BACKGROUND GUIDE
LOK SABHA

AGENDA:
State Intervention vs Free Market: What India Needs?"

सत्यमेव जयते

SECRETARY GENERAL'S ADDRESSAL

It is my pleasure to welcome all you budding delegates to the 5th edition of SelaQui International School's signature MUN conference-QMUN.

One of the country's premiere Junior MUNs, QMUN has grown from strength to strength in a short span of time. Since its inception, QMUN has had a special place for everyone in SelaQui, promoting negotiation, diplomacy and collaboration.

Seeing the current state of the world, there has probably never been a greater need to simulate the world's foremost diplomatic organization- The United Nations. With hostile ideals progressively plunging the world into anarchy, the people of the world must rally as one if we hope to extract ourselves from the precipice.

In this grand and often daunting scheme of things, one can make the mistake of neglecting the importance of the individual. This notion of reluctance - in various forms- acts as a catalyst for a myriad of issues that plague us. A delegate, therefore, has to shoulder enormous responsibility while evaluating events and formulating strategies to deal with their ramifications.

With QMUN'19, we hope to provide young delegates a glimpse of what it takes to strategise and coordinate at a global level while developing intrinsic skills of diplomacy and negotiation.

Looking forward to welcoming you,

SECRETARY GENERAL

CHAIR PERSON'S ADDRESSAL

Greetings Parliamentarians,

I feel immensely ecstatic to invite all the budding diplomats to the Lok Sabha in the QMUN-'19.

With a working population of 188 million, India is the sixth largest economy in the world (according to GDP), but is ironically placed at 136th rank in Per Capita Income. It corroborates that India lacks behind in equitable distribution of income as the bread of 188 million is shared amongst 1.3 billions. Through the agenda, we will discuss the role of the government in the progression of the Indian economy. We will discuss about the certain amendments for the efficiency of the Indian economy and will find out the reason why it is a snail in a rat-race.

The committee resolute resonance, productivity and exuberance in the stimulated debate to procure fruitful conclusions. Your role as parliamentarians is to try and reach consensus without compromising the core values and ethos of your political parties. In a nutshell, thinking on your feet is what we want and nothing short of brilliance is what we expect.

Coming to my Executive Board, I am Aayush Kumar, holding the Chair of Lok Sabha. My hobbies include writing, doodling and debating. I excel in the game of volleyball and I am currently the captain of the school's Volleyball team. I take keen interest in outdoor sports and activities and I am also the Adventure Club's captain. Ishaan Dwivedi, Deputy chair of the committee, is an excellent debater and a keen reader. His young aspiring mind holds an opinion about every subject. His acting skills led him to become the head of the "Rangmanch Society". Adarsh Bagaria will be the Rapporteur of the committee. His rational mind and charming personality makes him one of the most popular student of the school and he is the one who surely lives by his wits. He is good in Lawn Tennis and Table Tennis.

Looking forward to see you at the QMUN.

Signing Off,

Aayush Kumar,

Content

Agenda: State Intervention vs Free Market. What India needs?

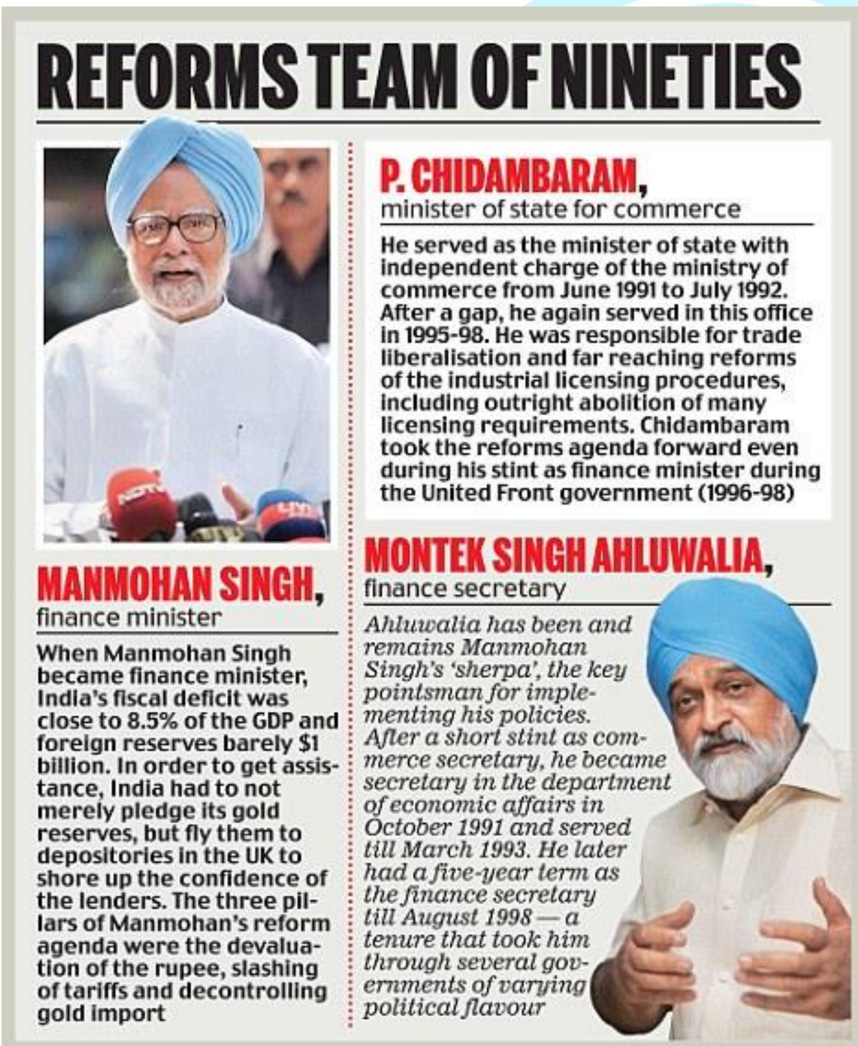
"STATE INTERVENTION VS FREE MARKET.WHAT INDIA NEEDS ?

There are two types of market economy, One is free market economy refers to a capitalist economic system where prices for goods and services are set freely by the forces of supply and demand and are allowed to reach their point of equilibrium without intervention by government policy and another is social market economy is a nominally free-market system where government intervention in price formation is kept to minimum but the state provides significant services in the area of social security ,health, education, unemployment benefits and recognition of labor rights through national collective bargaining arrangements.

There are two controversial schools about the regulation of government in market. One school claims that there should not be the regulation of government in the market. If there is any regulatory face of the state, the market cannot move freely to set the prices of goods and services. The other school says that there should be some actions of the government to regulate the market but the actions that will be taken obviously should be minimum.Kautilya was a famous economist in the regime of Samrat Ashok, according to him, Private property accumulation is the right of the people and the king (government) must protect that right according to law.(Free market but the government as regulator).

The economy of India is the seventh largest in the world by nominal GDP and the third largest by purchasing power parity. The country is one of the G-20 major economies, a member of BRICS and a developing economy among the top 20 global traders according to the WTO.The post-independence-era Indian economy (from 1947 to 1991) was a mixed economy, but after a fiscal crisis in 1991,India has rapidly adopted free-market principles and liberalized its economy to global trade. Since 1991, continuing economic liberalization has moved the country towards a market based economy. Indian economic policy after independence was influenced by the colonial experience which was seen by Indian leaders as exploitative and by those leaders, exposure to British social democracy as well as the planned economy of the Soviet Union.

Jawaharlal Nehru, the first prime minister of India, formulated and oversaw economic policy during the initial years of the country's independence. They expected favorable outcomes from their strategy, involving the rapid development of heavy industry by both public and private sectors, and based on direct and indirect state intervention, rather than the more extreme Soviet-style central command system. In 1991 then government initiated the economic liberalization. The reforms reduced tariffs and interest rates and ended many public monopolies, allowing automatic acceptance of foreign direct investment in many sectors. By the turn of the 21st century, India had progressed towards a free market economy, with a reduction in state control of the economy and increased financial freedom. India is often seen by one of the most rising economic superpower is believed to play a great role in the global economy.



REFORMS TEAM OF NINETIES

MANMOHAN SINGH,
finance minister

When Manmohan Singh became finance minister, India's fiscal deficit was close to 8.5% of the GDP and foreign reserves barely $1 billion. In order to get assistance, India had to not merely pledge its gold reserves, but fly them to depositories in the UK to shore up the confidence of the lenders. The three pillars of Manmohan's reform agenda were the devaluation of the rupee, slashing of tariffs and decontrolling gold import

P. CHIDAMBARAM,
minister of state for commerce

He served as the minister of state with independent charge of the ministry of commerce from June 1991 to July 1992. After a gap, he again served in this office in 1995-98. He was responsible for trade liberalisation and far reaching reforms of the industrial licensing procedures, including outright abolition of many licensing requirements. Chidambaram took the reforms agenda forward even during his stint as finance minister during the United Front government (1996-98)

MONTEK SINGH AHLUWALIA,
finance secretary

Ahluwalia has been and remains Manmohan Singh's 'sherpa', the key pointsman for implementing his policies. After a short stint as commerce secretary, he became secretary in the department of economic affairs in October 1991 and served till March 1993. He later had a five-year term as the finance secretary till August 1998 — a tenure that took him through several governments of varying political flavour

The Three Major Economists:

Dr. Manmohan Singh,

P. Chidambaram,

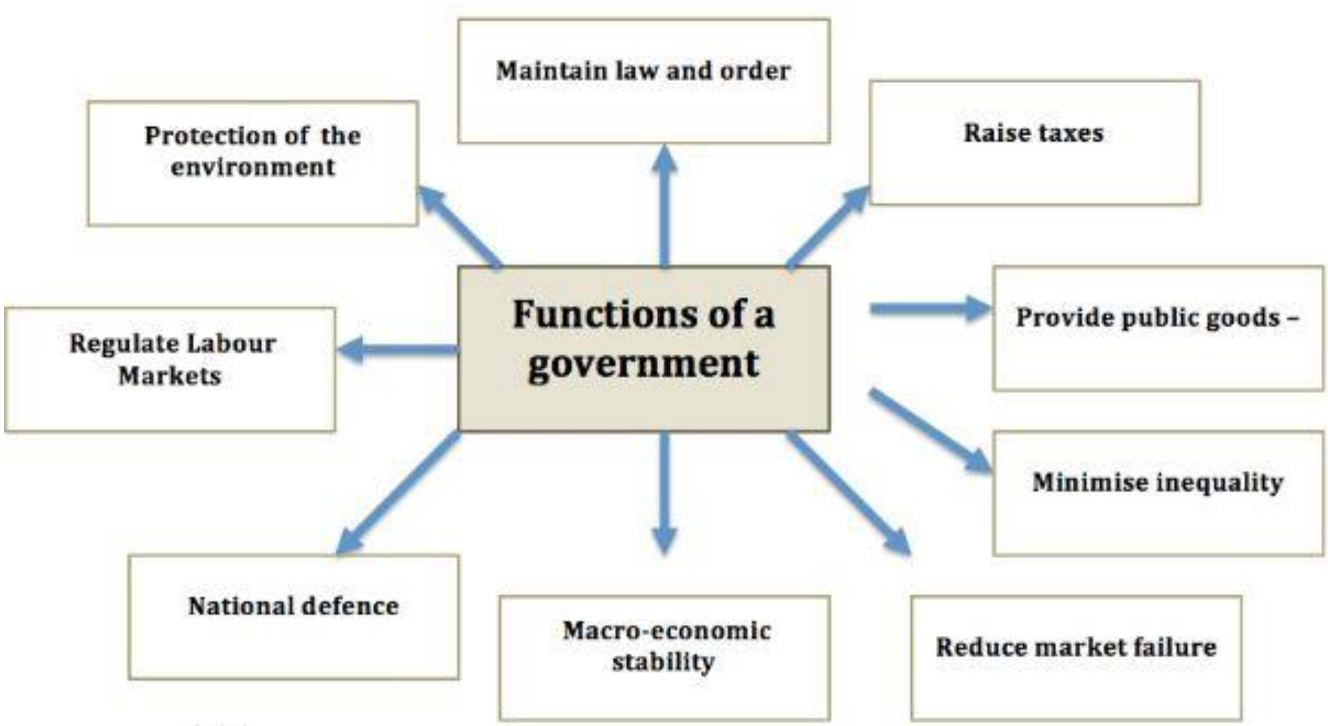
Montek Singh Ahluwalia.

Should Government Interfere in The Economy?

One of the main issues in economics is the extent to which the government should intervene in the economy. Free market economists argue that government intervention should be strictly limited as government intervention tends to cause an inefficient allocation of resources. However, others argue there is a strong case for government intervention in different fields, such as externalities, public goods and monopoly power.

Arguments for Government Intervention.

1. Greater equality – redistribute income and wealth to improve equality of opportunity and equality of outcome.
2. Market Failures – Markets fail to take into account externalities and are likely to under-produce public/merit goods. For example, governments can subsidies or provide goods with positive externalities.
3. Macroeconomic intervention. – Intervention to overcome prolonged recessions and reduce unemployment.



In a free

market, there tends to be inequality in income, wealth and opportunity. Private charity tends to be partial. Government intervention is necessary to redistribute income within society.

- **Diminishing marginal returns to income**. The law of diminishing returns state that as income increases, there is a diminishing marginal utility. If you have an income of £2 million a year. An increase in income to £2.5 million gives only a marginal increase in happiness/utility. For example, your third sports car gives only a small increase in total utility.
    - However, if you are unemployed, and surviving on £50 a week. A 10% increase in income gives a substantial boost in living standards and quality of life. Therefore, redistributing income can lead to a net welfare gain for society. Therefore income redistribution can be justified from a utilitarian perspective.
- **Fairness.** In a free market, inequality can be created, not through ability and handwork, but privilege and monopoly power. Without government intervention, firms can exploit monopoly powers to pay low wages to workers and charge high prices to consumers. Without government intervention, we are liable to see the growth of monopoly power. Government intervention can regulate monopolies and promote competition. Therefore government intervention can promote greater equality of income, which is perceived as fairer.
- **Inherited wealth**. Often the argument is made that people should be able to keep the rewards of their hard work. But, if wealth and income and opportunity depend on being born into the right family, is that justified? A wealth tax can reduce the wealth of the richest, and this revenue can be used to spend on education for those who are born in poor circumstances.
- **Rawls social contract**. Rawls' social contract stated that the ideal society is one where you would be happy to be born in any situation, not knowing where you would end up. Using this social contract, most people would not choose to be born in a free market because the rewards are concentrated in the hands of a small minority of the population. If people had no idea where they would be born, they would be more likely to choose a society with a degree of government intervention and redistribution.

Government intervention to overcome market failure

1. Public goods. In a free market, public goods such as law and order and national defense would not be provided because there is no fiscal incentive to provide goods with a free rider problem (you can enjoy without paying them). Therefore, to provide public goods like lighthouses, police, roads, etc. it is necessary for a government to pay for them and out of general taxation.

2. Merit goods / Positive externalities. Goods like education and health care are not strictly public goods (though they are often referred to as public goods). In a free market, provision tends to be patchy and unequal. Universal education provided by the government ensures that, in theory, everyone can gain an education, which has a strong social benefit.

3. Negative externalities. The free market does not provide the most socially efficient outcome, if there are externalities in consumption and production. For example, a profit maximizing firm will ignore the external costs of pollution through burning coal. This leads to a decline in social welfare. By contrast, other forms of energy production, like solar power, are environmentally friendly and have a positive externality. By taxing production which causes pollution costs and using the subsidy to encourage other forms of energy production, there is a net gain in social welfare.

4. Regulation of monopoly power. In a free market, firms may gain monopoly power; this enables them to set higher prices for consumers. Government regulation of monopoly can lead to lower prices and greater economic efficiency.

Should governments save declining industries?

- Yes. If large industries go out of business, there will be high regional unemployment and market failure from the difficulty in finding new jobs.
- No. If the government props up declining industries, they will be saddled with high costs and a permanently unprofitable industry.

Macro-Economic Intervention

In recessions, there is a sharp fall in private sector spending and investment, leading to lower economic growth. If the government also reduces spending at the same time, there is an even bigger fall in economic growth and collapse in confidence. In a deep recession, governments can borrow from the private sector and spend the money to employ unemployed resources. If there is a collapse in the money supply, there may be a role for the Central bank or Government to print money.

Similarly, the government may need to prevent an economic boom and explosion of credit. Keynesian economists argue that the government can positively influence the economy through fiscal policy. Monetarists believe monetary policy can help encourage economic stability, though an independent Central Bank may not be considered government intervention.

Arguments against Government Intervention

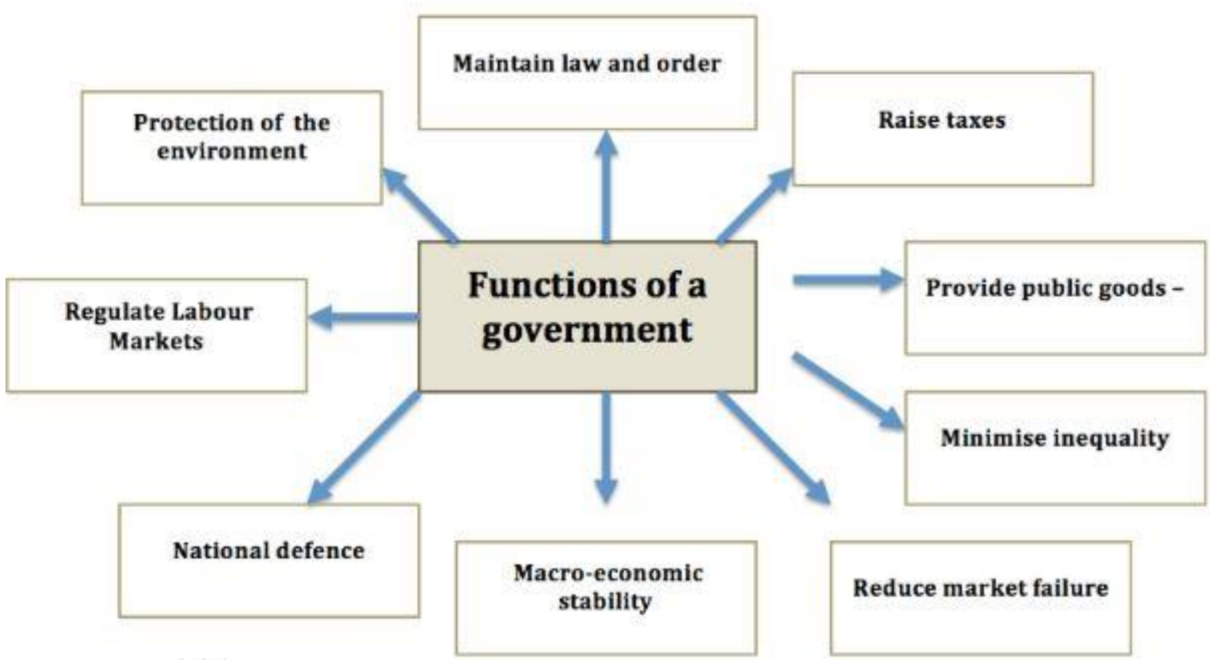
Government failure

- When governments spend on public goods and merit goods, they may create excess bureaucracy and inefficiency.
- State owned industries tend to lack any profit incentive and so tend to be run inefficiently. Privatizing state owned industries can lead to substantial efficiency savings.
- Politicians don't have the same market discipline of seeking to maximize the use of limited resources.
- Government intervention causes more problems than it solves. For example, state support of industries may encourage the survival of inefficient firms. If governments bailout banks, it may create moral hazards, where in the future banks have less incentive to avoid bankruptcy because they expect a government bailout.
- Real business cycle theorists argue that at best government intervention makes no difference to the length of a recession, but may just create additional problems, such as the accumulation of public sector debt.

Arguments for Government Intervention.

4. Greater equality – redistribute income and wealth to improve equality of opportunity and equality of outcome.
5. Market Failures – Markets fail to take into account externalities and are likely to under-produce public/merit goods. For example, governments can subsidies or provide goods with positive externalities.
6. Macroeconomic intervention. – Intervention to overcome prolonged recessions and reduce unemployment.

In a free market, there tends to be inequality in income, wealth and opportunity. Private charity tends to be partial. Government intervention is necessary to redistribute income within society.



- **Diminishing marginal returns to income**. The law of diminishing returns state that as income increases, there is a diminishing marginal utility. If you have an income of £2 million a year. An increase in income to £2.5 million gives only a marginal increase in happiness/utility. For example, your third sports car gives only a small increase in total utility.
  - However, if you are unemployed, and surviving on £50 a week. A 10% increase in income gives a substantial boost in living standards and quality of life. Therefore, redistributing income can lead to a net welfare gain for society. Therefore income redistribution can be justified from a utilitarian perspective.
- **Fairness.** In a free market, inequality can be created, not through ability and handwork, but privilege and monopoly power. Without government intervention, firms can exploit monopoly powers to pay low wages to workers and charge high prices to consumers. Without government intervention, we are liable to see the growth of monopoly power. Government intervention can regulate monopolies and promote competition. Therefore government intervention can promote greater equality of income, which is perceived as fairer.
- **Inherited wealth**. Often the argument is made that people should be able to keep the rewards of their hard work. But, if wealth and income and opportunity depend on being born into the right family, is that justified? A wealth tax can reduce the wealth of the richest, and this revenue can be used to spend on education for those who are born in poor circumstances.
- **Rawls social contract**. Rawls' social contract stated that the ideal society is one where you would be happy to be born in any situation, not knowing where you would end up. Using this social contract, most people would not choose to be born in a free market because the rewards are concentrated in the hands of a small minority of the population. If people had no idea where they would be born, they would be more likely to choose a society with a degree of government intervention and redistribution.

Government intervention to overcome market failure

1. Public goods. In a free market, public goods such as law and order and national defense would not be provided because there is no fiscal incentive to provide goods with a free rider problem (you can enjoy without paying them). Therefore, to provide public goods like lighthouses, police, roads, etc. it is necessary for a government to pay for them and out of general taxation.

2. Merit goods / Positive externalities. Goods like education and health care are not strictly public goods (though they are often referred to as public goods). In a free market, provision tends to be patchy and unequal. Universal education provided by the government ensures that, in theory, everyone can gain an education, which has a strong social benefit.

3. Negative externalities. The free market does not provide the most socially efficient outcome, if there are externalities in consumption and production. For example, a profit maximizing firm will ignore the external costs of pollution through burning coal. This leads to a decline in social welfare. By contrast, other forms of energy production, like solar power, are environmentally friendly and have a positive externality. By taxing production which causes pollution costs and using the subsidy to encourage other forms of energy production, there is a net gain in social welfare.

4. Regulation of monopoly power. In a free market, firms may gain monopoly power; this enables them to set higher prices for consumers. Government regulation of monopoly can lead to lower prices and greater economic efficiency.

Should governments save declining industries?

- Yes. If large industries go out of business, there will be high regional unemployment and market failure from the difficulty in finding new jobs.
- No. If the government props up declining industries, they will be saddled with high costs and a permanently unprofitable industry.

Macro-Economic Intervention

In recessions, there is a sharp fall in private sector spending and investment, leading to lower economic growth. If the government also reduces spending at the same time, there is an even bigger fall in economic growth and collapse in confidence. In a deep recession, governments can borrow from the private sector and spend the money to employ unemployed resources. If there is a collapse in the money supply, there may be a role for the Central bank or Government to print money.

Similarly, the government may need to prevent an economic boom and explosion of credit. Keynesian economists argue that the government can positively influence the economy through fiscal policy. Monetarists believe monetary policy can help encourage economic stability, though an independent Central Bank may not be considered government intervention.

Arguments against Government Intervention

Government failure

Government failure – When public sector intervention leads to inefficiency

Caused by:

- **Lack of incentives.** Public sector workers less likely to be paid for performance / profit targets.
- **Levels of bureaucracy**. Governments tend to have more layers of administration and planning.
- **Political interference.** Decisions made for short-term political gain – rather than sound economics, e.g. keep on unproductive workers.
- **No consistency**. Change of government often leads to change of approach and new political initiatives.
- **Moral hazard** – Government can act lender of last resort - this may encourage banks to take risks knowing they will be bailed out.
- **Regulatory capture** – When government agencies become too friendly with business/groups they are trying to regulate.
- **Unintended consequences.** Policies to reduce relative poverty 'means-tested benefits' can create 'welfare dependency.

www.economicshelp.org

- When governments spend on public goods and merit goods, they may create excess bureaucracy and inefficiency.
- State owned industries tend to lack any profit incentive and so tend to be run inefficiently. Privatizing state owned industries can lead to substantial efficiency savings.

- Politicians don't have the same market discipline of seeking to maximize the use of limited resources.
- Government intervention causes more problems than it solves. For example, state support of industries may encourage the survival of inefficient firms. If governments bailout banks, it may create moral hazards, where in the future banks have less incentive to avoid bankruptcy because they expect a government bailout.
- Real business cycle theorists argue that at best government intervention makes no difference to the length of a recession, but may just create additional problems, such as the accumulation of public sector debt.

Conclusion

There is no real model of a society run in the absence of government intervention. Even the most extreme libertarian economists would accept there needs to be some state protection of property rights and spending on national defense. The debate comes on the extent of government intervention. This needs to take place in each aspect of government intervention. The arguments for and against government intervention in macro economic stabilization are very different to the arguments for and against providing universal health care. It is not satisfactory