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Lok Sabha

BACKGROUND GUIDE

Letter from the Executive Board

Dear Members of Parliament, it gives us immense pleasure and honor to welcome you all to the Lok Sabha here at Anna University Model United Nations.

Whether this is your first Indian committee, or you have been doing this for years, we hope that your interest in the country's pressing issues will translate into a common spirit and help you think about the wellbeing of the country more than the netas out there (and at the same time stick to your character representation, however hard it maybe) which will help make our country a better place to live in.

We've prepared this Study Guide to ease you into the agenda and to serve well for the first timers as well as the experienced ones. **Please note, however, that this guide we are providing you with is not supposed to cover your entire research. In fact, it is made just to help and act as a starting point and we have strived to limit the substantive information here. This guide will only provide you with conceptual knowledge and is extremely concise and doesn't contain the entire scope of the agendas we have on our table**. We would really urge you to research beyond this guide and think about what can be discussed within the boundaries of both this committee's mandate and the agenda's scope and to research on national policies and positions.

It is, therefore extremely important that delegates be well aware of policies of their respective parties and be in line with what their designated MP feels about the particular issue.

Our hope and expectation are that the committee shall be well disciplined with high regard for decorum and avoiding the usual hassle that ensues with the stipulation of an Indian parliament. Please feel free to drop us an email / Facebook message if you have any queries about this committee. We look forward to seeing you all at the conference.

All the best!

Speaker: Mukund Kadlabal
Deputy Speaker: Gourav Dhona
Director: Raunaq Nayak

Agenda – Discussing the economic reforms of the NDA government

A brief Overview

During the election campaign in 2013-14, the Prime Minister raised expectations of a great economic revival, high growth and tens of millions of new jobs for the ever-growing workforce. The new government hit the ground running and the first two years were action-packed with new programs and plans. Some of the major economic policies are as follows

GST-

The GST is the indirect tax that subsumed a variety of central and state levies and replaced a cascading and complicated tax system. It transformed India's 29 states into one market with one set of tax rates. The UPA government had sought to pass the GST law, but it was the NDA government that managed to do so. The GST Council, formed with the states having two-third vote and the Centre a one-third vote, is a rare example of cooperative federalism. Where the government faltered was its implementation. It has since realized that it made the system exceptionally complicated, with five tax slabs and a complex filing process, all of which alienated small traders and businessmen, especially coming close on the heels of demonetization. To their credit, the government and the GST Council have been responsive and have resolved many issues and simplified the tax slabs and procedures. It's still a work in progress.

Insolvency and Bankruptcy Code-

The government inherited a banking system burdened with huge bad debt. The non-performing assets (NPAs) of banks had risen for a number of reasons – from bad credit decisions to poor monitoring, connivance of bank employees, as well as cyclical business downturns. The Insolvency and Bankruptcy Code (IBC), proved to be a game changer as it took NPAs head-on. The code allows either the creditor or the borrower to approach the National Company Law Tribunal (NCLT) to initiate insolvency proceedings and obtain time-bound resolution. While it's still early days, the recent interest shown by reputed domestic and global businesses to acquire bankrupt companies with large bank NPAs but good underlying assets points to the success of the IBC code. This should restore the health of banks somewhat and enable them to start lending to viable projects. Banks have recovered over 1.1 lakh crore through IBC since 2017-18.

Fugitive Economic Offenders Act-

The Fugitive Economic Offenders Act (FEOA) came into force in April 2018. The Act was needed as the number of large fraud cases reported by banks rose alarmingly in the last few years, with over 30 people accused and under probe for various financial scams/frauds fleeing the country to escape the law. Under the law, if an economic offender flees the country to avoid due process, he/she can be declared a 'fugitive economic offender' and their properties can be confiscated. Nirav Modi and Vijay Mallya have been declared as economic offenders. Their property, including art collections and cars, can be auctioned off to recover part of their debt.

Demonetization-

On November 8, 2016, Narendra Modi sucked out 86% of the currency in circulation by value in the Indian economy. The decision was taken against the advice of two successive RBI governors, Raghuram Rajan and Urjit Patel. It was done on the wrong premise – that there was too much cash in the economy (12% of GDP); that the currency withdrawn – Rs 500 and Rs 1,000 -- were very high-value notes (and, instead, Modi introduced Rs 2,000 notes!); that the move would eliminate all black money in the system as well as fake currency. We know what actually happened: 99.7% of the currency in the system came into the banks, and so there was no 'black money dividend' – the Rs 3 lakh crore that the government expected – to be had; instead, millions of jobs were lost (3.5 million in the year following the move, as per CMIE data, and continuing job losses to this day as thousands of SMEs never recovered, the construction sector slumped and farmers were hit hard as it came just before a sowing season.

Agrarian crisis-

By all accounts, India's farm crisis has worsened in the recent years. Although the government tried introducing some new ideas at the beginning of the term, such as neem-coated urea, soil health cards and crop insurance, such tinkering did not help. It was only in the fourth year of the government that it began to realize that it had not been able to do much about the farm crisis. While it had won big in the UP elections with a combination of demonetization and a promise of a loan waiver, it was closer to the December 2018 elections in the Hindi heartland that it conceded the demand for a higher minimum support price. Still later, after losing those elections, it thought of the PM-KISAN Rs 6,000 a year dole for farmers. What it failed to do in these five years was to bring in reforms in the sector, starting with ensuring higher prices for farm produce. As a result, its promise of doubling farmers' incomes by 2019 as of now (now pushed to 2022) remains just a pipedream for farmers.

Infrastructure-

This is the one bright spot in the government's record. The speeding up of highway construction, the new Bharatmala and Sagarmala projects, the building or revival of regional airports and regional air connectivity, and much work on modernizing and expanding railways are all achievements that the Modi government can claim. Similarly, it can count some success in revitalizing the coal and power sectors. The claim of having electrified all of India "while the Congress had done nothing in 70 years" is exaggerated. India has more than six lakh villages. The Modi government electrified the last 18,000 of them.

Rather, it should take credit for the successful Ujala LED bulb scheme. Although started by the previous regime, the Modi government expanded the scheme and benefitted from the economy of scale as it halved the price of each bulb.

Disinvestment-

The government claims to have not only reached its disinvestment target of Rs 80,000 crore for FY19, but of having surpassed it by Rs 5,000 crore. However, it managed to do so not by 'disinvestment' proper but by getting one PSU to buy equity in another. This was the case when Rural Electrification Corporation acquired nearly 53% of Power Finance Corporation, and the government made a neat Rs 14,500 crore; or when ONGC bought the government's stake in HPCL for Rs 37,000 crore. The government managed to list only five companies in FY19, garnering a paltry Rs 2,000 crore. It also raised Rs 8,000 crore from share buybacks by PSUs. The big failure was the bid to privatize Air India.

Banking Reforms-

The government started on the right path with aggressive recognition of NPAs and clean-up of balance sheets. It announced management reforms to be undertaken in the sector, such as hiring professionals laterally at least in five large banks. By early 2016, the Banks Board Bureau (BBB) was in place to recommend banking reforms. But the recommendations of BBB were not implemented and the reforms lost steam. The government did infuse much-needed capital of Rs 2 lakh crore into banks after kicking the can along for some time. But in the absence of reforms, the question is, is good money being thrown after bad?

Petrol Price-

The NDA government was lucky as oil prices fell drastically soon after it came to power in 2014. This helped it to continue to deregulate diesel and petroleum prices that UPA had started and substantially reduce the subsidy bill. But the government did not pass on the benefit of lower oil prices, even when it touched as low as $30 a barrel in early 2016, to consumers. Instead, it raised excise duties to keep the price of petrol and diesel as high as it was during the UPA era when international prices were more than three times higher. The jury is out on whether this was economically good or bad. It helped the government raise Rs 2.3 lakh crore in taxes and helped it balance its fiscal numbers. But it forced consumers to tighten spending elsewhere.

GDP, Jobs, Inflation-

The NDA government does deserve some credit on maintaining economic growth at over 7% (although the latest data shows slowing growth, especially in the already stressed agriculture sector), we could praise the government for bringing down inflation and keeping it low, and we could praise it for maintaining fiscal discipline by and large, letting it slip only due to political desperation as elections approached. But, unfortunately, by its own revisions and re-revisions of GDP data to prove that the economy is indeed growing fast and by hiding the government's own jobs data, the NDA government has come under question on all these numbers. So, we must really say that on these, the jury is still out.

Swachh Bharath-

The Swachh Bharat Mission was announced to make India 'open defecation-free' by 2019. Over 9 crore toilets have been built, and coverage of rural sanitation has risen to 98% from about 40% in 2014. Many municipality areas in the country have been declared open defecation-free (ODF). The program brought discussion about cleanliness and sanitation to the mainstream. This may be the NDA government's most successful program, and an important one, with effects on the health and dignity of the poor. However, ground-level reports from some areas show implementation failures -- toilets were built in a hurry with no proper water supply or drainage system resulting in unusable toilets.

Make in INDIA-

'Make in India' was launched with much fanfare. However, despite opening up several sectoral caps for FDI and improving 'ease of doing business' ranking, manufacturing has not picked up as expected. Manufacturing value-added in Q3 2018 is estimated to have moderated to 6.7%, sharply down from April-June's 12.4%. The sector is facing headwinds from both demand and supply sides. Demand has softened as can be seen by growing inventory in the auto sector and softer sales figures of FMCG companies. The supply side is still limping back after the disruption of the informal SME sectors by demonetization and GST. The eight core sectors that make up about 40% of India's total industrial output — coal, crude oil, natural gas, refinery products, fertilizer, steel, cement and electricity — cumulatively grew by only 1.8% in January 2019. Centre for Monitoring Indian Economy data on projects show that the value of new project investments has declined in Q3 FY2019. The government did not make any sincere effort to reform the arcane labor laws and retreated from the early bid to tweak the land acquisition law. Without these reforms, 'Make in India' is unlikely to fly.

Ayushman Bharat-

The Ayushman Bharat health insurance scheme is a recent one and the jury is still out on whether it is the best way forward to ensure healthcare for the poor. Only 18,000 private hospitals across the country have joined the scheme so far. Experts argue that the only realistic way to improve affordable healthcare is to build the capacity of the public healthcare system. The other component of AB – the Jan Aushadi Kendras and the move to bring down the cost of stents, knee implants and essential medicines work better for the poor.

Mudra Loans-

The Mudra loan scheme is a repackaged version of loans for small and micro businesses that was already in place. The government's claims of job creation now rest on these loans, the logic being that the government has given Rs 7-8 lakh crore in loans to entrepreneurs over the last four years and these must have created jobs. The truth is, the average size of these loans is so small that they could not have created sustainable jobs. The government has either not collected data on the jobs created by these loans or is not sharing the data with the public.

Ujjwala-

The Comptroller and Auditor General of India (CAG) has expressed concerns over National Democratic Alliance (NDA) government's marquee Pradhan Mantri Ujjwala Yojana (PMUY) in terms of low consumption, diversions and considerable delays in supply of cylinders.

This comes in the backdrop of the Ujjwala scheme that provides free cooking gas connections to poor families; hailed as the NDA government's version of the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and a mainstay of the BJP's political messaging. Launched from Ballia in Uttar Pradesh—the state that sends the largest number of MPs to Parliament—the Rs12,800 crore scheme has increasingly been leveraged to add to the political optics.

In a Performance Audit Report, the government's audit watchdog said that encouraging the sustained usage of liquefied petroleum gas (LPG) remains a big challenge as the annual average refill consumption of PMUY consumers on 31 December 2018 was only 3.21. Also, low consumption of refills by 0.92 crore consumers who had availed loans, hindered recovery of outstanding loan of Rs1234.71 crore.

Expectations From Budget 2020

India's budget is one of the most awaited events and at the same time, most hyped one too. There are a couple of reasons for the same. First, government key policy and tax measures are not restricted only on budget day. In September 2019 there was a big tax rate cut for corporate. In the past measures like this would have been announced only in the budget speech. Second, GST implementation has taken away tweak in excise or customs duties. Duty changes were one of the key factors used to make corporate and stock market anxious during budget time.

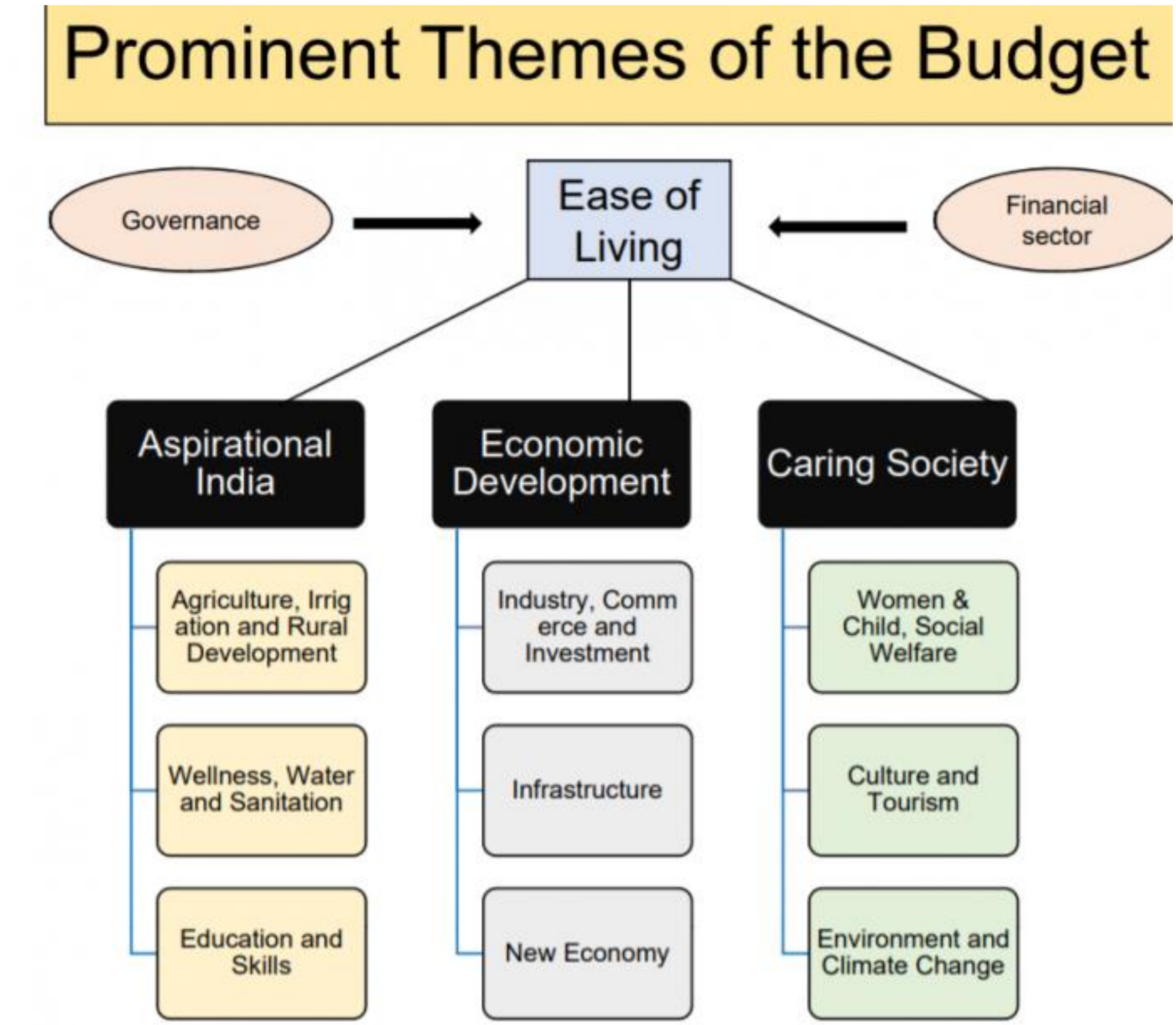
Last few years stock indices are also behaving in a muted manner on budget day. We no longer experience wild fluctuations in stock indices on the budget day which was the norm in the past. Now indices movement is almost the same as any other day. Only two times Sensex moved up or down by more than one percent of Budget day over the previous close. The best gain on the budget day came in 2017 with 1.75 per cent gain and maximum loss was seen in March 2012 with a decline of 1.18 per cent.

Government has limited resources and at the same time ensure that India's doesn't cross deficit levels beyond comfort level. There is a lot of over expectation from the budget. In past whenever there has been over expectation market normally moves down post-budget.

Right now, stock indices are holding firm in anticipation of good budget despite December quarterly numbers are not that great. Post budget market will start noticing poor December numbers.

In the past, Modi government did not see capital market favourably and hence expecting relief on dividend distribution tax as well as long term capital gains looks ambitious.The need to revive the economy is little urgent and hence steps that we take should bear fruits immediately.

BUDGET 2020



Tax Reforms

The tax rates are being simplified at both personal and coporate level. GST has already shown an increase in the 60 Lakh new taxpayer has been added, 40 crore returns, 100 crore e-way bills were generated. DDT (Divident Distribution Tax) is removed to attract more investment.

Corporate Tax:

- Tax rate of 15% extended to new electricity generation companies.
- Indian corporate tax rates now amongst the lowest in the world

FDI (Foreign Direct Investment):

India's foreign direct investment increased from a level from 12 per cent to almost double in the last 5 years. Central government debt has down to 48 per cent as of now from 52 per cent in March 2014.

Agriculture, Irrigation and Rural Development

- Rs 2.83 lakh crore would be spent on Agriculture, Rural Development, Irrigation and allied activities.
- Comprehensive measures for 100 water-stressed districts has been proposed.
- Kisan Rail and Krishi Udaan scheme has been released. To build a seamless national cold supply chain for perishables, Indian Railways will set up Kisan Rail through PPP model so that perishable goods can be transported quickly. Krishi Udaan will be launched by MoCA on international and national routes.

Wellness, Water and Sanitation

- Rs. 69,000 crore allocated for overall Healthcare sector.
- Rs. 6400 crore (out of Rs. 69,000 crore) for PM Jan Arogya Yojana (PMJAY) has been allocated
- Jan Aushadhi Kendra Scheme to offer 2000 medicines and 300 surgery in all districts by 2024.

- TB Harega Desh Jeetega campaign launched and a commitment to end Tuberculosis by 2025

Education and Skills

Infrastructure

- 103 lakh crore National infrastructure Pipeline projects announced by the Government
- An international bullion exchange to be set up at GIFT City.

Other Key Highlights includes:

- FM Says " Our government shall encourage balanced use of all kinds of fertilizers, including traditional organic variety to discourage use of chemical fertilizers".
- Between 2006-16 India was able to raise 271 million people out of poverty.
- Calling the first term of BJP Government a paradigm shift in governance. Shift was characterized by fundamental structural reform and inclusive growth. Cleaning up of bank through banking reform being another big step.
- FM Proposes public-private partnership (PPP) mode hospitals in 112 aspirational districts.
- The new education policy will be announced soon, IND-SAT exam proposed in Asian and African country for foreign university 3.60 lakh crores for Jal Jeevan mission.

1) The proposals in a nutshell

It was a usual budget, which could have been presented in any other year. But when the Indian economic growth in nominal terms is at a two-decade low, (see graphic) what was needed was a special budget along the lines of the 1991 budget.

2) Will I be richer or poorer?

Maybe, maybe not. The budget introduced a new income tax system. The finance minister said in her speech: “In the new tax regime, substantial tax benefit will accrue to a taxpayer depending upon exemptions and deductions claimed by him." However, each taxpayer will have to do his own calculations to figure out under which system he or she will be better off. But on the whole, if you are the kind who uses more deductions while filing taxes, you will probably be better off in the old system.

3) What’s costlier, What’s cheaper?

As usual, the taxes on cigarettes will go up, with the budget raising excise duty by way of National Calamity Contingent Duty on cigarettes and other tobacco products. However, duty rates on bidis remain the same. At the same time, customs duty on imported footwear, furniture, wall fans, tableware/kitchenware made of porcelain etc., has been raised. This will make these imported products more expensive. Customs duty on imported newsprint has been cut to 5%.

4) Why did the stock market fall?

The BSE Sensex fell a whopping 988 points or 2.4% to 39,735.5 points. The markets had hoped for an abolition of the long-term capital gains tax on selling shares. There was no such move, and the stock market fell. Having said that, the budget did not totally ignore market expectations. The dividend distribution tax of 15% plus applicable surcharge and cess, on the dividend that companies pay their shareholders, has been done away with. But dividends remain taxable in the hands of the recipients at the applicable rate.

5) Will fiscal deficit targets be met?

Any budget is a balancing exercise. Hence, it is key to make reasonable assumptions in the process of drafting the budget. One of the things the government has spent a lot of money on in the last few years is the recapitalization of public sector banks. Basically, the public sector banks ended up with a huge amount of bad loans on their books. In this scenario, the government has to constantly keep investing fresh money (that is, recapitalizing) to keep them going. With accumulated bad loans of ₹7,79,347 crore, it is a given that the government will have to keep investing money in public sector banks. The thing is that the government seems to be assuming that all is well on the banking front. In 2020-21 it has allocated just ₹2 lakh (yes, just ₹2 lakh) towards recapitalizing these banks. This is bizarre. The government will continue to have to recapitalize public sector banks even in 2020-21. When the government does this, it’s expenditure will go up and this will push up the fiscal deficit, unless the government decides to cut down on some other expenditure. There is no free lunch in economics.

6) Who gains from this budget?

The deposit insurance on bank deposits since 1993 has been at ₹1 lakh. This basically means that if any bank were to go bust, deposits of up to ₹1 lakh are insured, irrespective of the total amount of money that any depositor has in the bank. This is a good move given that it has been 27 years since the last increase and should help remove any fear in the minds of depositors. In last year’s budget, the finance minister had allowed an additional deduction of up to ₹1.5 lakh on interest paid on a home loan for an affordable home. This deduction has been made available for 2020-21 as well. Anybody buying a house by taking on a home loan can benefit from it.

7) Who stands to lose?

It was widely expected that the government will increase the allocation towards Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), putting more money in the hands of the poorest of the poor. The poor have a higher marginal propensity to consume than the middle class and the rich, and their spending would have helped revive parts of the rural economy. The allocation to MGNREGS in 2020-21 stands at ₹61,500 crore. This is significantly lower than ₹71,002 crore that is to be spent on MGNREGS this year. Ironically, the Pradhan Mantri Kisan Samman Nidhi (PM-Kisan) scheme gets an allocation of ₹75,000 crore in 2020-21, against the ₹54,370 crore to be spent in 2019-20. Clearly, the government seems to favour land-owning farmers than the poorest of the poor seeking work under MGNREGS.

8) Is the govt hiding some things?

Indeed it is. Take the case of Food Corporation of India (FCI). FCI buys rice and wheat from farmers at a minimum support price, and sells them through the public distribution system. The government needs to compensate FCI for the difference in prices. It does so through the food subsidy in the budget. The allocation for food subsidy in 2019-20 was ₹1,84,220 crore. It has been revised to ₹1,08,688 crore. This is a cut of over ₹75,000 crore. FCI's food subsidy claim in 2019-20 stands at ₹3,17,905 crore. Even if the entire food subsidy amount of ₹1,08,688 crore were to go to FCI, there would be a gap of ₹2,10,000 crore. In order to continue to operate, FCI needs to borrow this money from the financial system. By not paying FCI on time, the government reduces its expenditure and fiscal deficit. The same formula has been adopted for 2020-21. The total allocation towards food subsidy is ₹1,15,569 crore. The total food subsidy that FCI needs to claim is ₹3,08,860 crore, a gap of close to ₹2 trillion.

9) Is the budget populist or reformist?

Populist. The central government hopes to spend ₹30.42 trillion during the course of 2020-21. This is 12.7% more than the total money that it is likely to spend in 2019-20. In 2019-20, the central government is likely to spend ₹26.99 trillion, which is 16.6% more than the money it spent in 2017-18. To that extent, the budget for 2020-21 may not seem as populist as the one for 2019-20 was, but given that it plans to not pay around ₹2 trillion to FCI, it is actually as populist a budget as the last one. Also, the reforms are few and far between. The government remains as bloated as ever with the launch of more new schemes, without the capability of implementation of the existing ones being taken into account.

10) Could it have been better?

Of course, it could have been better. An increase in allocation to MGNREGS to around ₹1 trillion would have made sense, especially when money allocated to PM-Kisan hasn't been fully spent. Over and above this, the government could have done something about the huge land banks that it owns through various public sector enterprises, which aren't going anywhere. This could have been a revenue spinner. The off-budget borrowing of FCI continues in 2020-21. This is something which has become so big that it can't be possibly cleaned up in a single year. Finally, the new income tax system prevailing along with the old income tax system just makes the entire regime even more complicated.

Optional Readings

1)https://indiareforms.csis.org/

2)https://www.thehindu.com/opinion/lead/weighing-in-on-the-public-sector-privatisation-debate/article30446194.ece