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Highlights of Economic Survey 2018-19

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The **Union Minister for Finance and Corporate Affairs** tabled the Economic Survey 2018-19 in the Parliament.

- This is the **first survey** by the new **chief economic advisor Krishnamurthy V Subramanian**.
- The **theme** of Economic Survey, 2018-19 is "**Shifting Gears towards a \$5 trillion Indian economy by 2024-25**".
- **Other focus areas:**
 - "Blue Sky" thinking - New Ideas for Policymaking;
 - Behavioral '*nudges*' for Optimal Outcomes;
 - Policies to unshackle MSMEs;
 - Data as a public good "*of the people, for the people and by the people*";
 - Legal Reforms;
 - Policy Consistency;
 - Efficient Labour Markets;
 - Use of Technology

Economic Survey

- The Economic Survey is prepared by the **Economic Division** of the **Department of Economic Affairs** in the Finance Ministry under the overall guidance of the **Chief Economic Adviser**.
- The survey was **de-linked** from the **Budget in the year 1964** and is circulated in advance to provide the context of the Budget.
- India's **first** Economic Survey was **presented in the year 1950-51**.

GDP Growth

A sustained real GDP growth rate of 8% is needed for India to become a \$5 trillion economy by 2024-25.

- The survey suggests that this can be achieved by a “**Virtuous Cycle**” of savings, investment, and exports. The **private investment** being the key driver.
- This cycle will be catalyzed and supported by a **favorable demographic phase**.
- This virtuous cycle should be **sustained** and in **equilibrium**. A **departure from traditional Anglo-Saxon thinking** by viewing the economy as being either in a virtuous or a vicious cycle, and thus never in equilibrium.

Behavioural Economics for Social Change

The survey has drawn on **Nobel Laureate Richard Thaler’s Behavioural Economics Theory** to lay out an “ambitious agenda” for behavior change that will bring in social change, which in turn, will help India transit to a \$5 trillion economy by 2024-25.

- Decisions by real people deviate from impractical robots theorized in classical economics. Behavioral economics provides insights to ‘nudge’ people towards desirable behavior.
- It pitches for behavioral change by applying the principles of behavioral economics to several issues including gender equality, a healthy and beautiful India, savings, tax compliance, and credit quality.
- This includes a transition from ‘**Beti Bachao Beti Padhao**’ to ‘**BADLAV**’ (**Beti Aapki Dhan Lakshmi Aur Vijay Lakshmi**), from ‘**Swachh Bharat**’ to ‘**Sundar Bharat**’, from ‘**Give it up**’ for the LPG subsidy to ‘**Think about the Subsidy**’ and from ‘**Tax evasion**’ to ‘**Tax compliance**’.

Nudge Theory

- According to Nudge theory, people, rather than being forced, can be **encouraged and influenced** to pursue or desist from certain actions through nudges.
- It **does not talk about penalizing people** if they do not behave in a particular manner, rather it **encourages** them to make desirable decisions.
- It believes that **Humans are not-so-rational** and often **need encouragement** or intervention — a nudge — to get going and do what’s best for the country or society at large.
- American economist **Richard Thaler has won the 2017 Nobel Prize in economics** for his contributions to behavioural economics.

Policies for MSME Growth

- The survey highlights the importance of intervention in the case of **“Dwarfs”**.
 - Dwarfs are the firms with **less than 100 workers despite being more than 10 years old**.
 - They account for **more than 50%** of all organized firms in manufacturing by number.
 - Contribution of dwarfs to **employment is only 14%** and to the **productivity is a mere 8%**.
- **Large firms (more than 100 employees)** account for 75% employment and close to 90% of productivity despite accounting for about 15% by number.
- The interventions are:
 - A **sunset clause of less than 10 years**, with necessary grand-fathering, for all size-based incentives.
 - Deregulating labor law restrictions to create significantly more jobs.
 - Re-calibrating **Priority Sector Lending (PSL)** guidelines for direct credit flow to young firms in high employment elastic sectors.

Sunset Clause & Size Based Incentives

- Sunset clause is a provision of a law that it will **automatically be terminated** after a fixed period unless it is extended by law.
- The Economic Survey **slammed the practice of perpetual support** to small and medium-sized enterprises on the grounds that they are mega job creators. Such a **continuous hand-holding merely encourages** these entities to keep a check on their scale of operations, i.e. **they deliberately stay small**.
- The governments should shift their focus to **nurturing “infant” firms only**.
- Policymakers must ensure that **support to small units is withdrawn** after a specified time, forcing them to expand their operations and not live off government relief forever.
- The survey also cites **“size-based incentives”** irrespective of the firm’s age.

Minimum Wage System & Inclusive Growth

- Survey **proposes a well-designed minimum wage system** as a potent tool for protecting workers and alleviating poverty.
- The survey **supports rationalization of minimum wages** as proposed under the Code on Wages Bill. Minimum wages to all employments/workers.
- **Current Scenario:**
 - Present minimum wage system in India has 1,915 minimum wages for various scheduled job categories across states.
 - 1 in every 3 wage worker in India is not protected by the minimum wage law.

- **‘National Floor Minimum Wage’** should be notified by the Central Government, varying across five geographical regions.
 - Minimum wages by states should be **fixed at levels not lower than the ‘floor wage’**.
 - Minimum wages can be **notified based either on the skills** or on **geographical region** or on **both grounds**.
- **‘National level dashboard’** under the Ministry of Labour & Employment for regular notifications on minimum wages, proposed by the survey.
- **Toll-free number** to register grievance on non-payment of the statutory minimum wages.

Minimum Wage

According to the **International Labour Organization (ILO)**, minimum wages have been defined as the **minimum amount** of remuneration that an employer is required to pay wage earners for the work performed during a given period, **which cannot be reduced by collective agreement or an individual contract**.

India's Demography

- A sharp slowdown in population growth is expected in the next 2 decades. National **Total Fertility Rate** is expected to be below the replacement rate by 2021.
- Significant **decline is to be witnessed in elementary school-going children (5-14 age group)** over the next two decades.
 - States need to consolidate/merge schools** to make them viable rather than build new ones.
- Policy makers need to **prepare for aging** by investing in health care and by **increasing the retirement age** in a phased manner.

Reforms in the Lower Judiciary

- The section on ways to ramp up capacity in the lower judiciary is titled **‘Ending Matsyanyaya’ (the law of the fish/jungle)**.
- Delays in contract enforcement and disposal resolution are now the single biggest hurdle to the ease of doing business and higher GDP growth in India.

However, the survey highlights the profound impact that the Government’s efforts of introducing the **Insolvency and Bankruptcy Code** and the adoption of the **Goods and Services Tax**, have had on improving **Ease of Doing Business** in India.

Data “Of the People, By the People, For the People”

- As data is generated by the people, data can be created as a public good within the **legal framework of data privacy**.
- The government must intervene in **creating data as a public good, especially of the poor and in social sectors**.
- Merging the distinct datasets held by the Government already would generate multiple benefits.