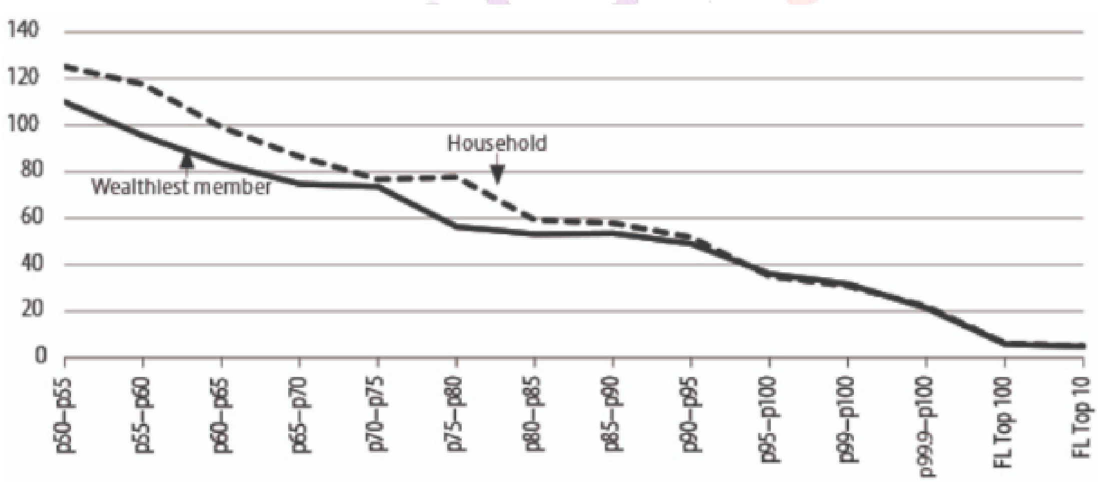


Image source: EPW

- In the top 30% of families and individuals, the reported income is less than the return from their capital. The total income reported by the top 5% of families and individuals is about a third of their capital income. The wealthiest 0.1% of families reported income adds up to only a fifth of their capital income.

Tax Avoidance

- Under the Indian tax law, **unrealised capital gains are neither taxable nor required to be reported in tax returns.** This enables the wealthy groups to reduce their tax liability simply by staying invested in stocks and their by-products.
- If company profits are reinvested, it results in two benefits for the stockholders: **the tax obligation is reduced while the stock market value of equity gets a boost.** The net result is hefty tax-free capital gains for the stockholders.

A Regressive Regime:

- The wealthy groups **used to under-report their income render the direct tax regime regressive.**
- In the top wealth levels, **the wealthier the taxpayer, the smaller the tax liability** relative to their wealth.
- The average tax paid by the wealthiest 5% amounts to less than one-fifth of the income they earn from their wealth alone.
    - **The tax liability of the top 0.1 percentile of these wealthy individuals is less than one-tenth of their income.**

There is a compelling case for revisiting the tax code to make it progressive by removing the loopholes that make it regressive.