



Highlights of Economic Survey 2018-19

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.

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