



RAJIV GANDHI  
INSTITUTE FOR CONTEMPORARY STUDIES

# Policy WATCH

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## Growth with Employment

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# Editorial

The Rajiv Gandhi Institute for Contemporary Studies (RGICS) works on five themes:

1. Constitutional Values and Democratic Institutions
2. Governance and Development
3. Growth with Employment
4. Environment, Natural Resources and Sustainability
5. India's Place in the World

This issue of Policy Watch deals with the theme Growth with Employment.

As this issue was being compiled, we heard the sad news of the demise of renowned economist Abhijit Sen. The first article is an obituary on him, published in The Hindu. Dr Sen contributed a lot to Indian economic thinking and policy on agriculture, food security and the social sectors. The undersigned had the honour to co-author a paper with Dr Sen and several others on Financing Health for All in India, which was published in the special issue of The Lancet in 2011. We also carry a You Tube video link to a talk by Prof Sen on Food Security in India: Challenges and Recent Developments. The talk was given in February 2012, while the National Food Security Bill was being debated in the Parliament.

The next article is a summary of a comprehensive study by Global Alliance for Mass Entrepreneurship (GAME) and Dun & Bradstreet (D&B) with Support From Omidyar Network India, on the issue of delayed payments from the D&B's trade receivables experiences of more than 5 lakh entities and have thereby discussed practical suggestions to address the same. Using multiple datasets and from their own qualitative research they estimated that as much as Rs 10.7 lakh crore or 5.9% of the gross value added in the Indian economy is locked up in delayed payments from buyers to MSME suppliers. To address this problem of delayed payments they recommend greater public discourse on the topic, raise the stakes for tardy buyers, and reduce the impact on MSMEs such as being classified as NPAs and getting their already meagre access to institutional credit cutoff.

Continuing on the theme of MSMEs, which are the major vectors of growth with employment, the next article is on the issues with the GST regime in practice, by an MSME service sector entrepreneur T Muralidharan. According to him four provisions of the GST regime are very problematic: (i) The tax payer must pay the entire GST dues before filing the GST summary report (GSTR 3B) (ii) GSTR 3B cannot be filed until and unless the delayed payment interest @18% is also paid (iii) Tax payer is blocked from filing the outward supplies report (GSTR -1) if he has failed to furnish the GSTR 3B in the previous month and (iv) the tax payer will be denied the Input Tax credit (ITC) if the supplier of the MSME does not remit the amount to the government, after receiving the GST payment from the MSME. He says this is impossible because MSMEs do not have the bargaining power to dictate the payment terms with their customers who pay only after 60 to 90 days. As we saw in the earlier article, delayed payments are the norm rather than the exception for MSMEs. Thus the strict GST regime means serious problems for MSMEs.

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Google Images (free to use images)  
freepik

The next article by Prof Arun Kumar, first published in *The Mainstream*, is a panoramic view of the Indian Economy over the last 75 years. He states that “Growing unemployment, weak socio-economic conditions, etc., are not sudden developments. Their root lies in the policy paradigm adopted since independence. In 1947,... the government was given the responsibility of tackling these issues and given a key role in the economy... The prevailing political economy enabled the business community to systematically undermine policies for their narrow ends by fueling the growth of black economy... In 1991, a new policy paradigm was ushered in, namely, ‘individuals are responsible for their problems and not the collective’. Under this regime, government’s role in the economy was scaled back and individuals were expected to go to the market for resolving their problems... The growth at any cost strategy has been at the expense of the workers and the environment. This has narrowed the base of growth and led to instability in society — politically, socially and economically. The situation has been aggravated by the recent policy mistakes — demonetization, flawed GST and sudden lockdown. The answer to ‘why does the obvious not happen’ in India is not just economic but societal. Unless that challenge is met, portents are not bright for India at 75.”



We end on a hopeful note. The undersigned just returned from a four day event in Madurai, called the Ahimsai Santhai (non-violent bazar), which was organised by the newly formed Non-Violent Economy Network, with the efforts of PV Rajagopal and Jill Carr-Harris of the Ekta Parishad and scores of other activists, scholars and citizens deeply concerned with the triple crises of rampant economic inequality, rising social tensions and the threat of climate change and environmental disruption. What was heartening was to see hundreds of efforts, many small but many very large, covering lakhs if not millions of people, where alternatives to today’s economy which is based on exploitation of people and the planet, in pursuit of profits. We carry an article by Jill Carr-Harris which gives an overview of the Non-Violent Economy. We hope you enjoy reading these articles. We look forward to your feedback.

**Vijay Mahajan,**  
**Director, Rajiv Gandhi Institute for Contemporary Studies**

## 2. Abhijit Sen, economist who stood for farmers, rural poor, passes away

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*The Hindu Bureau, New Delhi, August 30, 2022*

Former member of Planning Commission, former chairman of Commission for Agricultural Costs and Prices and eminent economist Abhijit Sen died here on Monday night following a heart attack. Prof. Sen was a faculty at the Centre for Economic Studies and Planning (CESP) at Jawaharlal Nehru University since 1985 to his superannuation in 2015. Politicians, academics, his students, farmers' leaders and activists remember him for his contributions in areas such as minimum support price, rural economy and rural employment.

Senior Congress leader and former minister Jairam Ramesh said Prof. Sen was one of India's finest economists. "Over a period of almost three decades, I learned so much from him. A formidable scholar, he had strong ideological roots but also an open mind. He belonged to a species that is fast becoming extinct," Mr. Ramesh said.

CPI (M) general secretary Sitaram Yechury said Prof. Sen was a fine economist with both his head and heart in the right place. "His work, interventions benefitted many lives and families. I am sure that my friend had much more to say and contribute at this difficult time India is going through. His passing is a big loss to us," Mr. Yechury said.

All India Kisan Sabha leader Ashok Dhawale said Prof. Sen was a great agricultural economist. Samyukt Kisan Morcha leader Yogendra Yadav said the country has lost a champion of food security and one of the architects of the National Food Security Act that saved millions of poor households during COVID 19. Activist Aruna Roy said Prof. Sen was a friend and advocate of peoples' rights and movements. "He took the voices of the common masses to the highest levels of policy making. He was one of the leading advocates for the MGNREGA and the right to food in addition to championing farmers' causes," Ms. Roy said.

Professor of Economics in CESP, JNU Surajit Mazumdar, who was his student, told The Hindu that Prof. Sen's main work was in understanding the processes of change in agriculture and how agriculture constrained the development process of the Indian economy; and on unemployment, poverty and inequality in the Indian context. "I was an MA student when Prof. Sen joined the CESP faculty in 1985, and I became a part of the CESP faculty myself just a little before he superannuated from service in 2015. I always admired his very sharp mind that could be directed towards analyzing almost anything, and of course his warmth and complete lack of arrogance. While he was known for his work on agriculture, unemployment and poverty, he could speak authoritatively on a variety of subjects," Prof. Mazumdar said.

*Prof. Abhijit Sen was a Member, Planning Commission, Government of India. He has a Ph.D. in Economics from the University of Cambridge. He has a Professor of Economics in Jawaharlal Nehru University. He earlier taught at the Universities of Sussex, Oxford and Cambridge. Prof. Sen had authored more than 30 papers in the areas of Agriculture, Employment, Economic Reforms and Poverty. Prof. Sen is survived by his wife, eminent economist Jayati Ghosh and daughter Jahnvi Sen, a journalist.*



### 3. Food Security in India: Challenges and Recent Developments

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*Prof. Abhijit Sen – A Talk at the Azim Premji University, February 11, 2012*

Prof. Abhijit Sen spoke as part of the Dr. Zakir Hussain Memorial Lecture Series organised by the Azim Premji University, Bangalore, on 11th Feb 2012. At that time the National Food Security Bill was being debated in the Parliament.



Click the link to watch the video- <https://youtu.be/teEUoIKRy-U>



## 4. Unlocking the full potential of India's MSMEs through prompt payments<sup>1</sup>

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*GAME and D&B*

Micro, Small and Medium Enterprises (MSMEs) are one of the important pillars of growth in India in terms of providing millions of job opportunities and export prospect. Recognising its potential, Government has taken various initiatives in this year's Budget including enhancing the Emergency Credit Line Guarantee Scheme, interlinking of Udyam, e-Shram, NCS and ASEEM portals among others, to make this sector more resilient, competitive and efficient. Despite its importance in the economy, the sector continues to face considerable challenges that prevent improvements in both its share in the Gross Value Added and the lives of people it employs.

Globally, the MSME sector comprises of a very large number of small businesses that are marked by informality and low productivity. The World Bank has highlighted how access to financing remains one of the most significant constraints to the survival, growth and productivity of MSMEs for emerging economies. Experience in the context of MSME financing shows that the problem of fund availability is not just of accessing institutional credit, but also about working capital availability. However, what compounds the struggle of Indian MSMEs is the complex issue of delayed payments that leaves them wanting for both cash and bargaining power. The COVID-19 pandemic has only worsened this situation.

This report- 'Unlocking the full potential of India's MSMEs through prompt payments', which is an outcome of the collaboration between GAME and Dun & Bradstreet, and supported by Omidyar Network India, addresses this very issue. Building on their bottom-up exercise of analysing impacts of delayed payments from the point of view of MSMEs, the authors have attempted a comprehensive study on the issue of delayed payments from the D&B's trade receivables experiences of more than 5 lakh entities and have thereby discussed practical suggestions to address the same. Using multiple datasets and from their own qualitative research they estimated that 5.9% of the gross value added in the Indian economy is locked up in delayed payments from buyers to MSME suppliers. As they write, a fundamental cause for this is the existence of a power asymmetry between small suppliers and large buyers. The formal mechanisms of recourse available to MSMEs are also riddled with low coverage and cumbersome processes.

The report further deliberates on the issue of raising the stakes on tardy buyers. This can be achieved by enabling the entry of Online Dispute Resolution start-ups to ensure faster and more effective resolution of payment related disputes. Banks can also work with data providers to evaluate the delayed payables of large buyers and consequently increase the borrowing costs of those buyers. Another approach is to link the working capital limits of large buyers to their participation in trade receivables platforms and acceptance of suppliers' invoices therein. The report is replete with case studies conducted by the participating organizations that substantiate the efficacy of these scalable solutions. The report brings out the demonstration of the law of unintended consequences such as the mandatory payments of GST dues by MSMEs even if they are unable to collect their dues and the classification of dues from MSMEs as non-performing due to their inability to collect the monies owed to them from large buyers. Policymakers must pay particular attention to unintended consequences of their well-intentioned policies.

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<sup>1</sup> *Global Alliance for Mass Entrepreneurship (GAME) and Dun & Bradstreet (D&B) With Support From Omidyar Network India (2022)*

dun & bradstreet

GLOBAL ALLIANCE FOR  
Mass Entrepreneurship



#PaymentOnTimeGrowthHarTime

**Unlocking the full  
potential of India's MSMEs through  
prompt payments**

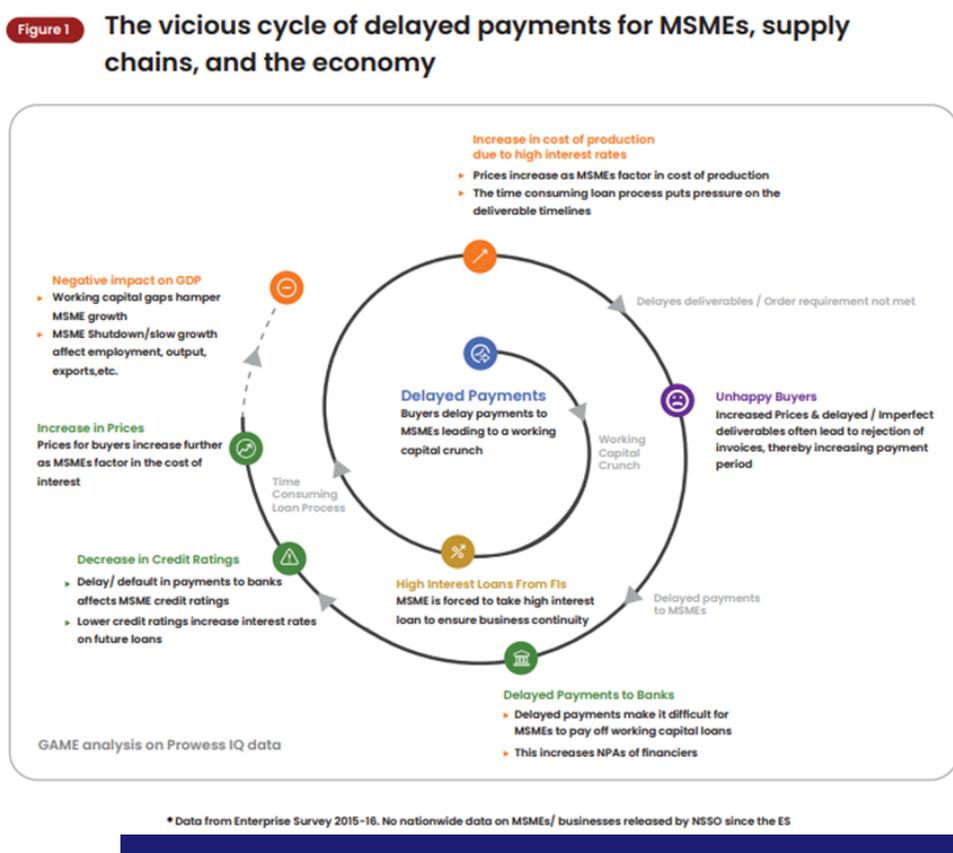
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## 4.1 Executive summary

Payment delays to MSME suppliers remains an endemic and intractable problem in India. MSMEs contribute 33.5% of India's annual GVA [MSME Annual Report 2020-21, Ministry of Micro, Small, and Medium Enterprises], and the smallest of them - micro enterprises - employ 97% of all people employed by MSMEs, as well as an estimated 23% of India's total workforce \*. Payments when delayed to MSME suppliers by their larger buyers hinders not just the viability and growth of MSMEs, but overall competitiveness of the Indian economy.

**An estimated INR 10.7 Lakh Crore i.e., 5.9% of the gross value added (GVA) of Indian businesses is locked up annually as delayed payments from buyers to MSME suppliers.**

The importance of prompt payments (and consequently, good cash flows) is captured well by the popular business adage, "revenue is vanity, profit is sanity, and cash is king." Cash flow is the lifeblood of any business. Positive cash flow allows MSMEs to invest in more production cycles, meet statutory payments on time, and even access credit. To manage cash flow mismatches, MSMEs borrow from financial institutions or local money lenders, a cost which ultimately prices up the cost of goods sold or services provided. See Figure 1 below



**Beyond hard numbers, the persistence of delayed payments reduces trust in the Indian economy. At a systems level, the balance of delinquency against diligence impacts the level of certainty and trust, both essential components of a well-functioning economy and society.**

Simply put, the absence of fear of being cheated along with predictability of outcomes help businesses make better, longer term, and more strategic decisions for their future. High-trust societies and systems have repeatedly proven to be better at achieving collective goals than low-trust counterparts [Fukuyama, (1995)], [Knack and Keefer (1997)]. If India is to become a five or even ten trillion-dollar economy, it must ensure that its economic actors are reliable and trusted, and timely payments are made to MSMEs by buyers. This can go a long way towards reducing the transaction costs of conducting business in India and encouraging greater job creation by enabling a culture of considered risk-taking. At the moment, our economy seems a far way off from this reality.

**A vast majority (~80%) of the annual delayed payments amount is owed to Micro and Small Enterprises (MSEs) in particular.**

In essence, the smaller you are as a business, the more you suffer at the hands of tardy buyers. Withholding these enormous sums of capital from India's smallest businesses deprives them of their opportunities to grow and return value to their owners, and consequently the millions of ordinary households that are supported by these businesses. This pattern does not augur well for the spirit of entrepreneurship that India's leadership seeks to promote, and makes the setting up of small business a risky and tumultuous experience.

**Fundamentally, payments are delayed because of a power asymmetry between smaller suppliers and large buyers.**

By and large, the structure of supply chains mirrors the structure of biological food chains: lots of small suppliers supply to a smaller number of large buyers, who aggregate, assemble, and sell value-added goods and services to the end customer. This is even more true in an Indian context where many formal industries are dominated by a few established players, particularly in areas like healthcare, high-end manufacturing, and of course, the public sector (with Maharatna and Navratna PSUs often having near-monopolies in raw materials and industrial commodities).

The great power (through size or frequency of orders) wielded by larger players in a supply chain comes with the responsibility of paying suppliers on time and negotiating payment terms that are reasonable and fair for the smaller parties. By withholding payments (or trade payables) beyond the agreed credit periods, buyers essentially get access to free cash to finance their own working capital cycles, at the cost of their deprived. If this happens repeatedly and across industries, then it indicates that delaying of payments is being deployed widely as a tactic by larger businesses to accumulate gains that should be distributed back to those who provide value to them.

**For most MSMEs, delayed payments have become normalized and an attribute of India's business culture.**

MSMEs capable of differentiating themselves to win loyalty of buyers and incentivize good behavior from them do so, but often at the cost of their own profitability. These businesses include the probability of receiving delayed payments into their way of doing business, as an implicit and concealed cost of operations. Buyers, on their part, claim that delayed payments occur for reasons out of their control, although this claim must be held to a higher burden of proof and standards of accountability.

**India's Goods and Services Tax (GST) and non-performing (NPA classification) regime fail to account for delayed payments, further exacerbating MSMEs' cash crunch.**

Cash flows are further stretched by the fact that GST must be paid irrespective of whether payments are made to MSMEs or not. A 'one size fits all' NPA regime fails to account for the fact that a majority of receivables to micro-enterprises are delayed and they are delayed for much longer than larger enterprises in the country.

**Government departments/PSUs have a long way to go in improving their payment performance.**

Data suggests high proportions of delinquencies by PSUs. In 2020, 69% of payments by public administration entities were delayed by 60 days beyond the due date.

**Prominent solutions that exist to address delayed payments assume buyer's motivation to pay promptly.**

Wishing away the root cause of the problem makes it persistent and limits the effectiveness of its solutions. As the UK Sinha Committee on MSMEs succinctly put it, "timely payments to MSEs are of least priority to the buyers, the solution must be necessarily designed around the buyers." For example, the Trade Receivables Discounting System (TReDS) platform, addressing.

## 4.2 Recommendations

**To address delayed payments at scale we need greater public discourse on the topic, raise the stakes for tardy buyers, and reduce the impact on MSMEs:**

### **Build a public conversation on delayed payments**

- Publish estimates of delayed payments and their trend in the Economic Survey (Ministry of Finance, Government of India), released annually before the budget, with quarterly estimates placed in the 'Monthly Economic Review' of the Department of Economic Affairs.
- Leverage platforms such as 'Mann Ki Baat' to discuss Delayed Payments which have proven to drive large scale behavioral change campaigns. Placing it in the large conversation of India's business culture will be the starting point to counter the normalization of delayed payments.
- Run a 'Prompt Payment Program', which brings together the 100 largest corporates in India to commit to becoming prompt payers by the beginning of FY 23-24; Also, encourage these corporates to engage in 'deep-tier' financing to unlock working capital for smaller MSMEs beyond their immediate supply chain.
- Add delayed payments as an indicator within the EoDB 2.0 framework which is currently under development by the Department of Promotion of Industry and Internal Trade.

### **Raise the stakes on tardy buyers**

- Enable the entry of Online Dispute Startup (ODR) startups to ensure faster and more effective resolution of payment related disputes by reducing the burden on the state (i.e. the district level Micro & Small Enterprise Facilitation Councils). State legal service authorities may tie up with private ODR start-ups to create models similar to e-lok adalats to unlock the potential of ODR by leveraging data and technology.
- Allow MSMEs to opt-in to the services of an information utility, which will independently take action against tardy or delinquent buyers on behalf of the MSME. Currently leveraged by the insolvency and bankruptcy ecosystem of India, the UK Sinha Committee recommends that it be adopted across the MSME ecosystem as well.
- Create a clear formula for delayed payments to impact the borrowing costs of large buyers. Banks can work with data providers to evaluate the delayed payables of large corporates, increasing borrowing costs of tardy buyers.
- Mandate that all Miniratnas, Maharatnas, and Navratnas transact on TReDS.

### **Manage the unintended consequences on MSMEs**

- Ensure a reasonable grace period for MSMEs for their GST dues caused by Delayed Payments.
- Shift the Non-Performing Asset (NPA norms) for MSMEs to go up to 120 days to account for their unique cash flow challenges.



## 5. Urgent remedy required from GST regime to save the MSME sector<sup>2</sup>

T. Muralidharan<sup>3</sup>



### 5.1 Four key provisions under the GST regime spell total disaster for the MSME sector

1. Tax payer must pay the entire GST dues before filing the GST summary report (GSTR 3B).
2. GST Summary Return (GSTR 3B) cannot be filed until and unless the delayed payment interest @18% is also paid.
3. Tax payer is blocked from filing the outward supplies report (GSTR -I) if he has failed to furnish the summary GST return (GSTR 3B) in the previous month.
4. Tax payer will be denied the Input Tax credit (ITC) if the supplier of the MSME does not remit the amount to the government, after receiving the GST payment from the MSME.

All the three are one-sided and draconian for the MSME sector. Let me explain why?

MSMEs are suppliers to many large corporates who are now insisting that the MSME file their outward supplies report (GSTR –I) in time so that they can claim the input credit. Till recently GSTR-I was filed by most MSMEs on time because it was not linked to any payment or linked to filing of any other type of report. But a new circular changed this by insisting that the previous month Summary GST report (GSTR 3 B) must be filed first. Very soon, many MSMEs who cannot file their GST summary report will be blacklisted or penalized by the large companies, in addition to being penalized by the GST department in the form of huge interest and penalties. This will kill the MSME units.

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<sup>2</sup> This article first appeared in Telangana Today, 25 July 2022. Graphic Source: [https://www.google.com/url?sa=i&url=https%3A%2F%2Fblog.saginofotech.com%2Fgst-issues-india&psig=AOvVawQJBv7P7RThYZX3LRmaTPOM&ust=1664438568560000&source=images&cd=vfe&ved=0CAkQjRxqFwoTCj5po2Dt\\_oCFQAAAAAdAAAAABAD](https://www.google.com/url?sa=i&url=https%3A%2F%2Fblog.saginofotech.com%2Fgst-issues-india&psig=AOvVawQJBv7P7RThYZX3LRmaTPOM&ust=1664438568560000&source=images&cd=vfe&ved=0CAkQjRxqFwoTCj5po2Dt_oCFQAAAAAdAAAAABAD)

<sup>3</sup> Mr T. Muralidharan is the Founder and CEO of 35 year old TMI Networks Ltd, Hyderabad and very active in social and public causes. He is a graduate of IIT Madras, 1979 and IIM Ahmedabad, 1981.

This takes us to the moot question.

## **5.2 Why are the MSMEs not able to remit the GST dues on time?**

This is the unfairness of the issue. GST is a levy charged by the government and the MSME taxpayer is supposed to collect this levy, deduct the Input Tax Credit and pay the dues to the government by 20th of the next month. Here the tax payer plays the role of the agent of the Government. But unfortunately the GST wants the MSME to pay the GST dues irrespective of GST collections from its customers. This is impossible because MSMEs do not have the bargaining power to dictate the payment terms with their customers who pay only after 60 to 90 days.

The tragedy is that even if one big customer does not pay the GST in time, the MSME will have to default because the GST summary report can only be filed only after 100% dues are paid. The bigger tragedy is that, even if the tax payer pays part of the dues, the government will use that part money but will not reduce the interest for the part payment. The biggest tragedy is that the MSME must pay the draconian 18% interest along with GST dues, every month.

## **5.3 One sided provisions**

If you ask the GST department as why are you insisting that MSMEs pay and then only file the GST summary return, their reply is that this will help us settle the IGST dues to the state governments, on time? Look at the irony. The central government does not want to finance its GST dues to the States but want the tiny MSMEs to finance the GST dues to the central government.

The second one sided affair is the interest rate. If the GST department delays its due (refund) to the tax payer, Government will pay interest @ 6% per annum. But if the tax payer defaults its dues to the GST department, tax payer must pay interest @18% per annum. The GST takes the cake in terms of interest disparity compared to even Income tax levy. Income tax department pays interest @12% per annum on its refund while GST will pay @ 6% only. God knows why? I am also surprised how the courts have allowed this one sided and unfair dealing of the Government towards its own citizens.

The third one sided treatment of GST regime is even more serious. For example, if the MSME pays its GST to its supplier and the supplier does not remit this amount to the government within a specified period, the MSME will be denied the Input credit and has to pay again the entire GST amount to the department with interest and penalty. This is the ultimate. The MSME will pay GST twice for no fault of the MSME. Typically the GST is not a small amount. Many of the items are taxed at 12 to 18% which is more than the profit earned by the MSME. By paying the GST twice, transaction will become unprofitable – again for no fault of the MSME.

I wonder at the one sided nature of the GST legislation in this matter. What is the basis for arriving at the deadline for claiming GST? What is the basis for denying the Input credit just because the GST payment is delayed?

It is essential that Finance Minister and the GST council take immediate cognizance of this draconian sections and immediately issue amendments to correct all the four provisions, especially for MSMEs .

## 5.4 Root cause of all MSME GST payment problems

Now let me discuss what is the root cause of all MSME payments to GST is. It is poor payment record of MSME customers. Both government and private sector. According to MSME Samadhan portal, which was created to monitor delayed payments to MSME, 1.17 lakh applications were filed by MSME for delayed payments. But these applications were only for disputed payments requiring arbitration. This does not cover undisputed delayed payments.

The largest defaulters are Central and state governments. For example “At Rs 1.23 trillion, dues to power producers up 17%; six states account for 70%. Union power secretary Alok Kumar said the main reason why these six states accounted for the bulk of the dues to GENCO’s is because state governments often fail to pay subsidies to discoms on time. Also, government departments don’t clear their electricity bills promptly.” This was the headline in a leading newspaper in April 2022. If the government departments don’t clear the electricity bills on time, imagine the fate of MSME contractors to the government.

According to another newspaper report from Karnataka of November 2021, “Karnataka State Contractors’ Association says bills worth Rs 17,000 crore are due at the end of October.2021” According to another report from AP, in a news daily in June 2022, AP government is saying payments timelines cannot be guaranteed and they have added a special conditions in the contracts which says “note: the payment of bills will be made based on the availability of plough back funds. In case of any delay in payment, the contracting agency shall have no right to challenge in the court of law. Only such contractors who can wait till realisation of bills without approaching the honourable courts only need to bid for the works.”

## 5.5 Conclusion

The question is – if the government cannot pay their dues on time, how can they expect the MSME entrepreneur to pay their government dues, on time.

It is time government and PSUs be asked to pay 18% per annum interest.

The only way forward is to penalize the government and private parties for delaying payments and make it mandatory for all government, PSU and private contracts to add a clause on payment to MSMEs as “**all MSME payments and interest will be as per the MSMED Act 2006**” This must be supplemented by Online portals where the MSMEs can upload their invoices, and the government must approve the invoices within 30 days so that pending payments dues are transparently displayed online. And the interest can be calculated transparently. Until this is done, the government has no right to demand timely payments for its dues.



# 6. Indian Economy at 75: Trapped in a Borrowed Development Strategy<sup>4</sup>

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Arun Kumar<sup>5</sup>

India at 75 is a mixed bag of development and missed opportunities. The country has achieved much since Independence but a lot remains to be done to become a developed society. The pandemic has exposed India's deficiencies in stark terms. The uncivilized conditions of living of a vast majority of the citizens became apparent. According to a Report of Azim Premji University, 90% of the workers said during the lockdown that they did not have enough savings to buy one week of essentials. This led to mass migration of millions of people, in trying conditions from cities to the villages, in the hope of access to food and survival.

Generally, technology-related sectors, pharmaceuticals and some producing essentials in the organized sectors have done well in spite of the pandemic. So, a part of the economy is doing well in spite of adversity but incomes of at least 60% of people at the bottom of the income ladder have declined (PRICE Survey, 2022). The great divide between the unorganized and organized parts of the economy is growing. The backdrop to these developments is briefly presented below.

## 6.1 Structure and growth of the economy

In 1947, at the time of Independence, India's socio-economic parameters were similar to those in countries of South East Asia and China. The level of poverty, illiteracy, inadequacy of health infrastructure were all similar. Since then, these other countries have progressed rapidly leaving India behind in all parameters. So, India has fallen behind relatively in spite of improvements in health services and education, diversification of the economy and development of industry.

In 1950, agriculture was the dominant sector with a 55% share of GDP which has now dwindled to about 14%. The share of the services sector has grown rapidly and by 1980 it surpassed the share of agriculture and now it is about 55% of GDP. The Indian economy has diversified producing 'from pins to space ships'.

Agriculture grows at a trend rate of maximum of 4% per annum while the services sector can grow at even 12% per annum. So, there has been a shift in the composition of the economy from agriculture to services and this accelerated the economy's growth rate. The average growth rate of the economy between the 1950s and the 1970s was around 3.5%. In the 1980s and 1990s it increased to 5.4% due to the shift in the composition. There was no acceleration in the growth rate of the economy in the 1990s compared to the 1980s. This rate again increased in the period after 2003 only to decline in 2008-09 due to the global financial crisis. Subsequently, the rate of growth has fluctuated wildly both due to global events and the policy conundrums in India.

There was the taper tantrum in 2012-13 which cut short the post-global financial crisis recovery. Demonetization in November 2016 adversely impacted growth. That was followed by the structurally flawed GST. These policies administered shocks to the economy. Then came the pandemic in 2020. The economy's quarterly growth rate had already fallen from 8% in Q4 2017-18 to 3.1% in Q4 2019-20, just before the pandemic hit.

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<sup>4</sup> *Mainstream*, VOL LX No 33, 34 New Delhi, August 6, August 13, 2022 [Independence Day Special]

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The year 1980-81 marked a turning point. Prior to that, a drought would lead to a negative rate of growth of agriculture and of the economy as a whole. For instance, due to the drought in 1979-80, the economy declined by 6%. But, that was the last one. After that, a decline in agriculture has not resulted in a negative growth rate of the economy. The big drought of 1987-88 saw the economy grow at 3.4%. After 1980-81, the economy has experienced a negative growth rate only during the pandemic which severely impacted the services sector, especially the contact services.

## **6.2 Employment and technology related issues**

Agriculture employs 45% of the workforce though its share in the economy (14%) has now become marginal. It has been undergoing mechanization with increased use of tractors, harvester combines, etc., leading to displacement of labour. Similar is the case in non-agriculture. So, surplus labour is stuck in agriculture leading to massive disguised unemployment.

India's employment data is suspect. The reason is that in the absence of unemployment allowance, people who lose work have to do some alternative work otherwise they would starve. They drive a rickshaw, push a cart, carry head load or sell something at the roadside. This gets counted as employment even though they have only a few hours of work and are under employed. So, India is characterized by disguised unemployment and under employment.

Recent data points to growing unemployment among the educated youth. They wait for suitable work. The result is low labour force participation rate (LFPR) in India (in the mid-40s) compared to similar other countries (60% plus). It implies that in India maybe 20% of those who could work have stopped looking for work. No wonder for a few hundred low grade government jobs, millions of young apply. The gender dimension of unemployment and the low LFPR is worrying with women the worst sufferers.

These aspects of inadequate employment generation are linked to automation and the investment pattern in the economy. New technologies that are now being used in the modern sectors are labour displacing. For instance, earlier in big infrastructure projects like, construction of roads one could see hundreds of people working but now big machines are used along with a few workers.

Further, the organized sectors get most of the investment so that little is left for the unorganized sector. This is especially true for agriculture. Thus, neither the organized sector nor agriculture are generating more work. Consequently, entrants to the job market are mostly forced to join the non-agriculture unorganized sector, which in a sense is the residual sector, where the wages are a fraction of the wages in the organized sector. The unorganized sector also acts as a reserve army of labour keeping organized sector wages in check.

## **6.3 Lack of a living wage**

To boost profits, the organized sector is increasingly, employing contract labour rather than permanent employees. This is true in both the public and private sectors. So, not only the workers in the unorganized sector, even the workers in the organised sector do not earn a living wage. Thus, most workers have little savings to deal with any crisis. They are unable to give their children proper education and cannot afford proper health facilities. Most of the children drop out of school and can only do menial jobs requiring physical labour. They cannot obtain a better paying job and will remain poor for the rest of their lives.

The Delhi socio-economic survey of 2018 pointed to the low purchasing power of the majority of Indians. It showed that in Delhi, 90% of households spent less than Rs. 25,000 per month, and 98% spent less than Rs. 50,000 per month. Since Delhi's per capita income is 2.5 times the all India average, deflating the Delhi figures by this factor will approximately yield the all India figures. So, 98 per cent of the families would have spent less than Rs.20,000 per month, and 90 per cent less than Rs.10,000 per month. Effectively implying that 90 per cent of families were poor in 2018, if not extremely poor (implied by the poverty line). During the pandemic, many of them lost incomes and were pauperized and forced to further reduce their consumption.

## 6.4 Unorganized sector invisibilized

In the unorganized sector labour is not organized as trade union and therefore, unable to bargain for higher wages, when prices rise. It constitutes 94% of the work force and has little social security. No other major world economy has such a huge unorganized sector. No wonder when such a large section of the population faces a crisis in their lives, the economy declines, as witnessed during the pandemic. India's official rate of growth fell more sharply than that of any other G20 country.

Policy makers largely ignore the unorganized sector. The sudden implementation of the lockdown which put this sector in a deep existential crisis points to that. The micro sector has 99% of the units and 97.5% of the employment of MSME and is unlike the small and medium sectors. The benefits of policies made for MSME sector do not accrue to the micro units.

Invisibilization of the unorganized sector in the data is at the root of the problem. Data on this sector becomes available periodically, called the reference years. In between, it is assumed that this sector can be proxied by the organized sector. This could be taken to be correct when there is no shock to the economy and its parameters remain unchanged.

Demonetization and the flawed GST administered big shocks to the economy and undermined the unorganized sector. Its link with the organized sector got disrupted. Thus, the methodology of calculating national income announced in 2015 became invalid.

The implication is that the unorganized sector's decline since 2016 is not captured in the data. Worse, the growth of the organized sector has been at the expense of the unorganized sector because demand shifted from the latter to the former. It suited the policy makers to continue using the faulty data since that presented a rosy picture of the economy. This also lulled them into believing that they did not need to do anything special to check the decline of the unorganized sector.

## 6.5 Policy Paradigm Shift in 1947

Growing unemployment, weak socio-economic conditions, etc., are not sudden developments. Their root lies in the policy paradigm adopted since independence.

In 1947, the leadership, influenced by the national movement understood that people were not to blame for their problems of poverty, illiteracy and ill-health and could not resolve them on their own. So, it was accepted that in independent India these issues would be dealt with collectively. Therefore, government was given the responsibility of tackling these issues and given a key role in the economy.

Simultaneously, the leadership, largely belonging to the country's elite, was enamoured of Western modernity and wanted to copy it to make India an 'advanced country'. The two paths of Western development then available were the free market and Soviet-style central planning. India adopted a mix of the two with the leading role given to the public sector. This path was chosen also for strategic reasons and access to technology which the West was reluctant to supply. But, this choice also led to a dilemma for the Indian elite. It had to ally with the Soviet Union for reasons of defence and access to technology but wanted to be like Western Europe.

Both the chosen paths were based on a top-down approach. The assumption was that there would be a trickle down to those at the bottom. People accepted this proposition believing in the wider good of all. Resources were mobilized and investments made in the creation of big dams and factories (called temples of modern India) that generated few jobs. They not only displaced many people trickle down was minimal. For instance, education spread but mostly benefitted the well-off.

The Indian economy diversified and grew rapidly. An economy that for 50 years had been growing at about 0.75% grew at about 4% in the 1950s. But, the decline in the death rate led to a spurt in the rate of population growth. So, the per capita income did not show commensurate growth, and poverty persisted. Problems got magnified due to the shortage of food following the drought of 1965-67 and the Wars in 1962 and 1965. The Naxalite movement started in 1967, there was BOP crisis and high inflation in 1972-74 due to the growing energy dependence and the Yom Kippur war. Soon thereafter there was political instability and imposition of Emergency in 1975. The country went from crisis to crisis.

Planning failed due to crony capitalism. The prevailing political economy enabled the business community to systematically undermine policies for their narrow ends by fueling the growth of black economy.

The failure of trickle-down and the cornering of the gains of development by a narrow section of people led to growing inequality and people losing faith in the development process. Different sections of the population realized that they needed a share in power to deliver to their group. Every division in society — caste, region, community, etc. — was exploited. The leadership became short termist and indulged in competitive populism by promising immediate gains.

The consensus on policies that existed at independence dissipated quickly. Election time promises to get votes were not fulfilled. For instance, PM Morarji Desai said that promises in the Janata Dal manifesto in 1977 were the party's programme and not the government's. Such undermining of accountability of political process has undermined democracy and trust and aggravated alienation.

## **6.6 Black economy and policy failure**

The black economy has grown rapidly since the 1950s with political, social and economic ramifications. Even though it is at the root of the major problems confronting the country, most analysts ignore it.

It undermines elections and strengthens the hold of vested interests on political parties. The compromised leadership of political parties is open to blackmail both by foreign interests and those in power. When in power it is willing to do the bidding of the vested interests. So, the black economy controls politics and to retain power it undermines accountability and weakens democracy.

Black economy controls politics and corrupts it to perpetuate itself. The honest and the idealist soon are corrupted as happened with the leadership that emerged from the anti-corruption JP movement in the mid-1970s. Many of them who gained power in the 1990s were accused of corruption and even prosecuted. Proposals for state funding of elections will only provide additional funds but not help clean up politics.

The black economy can be characterized as 'digging holes and filling them'. It results in two incomes but zero output. There is activity without productivity with investment going waste. Consequently, the economy grows less than its potential. It has been shown that the economy has been losing 5% growth since the mid-1970s. So, if the black economy had not existed, today the economy could have been 8 times larger and each person would have been that much better off. Thus, development is set back. In 1988, PM Rajiv Gandhi lamented that out of every rupee sent only 15 paise reaches the ground. P Chidambaram as FM said, 'expenditures don't lead to outcomes'.

The black economy leads to the twin problem of development. First, black incomes being outside the tax net reduces resource availability to the government. If the black incomes currently estimated at above 60% of GDP could be brought into the tax net, the tax/GDP ratio could rise by 24%. This ratio is around 17% now and is one of the lowest in the world. Further, as direct tax collections rise, the regressive indirect taxes could be reduced, lowering inflation.

India's fiscal crisis would also get resolved. The current public sector deficit of about 14% would become a surplus of 10%. This would eliminate borrowings and reduce the massive interest payments (the largest single item in the revenue budget). It would enable increase in allocations to public education and health to international levels and to infrastructure and employment generation.

In brief, curbing the black economy would take care of India's various developmental problems, whether it be lack of trickle-down, poverty, inequality, policy failure, employment generation, inflation and so on. It causes delays in decision-making and a break-down of trust in society.

Due to various misconceptions about the black economy, many of the steps taken to curb it have been counterproductive, like, demonetization. Dozens of committees and commissions have analysed the issues and suggested hundreds of steps to tackle the problem. Many of them have been implemented, like, reduction in tax rates and elimination of most controls but the size of the black economy has grown because of lack of political will.

## **6.7 Policy Paradigm Shift in 1991**

Failure of policies led to crisis after crisis in the period leading up to 1990. The blame was put on the policies themselves and not the crony capitalism and black economy that led to their failure. The policies prior to 1990 have been often labelled as socialist. Actually, the mixed economy model was designed to promote capitalism. At best the policies may be labelled as state capitalist and they succeeded in their goal. Private capital accumulated rapidly pre-1990. The Iraq crisis of 1989-90 led to India's BOP crisis and became the trigger for a paradigm change in policies in favour of capital. The earlier more humane and less unequal path of development was discarded.

In 1991, a new policy paradigm was ushered in. Namely, 'individuals are responsible for their problems and not the collective'. Under this regime, government's role in the economy was scaled back and individuals were expected to go to the market for resolving their problems. This may be characterized as 'marketization'. This brought about a philosophical shift in thinking of individuals and society.

Marketization has led to the 'marginalization of the marginals', greater inequality and rise in unemployment. These policies have promoted 'growth at any cost' with the cost falling on the marginalized sections and the environment, both of which make poverty more entrenched. So, the pre-existing problems of Indian society have got aggravated in a changed form. Poverty is defined in terms of the 'social minimum necessary consumption' which changes with space and time. Marketization has changed the minimum due to promotion of consumerism and environmental decay imposing heavy health costs.

The highly iniquitous NEP is leading to an unstable development environment. The base of growth has been getting narrower leading to periodic crisis. Additionally, policy induced challenges like demonetization, GST, pandemic and now the war in Ukraine have aggravated the situation. These social and political challenges can only grow over time as divisions in society become sharper.

## **6.8 Weakness in knowledge generation**

Why does the obvious not happen in India? No one disagrees that poverty, illiteracy and ill health need to be eliminated. In addition to the problems due to black economy and top down approach, India has lagged behind in generating socially relevant knowledge to tackle its problems and make society dynamic.

Technology has rapidly changed since the end of the Second World War. It is a moving frontier since newer technologies emerge leading to constant change and the inability of the citizens to cope with it. The advanced technology of the 1950s is intermediate or low technology today.

Literacy needs to be redefined as the ability to absorb the current technology so as to get a decent job. Many routine jobs are likely to disappear soon, like, driver's jobs as autonomous (self-driving) vehicles appear on the scene. Most banking is already possible through net-banking and machines, like, ATMs. Banks themselves are under threat from digital currency.

India's weakness in knowledge generation is linked to the low priority given to education and R&D. Learning is based substantially on 'rote learning' which does not enable absorption of knowledge and its further development. So, education is no more about the joy of learning and expanding one's horizon. No wonder, the scientific temper is missing among a large number of the citizens. Dogmas, misconceptions and irrationalities rule the minds of many and they are easily misled. This is politically, socially and economically a recipe for persisting backwardness.

In spite of policy initiatives regarding education, like, the national education policy in 1968 and 1986, there is deterioration. This is because the milieu of education is all wrong. Policy is in the hands of bureaucrats, politicians or academics with bureaucratized mindset. So, policies are mechanically framed. Like the idea that 'standards can be achieved via standardization'.

Learning requires democratization. So, institutions need to be freed from the present feudal and bureaucratic control. Presently, institutions treat dissent as a malaise to be eliminated rather than celebrated. Courses are sought to be copied from foreign universities. JNU is told to be like Harvard or Cambridge. This is a contradiction in terms; originality cannot be copied. Courses copied from abroad tend to be based on the societal conditions there and not Indian conditions. Gandhi had said that Indian education system is alienating and for many it still is.

Learning is given low priority because ideas are sought to be borrowed from abroad. So, the rulers have little value for institutions that could generate new ideas and inadequate funds are allotted to them. The best minds mostly go abroad and even if they return, they bring with them an alien framework not suited to India. So, as a society, we need to value ideas, prioritize education and R&D and generate socially relevant knowledge.

## 6.9 Conclusion

India is a diverse society and the Indian economy is more complex than any other in the world. This has posed serious challenges to development in the last 75 years but undeniably things are not what they were. The big mistake has been to choose trickle down policies that have not delivered to a vast number of people who live in uncivilized conditions. Poverty has changed its form and the elite imply that the poor should be grateful for what they have got. They should not focus on growing inequality, especially after 1991, when globalization entered the marketization phase which marginalizes the marginals.

The growth at any cost strategy has been at the expense of the workers and the environment. This has narrowed the base of growth and led to instability in society — politically, socially and economically. The situation has been aggravated by the recent policy mistakes — demonetization, flawed GST and sudden lockdown. The current war in Ukraine is likely to lead to a new global order which will add to the challenges. The answer to 'why does the obvious not happen' in India is not just economic but societal. Unless that challenge is met, portents are not bright for India at 75.



# 7. Transition to a More Nonviolent Economy

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*Background Paper for the Ahimsa Santhai Event*

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India at 75 is a mixed bag of development and missed opportunities. The country has achieved much since Independence but a lot remains to be done to become a developed society. The pandemic has exposed India's deficiencies in stark terms. The uncivilized conditions of living of a vast majority of the citizens became apparent. According to a Report of Azim Premji University, 90% of the workers said during the lockdown that they did not have enough savings to buy one week of essentials. This led to mass migration of millions of people, in trying conditions from cities to the villages, in the hope of access to food and survival.

Generally, technology-related sectors, pharmaceuticals and some producing essentials in the organized sectors have done well in spite of the pandemic. So, a part of the economy is doing well in spite of adversity but incomes of at least 60% of people at the bottom of the income ladder have declined (PRICE Survey, 2022). The great divide between the unorganized and organized parts of the economy is growing. The backdrop to these developments is briefly presented below.

## 7.1 Introduction

As I listen to the news about Greenland's Ice Sheet melting at a higher-than-expected rate this summer, I take comfort by removing myself from this threat. "I am here, that's there." Even when 'it is here' like the floods in Pakistan on India's doorstep, I am able to find mind-numbing distractions justifying inaction. Some young people say that this practice of "mind-numbing" in the face of extreme weather patterns, is leading them to "survival anxiety".

Youth in many parts of the world like Friday for Futures, are blaming their parents for not acting to counter the climate crisis, and this is bringing apocalyptic visions into their view of the future. There is nothing more fallen in the human psyche than when parents see hope being extinguished in the eyes of their children. In fact, there exists no greater human purpose than to overcome a sense of defeatism and to confront the big civilizational challenges of our time.

In Europe, the transition away from a fossil-fuel economy is occurring. The move towards sustainable agriculture, transportation based on renewables, changing urban settlement patterns, is commonplace in many cities and farms across Europe in an effort to reduce carbon, green-house gases and global warming, "Degrowth", an economic vision touted by young people includes reducing luxury consumer items in favour of essential products which reduces superfluous industrial production and with it, green-house gases.

In India, **the transition towards a more nonviolent economy** is something uniquely home-grown. Like many other countries in the global south with large populations below the poverty line, climate mitigation has to be seen in tandem with poverty reduction. The rural economy in India is local and can produce basic needs like food, clothing, shelter, education and health. Take for example rainfed agriculture (where no pesticides are used), this is a more nonviolent relationship with the earth than one that uses chemical fertilizers and pesticides. Even those farmers who had been using chemical inputs and are now introducing organic matter through natural farming techniques (like zero budget agriculture) are recycling biomass. This decreases methane emissions, and at the same time, it is generating richer soils and a healthier supply of food. Added to this, small-scale farming that gives an adequate return, creates livelihood for tens of millions of people, enabling them to meet their basic needs.

Any precarious employment where there is huge internal migration of wage labourers is neither economically or environmentally sustainable. Instead, an economy that is more nonviolent is where people can productively live with sufficient livelihood opportunities.

There is in India many micro-actors in the form of co-operatives, self-help groups, non-profit companies, social enterprises, community-based livelihood schemes, household-based groups, fair-trade organizations, and so forth. These groups may be members of the informal sector (farmers, agro-processors, handicraft workers, MFP collectors, fisherfolk, artisans and the like) yet there is not a singular narrative that describes the economic value that they generate, and the contribution they make to climate mitigation. Without this **transition narrative** these groups become marginalized in a mainstream economy. As part of the **nonviolent economy narrative** then, the idea is to create a two-fold value: producing something by generating livelihoods and reducing the adverse climate impacts in the process.

## 7.2 Gandhi and Kumarappa's views on nonviolent economy

Mahatma Gandhi spent a lifetime creating a rural nonviolent economy from his ashrams of Tolstoy Farm in South Africa, Sabarmati Ashram in Ahmedabad and Seva Gram in Wardha. The idea of these ashrams was to achieve self-sufficiency for the community with the input of their physical labour. Similar to the many cooperative farms today, the emphasis has been on scaling self-sufficiency.

In earlier days, Gandhi's aim was to see India ruled by 500,000 village republics and not by a central Government. Self-sufficient, self-governed villages would enable "bottom-up" and inclusive development, and not top-down welfare dependence that challenges transparency and accountability. Although a local governance model and Gandhi's 18-point Constructive Program did not take place, the idea of self-sufficient livelihoods has continued until today. This is what the current nonviolent economy network (NVEN) is building on through its various programs like the Ahimsa Santhai, that is further described below.

Gandhi's idea of nonviolent economy grew under the stewardship of his trusted economist, J.C. Kumarappa (1892-1960) who maintained that self-sustaining economies were possible if and only if they are mapped onto the self-organizing processes of nature because nature is permanently reproducing itself. Kumarappa saw the vagaries of market forces as the cause of people's insecurity; he saw the market forces being adversely influenced by those "big fish" with large financial resources. He saw the new Independent Government reproducing what the colonial administration had done previously: they were benefiting the landowners through taxation and other financial arrangements that reduced local asset creation and did not help to incentivize that money would stay in the hands of people and producers. For this reason, Kumarappa boosted the idea of rural industries.

Today, these rural industries have flowered into many kinds of livelihood schemes, and community enterprises that are described as organic and natural farming; khadi and handloom; forest- and water-based livelihoods and direct marketing. Before turning to this, we look at how at value in the nonviolent economy.

## 7.3 Looking at value: Kumarappa, GDP and Gross National Happiness

There is no economic value of a tree standing untouched in a forest, because a value is generated when it is cut down and it becomes a resource exchanged between multiple buyers and sellers and when capital is circulated. But the standing tree offers many other benefits: it creates a mini-ecosystem of life with the small creatures that make the tree their home. It is part of a network of trees, plants, insects and animals in a larger forest ecosystem. It offers food, fuel, fodder resources to people and is a regenerating resource. The tree provides shade to those experiencing the hot sun, and it gives a good feeling. It would be madness to cut it down, if one risks losing the myriad of its benefits.

Kumarappa explored how people value items in the market when he said: "Money valuation [value] benumbs the faculty for better appreciation of higher considerations, and results in transaction which may be a gain to one party but which leads to irreparable loss to the other". (Economy of Permanence, p.53). In other words, the creation of economic value is being done at the cost of destroying our natural wealth on which our survival depends.

At the macro-economic level, Gross Domestic Product (GDP) is the measure of goods and services, and this quantifies economic development. This shows the sum total of goods and services being generated at any given time. Because it is limited to measuring the circulation of capital, other measures have been developed such as Human Development Index (HDI) and Gross National Happiness (GNH). This gives a wider berth of understanding what people hold dear and what they value.

Gross National Happiness identifies a subjective perception of well-being. Of many things people value, these include: having social support, being able to have a long and health life, being free and having options to make life choices, feeling the generosity of oneself and others, and not living with corrupt practices but being true to oneself.

This is where value has to be internalized as something more than profit-making. Practically all our resources have been monetized and this has led to privileging the affluent (who demonstrate wealth creation) and disparaging the common man. Value includes seeing one's own advancement in relation to a wider societal advancement.

## **7.4 Organic and natural farming practices**

The transition of conventional to organic and natural farming has been growing steadily in India since its introduction in 2005. It is roughly 2% of the total sowed area (2.78 million hectares of farmland). For example, in Tamilnadu, the consumer demand for organic produce has jumped by 30% in 2020-21 with increased consumption of ragi, bajra and jowar. This has pressed the farmers to make the transition to organic.

Ananthoo has worked since 2008 to bring producer and consumer together in reStore and the Organic Farmers Market (OFM), a group of 13 retail outlets in and around Chennai to source, aggregate, and market organic perishable and nonperishable products direct from the farms as well as processed products. The Safe Food Alliance has also been a platform of diffusing healthy food products to encourage greater consumption.

Three interesting figures who have shaped organic and natural farming in South India are: S. Nammazhwar (1938-2013), a promoter of ecological agriculture in the tradition of Gandhi and Vinoba Bhave, who worked mainly in Tamilnadu (and initially influenced by the organic growers in Auroville); Subhash Palekar whose Zero Budget Agriculture, a form of natural farming developed in Maharashtra, which took root especially in Government programs in Andhra Pradesh; and Manjunath, a leading naturalpathy farmer working in the Gandhian tradition in Karnataka, whose natural farm forest techniques are connected to local soil types, use of leaf litter, gradient, water regenerative practices and animal-insect life activity.

All of these are agroecological practices that are aimed at reducing dependence on external inputs that many small landholders cannot afford and are often environmentally-detrimental whether for improving the soil quality and water conservation or for more stable and consistent economic returns. This has led to many kinds of interventions such as: the five layers of intercropping of plants and trees; the promotion of multiple indigenous varieties of millets that are not only nutritious but also climate resilient; the harvesting of rainwater to raise the water table of an entire local region for growing local, nitrogen fixing and nutritional crops.

Of the different systems of organic and natural farming, one of the unique contributions to nonviolent economy has been integrated farming practices developed by Pamayan in Tamilnadu. He has brought together self-reliant farming (Thalanmai Pannaiyam) techniques from the ancient Tamil texts along with modern permaculture design. This fusion is based on an application to local agroecological conditions.



## 7.5 Khadi and handloom production: Local and promotes self-reliance

India is one of the largest producers of cotton in the world, accounting for about 22% of cotton production. Cotton production has been in existence since the early Indus civilization. Khadi became a symbol for India's non-cooperation movement with the British and after Independence continued as a central livelihood in rural India with the support of Khadi and Village Industries. The handloom industry accelerated cotton textile production into becoming the second largest employer in rural India employing tens of millions of people. Khadi symbolizes the nonviolent economy.

Khadi production creates a variety of "goods" simultaneously which may explain the reason it captured the imagination of so many people in the Freedom struggle. Khadi came from the abundance of indigenous cotton in India and was available. Gandhi developed a hand-cranked charkha that could spin short staple threads. Hand-spun cloth could be done by anyone and this avoided paying higher prices of English cloth which had impacted people making them poorer. Because cloth was locally produced and sold, people became more self-reliant. This was done through decentralized or direct marketing. Purchasers conscientiously wore khadi aligning themselves with the producer and giving them a sense of dignity. Wearing Khadi was good for health (because it is cooling in summer heat); it is also a sustainable product: it uses 3 litres of water for its production whereas mill cloth takes about 55 litres of water.

With the introduction of mechanization, mill yarn began to advance in India. This undercut the hand-spinning creating lop-sided market incentives, and even with direct government subsidies, the self-reliance of khadi producers was diminished. Consumers began to lose interest in khadi because the narrative changed. For instance, if the nonviolent economy narrative was re-introduced to get every student to buy one khadi handkerchief each month, the production of khadi could be restored and provide self-reliant livelihoods to millions of people.

There is a growing demand for cotton-based garments handloom products, where consumers are keenly willing to support women's livelihoods while also maintaining a modern fashionable image. These give fair returns to the women weavers and members of the cooperative and the profit maximisation by single owner and promoter does not become the primary motivation for the enterprise. These community-based enterprises help to incentivize a nonviolence in the economy.

## 7.6 Forest- and water-based economies

Besides organic products, khadi and handloom, the nonviolent economy has been given definition by forest- and water-based collectors and producers. As there is a significant population, mainly Adivasis living in and around forests in South India, they have created livelihood patterns based on collection and production of leaf-based items, honey, traditional medicines, tasar, lac, and many other minor forest produce. Similarly, fisherfolk, salt-pan workers, and coastal communities, dependent on the water bodies, have developed an array of livelihoods. These livelihood practices are mapped onto the natural processes.

Kumarappa speaks about work in nature as a kind of cooperation with the cycle of life. He warns that “if this cycle is broken at any stage, consciously or unconsciously, violence results as a consequence of the break”. He goes on to say: “When violence intervenes in this way, growth or progress is stopped, ending finally in destruction and waste. Nature is unforgiving and ruthless.” (Economy of Permanence, p. 2).

Different community enterprises are growing up to support the Adivasis economy. One of them is Keystone in Tamilnadu whose objectives are to: promote environment and biodiversity; to promote conservation, community ownership and sense of identity through culture, art, indigenous knowledge; and to develop enterprises based on forest produce that secures livelihoods.

## 7.7 Decentralized marketing as part of nonviolent economy

The mainstream economy in India emphasizes global trade. In terms of food items, domestic consumption continues to be a priority to stave off food insecurity especially with rising prices of fossil fuels. Today fifty-four percent of the workforce works on agriculture and many small farmers are faced with challenging conditions. The setting of minimum support price has been a contested area; the whole area of land reform has been lacking; the onset of extreme weather patterns due to climate crisis is being felt. Creating direct markets is one aspect that would reduce the value addition taken by the intermediaries and also reduce the debt burden that drives people into poverty.

Gandhi often said that “what can be done by the hand should be done by the hand, what cannot be done by the hand, can be done by a small machine, what cannot be done by the hand and a small machine can be done by a large factory”. No one disputes that a jet engine cannot be made by hand, however food, soaps and many household items can be produced by hand.

Swadeshi is a model of hand-based production and direct marketing found in Kerala. It is based on decentralised home-based small production units, mostly done by women and promoted through parent-teachers associations. This is decentralised marketing model with a credible common brand (Swadeshi), which maintains strict control over the raw material procurement that is supplied centrally, and a strong training intervention through schools to maintain a high quality of product. There is a whole range of products produced under the Swadeshi brand including toilet soap, washing powders, cosmetic herbal products, herbal and ayurvedic items, squash and syrup items, fruit and jelly jams, pickles, snack items, herbal medicine, and millets and rice.

Each of these products have a standardized production process and raw material specifications. Swadeshi has managed to allow flexibility for each producer member to choose and produce products and market those on their own, and them becoming an entrepreneur and gaining self-reliance.

## 7.8 Youth at the forefront of nonviolent economy

Young people have understood that the current mainstream economy needs a reset. Young people across South India are coming together to sponsor a nonviolent economy network and also an Ahimsa Santhai. This is an effort to bring many small producer groups together to speak and talk about nonviolent economy, which is simultaneously enabling environment their advancement.

There are many incentives for youth to take up enterprise initiatives in the public domain and private sector. This is an effort to strengthen community or social enterprises so that the poorer communities are not left behind. Young people have realized that there are many grassroots experiments that have been tried and tested in the past forty years that can form the foundation of their initiative. Through self-reliant community participation, technology and capital, these can be used to decentralize the economy rather than to recreate top-down models that does not stimulate growth at the bottom of the pyramid. This is being demonstrated in the Ahimsa Santhai at Gandhi Museum between the 22nd and 26th of September, and in the process, it will take steps towards realizing a nonviolent economy. It gives young people hope in moving forward in spite of the climate challenges that lie ahead.





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