

EXECUTIVE SUMMARY

ECONOMICS KATTA

The Maharashtra Economic Development Council (MEDC) conducted an Economics Katta in its premises on February 5, 2020, to brainstorm on some key contemporary issues facing our economy. The aim of organizing this event was to provoke creative thinking on current socioeconomic issues and explore how the insights gleaned from them could help aid stakeholders and policymakers in further refining the state's development strategies. Given the fact that MEDC is a unique symbol of the socioeconomic responsibility of business and industry in Maharashtra, holding such an event periodically is necessary for the Council.

The keynote speaker and initiator of the discussion was **Dr. Ajit Ranade**, an eminent economist and thought leader. Dr. Ranade initiated the discussion on the issue of *the ideal size of government for a country like India*. This topic, even though simple sounding, is actually highly complex and has powerful repercussions on the quality of governance in the country and the efficacy of its institutions, ultimately affecting the day-to-day life of the nation's citizenry.

The impact of the size of the government on various socioeconomic dimensions of the country was discussed, and the following were the key points made:

1. Contrary to popular belief, India has a very small size of government compared to most other countries. In India, the government comprises just 15% of the country's population compared to a (developed) world average of 30 – 40%.
2. The problem is not that India has an oversized government, but even the existing undersized government has huge pockets of inefficiency.
3. Not only do we need to increase the size of our government, but we also need to enhance its efficacy, if we are to raise our economic competitiveness.
4. The tax to GDP ratio is just 11% for India, while it is around 20-25% in much of the developed world. This shows that we are not collecting enough revenue, and that is to be expected in a country where just around 3% of the total population files returns and only around 2% pay the actual tax.
5. Widening the tax base in India is imperative, and the GST is a positive step in that direction. Even though the GST is a regressive tax, in the sense that it does not distinguish between the rich and the poor, it is required for a country like ours. Ideally, the GST should cover the entire economy, but currently (due to the influence of vested interests) it is covering only about a third of the Indian economy. This needs to change at the earliest. On the flip side, no major federal economy in the world has opted for GST, but at India's current stage of socioeconomic development it could almost be considered a necessary evil.
6. The expenditure to GDP ratio for India is just 13%, while it is around 38% in the USA. This shows that the government is not spending enough in India, while in most developed countries (due to an aging population) the bulk of the spending is on social security programs. Social security is

virtually non-existent in India and it is only slowly emerging in some new schemes floated by the government.

7. We need to consider Indian agriculture as an industry to enhance its competitiveness. There are already certain parts of the sector (like some agro-based initiatives) which have almost achieved industrial status, but a lot more needs to be done. In this context, the development of robust supply chains needs to be given special consideration.
8. We should not underestimate the importance of agriculture, both for Maharashtra and India. After all, even today, over half of our population continues to depend on agriculture for their employment prospects, and unless the sector is better organized, their future remains bleak.
9. There are islands of excellence in Indian agriculture, and their success needs to be replicated to the extent possible throughout the country. For example, some grape production centres in Nashik are competing effectively with their global counterparts in France and America. Given agriculture's strong forward and backward linkages, the sector remains the oxygen of our economy, and it needs a sustained revitalization if we are to emerge from the current economic slowdown.
10. Public private partnerships all over the world are mostly unsuccessful. It is only in India that they have managed to show some results. However, the fact remains that a lot that passes under the PPP model is not technically PPP. Infrastructure development projects (where PPPs are most needed) have a very long gestation period, and one cannot realistically expect the private sector to hold on for that much time. Also, the Indian private sector has its share of (legitimate) complaints in such collaborations, as payments are not often made to them on time, the bureaucracy enters the picture and creates operational complexities etc.
11. To a certain extent, we need to accept inequality as a stimulus for economic growth. The concept of socialism has collapsed all over the world, because it goes against the basic psychological principle of providing uniform incentives for differential performance.

The broad consensus was that the government has to be held more accountable for its actions (and lack of them) if we are to progress substantially in socioeconomic development. India is a potentially rich land, but as long as our attitudes don't change, bringing about long-lasting change in the economy will be difficult. There are now many opportunities available to us, which need to be clearly identified and strategically utilized for the larger benefit of society. Technology can play a catalytic role here.

In his concluding remarks, Dr. Ranade said that MEDC could undertake a detailed research study on the current size of the government of Maharashtra, and come to an informed inference on whether it should be expanded (and if so, how) or not in the best long-term socioeconomic interests of the state.

In view of the concrete value addition provided to all participants, it was decided that the next Economics Katta would be held on March 4, 2020, at 4.30 pm in the MEDC premises, and that this event would henceforth be a monthly feature of the Council's activities.