

GS II

SYLLABUS: CHALLENGES PERTAINING TO THE FEDERAL STRUCTURE.

BORROWING CEILING ON STATES

THE HINDU, PG.NO: 8.

News: "States and the Centre's fetter of 'net borrowing ceiling'"

Borrowing by the Centre and States:

Centre Borrowing Provisions:

- **Art. 292:** Central Govt can borrow loans upon the Consolidated Fund of India, **within limits fixed by parliament.**

States Borrowing Provisions:

- **Art.293:**
 - Empowers the State govt to borrow within the territory of India upon the security of the consolidated fund of the State within the **limits set by Parliament.**
 - Central Govt. can make loans to any State **within limits fixed by parliament.**
 - Central Govt. can also provide guarantees upon the Consolidated Fund of India in respect of loans raised by any State.
 - **States cannot raise loan without consent of Centre**, if there is already an outstanding loan with centre.
- States with sound financial position **can borrow other countries.**
- **Net Borrowing Ceiling includes** open market loans, financial institution loans, and liabilities from the public account of the State.

Issues related to Finance between Centre and State:

- **14th & 15th Finance Commissions:**
 - Increased States share in Central taxes to over 40%, but Centre ignored the recommendations.
 - Common target for States to **reduce States Fiscal deficit (as % of GSDP)** to 3% during 2023-26 without considering financial position of States.
 - **Grants:** Tied nature of grants.
 - Such measures restrict the lowers States ability at balancing budget.
- **GST council decisions:**
 - **States lost of Fiscal Autonomy after GST:** In 2000-01 States decided the floor rate for sales tax & two-thirds of their revenue generated from VAT.
 - **Voting rights issue:** Eg: small States like Goa have equal vote with larger States.
 - **Ignoring diversity of issues:** The problems of Assam are not the same as those of Gujarat. There sources of revenue and expenditure's are different.
- **Art. 293:**
 - States can borrow on Consolidated fund of State within **limits set by Parliament.** Impacting fiscal autonomy of the State.
 - **Mandatory consent** needed (if any existing loan with centre), **provides wide discretion to Centre**, causing delays etc.
 - Setting up commission akin to Finance commission for borrowing purposes needed — **Constitutional debates 1949.**
 - **Central govt. imposed a borrowing ceiling of 3% on Kerala's GSDP** for FY2023-24.
- **Central Sponsored schemes:** Financial allocation is being biased towards States & Center reduced its share of revenue in CSS.
- **State fiscal health impacted:** implementation of Ujwal Discom Yojana, Farm loan waivers, slow down in 2019-20, revenue shortfall during pandemic etc.

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FRBM Act 2003

- **Fiscal deficit:** the difference between total revenue and total expenditure of the government. It is an indication of the total borrowing's needed by the government.
- **Primary deficit:** means the fiscal deficit minus the interest payments.
- **Revenue Expenditure:** means the difference between revenue expenditure and revenue receipts.

FRBM Act 2003:

- **Rationale:** legal backing to fiscal discipline i.e to correct fiscal imbalances like revenue shortfalls and fiscal deficits.

Features of FRBM Act 2003:

- **Brought Transparency:** making mandatory submission of following documents along with the Budget annually to parliament
 - Macroeconomic Framework Statement.
 - Medium Term Fiscal Policy Statement.
 - Fiscal Policy Strategy statement.

Fiscal indicators in Medium-term Fiscal Policy Statement:

- Fiscal Deficit as % of GDP.
- Revenue Deficit as % of GDP.
- Primary Deficit as % of GDP.
- Tax Revenues as % of GDP.
- Non tax Revenue as % of GDP.
- Central Govt. Debt as % of GDP.

Targets by FRBM Act 2003:

- **Fiscal deficit target for Centre:** reduce to 3% of GDP by 2008.
- **Central Govt. debt target:** reduce to 40% of GDP by 2024-25.
- **Combined Govt. debt target (Centre & States):** to 60% of GDP by 2024-25
- **Elimination of Revenue deficit** by 2009.

Borrowing conditions: on RBI & Central Govt.

- **Central Govt. cannot directly borrow from RBI** except through Ways and Means Advances (short term borrowing mechanism).
- **RBI not to subscribe to primary issues** of Central Govt. securities.

FRBM Amendment Act 2018: N.K. Singh committee Recommendation.

- **Fiscal Deficit target for Centre:** reduce to 2.5% of GDP by 2023.
- **Combined Debt-GDP ratio (Public Debt):** reduce to 60% by 2023, comprising:
 - 40% for the **Centre.**
 - 20% for the **States.**
- **Revenue Deficit Target:** reduce revenue deficit steadily by 0.25% each year to reach 0.8% by 2023.
- **Introduction of Escape clause:**
 - **Grounds:** agriculture collapse, structural reforms, National security, War.
 - **Instances:** reduction in corporate tax. structural reforms, global financial crisis.
- Formation of **Fiscal Council to advice Govt.**

15th Finance Commission recommendations:

Fiscal Deficit Target:

- **Centre:** reduce to 4% of GDP by 2025-26.
- **States (as % of GSDP):** 3% during 2023-26.

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Debt to GDP Ratio:

By following fiscal deficit target it will result in reduction of Debt to GDP ratio:

- For Central govt.: 62% (2021) to 56% (2026).
- For States: 33% (2021) to 32% (2026).

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GS III

SYLLABUS: INFRASTRUCTURE: ENERGY.

WIND ENERGY

THE HINDU, PG.NO: 10.

News: "On improving wind energy generation".

Current Status:

- India has **wind power potential for 1200 GW at 150 metres** above ground level, and is ranked fourth in the world for installed wind energy capacity — **National Institute of Wind Energy**.
- Currently as of September 2024, **India's total installed wind power capacity is 47GW**.
- Only about 6.5% of this wind potential is used at the national level — **Ministry of New and Renewable Energy Annual Reports**.
- **Rajasthan, Gujarat, Tamil Nadu, Karnataka, Maharashtra, and Andhra Pradesh** are the leading States for installed wind energy capacity, collectively contributing 93% of the country's wind power capacity installation.

Challenges:

- **Land Availability and Acquisition Issues:** a major bottleneck causing delays averaging 12-18 months for wind projects — **MNRE report 2020**.
- **Grid Infrastructure Constraints:** 30% of generated wind power is curtailed due to grid constraints — **Central Electricity Authority Report**.
- **Regulatory and policy barriers:** create uncertainties and negatively impact investments — **NITI Aayog's Renewable Energy Report (2022)**
- **Financing and Investment Challenges:** high capital costs, higher interests rates etc. Renewable energy accounts for a small fraction of total bank lending — **RBI Sectoral Credit Data**.
- **Outdated Technology:** Majority of installed turbines have hub heights below 100 meters.
- **Environmental and Social Concerns:** Local opposition, instances of wildlife mortality due to wind turbines Eg. Great Indian Bustard.
- **DISCOM Financial Analysis:** Discoms have outstanding debts leading to payment delays exceeding 6 months.
- **Skill Council for Green Jobs:** Estimates a need for 3 lakh skilled workers in the renewable sector by 2025.

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SYLLABUS: ISSUES RELATED TO EMPLOYMENT.

GIG ECONOMY

THE HINDU, PG.NO: 6.

News: "Ensuring a proper social safety net for the gig worker".

About Gig workers:

- **Gig workers classification:** Platform workers (online App, site) & non platform (casual workers).
- 77 lakh engaged in Gig Economy.
- 1.5 % total work force, 4% expected by 2030 — **NITI Aayog**.
- 45% of workforce are medium skilled.

Opportunities/ Advantages for India:

- **Rising urbanisation:** by 2030, urban population projected to reach 60 crore up from 40 crore in 2018 — **UN population reports**.
- **75 crore internet users in 2023** making one of the largest online markets globally.
- **Skill India aims to train over 40 crore people** in various skills this increases employability.
- **As of 2023, over 80,000 startups recognised** under Startup India this fosters creation of more gig platforms.
- **65% of India's population is young workforce under age 35**, engaging them with gig boosts economic growth.
- **Inclusion of Traditional sectors like agriculture:** Eg. DeHaat, Ninjacart etc.
- **Social Inclusion opportunities:** for divorced women, survivors of domestic violence, single mothers, PWDs into workforce.

Challenges:

- **With Platform Companies:**
 - **Exploitation of Gig Workers by platform companies:** Eg. **Black Diwali 2024**, a digital strike initiated by women gig workers for exploitative measures.
 - **Digital patriarchy by companies:** Limiting women jobs to beauticians, cooks, and housekeepers.
 - **Profit driven models of platform companies:** practising cheap labour, illegal termination etc.
 - **Misclassification of gig workers as contractors rather than employees by the aggregators** (Eg. Zomato, Uber etc): this is done to avoid application of labor laws on them.
 - **Irregular wages & Lack Job security:** Eg. Arbitrary termination with no notice period.
- **Issues with Social Security Code 2020:**
 - Recognised gig workers as an informal workforce despite some companies are being formal in nature.
 - It aims to provide gig workers with only certain social security schemes but **not institutional social security** (paid leave during maternity, minimum wage protection, retirement savings etc).
- **Exclusion of gig workers under Industrial Relations Code 2020:** which provides for occupational safety and health regulation.
- **Digital literacy:** challenge for some workers to enter gig & platform sectors.
- **No Dispute resolution mechanism** for protection of gig worker rights.
- **Mental Stress:** due to performance evaluation systems (rating the service).

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Recommendations:

- **Finance:** accelerated financial access under PSL Eg: unsecured loan for first time borrowers on the gig platform.
- **Social Inclusion:** of women & PWDs. enhances female & PWDs LFPR (which is Low).
- **Expansion support:** Taking self employed individuals to wider Markets in towns & cities.
- **Social protection:** Extension of paid leave, Health Access, Insurance, pension as mentioned by code on social security (2020).
- **Platform India Initiative:** similar to Startup India Initiative.

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SYLLABUS: ISSUES RELATING TO GROWTH.

MIDDLE INCOME TRAP

THE HINDU, PG.NO: 9.

News: "Can India get rich before growing old?"

News: "Declining health spending risks SDG goals"

Situation of falling at the middle-income level is called the middle income trap by the economist. **Mostly MIT occurs when GNI at USD 8000.** Since 1990, only 34 middle income status countries have managed to shift to high income status.

Classification based on GNI per capita (in USD):

- **Low Income:** < 1,150 USD.
- **Lower-middle Income:** 1,150-4,510 USD.
- **Upper middle Income:** 4,510-14,000 USD.
- **High Income:** >14,000 USD.

Countries stuck in Middle-Income Trap:

- **Brazil:** during period 2000-2016, annual productivity growth averages only 0,3% per year.
- **Malaysia & Thailand:** upper middle income countries since the 1990s today.
- **South Africa:** upper middle-income status since early 1990s.

Is India in Middle Income Trap:

- **Not yet!** Currently, **India classified as a lower-middle-income** (USD 2600 GNI per capita) country by the World Bank in 2023.
- India's GDP growth rate averages around 6-7% over past decade—**IMF 2021.**
- India has set a goal to make India a developed country by 2047 (**Vision for Viksit Bharat 2047**).
 - India needs to strive to be a **\$30 trillion economy (currently ~4 trillion USD)** with **per capita income of \$18,000 per annum** by 2047 to be Viksit—**NITI Aayog vision document.**

Factors causing the Middle-Income Trap:

- **Low investment in R&D & Insufficient Human Capital Development** Eg. East Asian countries.
- **Dependence on low cost manufacturing** leading to stagnant productivity Growth.
- **Weak institutions and Governance:** Eg. Many middle-income countries score below 50 out of 100 in the

Corruption Perception Index.

- **Regulatory Barriers:** which stunt the growth of entrepreneurship and foreign investment.
- **Demographic Challenges:** Eg. Thailand experiencing the aging demographics, reduction in labor force—**UN population prospects 2020.**
- **Lack of investments in infrastructure:** Eg. Latin American countries facing MIT had invested less than 3% of GDP in infrastructure.
- **High public debt levels:** Eg. Brazil public debt was over 90% in 2020—IMF reports 2021.

Challenges in India:

- **Falling Total Fertility Rates:** Most States are now below the replacement-level fertility rate of 2.1 children per woman Eg. Kerala, Andhra Pradesh with TFR 1.75.
- **Regional Inequalities:** Peninsular States of India have better health, education outcomes matching the upper middle income countries. While the Gangetic Belt is similar to Burkina Faso levels (very poor)—**World Development Report 2024.**
- **Exclusion of workers from growth:** in recent years, govt. estimated real-GDP growth of around 7%, but **according to the PLFS**, nominal wages for regular wageworkers in 2023-24 have only grown at around 5%.
- **Only three out of 10 working-age Indian women** are in the labour force
- **Trend of deindustrialisation on rise:**
 - Manufacturing sector's share of employment has declined from 12% in 2011-12 to 11% in 2022-23—**NSSO 2023.**
 - Most of the employment here is mostly unorganised and informal.
 - **Agriculture's share in the workforce increased** from 42% in 2018-19 to 46% in 2022-23.
- **Low R&D expenditure** is about 0.65% of GDP—**World Bank Statistics 2020.**
- **Significant decrease of healthcare expenditure** after pandemic: around 1.8% of GDP, lower than the global average of 6%—**Budget 2024-25.**
- **Low Education quality levels:** ranked 116 out of 163—**World Bank Human Capital Index 2020.**
- **Wealth concentration:** top 10% hold 77% of the national wealth —**World Inequality Report 2022 by Oxfam 2022.**

Ongoing measures in place to tackle MIT:

- World Bank highlighted the **importance of the "3i" approach:** investment, infusion, and innovation to break the phase of MIT.
- **Tapping demographic dividend potential** with promotion of schemes related to skill development, entrepreneurship etc.
- **Digital Advancement:** Eg. Digital India aims to improve connectivity with the latest technologies.
- **Boosting manufacturing sector:** with schemes like PLI, Make in India.
 - Eg. **Textile and apparel industry, worth \$150 billion**, employs 45 million people, compared to 5.5 million in the IT sector.
 - **Textile factories often employ 60-70% women**, empowering those who might otherwise be confined to unpaid work.
- **Overhauling education** with National Education Policy 2020.
- **Building a strong healthcare system** under Ayushman Bharat through primary, secondary, tertiary health care and insurance components etc.
- **Lowering Public debt** from 88% in 2020 to 80% in 2022—IMF annual reports 2023.

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EXAMPLES FROM TODAY'S NEWS PAPER

THE HINDU, PG.NO: 3, 6.

News: "17,600 trees axed in U.P. for new Kanwar Yatra route, panel tells NGT."

• **From an ethical standpoint:**

- The decision to cut down thousands of trees raises **questions about our responsibility** towards future generations and the intrinsic value of nature.
- **India's commitment to SDG 15 is compromised:** Which focuses on protecting terrestrial ecosystems.

News: "Tension in Mandya village over Dalits entering temple."

• **Despite legal measures persistence of Caste-Based Discrimination.**

- Such acts contravenes Art. 17 of the Constitution.
- Violates the principles of equality and respect for human dignity.
- Promotes exclusion and social divide in society.

News: "Kerala mulls action against IAS officer for social media group based on religion."

• **Such acts contradict the foundational values of the civil service:**

- **Impartiality and neutrality:** Civil servants must act without bias or prejudice, treating all citizens equally.
- **Integrity:** civil servants must avoid any actions that might discredit their position or the service.
- **All India Services (Conduct) Rules, 1968:** Prohibits members from associating with organisations that promote discrimination or enmity between groups.
- **Such acts have impacts like:**
 - Erosion of Public Trust.
 - Undermining Social Harmony.

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Thank you!