INFLATION

A rise in the general level of prices; A sustained rise in the general level of prices; A persistent increase in the general of prices; An increase in the general level of prices in an economy that is sustained over time rising prices across the board is called inflation.

1. Two terms are used to show fall general level of prices - Inflation & Deflation

2. The rate of inflation is measured on the basis of prices which are of two kinds – wholesale price index (WPI) & consumer price Index (CPI).

(Pre 1970s):

3. Demand pull inflation : Either the demand increase over the same level of supply or the supply decrease with the same level of demand and thus the situation of demand pull inflation arise this was a keynesian idea.

4. Cost push inflation : An increase in factor input costs (eg wages& raw material) pushes up prices. The price rise which is the result of increase in the production cost is cost push inflation.

(Post 1970s) :

5. Demand pull inflation for the monetarists a demand pull inflation is creation of extra purchasing power to the consumer over the same level of production this is the typical case of creating extra money (either by printing or public borrowing).

6. Cost push inflation it means every cost push inflation is a result of excessive creation of money increasing money flow or money supply.

Measure to check inflation :

- Demand side measure : This category mainly two types firstly the consumers are appealed to cut back the consumption of the items which show higher inflation . Secondly the govt may tighten flow of money in the system (known as monetary measure).

- Supply side measure: Aimed at increasing the supply of the items showing inflation the govt may go in for upscaling the production or import of the items.

- Cost side measure: Two variety of steps may taken under it in short run cutting taxes can bring in comfort but in the long run cutting cost of production is the only way out.

Types of Inflation :

- Low inflation
- Galloping inflation
- Bottleneck inflation
- Core inflation

What is inflation targeting ?

Inflation targeting is a monetary policy strategy used by central banks for maintaining price level at a certain level or within a range.India adopted inflation targeting based on the Urjit patel committee report.

Tools for inflation targeting :

- Liquidity Adjustment facility
- Open Market Operation
- Reserve Requirement

- Moral Suasion

Advantages of inflation targeting :

- It bring transperancy even people can understand what RBI policy is and whether its yielding result or not.
- Easy to track progress because CPI data released after every 12 days.
- Central banks in all advanced economics and emerging market economics have adopted this method.

SUBSIDY

- A subsidy is a benefit given to an individual, business, or institution, usually by the government. It is usually in the form of a cash payment or a tax reduction. The subsidy is typically given to remove some type of burden, and it is often considered to be in the overall interest of the public, given to promote a social good or an economic policy.

- Subsidy is a transfer of money from the government to an entity. It leads to a fall in the price of the subsidised product.It is a part of non-plan expenditure of the government. Major subsidies in India are petroleum subsidy, fertiliser subsidy, food subsidy, interest subsidy, etc

Objectives :

Subsidies, by means of creating a wedge between consumer prices and producer costs, lead to changes in demand/ supply decisions. Subsidies are often aimed at :

- Inducing higher consumption/ production
- Offsetting market imperfections including internalisation of externalities.

- Achievement of social policy objectives including redistribution of income, population control etc.

Mode of administering a subsidy:

The various alternative modes of administering a subsidy are:

- Subsidy to producers
- Subsidy to consumers
- Subsidy to producers of inputs
- Providing Incentives Instead of Subsidising
- Production/sales through public enterprises
- Cross subsidisation

Benefits of Subsidy :

- Subsidy is a direct or indirect payment to people/ farmers by Government in form of cash payment or tax reduction.
- Daily household or necessary items related to food education, agriculture and fuel comes at affordable rates.
- Subsidies can be utilized to balance market failures to achieve economic productivity.
- Subsidized education helps in further contributing to the nation's GDP as increased education leads to higher employment.
- Subsidy is also offered in form of tax exemptions.
- Helps struggling market by lowering the burdens and further providing financial support for future ventures.
- Subsidies has also helped in empowering women and poor people of the country by offering subsidies on healthcare, midday meal program and Mahatma Gandhi Employment Guarantee Act (MNREGA).

Agricultural Subsidies provided to farmers of India :

Input Subsidies: Fertilizer, Irrigation, Power, Seed and Credit Subsidies

- Price Subsidy
- Infrastructural Subsidy
- Export Subsidy Effects of subsidies:

Economic effects of subsidies can be broadly grouped into

- Allocative effects: These relate to the sectoral allocation of resources. Subsidies help draw more resources towards the subsidised sector.

- Redistributive effects: These generally depend upon the elasticities of demands of the relevant groups for the subsidised good as well as the elasticity of supply of the same good and the mode of administering the subsidy.

- Fiscal effects: Subsidies have obvious fiscal effects since a large part of subsidies emanate from the budget. They directly increase fiscal deficits. Subsidies may also indirectly affect the budget adversely by drawing resources away from tax-yielding sectors towards sectors that may have a low tax-revenue potential.

- Trade effects: A regulated price, which is substantially lower than the market clearing price, may reduce domestic supply and lead to an increase in imports.

Difference between Economic & Social subsidy :

Economic Subsidy	Social Subsidy
Agriculture	Education
Industry	Healthcare
Irrigation & Flood Control	Water Supply
Power & Energy	Sanitation
Transport	Rural Housing
Communication & Others	Women empowerment and others

Direct Benefit Transfer Scheme:

- Sometimes subsidies fail to solve the purpose they are introduced, as several times well-to-do sections of the society avail its benefits rather than people belonging to the poor sections of the society.
- Witnessing this disparity, the Government launched a direct benefit transfer scheme for the poor which was later linked with the Aadhar card of every individual or family falling below the poverty line.

ECONOMIC POLICY

INTRODUCTION :

- Economic policy refers to action taken by government in economic fields.
- India follows mixed economy it is unique in its model.

DIFFERENCE TYPES OF ECONOMIC POLICY :

- Industrial policy
- Fiscal policy
- Monetary policy
- Trade policy
- EXIM policy
- Agricultural policy

ECONOMIC POLICY BEFORE 1991 :

- Socialistic model eg: 5yr plan
- Dominance of public sector

INDUSTRIAL POLICY 1948 :

- Need for development of both small scale and large scale industries.
- Classification of industries:
    1. Public Sector (Strategic industries)
    2. Public – cum – private sector (Key industries)
    3. Controlled private sector
    4. Private & cooperation sector
- Government had monopoly in many seector
- Encouraged foreign capital

INDUSTRIAL POLICY 1956 :

- Mahalanobis model of growth
- Emphasis on heavy industries
- Reducing regional disparities Agricultural policy :

- First five years plan emphasised agriculture
- Green revolution for high yielding variety seeds imporved agriculture productivity.

Trade policy :

- Import substitution
- Promotion of exports
- Self sufficient economy

LPG reform 1991 (structural reform):

Liberlisation:

- Delicensing
- Decontrol
- De-regulation

Privatisation :

- Denationalisation
- Disinvestment
- Participation of private sector

Gobalisation :

- Import liberalisation
- Reduction of tariff & non tariff barriers.

Fiscal policy reforms:

- FRBM act 2003 : Fiscal budgetary management
- GST- Goods & service tax 2017
- Indirect tax regime changes

DEGLOBALISATION :

COVID 19 pandemic exposed defects in globalisation

- Transport of disease
- Spread of pandemic

ATMANIRBHAR BHARAT ABHIYAN :

- " VOCAL FOR LOCAL " scheme for promoting indigenous production

- Self Reliance:

1. Make in india – 2015
2. Skill india – 2015
3. Stand Up india – 2016

Crony capitalism

Crony capitalism describes an economic system in which the profitability of firms in a market economy depends on political connections. When people see well-connected businesses benefitting from government favouritism, they often call for more government involvement in economic affairs to safeguard the public interest.

The term "crony capitalism" is often used in the popular press but rarely in academic literature. Still, there is a substantial economic literature that implicitly addresses the causes and consequences of crony capitalism. This literature suggests ways to reverse the growth of crony capitalism, such as by limiting the size and scope of government and creating strong fiscal rules.

WHY CRONYISM EXISTS?

Government actors are not omniscient, yet people often assume that the government is both willing and able to achieve the desired effects of any policy. The government is subject to a variety of limitations:

- Information constraints. Policies that could theoretically be designed if policymakers had perfect knowledge often cannot be implemented in the real world, where knowledge is imperfect.

- A perverse incentive structures. Policymakers usually claim to be serving the public interest but pandering to more narrow interests may more directly serve their personal interests (reflection, for instance).
- Inertia from previous political decisions. Even when a program is enacted for noble purposes, established government programs often create new interests. These interests do all they can to keep the programs in place.

When people in government are given power to regulate, to spend money, or to benefit some at the expense of others, cronyism is inevitable.

HOW CRONYISM MANIFESTS ITSELF?

Three manifestations of cronyism lay the foundation for understanding why cronyism persists:

- Rent-seeking. When the government can award privileges such as tariffs, quotas, and monopoly licenses, businesses have an incentive to devote resources to acquiring favours rather than providing what customers value.
- Regulatory capture. Regulated industries are often able to form a concentrated interest and actively tilt the regulatory process in their favour.

Interest group politics. As nations grow and age, political interest groups solidify. Increasingly, success comes from political connections rather than productive market activity.

A real-world example is the evolution of the sugar program in the United States. This program was originally designed to protect American sugar farmers from Cuban competition. Due to rent-seeking, regulatory capture, and interest group politics, the program's trade restrictions remain long after the Cuban threat has disappeared, raising the price of sugar for American consumers.

HOW TO LIMIT CRONYISM?

The larger the government, the more fertile the breeding ground for cronyism. Only a reduction in the size and scope of government will direct resources back toward productive economic activity.

Cronyism can be limited if the rules of the game structure policymakers' incentives appropriately. One way to do this is through the "fiscal constitution," or the rules that define the government's ability to shape taxation and expenditures. A strong fiscal constitution can insulate the government from interest group pressures:

- It can make the tax structure less arbitrary. Currently, tax authorities can easily impose different taxes on different groups of people. If the constitutional framework prevented those with fiscal authority from using it arbitrarily, this would limit cronyism.

- It can make expenditures less discretionary. If relatively inflexible procedures are established for allocating the government's budget, then interest groups will have a limited ability to engage in cronyism.

However, while it is easy to identify institutions that might limit cronyism, it is far more difficult to establish them where they do not already exist. Because people with political and economic power benefit from crony capitalism—at the expense of the general public—finding practical ways to reduce cronyism is a challenge.

CONCLUSION

Even an ideal market-oriented democracy can evolve into crony capitalism in the absence of constraints on politicians' discretionary power. More seriously, cronyism often prevents the establishment of market institutions, since those benefitting from government largesse fight to maintain their politically granted privileges. In the absence of appropriate constraints, people with political power use that power to benefit some at the expense of others. The solution is not to empower the politicians, but rather to constrain them. Crony capitalism is a by-product of big government, so shrinking the government is the most effective way to control it.

Parallel Economy

What is parallel economy?

When economic activities go unreported or not measured by societies current techniques to monitor economic activity it falls under parallel economy. Money that have neither been reported to the public authorities at the time of their generation or at any time of possession; no taxes have been paid on it. Also known as Phantom trades or Shadow economy.

A hidden economy in its broadest sense may consist of - a) illegal economy, such as money laundering, smuggling, etc; b) unreported economy including tax evasion; c) unregulated economy, that is economic activities outside law and regulations.

History of the parallel economy in India:

The British East India Company in late 18th century laid the foundations of both a corrupt bureaucracy and a parallel economy during World War II. The Indian black economy is immense, lucrative, widespread, and has grown significantly since independence. The black economy has grown from about 3% in the mid-50s to 20% by 1980, to 35% by 1990, and 40% by 1995.

Supreme Court asked the central government to appraise it of steps taken to implement the recommendations of the Special Investigation Team (SIT) on retrieving black money and to curb the menace of unaccounted wealth.

What are the reasons behind the growth of the black money in the country?

Income generated from illegitimate activities like smuggling, arms trafficking, corruption; even those generating income legitimate activities avoid paying taxes because of excessive taxation, greed and perception that government is corrupt and won't use it for public good.

As a percentage of GDP and at almost $1 trillion in absolute terms, the black economy is larger than both the industrial and agricultural sectors. Corruption is pervasive from the lowest to the highest levels of public administration, public enterprise, bureaucracy, judiciary, law enforcement, and elected officials.

After the ‘Gandhian and Nehruvian era’, officials who lacked their idealism, and were more likely to engage in corruption and rent- seeking practices entered into the government. Speed money for turning the blind eye to the violation of controls.

Control and licensing system, tax structure, donation to political parties, and generation of black money in the public sector, deterioration in the moral and civic standards are the influential factors in parallel economy.

Impact of the black money:

In India, the black economy has resulted in an immense loss of tax revenue. If it accounted for 40% of GDP in 1998-99, the loss of direct tax revenue at the prevailing rate would amount to at least Rs. 200,000 crores. Only 2 million of India's billion people pay taxes, just 2% of the population. The government therefore suffers a perennial shortage of funds and public services languish.

Policies fail both at the macro-level and the micro-level. Targets for education, health, drinking water and so on are not achieved because “expenditures do not mean outcomes.” Much investment goes into wasteful and unproductive channels, like holding gold or real estate abroad.

A country is considered as capital-short has been exporting capital. A nation that gives concessions to multinational corporations to bring in capital loses more capital than it gets, and that too at a high cost, from foreign institutional investments or foreign direct investment.

Strategy for recovering black money

Government has adopted a five-pronged strategy to tackle the sensitive issue of Black Money

1. Joining the Global Crusade Against Black Money

2. Creating an Appropriate Legislative Framework using DTAA and Tax Information Exchange Agreement (TIEA)

3. Setting up Institutions to Deal with Illicit Funds such as Income Tax Overseas Units.

4. Manpower of FT&TR Division in CBDT has been doubled.

5. Imparting Skills to the Manpower for Effective Action

Recommendations for Black Money Recovery

1. Reducing disincentives by Rationalization of tax rates, reduce tax terrorism (retrospective amendments), pass GST and Reducing transaction costs by providing internet-based services to pay tax;

2. Creation of effective credible deterrence by Setting up an investigation unit with Enforcement Directorate as the nodal coordinating agency to remove problem of lack of coordination; CAG should audit on suspicious exports vulnerable sectors like Real estate, jewelry, financial markets, have Time frame for Income Tax and CBEC for completing cases.

3. Amend PMLA, FEMA and Make Tax evasion a serious "criminal offence. Reform political funding in India.

4. Establishment of a central KYC (Know Your Customer) registry to deal with the problem of multiple identities of an individual in financial transactions.

5. To ensure that banks, on a real time basis, report all suspicious transactions, SIT must seek a report from the Financial Intelligence Unit (FIU) of the Indian government on what it has done about suspicious transactions reported by banks.

6. To pressurize Swiss authorities to give name of US citizens who have opened numbered bank account in Swiss Banks, US arrested senior bank officers of Union Bank of Switzerland on charges of espionage. India also has Swiss bank branch offices in Mumbai.

Conclusion

There had been umpteen talks and voluntary disclosure schemes in the past for checking evasion and black money, but no perceivable results have come. Rather, the quantum of black money in circulation has increased substantially in volume. A major factor contributing to the increasing level of black money and there are Global reasons like Continuation of tax heavens.

Black money is 60 times the annual revenue from income tax in the Union Budget, only committees after committees are setup, w/o concrete action; Failure of agencies i.e. lack of coordination as said by SIT that government departments are not ready to share information and thus hindering investigation.