**1. Even though, there is a broad agreement on the numerous benefits of having a free market economy, government intervention is essential in certain fields/ sectors. Elucidate.**

**Demand of the question:**

It expects student write about free market economy and its benefits in short. It also expects students to analyse both aspects of whether government intervention in certain fields/sector keeps the interest of those fields/sectors or not.

**Introduction:**

The free market economy is an economic system based on supply and demand with little or no government control. Free markets are characterized by a spontaneous and decentralized order of arrangements through which individuals make economic decisions.

**Body:**

Free Market Economy:

- In a free market economy, firms and households act in self-interest to determine how resources get allocated, what goods get produced and who buys the goods.
- Ideally, there is no government intervention in a free market economy ("laissez-faire"). However, no truly free market economy exists in the world.
- Post-1991 India has adopted free market policies. However government frequently intervenes through mechanisms like social sector schemes, regulatory mechanisms to ensure equitable economic growth.

Benefits of free market economy:

- The producers are more incentivized to produce their best goods and services due to the feature of the profit motive and the ability to hold private property.
- Since all resources and factors of production are under private ownership they are used in the most productive manner. This results in optimum utilization of resources.
- Consumers also benefit in a free market economy. Firstly they have the freedom to choose whichever products or services they wish to buy. Also, the competition is high and the producers are motivated to make their best products in large quantities at reasonable prices.
- Free market economy also promotes fundamental rights of freedom and choice for both the consumer and the producers.

Despite the broad agreement on the above mentioned benefits of free market economy government intervention is essential in certain fields/sectors due to following reasons:

- One disadvantage of a free market economy is that some producers are driven exclusively by their profit motives. Such an objective should not be prioritized over the needs of workers and consumers.

- Put simply, a Construction company should never compromise the safety of its workers or disregard environmental standards and ethical conduct just so it can make supernormal profits. Hence, government intervention is necessary to protect the rights of worker, citizens and to protect environment through laws and regulations. Recently the Maharashtra government enacted "The Real Estate Regulatory Authority Act (RERA)" which will review and issue resolutions on a regular basis regarding real estate sector.
- Unethical behaviour: In 2010, the Deepwater Horizon oil spill, which is one of the biggest environmental disasters in the United States, happened because the company used substandard cement and other cost-reducing measures. In this regard Government of India has already enacted acts like, Environment (Protection) Act, 1986 etc.
- Market failures: At times, a free market economy can spin out of control, causing dire consequences. Good examples of market failure include the Great Depression of the 1930s and the real estate market crash that happened in 2008. Market failures can lead to devastating outcomes such as unemployment, homelessness, and lost income.
- Due to the fiercely competitive nature of a free market economy, businesses will not care for the disadvantaged like unorganised sector workers. This leads to higher income inequality. We can observe this in the market where in a big coffee shop a person can buy a coffee for nearly 250 Rs. but at the same time a small tea/coffee vendor can sell a coffee for nearly 15 Rs..
- With respect to agricultural sector government intervention is in form of subsides, interest free loan (NABARD). i.e. Government intervenes in these sectors to reduce the hardships of farmer
- Also, there are certain specific fields where governments intervenes not because of necessity but because of responsibility i.e. in the fields of Nuclear energy (Atomic Energy Regulatory Board -AERB), Defence (DRDO) etc.

But the coin has other side too:

- Wide scale government intervention may result in market being toy in the hands of Politicians.
- Lack of incentives to improve the quality and performance may result in stagnant growth trajectory of certain sectors. Recently to rejuvenate BSNL government needed to announce 70000 Cr. bailout package.

**Conclusion:**

Our constitution is based on the principle of just, equal society-economy. Hence, it becomes imperative for the government to intervene in certain sector/fields of free market economy when it seems necessary but it should not lead to politicization of those sectors so that India can achieve its target to be a 5 trillion $ economy by 2024.

**2. How do different market regulators ensure fairness and equity? Illustrate with the help of suitable examples.**

**Demand of the question:**

It expects student to write about the role played by different market regulators to ensure fairness and equity in the market. It also expects student to write about how their(Regulators) roles can be improved with respect to new emerging challenges.

**Introduction:**

In India, the different markets are regulated with the help of independent regulators, associated with the field of insurance, banking, commodity market, and capital market and also the field of pension funds.

**Body:**

Post 1990, Privatisation saw the advent of the 'Indian Regulator' that became the 'nurturer' and 'parent' of its sector. Over a period of time, a number of regulatory bodies, ranging from RBI, SEBI, IRDA, PFRDA to TRAI, electricity regulators, CCI, FDA have been set up in India.

Ensuring fairness and equity:

- Regulators have been empowered to set the policy agenda, outline regulations, punish non-compliance and garner resources to manage their affairs. e.g. Prompt Corrective Action plan of RBI
- Control Fraud: Market regulators put systems in place to prevent fraud as financial customers aren't always sophisticated enough to do so themselves. e.g. Time to time guidelines given by RBI to ensure fairness in Banking Sector.
- Promote Fairness: Regulators aim to reduce profits that insiders could extract from the markets. Laws against insider trading, for instance, help to level the playing field. e.g. In India, SEBI under the "SEBI (Insider Trading) Regulation, 1992" intends to curb and prevent the menace of insider trading in securities.
- Set Mutually Beneficial Standards: Regulators help analysts to easily compare companies by requiring compliance with accounting standards set by them. e.g. In India it is done by The Institute of Chartered Accountants of India (ICAI). So, here ICAI ensures fairness and equity by maintaining transparency for every player in market.
- Prevent Excessive Risk: Regulators require financial firms to maintain minimum levels of capital so that the firms honour their commitments and ensures firm's owners have some "skin in the game."
  e.g. The CRR and SLR standard set by RBI for Nationalised banks and Private banks.
- Ensure Liabilities are Funded: Regulators watch over insurance companies and pension funds to ensure adequate reserves are maintained to cover liabilities because managers of these entities tend to underestimate long-term liabilities especially when there is an incentive not to do so.
  e.g. Time to time circulars issued by IRDAI and PFRDA in this regard.

- In this COVID-19 crisis when big insurance companies were offering COVID-19 insurance, which in turn gave a tough competition to small insurance companies. Here, IRDAI intervened & mandated all general and health insurers to offer to have a COVID-19 specific product, addressing basic health insurance needs of insuring public related to the pandemic and have a standard product with common policy wordings across the industry. It ensured fairness and equity.

Hindrances to ensure fairness and equity:

- Politicisation in Regulatory bodies - As economic agents inherently intend to maximise profits, market misconduct happens in every domain. Policy makers go overdrive and frame restrictive policies and denounce regulators.
- Non- experts to lead: The selection of non-experts to lead the regulatory bodies may bring lack of efficiency in the functioning of such bodies. Recently, this issue was raised when the former Finance secretary was appointed as RBI chairman.
- Many regulatory bodies causes overlapping of powers, Recent Controversy between SEBI and IRDAI over Unit Linked Insurance Policy.

Way forward for more effective regulatory regime:

- Appointment of persons to head regulatory organisations should be attempted in a far more transparent manner. Which in turn ensure no interference of any political nature.
- "Regulatory Impact Assessments" are adopted by OECD countries to assess the performance of regulatory bodies. India can also mandate such techniques through legislation and thereby preserve economic value.
- Financial sector legislative reforms commission(FSLRC) recommended to merge those regulatory bodies whose functions overlap. A multiplicity of regulatory agencies has created scope for regulatory arbitrage, apart from making it difficult to protect consumer interest. It will help to improve the quality of regulations by simplifying regulatory process. e.g. Merging of SEBI,PFRDA & IRDA is recommended by FSLRC.

**Conclusion:**

Regulatory bodies have played a very crucial role in post liberalization era to have a level playing field and thereby contributed in the sector specific growth by ensuring fairness and equity. But, over the period of time new challenges emerged. Hence, to tackle these challenges regulatory bodies need to be empowered to ensure fairness and equity in different markets.

**3. The government's decision to introduce long-pending agricultural reforms will help in better price discovery for farmers. Comment.**

**Demand of the question:**

It expects student to write about the need to introduce long pending agricultural reforms & what kind of reforms are introduced. It also expects student to analyse both aspects of whether the introduced new reforms will help in better price discovery for farmers or not.

**Introduction:**

In order to revive the Indian economy, the Central government has announced the Atma Nirbhar Bharat Abhiyan. Agricultural reforms are part of the third tranche of the economic package announced under Atmanirbhar Bharat Abhiyan to counter Covid-19 pandemic which may yield better income for farmer in coming days.

**Body:**

The central government introduced major agricultural market reforms through three ordinances:

- The Essential Commodities (Amendment) Ordinance 2020. (ECA)
- The Farming Produce Trade and Commerce (Promotion and Facilitation) Ordinance, 2020.(FPTC)
- The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Ordinance, 2020.

Need to Introduce these Reform:

- India has surplus production in most agri-commodities but farmers have been unable to get better prices due to lack of investment in necessary infrastructure such as Ware house, Cold Storage etc.
- The imposition of the curbs on stocking of farm produce and regulation of the prices of commodities, etc. under Essential Commodities Act (ECA) are some of factors responsible for less interest of entrepreneurs hence, less investment in the farm sector.
- There are restrictions for farmers in selling agri-produce outside the notified Agricultural Produce Market Committee (APMC) which in turn put less money in the hands of farmer.
- The farmers are also restricted to sell the produce only to registered licensees of the State Governments, which restricted farmers option to explore new markets.
- Further, barriers exist in free flow of agriculture produce between various States owing to the prevalence of various APMC legislations enacted by the State Governments.

A window of opportunity amidst eclipse of COVID-19:

- The amendment to ECA would deregulate the commodities such as cereals, edible oils, oilseeds, pulses, onions and potatoes. It will help to lessen the fears of private investors of excessive regulatory interference in their business operations.

- Any limits under ECA over these commodities will be imposed only in exceptional circumstances such as war, famine, extraordinary price rise and natural calamity.
- The freedom to produce, hold, move, distribute and supply will lead to harnessing economies of scale and attract private sector/foreign direct investment into the agriculture sector.
- It will help drive up investment in cold storages and modernization of the food supply chain.
- An amendment to FPTC will create an ecosystem where the farmers and traders would enjoy freedom of choice of sale and purchase of agri-produce.
- It will also promote barrier-free inter-state and intra-state trade and commerce outside the physical premises of markets notified under State agricultural produce marketing legislations.
- It empowers farmers for engaging with processors, wholesalers, aggregators, large retailers, exporters etc. and thus eliminating intermediaries resulting in full realization of price.
- Farmers have been provided adequate protection. Sale, lease or mortgage of farmers' land is totally prohibited and farmers' land is also protected against any recovery.
- It also provides an effective dispute resolution mechanism with clear timelines for redress.
- These reforms are expected to build necessary agrarian infrastructure in the country which will lead to build "One India, One Agriculture Market"

Though these kind of reforms are the most awaited reforms since Independence. There are some pitfalls too as pointed out by some experts:

- These reforms have kept away the state from its limited revenue resources.
- Clearly, the move is to promote free trade under the slogan of one nation one market.
- The peasantry at large will be at the mercy of the Agri Business Corporations since there will not be any arrangements for price support and price stabilisation for crops.

Despite the above mentioned pitfalls, many agriculture experts opined:

- The country got Independence in 1947 but farmers are going to get freedom after the promulgation of this ordinance.
- These steps have been advocated by agriculture economist Ashok Gulati for decades and he welcomed the steps. "What the government is doing with these reforms is that, it is creating alternative channels for farmers to sell their produce. So, they will have more choices". Which will yield better prices discovery for farmers.

**Conclusion:**

These newly introduced reforms are the most awaited reforms since the Independence of India in 1947. It has opened up a new window to improve the farmers income by better price realisation. In the long run it will help India to achieve its target to double farmers income by 2022.