

6th Dec, 2024

1. States and the Challenge Before the Finance Commission GS 3 (Economy)

• Why in News:

- The Government of Tamil Nadu recently hosted the Sixteenth Finance Commission, chaired by renowned economist Arvind Panagariya.
- With its panel of distinguished experts, the Commission is uniquely positioned to tackle critical fiscal challenges and rectify the existing imbalances in the financial relationship between the Union and the States.
- Its decisions will not only shape the economic trajectory of India for the next five years but will also set the foundation for the country's fiscal health in the decades ahead.

States and the challenge before the Finance Commission

The Government of Tamil Nadu recently hosted the Sixteenth Finance Commission, which was chaired by Arvind Panagariya. With its distinguished experts from various fields, the Commission is uniquely positioned to address the critical fiscal challenges facing India and rectifying the imbalances in the relationship between the States and the Union.

Opportunities from global changes
The decisions taken by this Finance Commission will not only shape the fiscal fate of the nation for the next five years but will also influence India's economic trajectory in the decades to come. The Sixteenth Finance Commission's work coincides with significant shifts in global economic trends. Concepts such as "friendshoring" and "reshoring" are reshaping international trade and investment patterns. These trends present a unique opportunity for India and Tamil Nadu. To seize these opportunities, the critical challenge for the Finance Commission lies in striking a balance between equitable redistribution and incentivising growth in high-performing States such as Tamil Nadu.



M.K. Stalin
President of the
Tamil Nadu
Legislative Assembly

our case for a new and fair system of distribution of resources. For instance, while the Fifteenth Finance Commission awarded the vertical share of the divisible pool to the States as 41%, the effective devolution to States in the first four years of the award period amounted to only 33.16% of the Union's gross tax revenue. The unprecedented levying of cess and surcharges by the Union is the fundamental reason for this effective decline in devolution.

Like States' share, incentive performers
The States, which are near to people, bear substantial developmental expenditures, and, hence, their share should be further increased substantially. The financial strain on the States has been particularly severe due to increases in counterpart funding for centrally sponsored schemes on the one side and inadequate devolution on the other side. Hence, a fair and equitable share for States would be 50% devolution of the gross central taxes, allowing States greater fiscal autonomy in funding and implementing locally relevant schemes.

On horizontal devolution, it is evident that the redistribution policy followed for the first four and a half decades in our country has yielded limited results in driving real growth. Hence, the fundamental question would be this: should the focus be on a smaller national pie with a larger share for less-developed States or a larger national pie with equitable distribution that provides greater absolute resources for all? The answer is difficult, yet a more balanced approach would ensure a larger national economic pie, allowing for reasonable shares for less-developed States and adequate resources for progressive

States to continue their upward trajectory. This would clearly necessitate a progressive resource allocation methodology for the performing States so as to allow them to fulfil their potential to be India's growth engines.

Unique challenges in progressive States
Amidst this, it is also important to note that progressive States such as Tamil Nadu also face unique challenges in demography and urbanisation. With a median age higher than the national average, the State's capacity to generate consumption-based tax revenue is declining, even as the costs of supporting an aging population are rising. It is imperative to ensure that such States do not fall into the "middle-income trap", where growth stagnates and they "grow old before becoming rich". Next, the challenges due to urbanisation in fast-growing States merit adequate addressal. A State like Tamil Nadu is witnessing the fastest rate of urbanisation in the country, due to which it will have a 72.30% urban population in 2031, against the expected national average of 57.50%. The resources for fulfilling the infrastructure needs of urbanisation should be earmarked to ensure the long-term sustainability of our growth.

We should keep in mind that the mandate of the Commission goes beyond fiscal arithmetic. It is about envisioning a future where every State contributes to and benefits from the nation's progress. Whether it is fostering manufacturing, addressing urbanisation challenges, or ensuring climate resilience, the Commission's decisions will impact millions of lives and determine the trajectory of the country's destiny, to take its place among the world's leading economies.

• Global Economic Shifts and Opportunities for Finance Commission

- The Sixteenth Finance Commission's work comes at a time of significant global economic transformations.
- Emerging concepts like friend shoring and reshoring are redefining international trade and investment.
- For India, and progressive States, these trends offer unique opportunities.
- However, the challenge lies in achieving a dual objective: equitable redistribution of resources and incentivising high-performing States to maintain their growth momentum.
- Since its inception in 1951, each Finance Commission has sought to address the fiscal challenges of its time, often through vertical and horizontal devolution of resources.
- Vertical devolution pertains to the Union-State revenue sharing, while horizontal devolution aims to allocate resources among States to bridge developmental disparities.
- Despite these efforts, significant gaps between intended objectives and actual outcomes persist.

• The Case for Equitable Devolution

- Vertical Devolution: A Need for Increased State Autonomy
 - Vertical devolution refers to the sharing of the central tax pool between the Union and the States.
 - Historically, Finance Commissions have sought to increase the States' share to empower them in implementing developmental programs.
 - However, the effectiveness of this mechanism has been diluted due to the Union's increasing reliance on non-divisible revenue sources such as cesses and surcharges.
 - For instance, while the Fifteenth Finance Commission recommended allocating 41% of the divisible pool to States, the effective devolution during the first four years of its award period stood at only 33.16% of the Union's gross tax revenue.
 - This discrepancy arises from the Union's practice of collecting a significant portion of its revenue through cesses and surcharges, which are not shared with States.
- Horizontal Devolution: A Shift Towards Balanced Growth
 - Horizontal devolution addresses the distribution of resources among States, considering factors like population, area, and developmental indicators.
 - While this mechanism aims to uplift less-developed States, its outcomes have often been suboptimal.
 - The redistribution policies of the past have focused predominantly on equalising resources without adequately incentivising performance, resulting in limited real growth in many recipient States.

- **This raises a critical question:** Should the focus remain on redistributing a smaller national economic pie to less-developed States, or should the goal be to expand the national pie while ensuring equitable distribution?
- **A more balanced approach is essential** and there should be a progressive resource allocation methodology.
- **For instance, the Finance Commission can create a system where high-performing States receive adequate resources** to sustain their growth trajectory while less-developed States are supported in achieving baseline development goals.
- **Challenges Faced by Progressive States**
 - **Declining Revenue from Consumption-Based Taxes**
 - **Older populations typically consume less**, reducing the revenue generated from consumption-based taxes like Goods and Services Tax (GST)
 - **For States that rely heavily on such taxes, this decline can create a fiscal deficit** that hampers their ability to fund developmental initiatives.
 - **Rising Social Expenditure**
 - As the population ages, **the demand for healthcare, pensions, and social welfare programs increases.**
 - This **puts additional strain on the State's finances**, forcing it to allocate a larger share of its budget to non-productive expenditures.
 - **If left unaddressed, this could lead to stagnation in developmental spending** and slow economic growth.
 - **Infrastructure Development**
 - Rapid urbanisation **necessitates massive investments in infrastructure**, including transportation networks, housing, water supply, waste management, and energy systems.
 - **Without adequate funding, these critical projects can stagnate**, leading to overcrowded cities, inadequate public services, and declining quality of life.
 - **Environmental Concerns**
 - **Urbanisation often exacerbates environmental challenges**, such as air and water pollution, loss of green spaces, and climate-related vulnerabilities like flooding.
 - **For a coastal State like Tamil Nadu, these risks are particularly acute** and demand proactive resource allocation to build climate-resilient cities.
 - **Social Equity Issues**
 - **Urban areas tend to attract a diverse population**, including migrant workers seeking better opportunities.
 - This **influx can create social equity issues, such as access to affordable housing, healthcare, and education**, which require targeted interventions.
 - **Rising Costs of Developmental Programs**
 - **High-performing States are expected to maintain their momentum by investing in infrastructure, innovation, and welfare programs.**
 - However, **inadequate fiscal transfers from the Union and the burden of counterpart funding for centrally sponsored schemes** leave little room for discretionary spending.
 - **Reduced Incentives for Performance**
 - Progressive States often feel penalised for their success.
 - **The redistribution model prioritises less-developed States**, sometimes at the expense of rewarding high-performing ones.
 - This **lack of incentives can demotivate these States from continuing their ambitious development programs.**
- **Way Forward**
 - **The Need for Tailored Solutions**
 - **The unique challenges faced by progressive States like Tamil Nadu highlight the need for tailored fiscal policies** and resource allocation frameworks.

- The **Sixteenth Finance Commission must recognise these challenges** and adopt a more nuanced approach to devolution.
- **By providing adequate incentives, addressing urbanisation pressures, and supporting demographic transitions, the Commission can ensure that these States not only sustain their growth but also serve as role models** for inclusive and sustainable development across India.
- **Envisioning a Balanced Future**
 - The Sixteenth Finance Commission's mandate extends beyond fiscal allocations.
 - **It must envision a future where all States, regardless of their developmental status, contribute to and benefit from the nation's progress.**
 - **This involves creating manufacturing growth, addressing urbanisation challenges, and ensuring climate resilience.**
 - **The Commission's decisions will shape not just fiscal policies but the socioeconomic fabric of the country,** influencing millions of lives and solidifying India's position as a global economic leader.
- **Conclusion**
 - The **Sixteenth Finance Commission holds immense responsibility** in recalibrating India's fiscal framework.
 - **By prioritising equitable resource distribution and incentivising high-performing States, it can address developmental disparities without stifling progress.**
 - The **Commission's decisions will serve as a cornerstone for India's journey toward inclusive and sustainable growth,** ensuring every State's potential is realized in the nation's collective advancement.

2. Proba-3 Mission

GS 3 (Science and Tech)

- **Why in News:** The Indian Space Research Organisation (ISRO) successfully launched the **European Space Agency's "groundbreaking" Proba-3 mission** on board its **PSLV-C59 rocket**.
- **What is Proba-3 mission?**
 - Proba stands for **"Project for On-Board Autonomy"**, and it refers to a series of experimental missions initiated by the European Space Agency (ESA).
 - **Proba-1:** Launched in 2001, focused on demonstrating advanced onboard autonomy.
 - **Proba-2:** Launched in 2009, focused on solar observation.
 - **Proba-V:** Launched in 2013, an Earth-observing satellite dedicated to vegetation mapping.
 - Proba-3 is a **joint mission** aimed at exploring the **Sun's corona**, the outermost layer of its atmosphere, which plays a crucial role in understanding solar dynamics and space weather phenomena.
 - The mission aims to study the Sun's corona at an entirely new scale by **creating an artificial eclipse**.
 - **Mission life:** Two years
 - **Launch Vehicle:** The **PSLV-C59 launch vehicle** will carry two ESA satellites, each weighing approximately 550 kg, into a highly elliptical orbit of around 600 x 60,530 km and have an orbital period of 19.7 hours.
 - The Proba-3 mission will be unique as it marks the first time two satellites, that will work together to mimic a **natural solar eclipse**:
 - **Occulter Spacecraft (weighing 200 kg)**
 - **Coronagraph Spacecraft (weighing 340 kg)**

PSLV-C59 places PROBA-3 satellites into designated orbit with precision

Sangeetha Kandavel
SRILAKSHMI

After being rescheduled for a day as an anomaly was detected, the Indian Space Research Organisation (ISRO) on Thursday successfully launched the PROBA-3 (Project for On-board Autonomy) mission of the European Space Agency aboard a Polar Satellite Launch Vehicle-C59 rocket. The vehicle took off with a powerful roar precisely at 4.04 p.m. from the first launch pad at the Satish Dhawan Space Centre, Sriharikota.

"The PSLV-C59/PROBA-3 mission is successfully accomplished. The spacecraft has been placed in the right orbit," ISRO Chairman S. Somanath said. The agency said the mission had successfully achieved its launch objectives, deploying the satellites into their designated orbit with precision.

Josef Aschbacher, Director-General, ESA, said:



Roaring start: A PSLV-C59 rocket takes off with the PROBA-3 Mission from the Satish Dhawan Space Centre on Thursday. R. KAGU

"The latest member of ESA's family of in-orbit demonstration missions, PROBA-3 comprises two spacecraft launched together which, once safely in orbit, will separate to begin performing precise formation flying... Almost instantaneously after separation, Yatharagga station in Australia started to receive the spacecraft's signal. Telemetry is flowing to ESA's mission control centre in Belgium."

On its website, the ESA said: "A pair of spacecraft

satellites stacked together separated from their upper stage about 18 minutes after launch. The pair will remain attached while initial commissioning takes place, overseen from mission control at the European Space Agency and Education Centre in Redu, Belgium.

PROBA-3 mission manager Damien Galano said, "Today's lift-off has been something all of us in ESA's PROBA-3 team and our industrial and scientific partners have been looking forward to for a long time."

Details shared by the ESA show that if PROBA-3's initial commissioning phase goes to plan, then the spacecraft pair will be separated early in the New Year to begin their individual check-outs. The operational phase of the mission, including the first observations of the corona through active formation flying, should begin in about four months.

- Launched together in a stacked configuration, the two small satellites will demonstrate “precise formation flying. After launch, they will separate and fly in a coordinated manner, creating an **artificial solar eclipse in Earth’s orbit**.
- The artificial eclipse will provide a **100-fold increase in observation time**, enabling scientists to study the corona for longer periods than was previously possible. This mission is expected to generate about 50 eclipses per year, each lasting approximately six hours.
- **Study of the Sun’s Corona**: Studying the corona is crucial because it is the source of space weather—**solar winds, solar storms, and other phenomena** that affect both the **Earth’s atmosphere and satellite operations**. Understanding the corona is key to predicting and mitigating space weather events.
- **Increasing reliability of ISRO’s PSLV**
 - ISRO’s PSLV has built a reputation for reliability, with only two failures in 60 launches.
 - This track record, coupled with India’s active space diplomacy and evolving space policy, makes PSLV a favored choice.
 - The **European Space Agency (ESA)** has been increasingly reliant on ISRO for launching missions, such as **Proba-3**, due to the unavailability of its own operational launch vehicle.
- Historically, ESA’s Ariane rockets were known for their reliability, and India frequently used Ariane to launch its satellites. However, with **Ariane 5 retired and Ariane 6 still under development**, ESA lacks an active launch vehicle, leading them to seek alternative providers like ISRO.

3. Bharatiya Vayuyan Vidheyak 2024 **GS 2 (Governance)**

- **Why in News:** The **Bharatiya Vayuyan Vidheyak (2024)**, or the **Indian Aviation Bill**, has been passed in the Indian Parliament. It aims to **replace the Aircraft Act of 1934** and update India’s aviation laws to align with **international standards** and improve the sector’s efficiency. The bill, passed by **both Houses of Parliament**, seeks to address key issues in India’s aviation sector, including **safety, consumer protection, and ease of doing business**.
- **Key Provisions and Objectives of the Bill:**
 - **Enhancing Safety and Regulatory Oversight:** The bill aims to **improve safety standards** in the aviation sector, ensuring better **regulatory oversight** and **consumer protection** in line with global practices.
 - It focuses on setting up stronger governance structures for civil aviation authorities to boost accountability and transparency.
 - **Self-Reliance in Aircraft Manufacturing:** The bill encourages **self-reliance in aircraft manufacturing** and **maintenance** within India, which could help the country become more competitive in the global aviation market.
 - **Regulation of Aviation Components:** The bill allows the **central government** to regulate various aspects of civil aviation, including the **issuance of licenses** for aircraft-related operations (e.g., **Radio Telephone Operator Certificate**).
 - It also empowers the government to establish rules for **civil aviation security** and adherence to **international aviation conventions**.
 - **Removal of Redundancies:** The bill seeks to **remove ambiguities and redundancies** in the existing Aircraft Act of 1934, making the system more streamlined and easier to implement.
 - It also includes provisions for penalties, fines, or imprisonment for violations, making enforcement more robust.
 - **Emergency Powers:** The government is empowered to take **emergency actions** related to public safety and tranquillity in the aviation sector.

Bharatiya Vayuyan Vidheyak Bill gets nod in Rajya Sabha

The Hindu Bureau
NEW DELHI

Parliament on Thursday passed the Bharatiya Vayuyan Vidheyak Bill, 2024, which is expected to provide some relief to aviation personnel in their licensing processes.

The Rajya Sabha passed the Bill on Thursday. The Bill was introduced in the Lok Sabha on July 31 and was passed by the Lower House on August 9.

The most significant

change in the Bill is that the radio telephone operator restricted certificate and licence testing process, which was hitherto conducted by the Department of Telecom for aviation personnel, including aircraft maintenance engineers, flight dispatchers, and pilots, has been moved to the Directorate General of Civil Aviation. This will ensure a single-window clearance process as aviation personnel can now secure all their certi-

icates from one authority. Personnel taking exams, including trainee pilots, have alleged that there was rampant corruption in the conduct of the RTR exam under the DoT, with candidates required to cough up several lakhs in bribes.

The Bill also adds power to regulate the design of aircraft, as well as the places where they are being designed, in addition to retaining provisions for their manufacture, repair, and maintenance.

- This includes the ability to provide **compensation** for losses or damages in aviation-related incidents, along with mechanisms for **appeals** against certain decisions (e.g., **compensation, licensing, penalties**).
- **Repeal of the Aircraft Act, 1934:** The bill **repeals** the **Aircraft Act of 1934** and updates the legal framework to better cater to current challenges and future growth in the aviation sector.
- **Issues Addressed in Parliament:**
 - **Airfare Concerns:** During the debate, **MPs raised concerns about rising airfares**. In response, the **Civil Aviation Minister** clarified that airfares in India are **deregulated** (since 1994) and determined by airlines. However, the **government monitors** fares and mandates that airlines inform the Ministry before setting prices for specific routes.
 - He also emphasized that the **UDAN Scheme** (Ude Desh ka Aam Naagrik) is helping to **increase accessibility** by improving air travel options for more people.
 - **Title Change of the Bill:** There was a debate over the bill's title being changed from English to **Hindi**. The minister explained that the change was made to **highlight India's heritage and culture**, and assured that there was no violation of the **Constitution** regarding language use in lawmaking.

4. Punatsangchhu-II Hydropower Project **GS 2 (International Relations)**

- **Why in News:** India and Bhutan recently discussed hydropower projects including the 1020 MW Punatsangchhu-II hydropower project, and expressed satisfaction as it was "nearing completion".
- **About Punatsangchhu-II Hydropower Project:**
 - It is a **1 GW run-of-the-river** hydroelectric power-generating facility under construction in the Wangdue Phodrang district of **Bhutan**.
 - It is located on the **right bank of the Punatsangchhu River** in the Wangdue Phodrang district in Western Bhutan.
 - The project is being developed by the **Punatsangchhu II Hydroelectric Project Authority**, under an **Inter-Government Agreement** between the Royal Government of **Bhutan** and the Government of **India**.
 - It is **funded by the Government of India with 30% grant and 70% loan**.
 - The **project Authority shall be dissolved within two years after the commissioning**, and the project shall be **handed over to the Royal Government of Bhutan**.
 - The project **involves the construction of a 91m-high and 223.8m-long concrete gravity dam**, along with an 877.46m-long and 12m-diameter diversion tunnel with a discharge capacity of 1118 cubic metres per second.

Bhutan and India discuss Gelephu, hydel power plans

The leaders agreed on the need for early conclusion of the Punatsangchhu-II hydro power project; both sides discussed cross-border connectivity projects, including a rail line and digital networks

Kallol Bhattacharjee
NEW DELHI

India and Bhutan on Thursday discussed bilateral projects in the fields of electricity and urban planning during the visit of the King Jigme Khesar Namgyal Wangchuk and Queen Jetsun Pema. Mr. Wangchuk met Prime Minister Narendra Modi and both sides reiterated continued collaboration on multiple fronts including in the Gelephu Mindfulness City project and hydropower.

A joint statement issued after the meeting said Mr. Modi "reassured His Majesty of India's continued support for the Gelephu Mindfulness City Project, which will bring prosperity and well-being in Bhutan and also the border areas, and further strengthen economy and investment linkages between the two countries".

The two sides on Thursday also discussed the hydel power projects including the 1020-MW Punatsangchhu-II hydro power project and expressed satisfaction as it



Prime Minister Narendra Modi with Bhutan's King Jigme Khesar Namgyal Wangchuk during the meeting on Thursday. PTI

was "nearing completion".

"The leaders agreed on the need for early conclusion of the Punatsangchhu-II hydro power project. The two sides reiterated the importance of cooperation in the hydropower sector, and their commitment to advancing it, including through finalizing modalities urgently for new projects, including reservoir hydro projects," the joint statement said.

Both sides also discussed cross-border connectivity projects includ-

ing a rail line as well as digital networks.

The visit of the Bhutan royals comes days after the visit of Prime Minister

Tshering Tobgay who inaugurated the Global Cooperatives Alliance in New Delhi on November 25. India's commitment for the Gelephu project while hosting the Bhutanese King is significant as it comes against the backdrop of diplomatic setbacks that South Block has faced in the neighbourhood, especially in Dhaka

where India's ties with the interim government of Bangladesh has failed to stabilise since the fall of the Sheikh Hasina government in August.

In Nepal too, Prime Minister KP Sharma Oli has prioritised Kathmandu's ties with Beijing and sealed a new Framework for Belt and Road Cooperation on Wednesday during his first foreign trip since taking power in July this year.

The *Hindu* had earlier reported that the Adani Group was in talks with Thimphu for investing in the project in Gelephu. In July, Mr. Wangchuk and Prime Minister Tobgay had travelled to Gujarat where they sought cooperation with the Adani Group on airport, infrastructure and renewable energy projects.

While India's neighbours, including Sri Lanka and Bangladesh, have announced reviews of Adani projects in the past few weeks, and the U.S. Department of Justice indictment of the Adani Group has cast a shadow, the Bhutanese government has so far not commented on the issue.

5. Focus on Deregulation and Inclusive Growth

GS 3 (Economy)

• Why in News:

- Chief Economic Advisor (CEA) V. Anantha Nageswaran announced that deregulation, or easing regulations across sectors, will be a major focus of the upcoming Economic Survey 2024-25.
- Set to be presented alongside the FY26 Budget in February 2024, the survey will explore themes like the role of MSMEs, human capital development, and structural reforms needed to sustain long-term growth.

• What is Deregulation?

○ Meaning:

- Deregulation involves the **removal or reduction of government controls** over industries or sectors, **fostering competition** by opening the market to more players.
- By fostering competition, deregulation **enhances the quality of goods and services**, benefiting end consumers.
- While it **promotes economic growth and investment opportunities**, deregulation often **includes compliance requirements** to ensure fair monitoring and accountability.

- **Understanding deregulation:** Deregulation has its advocates and critics, with both sides shaping market conditions.

- **Proponents:** Advocate for free markets. Believe deregulation **reduces barriers, enabling businesses to thrive**.
- **Opponents:** Argue for **regulatory frameworks** to ensure **transparency**. Aim to prevent financial crises and protect consumer interests, particularly in sensitive sectors like finance.

• Analysing the Role of Regulation in Key Sectors:

- **Railways:** It remains under government control to ensure **affordability and accessibility** of essential services.
- **Financial markets and banking:** Highly regulated sectors like finance and banking are monitored to protect investors and maintain customer trust.
- **Global examples:**
 - **US:** The Securities and Exchange Commission (SEC) ensures accountability and transparency in financial markets.
 - **India:** The Securities and Exchange Board of India (SEBI) performs a similar role in streamlining financial markets.

• Main Issue Faced by the Indian Economy:

- **Creeping informalisation of the workforce:**
 - The CEA highlighted a **shift in hiring trends post-COVID-19**, with companies favoring **contractual employees over permanent ones**.
 - This "creeping informalisation" has led to **lower wage growth**, which has not kept pace with inflation, thereby **dampening consumption**.
- **Call for wage structure correction:**
 - Despite wage stagnation, **corporate profits have quadrupled** in the past four years and are at a 15-year high as a share of GDP.
 - To drive consumption-led growth, Nageswaran stressed the need for corporates to **address wage disparities**.
 - He warned that failing to align wage growth with inflation could perpetuate a "**self-destructive cycle**" of low consumption and savings.

FLAGS SLOW WAGE GROWTH AS KEY FACTOR FOR LOWER CONSUMPTION, SAVINGS

Deregulation to be a big theme in upcoming Economic Survey: CEA

BY THE CHIEF ECONOMIC ADVISOR

CEA V. ANANTHA NAGESWARAN SAID THAT THE SURVEY WILL EXPLORE THEMES LIKE THE ROLE OF MSMEs, HUMAN CAPITAL DEVELOPMENT, AND STRUCTURAL REFORMS NEEDED TO SUSTAIN LONG-TERM GROWTH.



Chief Economic Advisor V. Anantha Nageswaran, CEA

possible source. Post Covid there has been what I call a creeping informalisation of the workforce in the Indian corporate sector. Individually for every company it may be an optimal solution or logical solution. But collectively it does exert a downward pressure on consumption, he said at an event organised by industry chamber Assocham.

Citing wage growth data from a report by Quesada Corp and Fict, the CEA said the annual average wage growth for contract employees in different sectors has not kept up with inflation. This, he said, stands out in the context that profitability of companies has grown by 4X in the last four years in absolute terms and has hit a 15-year high as a share of GDP (Gross Domestic Product). He said if the country has to have a "secular growth in consumption", then work has to be done in small and medium enterprises into medium and large enterprises; cost of capital has to become lower; and ensuring employment income growth and thus spending for growth. "Otherwise, it will become a mutually self-destructive cycle," he said.

A "stable and vibrant" small and medium enterprises sector, human capital infrastructure and deregulation will be explored in the upcoming Economic Survey, he said. There is a necessity for the private sector to find the "right balance" between capital intensive and labour intensive growth, he said.

Nageswaran further said that for bridging both gender divide and job creation, policy can do more in terms of deregulation. For example, the number of occupations that are restricted for women in different states, if you add them up, it comes to 118 restrictions. These occupations are deemed risky for women to participate, at a time when women are being fighter pilots and they are participating in defence, flying commercial airlines.

"If you want to increase female labour force participation or employment more generally speaking, the focus has to be on the plumbing of deregulation that has to happen in state and

local governance. We touched upon it quite a bit in the Economic Survey 2024 and that is going to be the big theme. Deregulation or letting go of the big theme for the coming Economic Survey as well," Nageswaran said.

While stressing on the role that the MSMEs, small and medium enterprises need to play in raising manufacturing's share in the country's GDP to 25 per cent or more, Nageswaran said that India must learn from the successes of Germany and Switzerland in this context. He noted that some Indian enterprises choose today "micro" order to enjoy the concessions that come with staying under a certain threshold. "We must break the tyranny of concessions, if we are to grow," he said.

On the overall economic growth front, Nageswaran said economic activity in some sectors has picked up pacing during the first two months of the third quarter of October-December and the GDP growth of 6.5-7 per cent, as forecasted in the Economic Survey 2023-24, for the current financial year is feasible.

His remarks come after the latest GDP print released on November 29 showed that India's growth slumped to a

seven-quarter low of 5.4 per cent in July-September. The CEA said that the 5.4 per cent, second quarter GDP growth estimate could be revised upwards gain forward as the current estimate are not seasonally adjusted.

"I think in reacting to these numbers, I don't think we should throw the baby out with the bath water. Because the underlying growth story still remains very much intact," Nageswaran said.

He said the slowdown in GDP growth in the second quarter could be because of some "idiosyncratic" events in September and excess monsoon rainfall, as could be also because of other more long-standing issues that are beginning to emerge. So explanations could be from more than one source, he said, adding this is the first estimate of the second quarter GDP growth "it could be revised higher."

Nageswaran said.

He noted that to be able to hit 6.5 per cent growth for the year, a whole, the Indian economy would need to check a 7 per cent real GDP growth in the next two quarters. "I think that is doable you look at some of these pickup that have happened in specific areas. So believe that a growth rate in the range of 6.5-7 per cent is feasible for the year," he said.

- **Reforms Suggested for Economic Growth in India:**
 - **Deregulation and gender equality:**
 - The CEA underscored the role of deregulation in bridging the gender divide in employment.
 - He criticized the **existence of 118 state-level occupational restrictions for women**, advocating for policy changes to improve female labour force participation.
 - **Examples of change:** Women are already excelling in traditionally male-dominated fields such as defence and aviation.
 - Therefore, **deregulation at state and local levels** is crucial to unlocking job opportunities for women.
 - **Strengthening MSMEs:** To enhance manufacturing's contribution to GDP, Nageswaran emphasised the need to expand MSMEs into medium and large enterprises, learning from **Germany and Switzerland**.
 - **Breaking the "Tyranny of Concessions":** Many enterprises intentionally remain small to avail of concessions, limiting their growth potential.
 - **Target for manufacturing:** Increasing manufacturing's share in GDP to 25% is a priority.
- **Conclusion:**
 - The upcoming Economic Survey 2024-25 will focus on **addressing systemic issues like wage disparities, deregulation, and MSME growth** to ensure sustainable and inclusive economic development.
 - While challenges persist, the CEA projects a positive growth trajectory, emphasising reforms to drive consumption and investment.

6. Rising Price of Potato in Odisha GS 3 (Agriculture)

- **Why in News:**
 - Odisha government has blamed the West Bengal government for creating an artificial scarcity of potatoes.
 - Odisha has faced high potato prices for months, worsened by West Bengal's recent restriction on shipments due to rising prices in its own markets.
 - As a major supplier, West Bengal's actions have significantly impacted Odisha, which depends heavily on these imports.
- **Agro-climatic condition required for Potato cultivation**
 - **Climate**
 - Potatoes grow best in **temperate climates with moderately cool temperatures** during the growing season. The ideal conditions for growing potatoes are:
 - **Temperature**
 - The ideal temperature range for growing potatoes is 18–29°C during the day and 13–18°C at night.
 - The optimum temperature for vegetative growth is 24°C, while the ideal temperature for tuber development is 20°C
 - Temperatures above 30°C can stop bulb formation.
 - **Sunlight**
 - Potatoes need at least six hours of sunlight per day, but they can also grow in dappled shade.
 - However, growing in shade can result in smaller tubers and lower yields.
 - **Soil**
 - The potato can be grown almost on any type of soil except saline and alkaline soils.
 - Soils, which are naturally loose, offer least resistance to the enlargement of the tubers is preferred.

Veg thali cost rises by 7% in Nov as prices of tomato, potato surge

ENSECONOMIC BUREAU
MUMBAI, DECEMBER 5

THE REPRESENTATIVE cost of home-cooked vegetarian thali rose by seven per cent and that of non-vegetarian thali by two per cent on a year-on-year in November, rating firm Crisil said.

Vegetarian thali cost rose to Rs 32.7 from Rs 30.5 a year ago due to increase in the prices of tomato and potato, which collectively account for 26 per cent of the thali cost, Crisil said. Price of tomato increased 35 per cent on-year to Rs 53 per kg from Rs 40 per kg in November 2023.

Non-vegetarian thali cost rose to Rs 61.5 in November from Rs 60.4 a year ago.

Crisil said the price of potato increased 50 per cent on-year on a low base to Rs 37 per kg from Rs 25 per kg in November 2023 due to a 20 per cent on-year decline in arrivals amid low yield following late blight infestation in Punjab, Uttar Pradesh and Gujarat.

Further, price of pulses rose 10 per cent on-year due to lower opening and pipeline stocks. Fresh arrivals began in December. "Adding to the cost, vegetable oil prices rose 13 per cent on-year due to import duty hike, coupled with the festive and wedding season demand," Crisil said.

An 11 per cent drop in fuel cost – from Rs 903 last year for a 14.2 kg LPG cylinder in Delhi to Rs 803 currently – prevented further increase in the thali cost. For the non-veg thali, an estimated decline of 3 per cent on-year in broiler prices, which account for 50 per cent of the non-veg thali cost, arrested the cost increase, it said.

On-month, the cost of veg thali declined 2 per cent in November, while that of non-veg thali remained flat. Tomato prices declined 17 per cent on-month with fresh supplies from Madhya Pradesh, Maharashtra and Gujarat in October, but lower arrivals in November capped further decline, Crisil said.

It said rise in prices of vegetable oil, onion and potato by 4 per cent, 4 per cent and 1 per cent on-month, respectively, arrested further decline in thali cost. For the non-veg thali, an estimated 2 per cent rise in broiler prices led to stable thali cost, it said.

Meanwhile, a 10.9 per cent spike in food prices lifted India's retail inflation to a 14-month high of 6.2 per cent in October, from 5.5 per cent in September, with prices of vegetables and edible oils rising at a sharp pace not seen in recent years.

The price rise pace in October marked a breach of the Reserve Bank of India's (RBI's) upper tolerance limit for inflation, with rural India facing a sharper uptick of 6.7 per cent, while urban consumers encountered an inflation of 5.6 per cent. The RBI's monetary Policy Committee (MPC) which retained the Repo rate at 6.50 per cent in the October monetary policy, will meet on Friday to review the policy.

- Loamy and sandy loam soils, rich in organic matter with good drainage and aeration are most suitable for cultivation of potato crop.
- The soil with pH range of 5.2-6.4 is considered to be ideal.
- **Potato production in India**
 - **India's Position in Global Potato Production**
 - India is the second-largest producer of potatoes globally, after China.
 - Between 1991-92 and 2020-21:
 - Potato **cultivation area doubled** from 11 to 22 lakh hectares.
 - **Production tripled** from 181.95 to 561.72 lakh metric tonnes.
 - **Productivity rose by over 50%**, from 16 to 25 metric tonnes per hectare.
 - **Potato Cultivation in India**
 - **Primary Season:** Rabi (winter-spring).
 - **Major Producing States:** Uttar Pradesh, West Bengal, Bihar, Gujarat, Madhya Pradesh, Punjab, Haryana, Assam, Jharkhand, and Chhattisgarh.
 - **Kharif Cultivation:** Limited to Uttarakhand, Karnataka, Himachal Pradesh, Tamil Nadu, and Maharashtra.
 - **Top Producers in 2021-22:**
 - Uttar Pradesh: 161 lakh metric tonnes.
 - West Bengal: 124 lakh metric tonnes.
 - These two states accounted for almost 50% of India's total production of 533 lakh metric tonnes.
- **Potato's price rise**
 - **Seasonal Price Trends of Potatoes**
 - Potato prices typically decline during the arrival of the rabi crop in winter and spring.
 - Prices usually rise during late summer and monsoon seasons.
 - In 2024, prices have remained consistently high across the country, including Odisha.
 - **Rise in Potato Prices: Nationwide Trend**
 - **Retail Prices (December 3, 2024):**
 - Average: Rs 38.08 per kg.
 - 4.90% higher than a month ago.
 - 55.49% higher than a year ago.
 - **Wholesale Prices (December 3, 2024):**
 - Average: Rs 3,120.99 per quintal.
 - 5.24% higher than a month ago.
 - 69.63% higher than a year ago.
 - **Impact on Inflation and Economy**
 - **Potato contributes**
 - 0.98 to Consumer Price Index (CPI).
 - 0.27 to Wholesale Price Index (WPI).
 - Price volatility impacts both consumers and the HoReCa (Hotel, Restaurant, and Catering) sector.
- **Reasons for the Rise in Potato Prices**
 - **Production Decline:** Potato production for the 2023-24 crop year (July-June) dropped by 5.6%, falling from 601 lakh metric tonnes in 2022-23 to 567 lakh metric tonnes.
 - **Reduced Cultivation Area:** The area under potato cultivation decreased slightly from 23.32 lakh hectares in 2022-23 to 23.22 lakh hectares in 2023-24, likely due to low prices in the previous year, which discouraged farmers.
 - **Impact on Top Producers**
 - **Uttar Pradesh** - Production fell from 201.3 lakh tonnes to 191.7 lakh tonnes.
 - **West Bengal** - Experienced a sharper decline, with production dropping by 15 lakh tonnes from 145 lakh tonnes in 2022-23 to 130 lakh tonnes in 2023-24.

- **Odisha's Dependency on Potato Imports**

- Odisha has low potato production due to unsuitable agro-climatic conditions (temperatures required: 15°C-25°C).
- The state heavily depends on imports, primarily from West Bengal, to meet its potato demand.
- **Trade Flow:** West Bengal typically sends 150-200 truckloads of potatoes to Odisha and Chhattisgarh.



MCQ Current Affairs
6th Dec, 2024**1. Consider the following statements regarding the Punatsangchhu-II Hydropower Project:**

- A. It is an under-construction hydroelectric power-generating facility located in Nepal.
- B. It is funded by the Government of India (GoI).

Which of the statements given above is/are correct?

- a) A only
- b) B only
- c) A and B
- d) Neither of two

2. Sonai-Rupai Wildlife Sanctuary lies in which one of the following States?

- a) Uttarakhand
- b) Odisha
- c) Assam
- d) Mizoram

3. Hornbill Festival, recently seen in the news, is celebrated in:

- a) Tripura
- b) Assam
- c) Kerala
- d) Nagaland

4. Consider the following statements regarding the Lake-Effect snow:

- A. It is a localized weather phenomenon which results from the interaction between cold air passing over warmer lake water.
- B. Its occurrence and location is mainly dependent on wind speed and topography.

Which of the statements given above is/are correct?

- a) A only
- b) B only
- c) A and B
- d) Neither of two

5. With reference to the Anna Chakra, consider the following statements:

- A. It is a Public Distribution System (PDS) Supply chain optimization tool.
- B. It is developed in collaboration with the World Food Programme (WFP) and Foundation for Innovation and Technology Transfer (FITT).
- C. It leverages advanced algorithms to identify optimal routes and ensure seamless movement of food grains across India.

How many of the above statements are correct?

- a) Only one
- b) Only two
- c) All three
- d) None

Answers Current Affairs
6th Dec, 2024

1. b
2. c
3. d
4. c
5. c

