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## Under Overlords

(The Hindu, 08-08-24)

The Supreme Court ruled that the Lieutenant Governor (L-G) of Delhi has independent authority to appoint aldermen to the Delhi Municipal Corporation.

- This decision is not based on the advice of Delhi's Council of Ministers.

### What are aldermen and what is their role?

- Aldermen are members of municipal councils.
- They can be elected or appointed, depending on the jurisdiction. In Delhi specifically, aldermen are nominated by the Lieutenant Governor to provide expertise in municipal administration.
- Their primary functions include policy-making, representing constituents, and participating in local governance decisions.

### What is the legal basis for the L-G's power in this matter?

- The power stems from the Delhi Municipal Corporation Act, 1957, as amended in 1993.
- This Act identifies different authorities with distinct roles, including the L-G's power to nominate persons with special knowledge in municipal administration.

### How does this ruling relate to previous judgments on Centre-Delhi relations?

- It aligns with earlier judgments that sought to balance the roles of the elected government and the appointed administrator.
- A 2018 Constitution Bench had laid down a framework to avoid escalation of issues between the L-G and the Chief Minister.

### What are the broader implications of this ruling for Delhi's governance?

- It underscores the vulnerability of Delhi's elected government to central control.
- It raises questions about the relevance of having an elected Assembly for Delhi.
- It highlights that the Centre ultimately has the final say in Delhi's governance.
- The ruling may further strain the relationship between the Centre and Delhi's elected government, potentially impacting policy implementation and governance in the national capital.

*Can you answer the following question?*

*The governance structure of the National Capital Territory of Delhi presents a unique challenge in balancing local autonomy with national interests. Comment.*

# Middle Income Trap

(The Hindu, 08-08-24)

## What is the middle-income trap?

The middle-income trap refers to a situation where a country that has achieved middle-income status **struggles to progress further** to become a high-income economy. This economic development phenomenon typically occurs when a country's growth slows down after reaching middle-income levels. Key aspects of the middle-income trap include:

1. **Economic slowdown:** Countries experience rapid growth as they transition from low to middle income, but then see growth rates plateau.
2. **Difficulty in transitioning to innovation based growth:** These countries find it challenging to shift from resource-driven growth to innovation-driven growth.
3. **Wage competition:** They become less competitive in labor-intensive industries compared to lower-wage economies but struggle to compete with advanced economies in high-skill innovations.
4. **Productivity issues:** Often, there's a failure to significantly improve productivity and move up the value chain in manufacturing and services.
5. **Institutional challenges:** Middle-income countries may lack the institutional quality and economic complexity needed for further advancement.
6. **Human capital limitations:** There may be insufficient investment in education and skills development to support higher-value industries.

Countries often cited as examples of being in or having escaped the middle-income trap include Malaysia, Thailand, and Brazil (often considered trapped) versus South Korea, Singapore, and Taiwan (examples of countries that have successfully transitioned to high-income status).

## Is India in a situation of being Middle-Income trapped?

Arguments suggesting India may be in a middle-income trap:

1. Slow transition to high-value industries:
  - India's manufacturing sector contributes only about 15% to GDP (as of 2022), lower than many other developing countries.
  - The services sector, while strong in IT, hasn't diversified sufficiently into other high-value areas like AI & Machine learning.
2. Productivity challenges:
  - Total factor productivity growth has slowed from 2.4% per annum during 2003-07 to 0.9% during 2013-19 (Source: Reserve Bank of India).
3. Income stagnation:
  - India's GDP per capita (PPP) growth rate has slowed from an average of 7.5% during 2000-2010 to about 5.5% during 2010-2020 (World Bank data).
4. Human capital limitations:
  - As of 2022, only about 27% of Indians aged 18-23 are enrolled in tertiary education (Ministry of Education, India).
5. Income inequality:
  - India's Gini coefficient (a measure of income inequality) was 35.7 in 2019, indicating significant disparity (World Bank).

## Arguments against India being in a middle-income trap:

1. Consistent economic growth:
  - India has maintained an average GDP growth rate of around 6-7% over the past decade, despite global economic challenges.
  - Post COVID-19 pandemic, India's economy has rebounded and has shown resilience.
2. Digital transformation:
  - India's digital economy is projected to reach \$1 trillion by 2025 (Ministry of Electronics and Information Technology).
  - The country has over 750 million internet users as of 2023, indicating potential for further digital-led growth.
3. Young demographic:
  - India has a median age of 28.4 years (2021), providing a potential demographic dividend for future growth.
4. Rising foreign direct investment (FDI):
  - FDI inflows have been consistently increasing, reaching \$84.8 billion in FY 2021-22 (Department for Promotion of Industry and Internal Trade).
5. Expanding startup ecosystem:
  - India has the world's third-largest startup ecosystem, with over 100 unicorns as of 2023 (Invest India).

## What precautions should India take to avoid this trap?

- Boost manufacturing and industrial policy
  - Focus on high-value manufacturing sectors like electronics, pharmaceuticals, and advanced materials.
- Improve education and skill development:
  - Increase spending on education (currently around 3% of GDP) to at least 6% as recommended by various education commissions.
  - Strengthen industry-academia partnerships to ensure curriculum relevance.
  - Expand vocational training programs to address the skills gap in the job market.
- Promote R&D and Infrastructure
  - Increase R&D expenditure from the current 0.7% of GDP to at least 2% (closer to levels in innovation-driven economies).
  - Continue to invest in physical infrastructure (roads, ports, airports) to reduce logistics costs.
- Improve ease of doing business:
  - Further streamline regulations and reduce bureaucratic hurdles.
  - Implement labor reforms to increase flexibility while ensuring worker protection.
  - Simplify tax structures and improve tax administration.
- Improve healthcare:
  - Increase healthcare spending from the current 1.8% of GDP to at least 2.5-3%.
  - Focus on preventive healthcare and improving rural healthcare infrastructure.
  - Expand health insurance coverage to reduce out-of-pocket expenses.
- Diversify the economy:
  - Reduce dependence on any single sector by promoting growth across multiple industries.
  - Encourage the development of new service sectors beyond IT, such as financial services, healthcare, and creative industries.
- Enhance energy security and sustainability:

- Accelerate the transition to renewable energy sources.
- Improve energy efficiency across industries and in urban planning.

*Can you answer the following question?*

*India's rapid economic growth has propelled it into the middle-income category, but concerns about falling into the 'middle-income trap' persist. Critically examine the challenges India faces in avoiding this trap and suggest comprehensive strategies to ensure sustained economic progress towards becoming a high-income economy.*

