

1. Can a market driven economy ensure the welfare of citizens, especially the poor populations, during times of distress? Critically comment.

Demand of the question – You need to comment on both sides of argument where in a market driven economy's effectiveness in terms of welfare of citizens, especially the poor populations is highlighted during times of distress like the present times.

Introduction

As the coronavirus continues its march around the world, governmental measures to stop the virus have severed the flow of goods and people, stalled economies, and in the process have raised questions on market economy's role in welfare of citizens, especially the poor sections during such times of distress.

Body

- A market economy, also known as a free market or free enterprise, is a system in which economic decisions, such as the prices of goods and services, are determined by supply and demand.
- The forces and the flaws that threaten the market economy arise within a complex and dynamic socio-political system which generates positive and negative feedback loops.
- This feedback loop is disrupted during times of distress like one's induced by external factors to market economy like present Covid-19 crisis or like one's induced by internal forces in market economy like the 2008 financial crisis.

A market driven economy can ensure the welfare of citizens, especially the poor populations, during times of distress in the following manner:

1. Unlike other types of economies, a market economy increases the efficiency of government. Their limited role promotes increased efficiency of government in critical roles, especially during emergency situation. Eg- Governments focusing on basic essential services to citizens during lockdowns due to COVID pandemic.
2. Increased productivity is also associated with a market economy. Such a phenomenon helps during times of distress as the surplus helps in fighting off the pressures of the situation. Eg- Increase in manufacture of PPE kits in India during the times of COVID.
3. A country with a market economy also has increased innovation. Consequently, such an innovative attitude is essential during times of distress for improved ability to fight off the problem. Eg- Innovative new ways of manufacturing ventilators as well as new solutions to problems due to pandemic like work from home.
4. Market economies also foster an environment of growth and innovation of wide ranging products which become effective tools in fighting a common global problem for welfare of citizens as well as poor populations. Eg- Cheaper tests during the ongoing pandemic.

But at the same time, market economies also become a hindrance in the measures towards welfare of citizens, especially poor populations, due to the following factors:

1. Asymmetric information, also known as "information failure," which typically manifests when the seller of a good or service possesses greater knowledge than the buyer. During times of distress, a market economy has comparatively lesser avenues towards tackling such issues where invariably the poor are worst affected.
2. Wealth inequality is a recurring issue in market economies where workers don't earn enough to save for a rainy day. Compounding the problem is that workers often need to work to earn the money necessary to survive and support themselves and their families. In times of distress like during the COVID pandemic, lockdown led to closing of all revenue earning sources for workers.
3. Given the policy response of the national lockdown to arrest the spread of the virus, it is plausible to assert that children from the poorest strata will succumb to dietary shock both in terms of quantity as well as quality. These shocks can be possible weight-loss among children of the poorest households, including casual labourers.
4. Currently, it is estimated that the COVID-19 pandemic has created the largest disruption of education systems in history, affecting nearly 1.6 billion learners in more than 190 countries and all continents. Here, poor populations are most affected as they lack alternative tools for learning.

Way Forward-

- Directing the policy focus towards the poorest section is recommended as they are most vulnerable to these shocks and economic distress.
- Ensuring smooth and uninterrupted supply of nutritious meals and food supplements is particularly imperative to maintain the nutritional status of poor children.
- Measures such as direct cash benefits/transfers to those from the lowest economic strata, as done by the government a few months ago, may need to be extended.
- Enabling ground-level functionaries (ASHA, AWWs) to maintain their active participation in preserving ongoing nutrition efforts will also be critical.

Conclusion

Effective disaster risk financing instruments and strategies can be developed by joining hands with other market economies. Thus, a well-designed social insurance scheme can become a permanent feature in market economy which can assist the poor in times of distress, alleviating poverty and increasing prosperity by safeguarding development gains.

2. What is the present policy of disinvestment being pursued by the Government? What are your views on this policy? Is it healthy for the economy in general? Critically comment.

Demand of the question - The existing policy of disinvestment is to be commented upon where your views on this policy are to be discussed and also its utility for economy in general where both sides of the arguments are to be focused upon.

Introduction

Disinvestment means sale or liquidation of assets by the government, usually Central and state public sector enterprises, projects, or other fixed assets. It introduces competition and market discipline and helps to depoliticize non-essential services. This policy has undergone wide ranging changes during recent times in India.

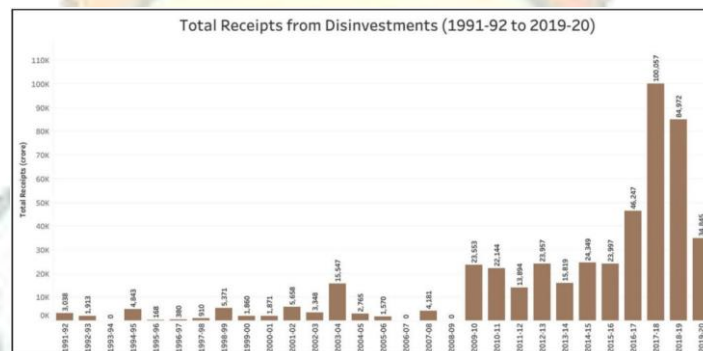
Body

- Disinvestment in India is aimed at reducing the financial burden on the government due to the inefficient and poorly functioning PSUs (called sick units) and to improve public finance.
- The government in its interim budget 2019, set the disinvestment target for FY 2019-20 at Rs. 90,000 crore, higher than the Rs. 80,000 crore budgeted for the ongoing year that it said would be exceeded.
- The present policy of disinvestment being pursued by the Government can be seen from the below given salient features:
 1. Public Sector Undertakings are the wealth of the Nation and to ensure this wealth rests in the hands of the people, promote public ownership of CPSEs.
 2. While pursuing disinvestment through minority stake sale in listed CPSEs, the Government will retain majority shareholding, i.e. at least 51 per cent of the shareholding and management control of the Public Sector Undertakings.
 3. Strategic disinvestment by way of sale of substantial portion of Government shareholding in identified CPSEs up to 50 per cent or more, along with transfer of management control.
- In February 2018, the cabinet had cleared the institutional framework for monetisation of identified non-core assets of the CPSEs under strategic disinvestment.
- As per the Department of Investment and Public Asset Management (DIPAM), the current policy on strategic sale entails that the Niti Aayog will identify CPSEs for strategic disinvestment and it will also advise on mode of sale, percentage of shares of the CPSEs to be sold and method for valuation.
- Strategic disinvestment is the transfer of the ownership and control of a public sector entity to some other entity (mostly to a private sector

entity). Unlike the simple disinvestment, strategic sale implies a kind of privatization.

Some of the views on Disinvestment can be seen as given below:

1. Disinvestment assumes significance due to the prevalence of an increasingly competitive environment, which makes it difficult for many PSUs to operate profitably. This leads to a rapid erosion of the value of the public assets making it critical to disinvest early to realize a high value.
2. Disinvestments can be seen as necessary to diversify the ownership of PSU for enhancing efficiency of individual enterprise as well as raise funds for technological up gradation, modernization and expansion of PSUs.
3. Public sector companies can only be on an equal footing with the private sector if their shareholders give them the desired flexibility. Therefore, the public good is the best served if the government focuses on providing a stable, clear and effective regulatory system and gets out of the business of running industries.



Disinvestment and Economy: The Good-

- In the context of macroeconomics, time has shown us how countries like Chile, UK, China, New Zealand, and Poland successfully used disinvestment to achieve new economic heights. Disinvestment allows government to have much better control over the market economy without upsetting norms of market behaviour.
- Many countries used disinvestment as a sure means of restoring budgetary balance & to revive growth on a sustainable basis after facing economic crisis in 80s.
- Disinvestment is extremely positive for the Indian equity markets and the economy. It will draw lot of foreign and domestic money into the markets. It will allow PSU to raise capital to fund their expansion plans and improve resource allocation in the economy.
- Disinvestment will allow the government to stimulate the economy while resorting to less debt market borrowing. Private borrowers won't be crowded out of the markets by the government and will have to pay less to borrow from the open market.

The Bad-

- Sale of profit-making and dividend paying PSUs would result in the loss of regular income to the Government and also affects labour forces' social security.
- There would be chances of “Asset Striping” by the strategic partner. Most of the PSUs have valuable assets in the plant and machinery, land and buildings, etc.
- Strategic and National Security Concerns: Strategic Disinvestment of Oil PSUs is seen by some experts as a threat to National Security since Oil is a strategic natural resource and possible ownership in the foreign hand is not consistent with our strategic goals.
- Using funds from disinvestment to bridge the fiscal deficit is an unhealthy and a short term practice. It is said that it is the equivalent of selling 'family silver' to meet short term monetary requirements.

Way forward-

- Caution against undervaluation: The government, however, must ensure that it is not taken for a ride.
- Asset creation from the proceeds: Instead of using the proceeds from the disinvestment to fund revenue deficit the proceeds must be utilized strictly for new asset creation.
- To allay concerns of cronyism, the strategic sale process needs to be fair and transparent with a minimum reserve price that does justice to the valuable assets being auctioned off.

Conclusion

Disinvestment may be a magic solution to raise revenues, but it is a tamed tiger—the performance depends on how to tame it in accordance to the sectoral policies, strength and presence of the public sector, etc. With the COVID-19 pandemic, it is time to reflect how to develop a symbiotic relationship between competent public and private sectors to foster India's potential as an industrial powerhouse.

3. What economic benefits have accrued in the last three decades with the progressive liberalisation of different sectors? Illustrate.

Demand of the question – Illustrating the evolution of liberalisation of different sectors over a period of three decades, its economic benefits are to be enumerated in the answer while also giving a brief view about its shortcomings.

Introduction

Economic liberalization refers to a country "opening up" to the rest of the world with regards to trade, regulations, taxation and other areas that generally affect business in the country. There has been a revolutionary change in Indian Economy since the espousal of the New Economic Strategy in 1991. When a nation becomes liberalised, the economic effects can be intense for the country.

Body



In this regard, the economic benefits of liberalisation in the last 3 decades can be seen as given below:

1. Major goals of economic liberalization are the free flow of capital between countries and the effectual allocation of resources and competitive advantages. This is generally done by decreasing protectionist strategies such as tariffs, trade laws and other trade barriers.
2. In general, when a country becomes liberalized, stock market values also rise. Fund managers and investors are always on the lookout for new opportunities for profit. The situation is similar in nature to the anticipation and flow of money into an initial public offering (IPO).
3. Liberalization reduces the political risk. These are areas that support and foster a willingness to do business in the country, such as a strong legal foundation to settle disputes, fair and enforceable contract laws, property laws, and others that allow businesses and investors to operate with confidence.
4. Impact on Agriculture: In the area of agriculture, the cropping patterns has undergone a huge modification, but the impact of liberalisation cannot be properly measured.

5. **Banking:** In banking sector, liberal policies have great impact in Indian economy. Since improvements, there have been three rounds of License Grants for private banks. Private Banks such as ICICI, HDFC, Yes Bank and also foreign banks, raised standards of Indian Banking Industry.
6. **Telecom Sector:** Usually, Telecom sector was a government owned domination and therefore service was not very efficient. But after reforming polices, private telecom sector reached zenith of success. Indian telecom companies are progressing at global scale.
7. **Small scale industry** exists and still remains strength of Indian Economy. It contributes to major portion of exports and private sector employment. But overall value addition, product innovation and technology adoption remains miserable and they exist only on back of government support. Their products are challenged by cheaper imports from China.
8. **Industrial Growth Rate:** Barring few years, industrial growth rate has not been so much inspiring. Share of Industry still remains stagnantly low at 25%. It is discouraging that India has transitioned to be a service led economy, directly from an agrarian one.
9. **Impact on Services Sector:** Due to historic economic inequality between two groups, human resources have been much cheaper in developing economies. This was further aided by information technology revolution and this all culminated in migration of numerous jobs from developed countries to developing countries.

Economic reform is a continuing process and not a one-time action. The present dispensation- which recently opened the defence and aviation sector for 100 percent foreign investment - is carrying forward the legacy of the 1991 reforms.

Conclusion

Economic liberalization is generally thought of as a beneficial and desirable process for emerging and developing countries. The underlying goal is to have unrestricted capital flowing into and out of the country to boost growth and efficiencies within the home country.