1. Why is the rural sector critical to the economy? Do you agree with the assertion that the rural sector can be the engine of economic recovery post COVID-19? Substantiate your views.

Demand of the question:

It expects students to write about the criticality of rural sector to the economy and write arguments about rural sector as engine of economic recovery post COVID-19 with examples and appropriate data.

Introduction:

India is predominantly a rural country. As per the 2011 Census, 68.8 per cent of country's population and 72.4 per cent of workforce resided in rural areas. Rural economy constitutes 46 per cent of national income. Despite the rise of urbanization more than half of India's population is projected to be rural by 2050. Thus growth and development of rural economy and population is a key to overall growth and inclusive development of the country in post COVID-19 India.

Body:

Criticality of the rural sector in the economy:

- As per NITI Aayog report, more than half of Indian industrial production comes from the rural areas.
- Rural construction also accounts for nearly half of the total building activity in the country. The value of rural services is about a quarter of the total services output.
- Agriculture has accounted for less than half of total rural output since the turn of the century.
- On the other hand, National Sample Survey Office (NSSO) data shows that more than one-fifth of rural households with self-employment in agriculture have income less than the poverty line.
- Agriculture labour productivity in terms of gross value added (GVA) in India is less than a third of that in China and 1% of that in the US.
- Rural sector is net importer vis-e-vis urban areas which indicate outward flow of money.

Rural sector as engine of economic recovery:

- If there is no universal access to a Covid-19 vaccine for another 18-24 months, then businesses in safer sectors and locations are likely to do well, here rural sector might act as net gainer.
- In rural India, where it is naturally easier to have physical distancing and outdoor work. This may shift the focus from urban markets to rural markets, for both demand and production.

- Surplus labour: Livestock, fisheries, dairy, vegetables, fruit and food processing are more labour-intensive and high value-yielding. After many decades of neglect in research and development, lack of market access, on-off policies for exports, and market distortions, the present adversity may be a timely opportunity for this sector.
- Self reliant rural sector: Local production of items of local requirement, the local weavers, artisans and craftsmen may establish micro enterprises and form local community marketing cooperatives.
- There may be community campaigns for buying local products, as far as possible, replacing some of the items coming from urban industrial sectors.
- Infrastructure investment: Local initiative for building community infrastructure, like water harvesting, canal irrigation network, huts for community market centers etc. may generate employment opportunities.
- Employment opportunity: Community level planning and implementation of 100-days work programmes under MNREGA may be emphasized with assured timely disbursement of cash, and issuing of new job cards to those who are not yet included.

However, rural employment has shrunk after 2005 while the urban areas have not been able to absorb the millions who are leaving the farm. Rural India is incapable of absorbing the estimated 23 million interstate and intrastate migrant labours who might return home from urban areas due to the COVID-19 lockdown.

It would need support of a suitable policy framework and reforms in pricing policy, tax, market access, credit and rural infrastructure, like warehouses and cold storage. The next two years or so of how we learn to live with corona virus can redesign the economy towards safer and more sustainable production and consumption, with agriculture and the rural economy as its strength, rather than its weakness.

Conclusion:

In this economic pandemic, the lifeline of Indian economy lies in the transformation of the rural sector into a matrix of local economies, striking a balance between their diversified local production for local needs and surplus trading.

2. How far do you support the decision of the Government to cap air fares? What impact will it have on the airlines? Critically examine.

Demand of the question:

It expects students to write about the rationality behind the decision of government along with the implications of decision on the airlines with critical analysis.

Introduction:

Domestic flights in India will have a cap on fares with both an upper and lower limit for three months when flights resume on 25th may. While the upper price limit is aimed at preventing any sharp rise in fares due to pent-up demand, the lower limit will help ensure that financial viability of airlines does not suffer amid high costs.

Body:

Domestic flights will connect all cities, though airlines will be allowed to use only one-third of the capacity approved for this year's summer schedule. The government has created seven major fare sections/zones, based on the distance and time taken to cover the distance. Airlines have to make available 40% of total seats in an aircraft at less than the mid-point price between the highest and lowest fares.

Rationality of decision to cap airfare:

- Caps on airfares were generally restricted to about a few days during calamities like floods even earlier.
- Measure is temporary: As market based pricing system like pre-covid times can resume after 24th august as per government briefing.
- To provide affordable travel: Rates could have skyrocketed as lockdown affected business of airlines badly.
- The weakest or least attractive player may suffer the most as they cannot use pricing as a tool to steal market share in the absence of cap on minimum fare.
- The fixed price excludes PSF (Passenger services fee), UDF (User development fee) and GST.
- The decision not to leave the middle seat vacant or zero social distancing on board would allow airlines to fly in an economic manner.

Impact on Airlines:

- The government putting a cap on lower fare would reduce sale of future tickets among customers compared to pre-COVID-19 time.
- Airlines operate on thin margins as their business models are based on high operating costs. Such decisions can threaten their financial viability.
- Pricing is most strategic to airlines and airlines should have freedom to make their commercial decisions.
- First time a network-wide fare capping has been introduced, fare regulation was limited to affected areas of natural calamity.
- India's Air Corporation Act was repealed in 1994, so the announcement to regulate airfares more than 2 decades later comes across as certainly a step back.

The decision of government has been viewed as interference of government in market based system and termed as regressive regulation by certain sections.

Conclusion:

Though, extraordinary times require extraordinary measures, even market based pricing could have achieved the same desired results of affordability for passengers and financial viability for carriers. Airlines can expect the fare capping won't continue beyond 3 month stipulated time.

3. The announcement of the revival package for kick-starting the economy is fiscally prudent. Elucidate.

Demand of the question:

It expect student to write about the fiscal prudent nature of revival package of Indian economy with enabling provisions to that effect.

Introduction:

Prime Minister announced Atmanirbhar Bharat package amounting to almost 10% of GDP. The five pillars that form the core of the strategy include 'Economy, Infrastructure, System, Vibrant Demography and Demand'.

Body:

The Rs. 20 trillion stimulus package is the total sum of both fiscal and monetary steps. Economic package had five tranches on five successive days.

- The first focused on small and medium enterprises, non-bank financial institutions, real estate and liquidity.
- The second on migrants, affordable housing, street vendors, and micro credit.
- The third on agriculture, animal husbandry and fisheries.
- The fourth on private-sector entry, the opening up of India's coal sector, and the privatization of power distribution, airports and Union public sector enterprises (PSEs), as well as on raising foreign direct investment (FDI) limits.
- The fifth focused on the rural employment guarantee, postponement of insolvency and other compliances, and incentivizing reforms in states by making their enhanced borrowings contingent on these.

Fiscally prudent:

- Most of the package is essentially liquidity support with loan guarantees in some cases, where the fiscal payouts may happen only in future years, and that too to the extent some borrowers go bust or are unable to repay.
- The main elements of the package are Rs. 3 lakh crore guaranteed loan package to benefit 45 lakh micro, small and medium enterprises (MSMEs); Rs 20,000 crore as subordinated debt to help support stressed MSMEs which

will benefit another 2 lakh firms; Rs. 50,000 crore corpus for an MSME-oriented fund of funds.

- 3 lakh crore loan package will remain as back up only when bank loans go bad, or some MSMEs which benefited from the Rs 3 lakh crore guaranteed loan package are unable to repay.
- In the Rs 50,000 crore fund of funds for MSMEs, the Centre's contribution initially will be Rs 10,000 crore. In the Rs 20,000 crore subordinated debt plan to fund stressed micro and small enterprises, the Centre will pay Rs 4,000 crore initially.
- Rs. 30,000 crore of liquidity for non-bank finance companies (NBFCs), housing finance companies, and micro-financial institutions; a Rs 45,000 crore partial credit guarantee scheme for NBFCs;
- Rs 90,000 crore of liquidity for stressed power distribution companies (DISCOMs), but it is not a freebie either; states will have to guarantee the repayments.
- Additionally, the Centre will pay for another three months (June-August) the Employees Provident Fund Organisation (EPFO) amounts usually paid by employers and employees who earn upto Rs 15,000 monthly. It will cost the exchequer Rs. 2,500 crore only.
- Temporary liquidity: The statutory contributions for Provident Fund will be cut from 12 per cent to 10 per cent for both employees and employers for three months, which will benefit 4.3 crore formal sector employees.
- The reduction in the PF contributions of employees will not cost the Centre anything; the cash flow relief to employees and employers for three months will end up reducing the overall accumulations in the employees' EPFO corpus.
- Rs 50,000 crore of tax deduction at source (or tax collection at source) relief through a 25 per cent reduction in the TDS/TCS rates.
- The reductions in TDS/TCS payments will improve cash flows for both individuals and firms who receive such payments, but it does not cut the final amount of taxes payable.

Considering the details of revival package, actual fiscal hit in the near term is well within the fiscal space of government. Covid-19 has reduced growth prospects of Indian economy to below 1% already with reduced tax collections; government had no other option but to become loan guarantor.

Conclusion:

Revival Package has distributed fiscal cost of revival to next few years which is wise decision from the aspects of fiscal consolidation commitments of governments. If implemented well, can transform the face of India.