

OKONOMOS

2019

INTERVIEWS:

- VIRAL ACHARYA
- HARISH DAMODARAN
- MAHESH VYAS
- BALLU, A FARMER

7th Edition

**STARVED OF CREDIT,
INFRASTRUCTURE AND
REMUNERATIVE PRICES:**

*The sordid story of the ones feeding
us.*

EDITORS' COLUMN



KHUSHI PODDAR



KOMAL SINGHAL

2018 can be described as a year that has provided young economists with a lot of things to think about. It had been a year of controversies and changes; controversies with regard to statistical data, increasing unemployment, depreciating currency, falling agriculture income and the like. In this edition of Okonomos we have tried to pick up some extremely important topics; from discussions on core economic ideas such as Marxism and capitalism to the innumerable instances that catch our eyes in our quotidian life.

Covering a concern that forever goes unheard, and thus needs to be re-established more concretely every next time, is our cover story, "The Agrarian Crisis". Realising that the available data on the internet is not enough, and a true economist must draw any conclusion only after one-to-one interaction with the people having a first hand experience, we got into conversation with a marginal farmer from Odisha. Mr. Harish Damodaran helped us get a better insight about the changing nature of this crisis.

An important facet that needed heed was the concern of the autonomy of Public Institutions like RBI. Shedding more light upon the same, Deputy Governor of RBI, Mr. Viral Acharya enriched our

comprehension.

Given the upcoming elections, we had been lucky enough to have got a chance of presenting forth our ideas upon various issues of political significance. A turning point of this political season was the talk about unemployment, and so to make our magazine truly distinctive, we have extensively discussed the impacts of GST and demonetisation on unemployment. Mahesh Vyas, the director of CMIE provided us the extra edge that we required.

For those readers of ours, who are not particularly interested in economic theories, we have a set of interesting articles that talk about soccer, elections and iPhones. Lastly, it is almost impossible to banish from one's thoughts Behavioural Economics, especially when it is at its peak of discussions. Intriguing as it may sound, we have tried to analyse if we are behaviourally corrupt, along with understanding other concepts such as Nudge.

We hope that Okonomos reaches to you in the light that The Okonomos Editorial Board meant it to.

Happy reading!

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MESSAGES



Hans Raj College is a prestigious institute that has always been one of the sought after colleges in India. In its 69 years since inception, it has acquired the distinction of being one of the top six colleges out of 13500 colleges in the country. The heritage of the college is distinctly visible from the accolades it has achieved across fields in academia and other non scholastic spheres. I'm extremely delighted to know that the Economics Department of Hansraj College is publishing 17th Edition of their Economics journal 'Okonomos'. It is a creative channel for students to express their views on pertinent economic and social issues concerning our lives. I congratulate the department for their initiative and I wish them best of luck for more such endeavors.

DR. RAMA
Principal, Hansraj College

Warm Greetings.

It gives me great pleasure to know that the economics society of Hansraj College is coming out with their annual magazine Okonomos for the academic year 2018-19. Every year it provides the students with opportunity to write on various issues that interests them. I am sure that, like every year, it would consist of very interesting, educative and entertaining articles. My best wishes to the editorial board and all members of the economics society.

DR. ANIL S. KOKRADY
*Teacher In Charge,
Department of Economics*



It is a matter of immense pride to know that the editorial board is bringing out the 17th edition of our prestigious journal, Okonomos. The journal reflects the innate creativity and talent of our bright students who have time and again proved themselves to be one of the best in the university. I congratulate the entire editorial team for their dedication and hard work. Wish you all a very successful and productive year ahead!

MISS SUCHARITA
*Staff Advisor,
Economics Department*

CONTENTS

- 01** **Timeline**
- 03** **Playing Chicken**
~*Diksha Bhanot*
- 07** **The Fetish for Higher
CC in Fast Paced
Consumerism**
~*Aqdas Raza*
- 10** **Great Indian Elections
and Economy**
~*Tanvi Kusum*
- 13** **The Bountiful Game**
~*Pranav Manie*
- 17** **RBI: Reserve Bank of
Independence?**
~*Aviral Agrawal*
- 21** **Interview with
Mr. Viral Acharya**

- 29** **The Economic Rise
of the East**
~*Adarsh Agarwal*

BEHAVIOURAL ECONOMICS

- 32** **Nudge and Policy
Making**
~*Srinidhi Balaji*
- 35** **Are We Behaviourally
Corrupt?**
~*Darshana Gauratra*
- 37** **Neuroeconomics:
From Philosophy to
Practice**
~*Aarti and Tanvi Divate*

THE AGRARIAN CRISIS

- 41** **A Tale of Woes**
~*Sandesh Dholakia*

45 Two Players and a Price War
~Komal Singhal

49 Farmers and Finance
~Khushi Poddar

52 Okonomos Asks: A Farmer on a Real Issue
~Ishan Kashyap Hazarika and Sandesh Dholakia

57 Planning the Plough
~Adarsh Agarwal

60 The Answer
~Ishan Kashyap Hazarika

63 Interview of Harish Damodaran

UNEMPLOYMENT

68 Education and Jobs: A Difficult Match Made in the Economy
~Govind Gupta

72 Interview with Mr. Mahesh Vyas

77 GST, Demonetisation and Unemployment
~Tanisha Sukhija

80 An Economic Review of the 10% Reservation Bill
~Mahima Yadav

ECONOMIC IDEAS

84 Marx and a Science of Society
~Ishan Kashyap Hazarika

88 Modern Capitalism and Competition
~Aarti

TIME

1. The United States government enters a federal government shutdown as a result of a dispute over Deferred Action for Childhood Arrivals.

2. Law minister Ravi Shankar Prasad states that the government was committed to freedom of the press, amid criticism of press censorship after UIDAI filed an FIR against a journalist of The Tribune for exposing illegal data access to Aadhaar database.

3. Turkey, led by President Recep Tayyip Erdoğan, announces the beginning of a military offensive to capture a portion of northern Syria from Kurdish forces, amidst the ongoing Kurdish-Turkish conflict.

4. 290,000 doctors across the country participate in a strike for 12 hours to protest against the National Medical Commission Bill, which seeks to replace the Medical Council of India with National Medical Commission. The Strike was called off mid-way as the government agrees to send the bill to parliamentary standing committee.

1. President of the United States Donald Trump accepts an invitation from North Korean leader Kim Jong-un for a meeting in May to discuss the denuclearisation of North Korea.

2. In over 900 cities internationally, people participate in demonstrations against gun violence and mass shootings, calling for stronger gun control in the "March for Our Lives".

3. China's government approves a constitutional change that removes term limits for its leaders, granting Xi Jinping the status of "President for Life".

4. Former Russian double agent Sergei Skripal and daughter Yulia are poisoned by the Novichok nerve agent in Salisbury, England.[17] UK counter-terrorism police investigate amid speculation the Kremlin was behind the incident.

5. The Shape of Water wins the Academy Award for Best Picture in the 2018 Oscars.

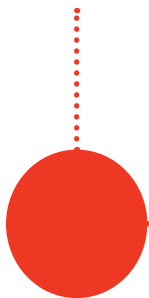
1. The wedding of Prince Harry and Meghan Markle is held at St George's Chapel, England, with an estimated global audience of 1.9 billion.

2. The Venezuelan presidential election, 2018 was held with incumbent President Nicolás Maduro reelected with 67.8% of the vote and the lowest turnout in Venezuela's modern democratic history since the 1958 coup d'état. The elections were denounced as a "sham" by several Latin American countries, the United States, Canada, the Organization of American States and the European Union.

3. Cambridge Analytica files for bankruptcy, following the data privacy scandal.

4. Harvey Weinstein is charged with rape and several other counts of sexual abuse involving two separate women after turning himself in to police in New York City.

JANUARY



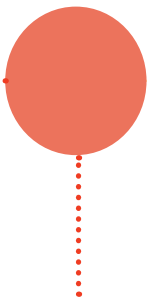
MARCH



MAY



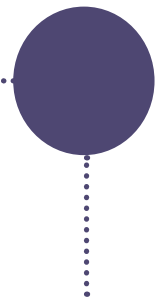
FEBRUARY



APRIL



JUNE



1. SpaceX successfully conducts its maiden flight of its most powerful rocket to date, the Falcon Heavy, from LC39A at John F. Kennedy Space Center in Florida.

2. The 2018 Winter Olympics are held in Pyeongchang, South Korea.

3. A school shooting occurs at Marjory Stoneman Douglas High School in Parkland, Florida, killing 17 people and injuring 17.

4. On 10 February 2018, at predawn, Jaish-e-Mohammed terrorists attacked an Indian Army camp in Sunjuwan, Jammu, in the Indian state of Jammu and Kashmir. 11 soldiers, 4 attackers and 1 civilian were killed and 20 injured including 14 soldiers, five women and children.

1. Syrian Civil War: At least 70 people are reported to have died and hundreds suffering injuries after a sarin chemical attack in Douma, the last rebel-held town in Syria's Eastern Ghouta. The United States, the United Kingdom and France order the bombing of Syrian military bases in response to the sarin attack allegedly by the Bashar al-Assad regime on civilians in Ghouta.

2. Cinemas open in Saudi Arabia for the first time since 1983 with the American film Black Panther chosen as the first to be screened.

3. Kim Jong-un crosses into South Korea to meet with President Moon Jae-in, becoming the first North Korean leader to cross the Demilitarized Zone since its creation in 1953.

1. The 2018 FIFA World Cup is held in Russia[63] and is won by France.

2. The Supreme Court upholds President Trump's travel ban in a 5-4 decision.

3. Saudi Arabia allows women to drive.

4. At least 109 people are killed and hundreds wounded by the eruption of Volcán de Fuego, Guatemala's deadliest volcano for over a century.

LINE

1. U.S. tariffs on US\$ 34 billion of Chinese goods come into effect, as President Trump suggests the final total could reach \$550bn. China accuses the U.S. of starting the "largest trade war in economic history" and announces immediate retaliatory tariffs.

2. Twelve boys and their football coach are successfully rescued from the flooded Tham Luang Nang Non cave in Thailand, following a 17-day ordeal that gained worldwide attention.

3. The share price of Facebook drops by almost 20 percent after the company warns investors that user growth has slowed following the data leak scandal. Over \$109 billion is wiped from its market value, the largest single day loss in corporate history.

4. The EU–Japan Economic Partnership Agreement is signed, the world's largest bilateral free trade deal, creating an open trade zone covering nearly one-third of global GDP.

1. The Supreme Court of India decriminalises homosexuality, repeals Section 377.

2. A magnitude 7.5 earthquake hits Sulawesi, Indonesia, causing a tsunami that kills at least 2,256 people and injures more than 10,679 others.

3. US cable giant Comcast wins a rare blind auction process for broadcaster Sky, set by the UK's Takeover Panel.

4. Christine Blasey Ford alleges that Supreme Court nominee Brett Kavanaugh sexually assaulted her in the early 1980s, she agrees to testify against Brett Kavanaugh the following week. Two more women also accuse him of harassment.

5. TV star Bill Cosby, 81, is given a three to 10-year jail term for drugging and molesting a woman in 2004. Judge Steven O'Neill designates Cosby a "sexually violent predator", meaning he must undergo counselling for life and be listed on the sex offender registry.

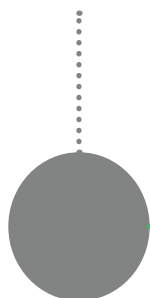
1. Ukrainian crisis: Ukraine declares martial law after an armed incident in which Russia seized three Ukrainian ships in the disputed Kerch Strait two days earlier.

2. President Trump's former lawyer Michael Cohen pleads guilty to lying to Congress in relation to the Russia inquiry.

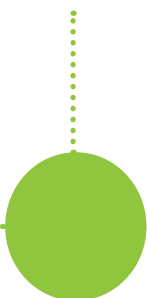
3. Revered comic artist and founder of Marvel Comics, Stan Lee passes away on November 12 aged 95.

4. Brexit Secretary Dominic Raab resigns, stating that he "cannot in good conscience support the terms proposed for our deal with the EU". Further resignations follow: Work and Pensions Secretary Esther McVey, Junior Brexit minister Suella Braverman, Northern Ireland minister Shailesh Vara, and Parliamentary Private Secretary Anne-Marie Trevelyan. The pound falls sharply in response.

JULY



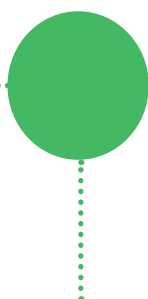
SEPTEMBER



NOVEMBER



AUGUST



OCTOBER



DECEMBER



1. The 2018 Kivu Ebola outbreak begins in the Democratic Republic of the Congo. It becomes the second-deadliest outbreak of the Ebola virus on November 29, surpassed only by the 2013 West African Ebola virus epidemic.

2. Heavy rainfall causes severe floods in the Indian state of Kerala. It is the worst flood to hit the state in a century.

3. Former prime minister Atal Bihari Vajpayee dies at 93. He was the first Indian prime minister who was not a member of the Indian National Congress party to have served a full five-year term in office.

4. The United States reimposes sanctions on Iran.

1. Washington Post journalist Jamal Khashoggi is murdered inside the Saudi consulate in Istanbul, triggering a diplomatic crisis for Saudi Arabia.

2. Canada legalises the sale and use of cannabis, becoming the second country in the world to do so, after Uruguay in 2013.

3. 700,000 people march through central London demanding a second referendum on the final Brexit deal. The event is the second most attended protest of the 21st century in the United Kingdom after the "Stop the War" anti-Iraq War march in 2003.

4. The IPCC releases its Special Report on Global Warming of 1.5°C, warning that "rapid, far-reaching and unprecedented changes in all aspects of society" are needed to ensure that global warming is kept below 1.5°C.

1. France experiences its worst civil unrest since the protests of 1968 due to the yellow vests movement. Protests in Paris morph into riots, with hundreds of people injured and thousands arrested; over 100 cars are burned, the Arc de Triomphe is vandalized and numerous other tourist sites are closed, both in the capital and elsewhere in the country.

2. The United States government enters a second government shutdown, arising over a dispute over funding for the U.S.–Mexico border wall. The shutdown, which lasted until January 25, 2019, is the longest government shutdown in U.S. history.

3. At the Katowice Climate Change Conference, nearly 200 nations agree rules on implementing the 2015 Paris agreement.



Source: 9gag.com

PLAYING CHICKEN

by Diksha Bhanot

Is trade really the cause of the so-called 'quasi-Cold War' between the United States of America and China? Or do its reasons lie in an acute insecurity that finds its roots far deeper - in the nature of both the countries, with the US being the unchallenged super-power and China being an exceptionally ambitious state that has had its share of being dominated and tortured, and now wishes to resurface, only as a hegemon?

To clearly understand the reasons and manner of the most massive Trade War in recent history, it is pertinent that we understand the emergence of China after the crisis of 2008, but more notably, over the last five years as a formidable adversary in the race for economic, political and technological influence and headship. Over the

last five years, China's GDP (in dollar terms) has risen by over 40% and is now nearly three-fifths of USA's economy. It is now the world's largest manufacturer and exporter, lies at the crux of global high-technology production chains and is intertwined to an excessive degree with the US, with regards to the 70,000 companies that have

invested US\$256bn there. Two major problems that foreign companies and the US complain about with regards to investment in China would be - a) China's protectionist policies and excessive indulgence in cyberspace and innovation and, b) Its shifting demand.

Let's discuss the latter first : In recent times, China's economy has shifted to one that is increasingly dependent on domestic household consumption. In the past decade, the growth in private consumption has outpaced overall economic growth rate. In 2018, GDP of China grew by 6.5% while household consumption accounted for 4/5th of that growth. It is thus, the world's fastest-growing market with private consumption amounting to \$5 trillion, more than 10% of the world's total. Apple relies on China for sales of about \$52bn; for Qualcomm, a chip maker whose technology is extensively used in Apple smartphones, the figure is \$15bn (about 65% of its sales).

Other American companies that are highly dependent on China would be Intel (24% sales), Micron Technology (51% sales) and Texas Instruments (44% sales). However, due to this shift in demand, Apple which was China's leading maker of handsets until 2016, lost its position significantly by 2018 to only 9% of the market share, with Huawei owning 23% of the market, Oppo, Vivo and Xiaomi occupying the next three spots. South Korea's Samsung,

the global leader in smartphone sales has all but disappeared from China.

Coming on to China's protectionist policies and intemperance with regards to technology, there is one important thing to consider, from which spring out the ideas of excessive state-funding, import-substitution, leading world supply chains, distortion of foreign markets, trade practices that undermine intellectual property, and cybersecurity, and that one thing is:

Made In China 2025.

Released in 2015 and drawing inspiration from Germany's Industry 4.0, Made In China 2025 is the CCP's 10year plan to update China's manufacturing base by rapidly developing high technology industries, chief among which are - electric cars and other new energy vehicles, next generation IT, advanced robotics and AI, agricultural technology, aerospace engineering, semi-conductors, and high-end rail infrastructure. Specific targets would be - achieving 70% of self-sufficiency in high tech industries by 2025, and seeking a 'dominant' position in the global markets by the 100th anniversary of the People's Republic of China. It aims to push the economy through and over what is called the 'Middle Income Trap', in which growth plateaus as wages tend to rise. China's immediate aims of substituting domestically-produced equipment

and components for goods now imported from foreign suppliers (as seen in the smartphone industry), it's history of creating excess capacity in 'strategic' industries leading to a collapse in prices in the global markets (as in the case of solar panels) and its questionable association with Huawei, blur the lines between trade policy and national security for all countries associated with China. Apart from this, there exist forced agreement transfers in the form of joint ventures, mobilizing SOEs (State-owned enterprises), formal and informal barriers to imports, and intense informal pressure to produce in the Chinese territory (as is seen by Beijing putting heavy pressure on Western Auto-makers to transfer their most cutting edge technology to China, as a condition for doing business). In fact, even to qualify for China's new electric vehicle subsidies, a firm needs to use Chinese-made batteries. These threats are further amplified by the vast support by Beijing in the form of funds, which were authorised by the end of 2016 to the tune of US\$330bn.

Despite all of this, both countries need to come to a consensus with regards to the tariffs that are causing unwanted dents in businesses and financial markets, adversely affecting the volatility of stock markets and investment sentiment, and disrupting global supply chains. Small and medium-sized companies in China are targets to the chill with lower orders and invento-

ries. There is also evidence to show that foreign firms are diversifying their sourcing, production and supply chains away from China, if not pulling out altogether. But the US is also under pressure to make a deal. American firms in China have spoken against the impact of Trump's tariffs on their business but they also wish for the US to make a deal that increases access to the lucrative Chinese market.

However, instead of freaking out, one needs to take a deep breath and think pragmatically about this situation. China seeks dominance in Asia, but is contained by a natural balance of contenders like Japan and India. There are great challenges that China needs to overcome to be even near the technological prowess of US, Germany and Japan. Moreover, the authorisation of funds doesn't necessarily account for, or guarantee a definite high-quality research. In fact, US too has indulged in extensive investment in technology and state-led infrastructure programs in the past to escape the slowing down of a middle income economy.

The longer these two superpowers play these games and slap tariffs on each other's goods, the greater will be the cost. Higher cost of products will lead to companies reporting lower profits, and thus, shrinking and slowing down of the global economy (as even predicted by the IMF). Both sides are under pressure to make a deal. But

Source: linkedin.com



this is ultimately, a situation of 'Hawk-Dove'. Whoever yields first could also be the biggest loser.



THE FETISH FOR HIGHER CC IN FAST PACED CONSUMERISM

by Aqdas Raza

The Curious Case Of Conspicuous Consumption: From 'Supreme' street wear to the IP-hones

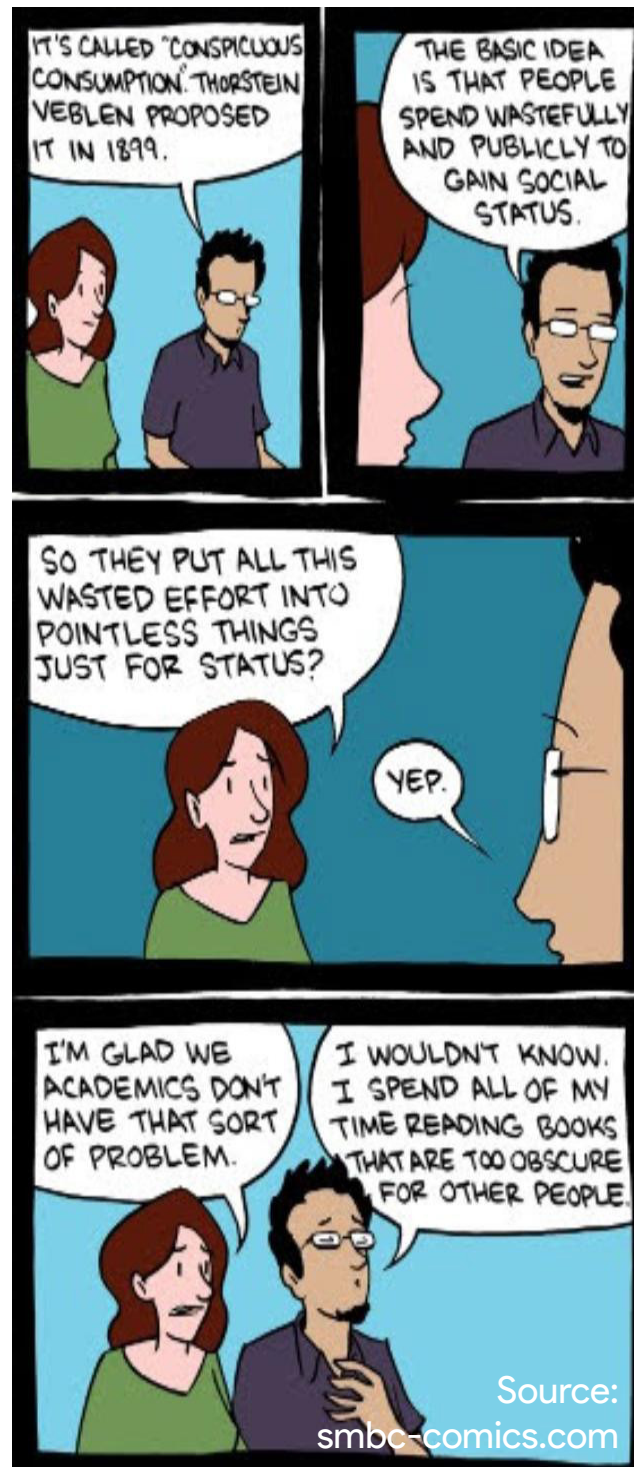
What makes a brand valuable? What demarcates a brand from the Louis Vuittons of the world? One would say that the luxury goods they make create the difference. There's value to something simply because it is worth that much or in other words it costs too much to make. 'You get what you pay for'. Logically, consumers will pay more simply because intrinsically the

product is worth that much. From the times of kings and maharajas, royalty has been expressed through silk and gold. Naturally, expensive became synonymous with material value. Cut to the 21st century and things have changed. Value is associated with 'hype' more than whether a product is 'worthy enough'. A particular logo or brand name has tremendous value

simply because it has a status symbol attached to it. Essentially, this is conspicuous consumption. A prime emerging example of this is the brand Supreme, which is a pioneer in the street wear fashion industry. Worth \$1 billion, the iconic brand is sweeping over the youth and enthusiasts of the skateboarding, hip hop culture. Such is the craze behind the Supreme logo that people are willing to buy anything it is on; ranging from hoodies, tees, bands and even a brick.

Yes, a brick priced at \$30 which sells for \$1000 on eBay (That is as expensive as the new iPhone X) all because it has 'Supreme' written on it. Imagine building a house out of these bricks. Although it is an extreme singular example, it highlights what the brand is. Supreme has a master strategy that further reinforces and maintains the hype: Limited stocks only. So, the aforementioned brick, although initially sold for \$30 quickly sold out. Platforms like Craigslist and eBay resell these products and the prices shoot up to \$1000.

Supreme plays with the 'commodity theory' thinking for the long run. The theory states that scarcity increases value of anything that can be possessed. The same is true from the supply-demand perspective. Low supply means high prices ergo high value. The brand takes limited supply very seriously and the presence of just 11



demand instead of raising profits, increasing popularity and maintaining 'hype'. Thus, it can never fade away. In essence, it is the resale industry that has further promoted the brand by skyrocketing prices. This industry

roughly generates around \$17 billion in revenue as of 2016. Fashion seems to be an integral part of it. The resale market of sneakers alone is close to \$1 billion. This reinforces the concept of 'Veblen' goods in economics. A positive relation between price and demand is for goods that acquire a symbol of status as stated by Thorstein Veblen. Clearly, the resale department is keeping fashion at that pedestal.

When it comes to India, the market is highly elusive to the concept of hype based street wear. Adidas and Nike do come close but they are not ideally pure street wear brands. Given that the country is a price-conscious market majorly, it is no surprise that 'premium' street wear won't be accepted readily. The product that has become a 'Veblen good' in India is the iPhone. Apple releases the high-in demand product at prices 30% higher than the United States. The popularity is sky high but due to high prices and competition, the sales aren't.

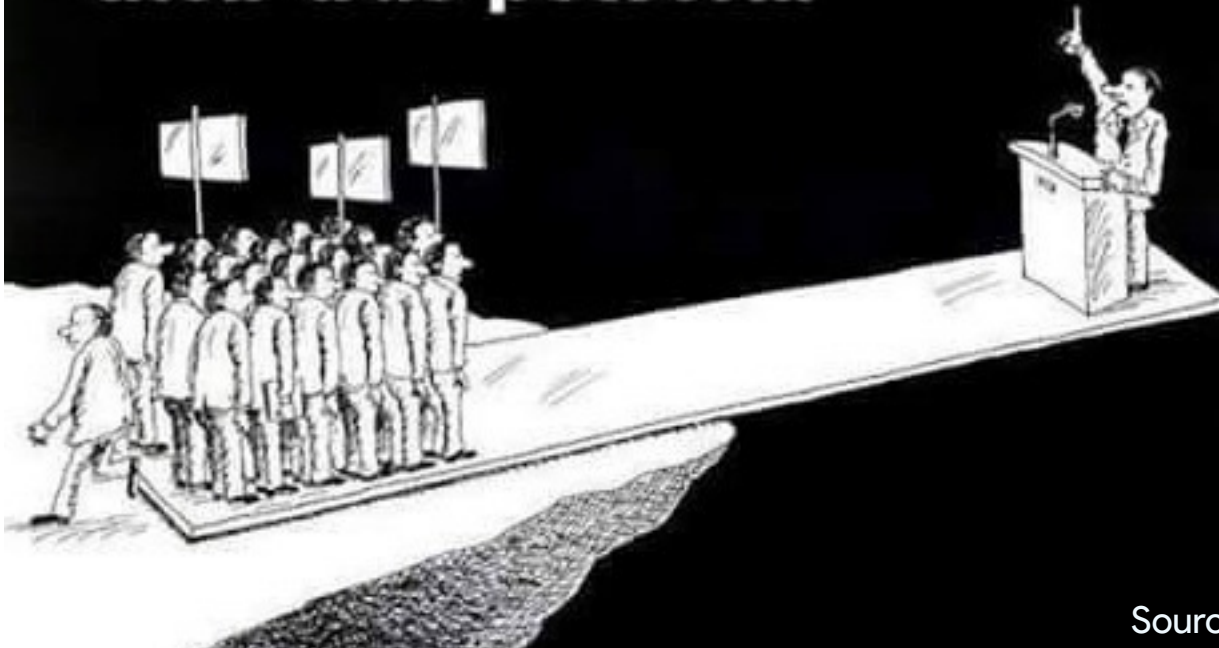
Apple shipped 1 million units in India in the first half of 2018. Samsung and Xiaomi stand at 17.4 million and 19 million respectively. Despite being Veblen and despite the 'coolness' it comes with, it doesn't necessitate good sales and high market share. What Supreme is in the US, it can never be in India. Similar is the case with iPhone sales. A lot depends on various factors and nothing is certain. Conspicuous con-

Source:
polyp.org.uk



sumption remains a slippery slope.

**The people don't know
their true power...**



Source: imgur.com

GREAT INDIAN ELECTIONS AND ECONOMY

by *Tanvi Kusum*

It is election time and the media is in frenzy, the government has announced new policy decisions aimed at tax cuts. The opposition party is spending tons of money on advertisement campaigns trying to either 'hide or expose' the effect of these policies and reviving the public memory on the corruption committed by the government in the past years. The public, skeptical about the outcome of the elections and the future of economic policy in the country, starts to delay investments till after the elections. With so many actors acting at once, what is really the impact of elections on the economy of a nation?

India is the largest democracy in the world, divided into 543 constituencies. If not general elections, the country experiences state elections on a very frequent basis with long campaigns stretching over a period of months, hence it becomes impertinent to ex-

amine the effect of elections on the nation's economy.

After studying key economics variables for over 30 year period, having at least 6 general elections, a study found that the Indian economy typi-

cally slows down during elections. This can be attributed to the increased government spending in order to appeal to the voters. This only leads to increased inflation as the money supply in the market rises while production does not rise by the same amount. There are more buyers for the same goods, increasing competition.

The intended investment in the economy is lesser than other years because industrialists, businessmen and investors wait for the new government to form in order to estimate their policy decisions. John Maynard Keynes said that investors rely on animal spirits in order to gauge their investment decisions; hence the uncertainty during election time makes investors postpone their decisions till a later date. Since the investment lessens during elections, so does the need for bank loans for businesses. It was found that the average rate of credit in the election years compared to the non-election years (reference being made to general election) was lesser than 1.8 points. The use of black money, or money on which tax is not paid increases as it is channeled into political campaigns through donations to the contesting parties. Since government increases its spending, there is also an increase in fiscal deficit in the economy as a result of more borrowing of funds by the government. While making spending decisions, politicians also keep in mind their

strategy of appealing to certain areas or communities they can expect votes from, leading to skewed form of government investment. Classical economists would argue that the government borrows funds from the market which diminishes the funds available for investment by private investors and leads to mismanaged and skewed investment. The UPA government had waived off farmers' loans worth 52,000 crores leading to its win in 2009 elections. It tried to replicate its success again by passing the Food Security Act in 2013, exactly before the 2014 elections. Gujarat Congress president Bharatsinh Solanki vowed to waive off all farmer loans in the state if he is voted to power. Farmers make up almost 24.6% of the workforce in the country as compared to 50% of 1951, yet the population is considerable enough for all political parties to appeal to them for support.

In 2019, the Modi government's use of the interim budget to announce substantial changes met with a lot of flak. PM-KISAN Yojana, increasing the slab rates for income tax and other steps by the government in this budget are all attempts to appease certain sections of society. Usually interim budgets have never been so transformational in nature. The obligations of this budget fall on the incoming government. It is argued that the BJP-led government had practiced fiscal



consolidation and has considerably reduced the fiscal deficit to 3.5%, but with these all encompassing programmes, the goal of achieving a 3% fiscal deficit has been shifted to 2020-21.

The World Trade Organization's Doha Rounds conducted in July 2014, failed only due to India's position on agricultural subsidies. How elections affect the politicians, not only influences internal spending decisions but also trade relations with other countries. Take for example Prime Minister Narendra Modi's promise to bring back all the black money from Swiss Bank. It not only hopes to transform the internal economic structure in India but also changes the economic ties with Switzerland and future investments from that country.

Trump's winning resulted in uncertainty for the entire world's economic

climate. His speeches of isolationist policies were sure to hurt budding economies like India, China and Brazil. Due to the especially tense Clinton versus Trump elections it was found that Americans were spending less on things they love- Halloween, Christmas and watching football.

Through the above analysis we find that the election may negatively affect private spending due to uncertainty. Uncertainty in future economic policies lead to arguments that democracy is detrimental to economy in itself. The relationship between democracy and economy is tenacious at best, as sometimes a democratic process of decision making leads to long-lasting and consistent policy decisions which are less prone to hasty decision making compared to autocratic regimes.



Source: imgur.com

THE BOUNTIFUL GAME: A STORY OF HOW MONEY CAME TO RULE THE SPORT OF FOOTBALL

by Pranav Manie

In August 2017, Brazilian football wizard Neymar signed to the club Paris Saint-Germain for a whopping 200 million pounds. Even if you don't follow football, you must be wondering, "How does a football club pay this amount for its labour?" That's just the price, the player is also paid wages. That gives rise to a host of other questions, one being, "What is the true role of money in football?"

This article intends to answer that by picturing how simple economics governs this sport today. It will tackle ownership, investment, debts, profits and prices to show you the bigger picture.

Football has always been about regional pride for many people. It's another method of establishing superiority over others, and that shows in the excitement and electricity in the air in each match. There's a huge emotional pay-off for the fans in each match.

Since it is in the nature of people to feel that way about sport and their region in general, football becomes a potential business hotbed.

Corporations pounced on this by starting with the idea of sponsoring clubs, a small Uruguayan club named Penarol beginning the trend. Then, in 1973, Jagermeister decided to put their names on club Eintracht Braunschweig's kit, driving previously reluctant clubs to change their mindset. Soon, bigwigs like Sharp, Hitachi, and even UNICEF entered this deal, trying to cash in on an emotion. The range of companies is diverse - T-Mobile, Fly Emirates, Aon, the country of Azerbaijan, the Qatar Foundation are some of the bigger ones. Moreover, stadium naming rights began to be sold to willing companies as well.

What's more interesting is how changes in shirt sponsors reflect actual market conditions in the world. England giant Manchester United had AIG as their major sponsors during the 2000s, and then around 2009 they changed to Aon Corp. The reason was simple: AIG was at the forefront of the 2008 housing crisis in America and funding such a big club was too much for their palate. Swiss trading company Alpari quit their deal with West Ham after a surprise decision by the Swiss National Bank to abandon the pegging of the Swiss franc against the Euro.

Ownership of football clubs varies across regions. Germany follows the 50+1 rule, which maintains that members, and not corporations, will hold 51% control. In England and France, oligarchs and conglomerates invest heavily in their clubs. In 2017, investment in clubs reached more than £5 billion, 2 of which came from Russian oligarch Roman Abramovich, owner of Chelsea FC, alone. Arab money has huge influence in football as well, with Manchester City being owned by Sheikh Mansour, and Paris by Qatar Sports Investments.

Even Chinese state-owned corporations are pumping a lot of funds into establishing a global presence through stakes in different clubs, as well as a revival of China's own league. However, that has more to do with China trying to occupy every sphere of international affairs, like their One-Belt-One-Road initiative. It is their version of gaining soft power in global affairs, something Russia is experienced in. Russian state-owned aircraft company Aeroflot is the official airfleet sponsor of Manchester United. Chelsea signed a deal with major oil corporation Gazprom, and is owned by oligarch Roman Abramovich, who is a close aide of Vladimir Putin. Sport diplomacy has often been used to obtain some form of legitimacy in the target nation.

One might wonder, "Is there no stop to how much money you can pump

into soccer?” While the answer to that is the Financial Fair Play (FFP) rules set by UEFA, the governing body in Europe, it is yet to be implemented well. Increased funding by big owners increases the spending capacity of clubs. When there’s too much money in the economy, there’s inflation. Players are offered excessive incentives and wages beyond their market price. This makes the playing field totally uneven for smaller clubs.

FFP rules are supposed to govern the amount of debt each club is supposed to maintain, and the maximum figure of operating loss every club must not exceed. UEFA demands clubs to not exceed their minimum payables in the form of credit to clubs, tax authorities, or banks. The reality is that many clubs are seemingly above this. Despite huge debts, they are freely buying more and more players without adequate corresponding return on the debt. Because of their stature, they are being shielded from the pressure to pay. Real Madrid and Barcelona, two of the world’s biggest clubs, have debts of around €370 million and €500 million respectively. But their stature is such that they have their own TV deals. Atletico Madrid, another big Spanish club, owes some €900 million. The other way that teams exploit this loophole is through credit given by the owners themselves. The punishments for breaking FFP have hardly been effective so far.

In the past 2 years, operating profits of clubs have been improving all around Europe due to internal regulations. The major reason for that is increased bidding from cable operators in almost all major leagues. In the Premier League, Sky and BT are the primary providers. Sky holds the majority rights to almost all the games, which were worth 5.1 billion pounds. This goes to show the increased dependence of clubs on revenue from sale of televising rights. According to Deloitte, TV revenue accounts for more than 50% of the revenues of English, Italian, and Spanish clubs. There are definitely other sources of income, like merchandise, sponsorship and tickets. But TV rights usually hold the largest proportion of club revenue in most nations.

Why is this increased dependence a problem? This is because if these media corporations do not raise enough profits post the purchase of these rights, it may signal an impending doom for these clubs. Profits at Sky have dropped massively since 2015, with the profit for the year ending 30 March 2015 was around £1516 million, and the profit for the next year was £752 million, despite increased revenue from all sources. In 2017, BT faced a 19% drop in their annual profits, and cut 4000 jobs as a result.

Players are the tradable labour in the market. They’re the assets of any

team, not merely workers. It's them who either make the fans go wild, or go home. Clubs have to take care of them all the time. They drive the market valuation of a club upwards or downwards. However, to what extent does the price of a player become justified?

Player prices are affected by not only their performances, but also their age, adaptability, brand value and position. Attacking players are usually priced high because of their ability to score goals. In contrast, goalkeepers are underpriced, because their role is only to save goals. Coupled with increasing demand for certain players from some rich clubs, the prices only rise to show what teams will be willing to sacrifice to get these players. Players, too, have their own sponsorship deals from various companies, and most importantly, their own cults of fanatics. One player can even sway an entire fan base. In 2018, Cristiano Ronaldo was transferred from Real Madrid to Juventus. Many of his fans shifted club loyalties, too. That is value that's truly difficult to obtain. This creates a cycle, where only the best clubs in the most select countries can obtain the best players. A huge gap is hence created between teams.

All of this contributes to an inflationary bubble in the football economy, characterized by ever-increasing prices and wages of players, even by sports

publications. There has to be some point at which it has to burst, wherein demand for players will fall drastically. But, that hasn't happened yet because people will pay to watch matches on television. The day there's another recession, major teams will face serious repercussions of taking so much debt. Consumers will not have enough money for their regular expenditures, let alone for cable.

Despite this bubble that is also creating gaps between moneyed clubs and small teams, football clubs are trying to strive higher in the absence of money. Big data is providing a whole new perspective to how managers see their clubs, and how the clubs spend their pennies. One match creates thousands of data points, from the angle of a pass, to the speed of a kick, helping to predict the course of the match. It helps comparatively smaller clubs as well, apart from the big ones. Sometimes, it's just sheer grit and determination that takes a club to unimagined heights, and history is littered with examples of this. There are some things that money just cannot buy.



RBI: RESERVE BANK OF INDEPENDENCE?

by Aviral Agrawal

“It might seem as an expedient solution to the government to ask/task/mandate/direct the central bank to pursue strategies that generate short-term gains but effectively create tail risks for the economy. To protect the economy from such short-termism, the central bank is designed to be at a safe distance from the executive branch of the government.” Said Viral Acharya, the Deputy Governor of the Reserve Bank of India.

“It might seem as an expedient solution to the government to ask/task/mandate/direct the central bank to pursue strategies that generate short-term gains but effectively create tail risks for the economy. To protect the economy from such short-termism, the central bank is designed to be at

a safe distance from the executive branch of the government,” said Viral Acharya, Deputy Governor of the Reserve Bank of India.

In a recent interview, he highlighted that the Government is at loggerheads with the RBI as the Government demands the RBI to transfer 1/3rd of

its earnings to the Central Government as additional dividend. The RBI's primary source of earning is interest earned on bond holdings through open market operations or purchase and sale of government securities. The RBI invests in the securities of the Indian Government as well as the foreign countries. The Government demanded the RBI to transfer 3.6 lakh crore rupees to finance the Government activities.

It also asked the RBI to loosen its measures against lending activities of the banks and to provide more loans to the Non-Banking Finance Companies (NBFCs) so that they can lend more to the public. This is seen as a move to capture more votes by the NDA Government keeping in mind the upcoming General Elections in 2019. This is however, strongly discouraged by the RBI because it can cause inflationary pressure on the economy. Moreover, the RBI fears that the tightened policies it had implemented to clean up the sector of Non Performing Assets (NPAs), will go in vain.

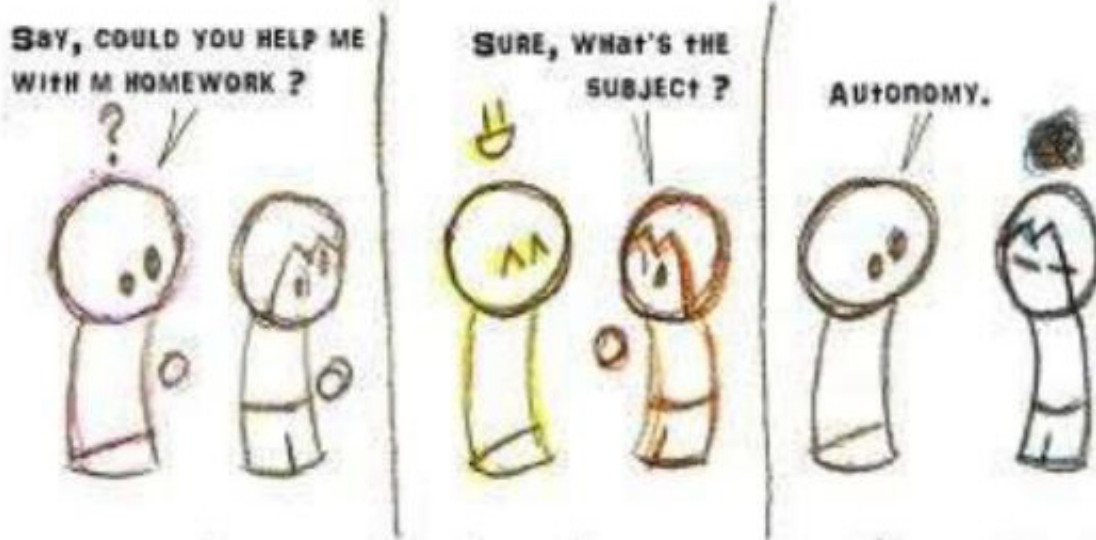
“A government's horizon of decision making is rendered short, like the duration of a T20 match; whereas Central bank plays a Test match, trying to win each session but importantly also survive it so as to have a chance to win the next session,” said Viral Acharya in the lecture in October 2018. “Sweeping bank loan losses under the rug by

compromising supervisory and regulatory standards can create a façade of financial stability in the short run, but inevitably cause the fragile deck of cards to fall in a heap at some point in future, likely with a greater taxpayer bill and loss of potential output.”

Observing the Non-Cooperation of the RBI itself, the government threatens to impose Section 7 of the RBI Act which virtually rips the autonomy of RBI. The question is, what is Section 7? Section 7 says that:

- ① The Central Government may from time to time give such directions to the Bank as it may, after consultation with the Governor of the Bank, consider necessary in the public interest.
- ② Subject to any such directions, the general superintendence and direction of the affairs and business of the Bank shall be entrusted to a Central Board of Directors which may exercise all powers and do all acts and things which may be exercised or done by the Bank.

This section has never been used till now. The aggressive move raises questions about the government's intentions and the impact on RBI's autonomy. This has been the case not only with the RBI, but also with many other institutions and top leaders/managers where there has been a tussle with the government, as a result of



which the individuals have either lost or resigned from their position (For instance, In 2018, Surjit Bhalla, a member in the PM's Economic Advisory Board (EAB) due to alleged disparity in ideology).

On November 6, 2018 Raghuram Rajan gave a speech in favour of Urjit Patel and spoke on the importance of central bank autonomy. "If it's a liquidity problem, the central bank can flood the market with liquidity or give the liquidity to specific private entities that are healthy, and are willing to lend to these other entities that are in trouble," Rajan said. Growing tensions between the government and the Central Bank can cause massive economic slowdown, like one experienced after Ricardo's removal as Governor of Argentinean Central Bank.

While the independence of all public institutions is essential for the working of any democracy, the independence of central bank becomes all the more important because its credibility can to a great extent impact the effectiveness of Monetary Policy. While, the intensions of the central government cannot be questioned with certainty, it can be said without doubt that no government should play with the long term stability of the country's economy.



Source: newsd.in

In conversation with



Viral Acharya

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From the interference with the RBI to the NPA crisis, and from inflation targeting to stimulating growth- the excitement surrounding the Indian monetary system has never been so high! Are the issues even real? What exactly are the solutions?

Okonomos 2019 interviews none other than **Viral Acharya** - deputy governor of the RBI, member of the advisory council of the RBI Academy, Academic Council of the NISM and the SEBI - for the answers! With his profound knowledge and understanding - he has a sea of wisdom to offer!

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1. When Dr. Rajan was the governor, he emphasised on the need for banks to be wary of their balance sheets saddled with NPAs. India has one of the worst bad loan ratios in the world. Given that ours is a growing economy that is driven by credit, what do you think can be the possible solutions to this problem? What according to you can be the adverse impacts of the recapitalisation program?

A growing economy needs adequate access to finance to be able to harness its growth potential, but productive deployment of financial flows is equally important to make the growth process sustainable. It is true that India's financial system remains bank dominated. However, in recent years, the flow of resources to the commercial sectors of the economy from non-banks — which include all non-bank domestic and foreign sources — has either matched or even exceeded flows from the extension of bank credit. It is indeed a healthy sign that Indian economy's overdependence on bank credit is gradually declining, but it is also necessary that the capacity of domestic banks to lend more and is augmented well in a timely manner. Due to the obvious constraint posed by the legacy stock of non-performing loans on fresh lending, the only way to promote adequate bank credit growth is to restore the health of bank balance sheets through a credible clean-

up of the stressed assets, infusion of sufficient capital, and by ensuring that preventive mechanisms in the form of sound regulations and supervision are in place to minimise the scope for excessive build-up of stressed assets in future. The Reserve Bank of India (RBI) and the Government have taken substantive measures over the last few years in these directions.

The commonly perceived adverse impact of recapitalisation is that it should not end up being good money thrown after the bad, i.e., it should not simply allow bad lending decisions at weak banks to continue. Hence, recapitalisation must be accompanied with sound governance reforms for enhancing capacity of weak banks to lend efficiently.

2. India has adopted the measure of inflation targeting. Ever since the decision was taken, many activists have been criticising it for being responsible for the increasing distress of farmers. What do you have to say in this regard? On the same note, what do you think of the effect of farm loan waivers on the banking system in India?

The inflation target assigned to the RBI by the Government under the flexible inflation targeting framework is in terms of headline CPI-Combined inflation, and not in terms of either

food inflation or inflation in any major component of CPI. It is correct that the average food inflation has been low in recent years at 2.2 per cent in 2017-18 and 0.8 per cent in 2018-19 (so far), but the headline inflation averaged at 3.6 per cent in each of these two years. This shows that RBI's monetary policy remains fully consistent with the goal of achieving overall price stability over the medium-term, with average headline inflation hovering only marginally below the inflation target of 4 per cent. During this period, food inflation has been highly volatile, ranging between (-) 1.7 per cent in November 2018 to 4.9 per cent in December 2017, whereas the business cycle conditions or the aggregate demand situation in the economy have remained comparatively stable. It is the latter which is influenced by monetary policy to achieve the goal of price stability. When individual item-specific dynamics give rise to inflation shocks to some items, that may alter relative prices, but unless such shocks create the risk of either generalised inflation or deflation, monetary policy may not respond. A large part of the decline in food inflation has emanated from favourable supply shocks, i.e., successive years of record production, coupled with the impact of adequate buffer stocks and low international prices adding to the domestic supply glut in some items. Turning to farm loan waivers, their effect on the banking system would de-

pend on several factors. First, whether the waivers announced are well within the available fiscal space, so that risks of crowding-out of investment are avoided. Second, whether waivers adversely impact the credit culture in the economy. Possible amplification of adverse expectations that any new farm loan will be waived in the future may lead to a situation of wilful default; this moral hazard problem can make banks unwilling and unable to extend further credit. If waivers are not announced frequently or all over the country, then the risk of impacting the credit culture could be relatively contained. Third, if waivers impart a demand push in the rural areas and as a result wages and inflation rise, then the cost of credit from banks may increase.

3. We have often been told in our elementary macro class that inflation and employment have a direct relation. What role do you think the RBI can play in dealing with unemployment?

The short-run trade-off between unemployment and inflation (i.e., that increase in unemployment rate relative to the natural rate of unemployment should lead to lower inflation) continues to be a critical component of inflation analysis frameworks in central banks, particularly in countries where reliable and timely data on unemployment is available.

In India, since official statistics on unemployment become available with considerable time lag¹, we estimate or assess other measures of slack in the economy, such as “output gap”, i.e., actual output relative to potential, from GDP data and capacity utilisation from survey data.

It is important to recognise that price stability is necessary for sustainable high growth. Conversely, persistently high inflation could retard growth. The short-run trade-off between inflation and growth, therefore, requires constant reassessment, taking into account the projected inflation trajectory relative to the inflation target and assessing space for monetary policy to support growth (and thereby, implicitly employment), while assigning primacy to the goal of price stability.

Globally, the relationship between inflation and slack in the economy (measured in terms of either output gap or unemployment gap, i.e., actual unemployment rate relative to natural rate of unemployment) has weakened over time. In India, a major part of the CPI basket comprises food and fuel, and accordingly, the sensitivity of headline inflation to any aggregate measure of slack in the economy is not robust. For example, in January 2019, India’s food inflation was -1.3 per cent, fuel inflation was 2.2 per cent, whereas inflation excluding food and fuel was 5.4 per cent. It is inflation excluding food and fuel which is more sensitive to a measure of slack in the economy, and has

remained persistently above the 4 per cent inflation target in 2018-19, suggesting that aggregate demand conditions in the economy remain healthy.

4. Strength of our institutions is really important for sustainable growth and equilibrium in economy. Two questions in this regard. How do you think has there been a change in working of RBI as far as its autonomy is concerned? Do you sincerely think that the legislature must not assist the working of RBI, given that it wants to effect social welfare?

I would say that there have been transformative changes in the sphere of monetary policy which have been the result of constant and constructive dialogue between the Government of India and the Reserve Bank over the years on different aspects of RBI’s autonomy. A few major initiatives include the end of automatic monetisation of fiscal deficits; the transition to a flexible exchange rate regime that created space for independent conduct of monetary policy; the amendment of the RBI Act given the inflation target set by the Government and mandating the Monetary Policy Committee (MPC) to take independent decisions on monetary policy, based on RBI’s technical assessment of

macroeconomic outlook and risks; and, the Fiscal Responsibility and Budget Management (FRBM) Act, which sets limits to the scope for fiscal dominance of monetary policy. Several financial sector reforms have also reduced scope for financial repression, one example of which is the phased reduction in Statutory Liquidity Ratio (SLR) — which will eventually merge with the Liquidity Coverage Ratio (LCR) — to provide buffer to banks against liquidity risks without being excessively in favour of Government bond holdings by banks.²

I would like to highlight that effective monetary and fiscal policy coordination balances the short-term and medium-term macroeconomic goals. However, institutional reforms providing clarity on what goals a central bank should pursue, independently but with accountability, is widely viewed as necessary for promoting and preserving sound macroeconomic conditions on a sustained basis in an economy. The overall social welfare is believed to be enhanced when a central bank avoids policies that could reap short-term gains but jeopardise medium-term or long-term vulnerabilities. The practice, or actual conduct of policies by major central banks, largely corroborates this approach to maximising social welfare.

5. How does the attitude of protectionism of US and the feud between two of the world's largest econo-

mies, affect India down the line? Recent news state that India's exports to China grew favourably but is there a reason for India to worry about the trade war?

Citing escalating trade tensions, major multilateral agencies including International Monetary Fund (IMF)³, World Bank⁴ and World Trade Organisation⁵ (WTO) have scaled down their estimates for global growth and trade volume going forward. For instance, WTO anticipates merchandise trade volume growth to decline to 3.7 per cent in 2019 from 3.9 per cent in 2018.

The resultant global headwinds may impinge upon India's external demand. India's export growth has been relatively flat in recent months and this phenomenon is seen across other major Asian exporters as well. However, India's exports to China grew at 34.9 per cent in the current financial year up to December 2018 after a growth of 31.1 per cent in 2017-18. A disaggregated commodity-wise analysis reveals that the growth has been broad-based and not necessarily confined to the commodities affected due to US-China tariff escalations. Thus, it may be early to draw any conclusions regarding the impact of protectionist tendencies on India's exports to China. Going ahead, long-term benefits may accrue only if India focuses on policies for enhancing manufacturing capabilities, reducing logistic costs for movement of goods, and improving overall

productivity and skills on a large scale.

Apart from direct economic impact in terms of trade, the tariff war between the US and China seems to have been more detrimental to the investor confidence, which has rattled global financial markets and is likely to last for a while with attendant implications for foreign portfolio flows to emerging market economies such as India.

One countervailing factor, and a significant one, is that some softening of global demand due to trade war uncertainty lowers oil prices, reduces India's import bill, and stabilises our external sector. This salubrious effect could, however, get swamped by the deleterious ones I have highlighted above if the impact on global growth and emerging market financial flows from trade wars becomes far too adverse.

¹Official statistics on unemployment from two sources are available with significant lags: ① The 68th Round of National Sample Survey Office (NSSO)'s Employment Unemployment Survey for 2011-12 was released in June 2013. As per the 68th Round, unemployment rate in 2011-12 was 2.7 per cent as per usual status (principal activity). ② The Labour Bureau's Annual Employment and Unemployment Survey for 2014-15 was released in 2015-16, according to which unemployment rate was 4.9 per cent (usual principal status). ③ Other sources, such as Purchasing Manager's Index (PMI), Centre for Monitoring Indian Economy (CMIE), Employees' Provident Fund Organisation (EPFO), National Pension Scheme (NPS), Monster employment index, Naukri Jobspeak, RBI's own surveys (i.e., Consumer Confidence Survey and Industrial Outlook Survey which cover employment related questions), etc., are not official statistics on unemployment situation in the economy as a whole.

²Please also refer to the speech on "On the Importance of Independent Regulatory Institutions – The Case of the Central Bank" delivered as the A. D. Shroff Memorial Lecture in Mumbai on Friday, October 26, 2018. (https://www.rbi.org.in/Scripts/BS_SpeechesView.aspx?id=1066), and the recent Kale Memorial Lecture on "Central Banking in India: Retrospect and Prospects" delivered by Dr. Y.V. Reddy, on February 8, 2019, for a comprehensive perspective on this question. Note that way back in 1948, Dr. C. D. Deshmukh had also deliberated on similar issues.

³World Economic Outlook Update, January 2019. IMF.

⁴Global Economic Prospects, January 2019. World Bank.

⁵World Trade Outlook, September 2018. WTO.

THE ECONOMIC RISE OF THE EAST

-BY ADARSH AGARWAL

With the conclusion of RCEP talks being shifted to 2019 from the earlier 2018, it really seems that the Asia-Pacific region has some fast friends who are slow. "The Regional Comprehensive Economic Partnership (RCEP), which is a proposed Free Trade Agreement between ten ASEAN member states and their six Free Trade Agreement (FTA) partners namely India, Australia, China, Japan, New Zealand and Republic of Korea, is expected to provide market access for India's goods and services exports and encourage greater investments and technology into India. It would also facilitate India's MSMEs to effectively integrate into the regional value and supply chains ..." said C.R. Chaudhary, in a written reply to Lok Sabha. It is estimated that RCEP will increase global real incomes by an estimated \$286 billion per year (about 0.2 percent of global GDP) once the agreement is fully in place in 2030. These gains represent a permanent upward shift in real income and make RCEP equivalent to a \$7.2 trillion investment that returns 4 percent per annum. In the shadow of rosy numbers, this article sketches out the problems which seem to have been blurred.

Source: pangean.com

BONES OF CONTENTION

The bullpen of projecting economic rise of the East on the West comes with its own ups and downs. The RCEP is trying to set up a free trade area between economies with different levels of openness. The ASEAN bloc has itself not been completely integrated despite two decades into its existence. Posing a twisted version to the readers- Why are they together? Clearly it is Trade and Finance. After the 90s, they know that they are all facing the same conundrum, market sentiments of the West, because they are the wise guys with the greenback. The aim is to understand the idea that different countries are at different places on the curve and what will they prioritize upon reckoning trouble. This can be extended to the related concern, who is going to be the engine the economies chain themselves to and if so, what are these chains. The core problem lies in the fact that, to put in a light manner, countries like India are the bride behind the veil and economies like Singapore play the groom. The bride is expected to keep on the veil for as long as possible and the groom is expected to act against that. And it is this mismatch which has created the confusion. Drawing parallels, the veil symbolizes 'protectionism', whereas like the groom, some countries are expected to force the opening up of other economies.



DEFICITS AND NOTORIOUS CHINA

China smirks at the power of its political economy which does not force efficiency upon its industries at the expense of the importing countries. US tariffs have blistered China and the wound is still fresh. As is suspected, China is going to RCEP as a way to expand its influence on the world economy. With the volatility of the rupee (INR), oil prices and other assorted delicacies for a cancerous Current Account Deficit (CAD), Indians are sleeping through the negotiations with one eye open, pondering over the numbers but more importantly, over the political issues (read Doklam) which have but negative rents for the NDA-led Government. As there is no backstopping authority regarding RCEP, running huge trade deficits is not an option. 'Make in India' and other policies concerned manufacturing will also take a bad hit.

WHEN TO PLAY JANUS

The foremost issue for India becomes relaxation of norms regarding services, which constitutes about 55% of its GDP. The advantageous position of established supply chains and capital flows will help counteract the position that manufactured goods put it in. It is apparent that India was included so as to balance China's sheer size. Certain participants want to rally behind India so as to replace the trade actions of China with their own. By trade actions I mean chaining themselves to the increasing appetite of foreign countries, like India (ironical, right!). It is election year in India and the fiscal taps are going to open. What are the two-faced problems here? The moment India nudges on the services sector, labour arbitrage will open itself up. Pharmaceuticals are a big thorn in some countries' beds as India comes in with its cheap generic medicine. Here India has to be less ardent as it cannot hide behind that veil of 'Protectionism'. Some of the readers might be thinking whether I am thinking too ahead of the curve, and I partially agree, the reason being that India cannot leave its growing GDP to be the chain that pulls the bloc and open up its CAD to being exploited. The last point, political stability and a quest for a quasi-hyper globalised trade along with inward looking policy making cannot go hand-in-hand. This is a serious fault line etching itself into existence.

Source: pangean.com

ARE YOU A GLASS HALF-EMPTY KIND OF GUY?

Why am I being so pessimistic about RCEP? There are two reasons – first, I am trying to point out the chinks in the contract and second, the winds in global trade have become strong. Given all my qualifications and withstanding some caveats, India should see the opportunity in the RCEP to expand its influence. Also, the world does need a major bloc (in terms of GDP) from the oriental side to put certain perspectives on the global macroeconomic spotlight. RCEP could be a forum for coordinated action and a backstop to the forceful adoption of western macroeconomic framework. For nations participating, there is an opportunity to tap synergies available in a coordinated action. There is a clear indication of downward pressure on prices due to the removal of numerous tariffs. To end, I hope that the friends see the milk and cookies after the fight on the ground.

BEHAVIOURAL ECONOMICS



Source: behavioralscientists.org

Infusing life into the caricature of economic theory

NUDGE AND POLICY MAKING

-SRINIDHI BALAJI

“Wouldn't economics make a lot more sense if it were based on how people actually behave, instead of how they should behave?” says Dan Ariely, Professor of Psychology and Behavioural Economics at Duke University. Economics assumes that given all information, consumers will take decisions in their best self-interest. Behavioural Economics suggests that consumers may be given too much credit. After all, consumers are only human, and are victims to temptation, selfishness and lack of self-restraint. To err is only human, after all! Behavioural Economics can be used to draft policies that change the way consumers behave, however is not consciously used. India, with its large population, could definitely benefit from policies influenced by Behavioural Economics.

Let us take a general example. Suppose the goal of a group of consumers is to consume a healthier diet. To achieve this goal, a contract can be signed, promising monetary benefits to those who stick to their greens, or maybe even punishing those who stray away and consume junk food. This way, the consumers are 'nudged' into behaving in a certain way. Nudges are less expensive and more efficient.

Behavioural Economics helps us predict and influence what people are going to do given a context, and explains when and why they often behave in counter-intuitive ways. Without it, any decision from policy to business to life is more likely to be ineffective at motivating the right behaviour because it isn't based on the knowledge of how people act. Applying Behavioural Economics lets us make a huge difference in people's lives.

To use Behavioural Economics as an effective tool, it is important to not only decide what information about the nation

should first be evaluated by our policy makers before formulating economic policies but also what particularly works and what doesn't in the Indian context when it comes to applied Behavioural Economics. A step towards achieving this is to understand the actions and thus the thoughts of various groups of people by examining their response to policies that have fared differently in the past through numerous accurate and specialized studies, experiments and researches that take into account the socio-economic context of India while evaluating its behavioural tendencies. There are several instances to prove that setting up a nudge unit would greatly benefit the Indian economy. In the case of demonetization, the aim of the government was to reduce the black money in circulation and move towards a cashless society. However, in 2019, we see there is an increase in cashless transactions, but not at the level that was anticipated. This is because people, especially those in the rural areas, were willing to stand in long queues to exchange their old notes for the new ones. This is because they were used to making transactions in cash, and were unwilling to shift to the newer ways. This is a classic case of the government not studying the behaviour of consumers.



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Similarly, nudge can be used to make policies like Swachh Bharat more effective. By offering strict punishment, as in the case of Singapore, the policy can be made more effective. Recently, in Tamil Nadu, there has been a complete ban on plastic. Restaurants and shops which do not adhere to the rules are fined, and hence they have started providing cloth bags or have requested consumers to bring their own bags. The policy has been extremely effective in reducing the use of plastic. The government can spend less on such policies and get more results.

Air pollution is a big problem in the northern states of Punjab, Haryana and Delhi. The national capital usually faces hazardous levels of pollution due to vehicular emissions and stubble burning. These are problems that need large-scale policy solutions. The use of clean energy vehicles is encouraged but is not possible in the near future, and hence a push towards usage of public vehicles must be made. By making public vehicles more accessible, and by increasing parking charges or reducing parking spaces, people can be nudged to use public transport. One must however keep in mind the fact that often a policy that isn't thought upon much, can actually backfire. There were instances when people were found taking along with them a companion who would take the vehicle and roam about, while the other person did his or her work. Thus they on one hand, avoided paying higher fees and on other, contributed more to the emissions than they did earlier.

Another example of a nudge that was made even before a lot of research was done in the field, was the mid-day meal scheme. Introduced in Tamil Nadu in 1960s by then Chief Minister of Tamil Nadu, K. Kamaraj. The scheme offered meals to all school children on working days at government schools. This scheme was hugely successful and increased the number of students coming to school. Similarly, many universities offer special advantages to women, encouraging them to apply for tertiary education. UK has successfully conducted experiments to nudge people into paying their taxes. The

tax department would send letters to those who have yet to pay their taxes. By testing the effects of people's general preference for keeping in step with their peers (most of whom will have paid their tax); reciprocity (by drawing attention to the vital services paid for by people's tax payments); and loss aversion (taking action to avoid the increasing costs of leaving tax bills unpaid), they have devised the perfect way to improve tax compliance. Similar measures can be taken in India as well.

Of late, since the announcement of Direct Benefit Transfers for farmers, several economists have raised concerns regarding the inflationary pressure it can have. The government could however again use nudge to reduce such impact. As a matter of fact, money used for consumption purpose is responsible for creating inflationary pressure. What if government transfers the money with a claim that it is done for a specific purpose, say for buying fertilisers or starting a business? Though one can argue that in absence of a legal framework to check abidance, the announcement would have no effect, yet it is often found that upon being told that a sum of money is for a particular purpose, people are less likely to use it otherwise. Again, the relevance of the argument in light of absence of any legal framework is highly debatable. Perhaps, a better nudge can be thought of.



FIGURE: If you save money to build a house, you are less likely to use it for some other purpose

It is high time we have a behavioural team looking at the several policy issues in India. India is both a fertile ground and a landmine for behavioural policies. We cannot live without making policies which nudge consumers into behaving in a certain way, after all! Though each individual is unique, policies are more effective when people can behave in the same manner, or

are at least pushed to behave so. Looking deep into the issue and analysing the problem at the root by setting up nudge units is definitely more effective than setting up numerous committees without truly understanding the problem. Hence, it is extremely important that policy makers start incorporating behavioural economics when making decisions, in order for them to be effective.



"The problem is I can't tell the difference between a deeply wise, intuitive nudge from the Universe and one of my own bone-headed ideas!"

Source: sentimentsbubbles.com

ARE WE BEHAVIOURALLY CORRUPT?

-BY DARSHANA GAURATRA

"When an Economist says the evidence is 'mixed', he or she means that theory says one thing and data says the opposite"

-Richard Thaler

I may be just an 'Aam-Admi', but I do know that double-dealings, bribes, under-the-table transactions, money laundering, defaulting Investors, all come but in category of corruption. The technical definition of corruption is, 'dishonest or fraudulent conduct by those in power, typically involving bribery'. If you read this sentence properly, you will realise there are two key words involved- First, 'fraudulent' and the second 'power'. Though small, these words seem to possess the economic and political elements which rule the world. The main question here is not whether it is wrong or right. The main question is 'why'? Why are people corrupt?

Corruption is not something that is peculiar. It is the devil's brainchild. It's a multifaceted concept which people have accepted to be very mundane and prosaic. However, to my amazement no one tries to find out why is it existent? Who is wrong? Who is to be blamed- The people, the situations or the Psychological Schema?

According to Freudian psychology, human psyche can be divided into 3 parts-id, ego and superego. Id focuses on the aggressive principles, ego focuses on the reality principles and superego focuses on the morality principle. People might not know this but 'Id' requires immediate and complete gratification. And this small but gallant 'Id' can overpower ego and superego. I believe that in this R.A.T (Race Against Time) race of the 21st Century, we

humans, subconsciously let Id take over.

Cognitive psychology points out that people who hold power are more likely to engage in corruption, hence the statement, 'POWER CORRUPTS'. Let me put forth as to why this happens. 20th century psychologist, Abraham Maslow contributed to the world of psychoanalysis, The Hierarchy of Needs'. It came to be known as Maslow's Five Levels of Hierarchy of Needs. Maslow's hierarchy is most often displayed as a pyramid. All living creatures start with fulfilling the needs which are at the lower level of the pyramid and gradually move upwards. No living creature other than human beings can go beyond satisfying the first three levels of needs-physiological, security and belongingness. The human race has the capacity to go forward and 'Self-Actualise'. Who knew that in the 21st century, to actualise one's potential and to get the best one can, one would resort to corruption? Corruption is nothing but few 'powerful personnes' trying to achieve the "Self-Actualisation" stage. How this is the case, is explained below.

We always say that economics is the study of rational beings. What would you call the corrupt people- irrational beings who are exceptions to every law or rational beings trying to go up the pyramid of Hierarchy of Needs? Answer the following question very honestly. First, Do you have low self-esteem and self-control? The reason why I asked this

that self-esteem can be associated with corrupt behaviour among individuals. As an aid to escape from anxiety provoking settings, people adopt certain 'Defence Mechanisms'. One such defence mechanism is rationalisation whereby a person tries to make an unreasonable feeling and behaviour seem reasonable. I doubt anyone allured by the idea of corruption would call his or her behaviour absurd or preposterous. The person would find means to 'justify' his or her behaviour in every way possible. The idea that corrupt people have low self-esteem and self-control seems silly. But research shows that low self-esteem leads to materialism and corrupt intentions. Corruption itself points out that one is giving up his or her ethical values and moral standards. Now, imagine a person with low self-esteem, for him to give up his values and ethics is much easier than a person with high self-esteem. Possession of material goods gives a false sense of security and high credit-worthiness. People thus run after 'biensmateriels'.

It only seems logical now that low self-esteem engulfs people and they act out by behaving in an ugly manner. The second part of the question about having low self-control seems self-explanatory. Due to lack of control over their behaviour, rather than taking the higher moral ground people decide to behave in an unaccepted manner. In conclusion, self-esteem, self-control and corrupt behaviour have an indirect relationship. Higher self-esteem and self-control leads to lower degree of corrupt behaviour. It is just like the relationship between price and demand- lower the price, higher the demand and vice-versa. Higher your self-esteem and self-control, lower the price you are willing to pay (Read: Refrain from corrupt activities).

I don't know whether while reading the article you were able to trace the human behaviour pattern so let me just put it in plain and simple words. It does not matter

who the person is, what the person's psychological framework is or if he or she is a rational or an irrational being. It does not even matter whether the person has low or high self-esteem and control, what matters is the fact that in today's age everyone is in one way or the another corrupt. Why? For every individual it is a fight to be the first one to do a certain task or in any possible way, be the best. Corruption is a very precise concept which requires calculations and strategising. But now it seems that it just comes naturally to all. Ultimately it all comes down to human behaviour which is unpredictable.

Perhaps, to deal with something that comes behaviourally to us, we need to be nudged to avoid it. It can thus be said that to deal with corruption, much more than legal processes, what is required is a psychological understanding that can help us formulate policies in a manner such that people are discouraged from committing any fraud. The next article talks about developing such nudges.



NEUROECONOMICS: FROM PHILOSOPHY TO PRACTICE

-BY ARTI AND TANVI DIVATE

This article paper has been written under the supervision of Dr. Bhanu Pratap Singh, Assistant Professor, Department of Economics and Planning, Mahatma Gandhi Central University. His guidance, substantive suggestions and encouragement, were of immense help to us. For all these we are deeply indebted to him.

"One may wonder whether Adam Smith, were he working today, would not be a neuroeconomist]"
- Aldo Rustichini (2005)

INTRODUCTION

When we try to recall the engrossing episodes of Doraemon where Doraemon would give a magical gadget to Nobita that would subsequently help the boy to read his fellows' minds before they made a decision, the memories of us fantasizing of being in charge of this supernatural power come alive. Neuroeconomics, a descriptive theory, lies at the very intersection of mainly three domains- neuroscience, economics, and psychology. Neuroeconomics bridges these disciplines and helps interested people to analyze and determine how economic agents arrive at a decision. Based on a simple hypothesis by Francis Crick, that is, a person's mental activities are entirely due to the behavior of nerve cells - this relatively young discipline aims at the formulation of a unified theory on human decision-making behavior.

The course of Neuroeconomics, helps in identifying the covert preferences of economic agents that, otherwise, would have remained hidden. Nevertheless, the discipline works on some assumptions that come implicitly with a neuroeconomic study. The first assumption asserts that when an individual to be studied is asked to make a decision, they should be given options to choose from. Further, decisions are made in a non-random way, and choices made are directed by goal-oriented behavior. In other words, neuroeconomics allows us to study the underlying neural goal-directed behavior of economic players in the presence of options.

TECHNICAL LENS: LOOKING BEYOND

Neuroeconomic studies use a lot of brain imaging techniques while working to arrive at its ultimate target. The origin of the discipline is based on the belief that brain activities explain individual behavior. But, studying the brain in itself, is a task for researchers. The brain literally has astronomical complexity.

When Paul Glimcher, popularly known as the Godfather of neuroeconomics investigated a monkey's behavior in a discrete-trial to formulate dynamic response-by-response models of matching behavior- it approbated the trend of study of animals' brain activities to understand the link between the underlying neural activity and decision-making process.

Optogenetics is one of the techniques used by neuroeconomists to study the behavior of animals. As the name suggests, the technique introduces genes for light-sensitive proteins into specific types of brain cells in order to monitor and control their activity precisely using light signals. Let us imagine that we can construct a gene that programs an artificial protein. We can put this gene into a virus. This virus can then be used to infect the brain of a rat. After that, the brain starts to produce these artificial proteins. These proteins are integrated into the neurons, into the neuronal membranes into their ion channels. But, these artificial proteins are sensitive to the specific wavelengths of the light. So, if you apply specific wavelengths of the light, you can change the structure of this

protein. These proteins can open and close ion channels of their neurons. Thus, by light, you can open and close ion channels in neurons of the rat. By light, you can switch off and switch on different brain regions, and investigate the role of these brain regions on the behavior and decision-making.

ECONOMICS AND NEUROECONOMICS

In the early 20th century, economics parted company from psychology because economists became skeptical that basic psychological forces could be dealt with without assuming them from observed behavior, and then subsequently using them to predict behavior. Subsequently, the economic theory is based on information that is directly gathered from people's responses- ignoring the underlying phenomenon. How important is the underlying phenomenon anyway?

Before making the big launch in Japan, Nescafe decided to conduct a big level survey to know if the Japanese really wanted it. Their survey said that the majority liked coffee's taste and would not mind buying the beverage if it was available in the market. These results elevated Nescafe's hopes and the brand got pumped up to launch its coffee in Japan. A big launch followed the survey - as grand as the launch was, the result was equally upsetting. Sales were not there, the Japanese were not ready to bring coffee into their homes, Nescafe was forced to scratch its head. This made Nescafe call a psychologist from Europe to help it understand and deal with the situation. The psychologist then gave the hidden cum underlying explanation to the disastrous public response to the launch. Japan has always had an inherent tea culture- the natives, in no way, would have instantaneously shifted to another beverage that they have not grown up seeing poured to guests in their homes.

The psychologist then recommended something to Nescafe that they eventually took up. Nescafe came back to the Japanese market, but with something else - coffee

market, but with something else - coffee candies - which were patently cheap and targeted at kids. Well, what would you expect the kids to have done?

They tried them, liked them, bought them again- allowing the taste of coffee to make its way into the Japanese households. The coffee giant made its launch 2.0 in Japan. This launch was different, followed by a different and delightful result. The Japanese did not only buy coffee, but they also started pouring it to their guests- bringing a little yet significant change in how the Japanese perceive the caffeinated beverage.

The Nescafe-Japan case shows how the intersection of economics and psychology can help in identifying, and unleashing the covert preferences- preferences, that are hidden, but implicit in an economic study.

Neuroscience helps in allowing us to go a step ahead, and use its sophisticated mathematical and biological framework for studying the fundamental behavior underlying a typical economic model. The ambitious idea of Neuroeconomics pushes us to study the social, cognitive, and behavioral factors determining an economic decision.

One can contend that the emergence of behavioral economics was based on the study of the very same factors, then what could possibly lead to the need for integration of a whole different discipline into economic theory? The answer is that Neuroeconomics enables us to study the decision-making process under risk and ambiguity, the behavioral study of which provides us with vague and unclear details.

CRITICISM

A critical argument of traditional economists against this neuroeconomic approach is that the use of non-choice data, such as response time of neural signals that people generate during decision making was never taken into consideration by economists in the earlier centuries, and we might not really need it now either. Economic models make no assumptions about the mechanisms underlying behavior.

In the behavioral model, we do not take into account the neuroeconomic models as we predict things on the basis of direct behavioral surveys or rely on the easily available data unlike in neuroeconomic survey methodology.

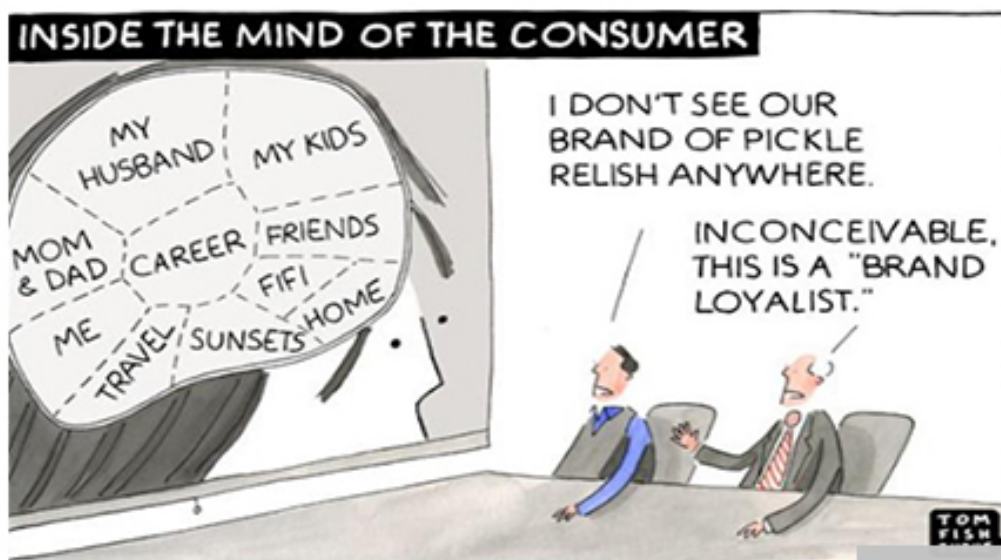
Additionally, neuroscience experiments require large-scale capital investments and highly specialized skills for data collection and required analysis, this constraints participant's behavior undeniably. Economists, at times, have challenged the need for a discipline like neuroeconomics- questioning the relevance of its contribution to the economic theory.

CONCLUDING REMARKS

Neuroscience clearly brings a wealth of technological approaches, including brain imaging, lesion studies, molecular biology, electrophysiology; economics adds conceptual principles, statistical techniques, and rigorous modeling; and psychology provides evidence for decision biases such as heuristics, framing effects, and emotional influences. While

neuroeconomics aims at joining these branches of study, researchers should care that the field does not become brain-centric. The idea that we may be able to say something about the biological basis of economic decision making seems to be both compelling and important. Advocates of the advanced discipline have often emphasized on how it can make a valuable contribution to economic modeling, and change how we see the process of data collection and inference. Mounting expectations from the discipline and criticisms about the rationale of its existence call upon more discussions on the same.

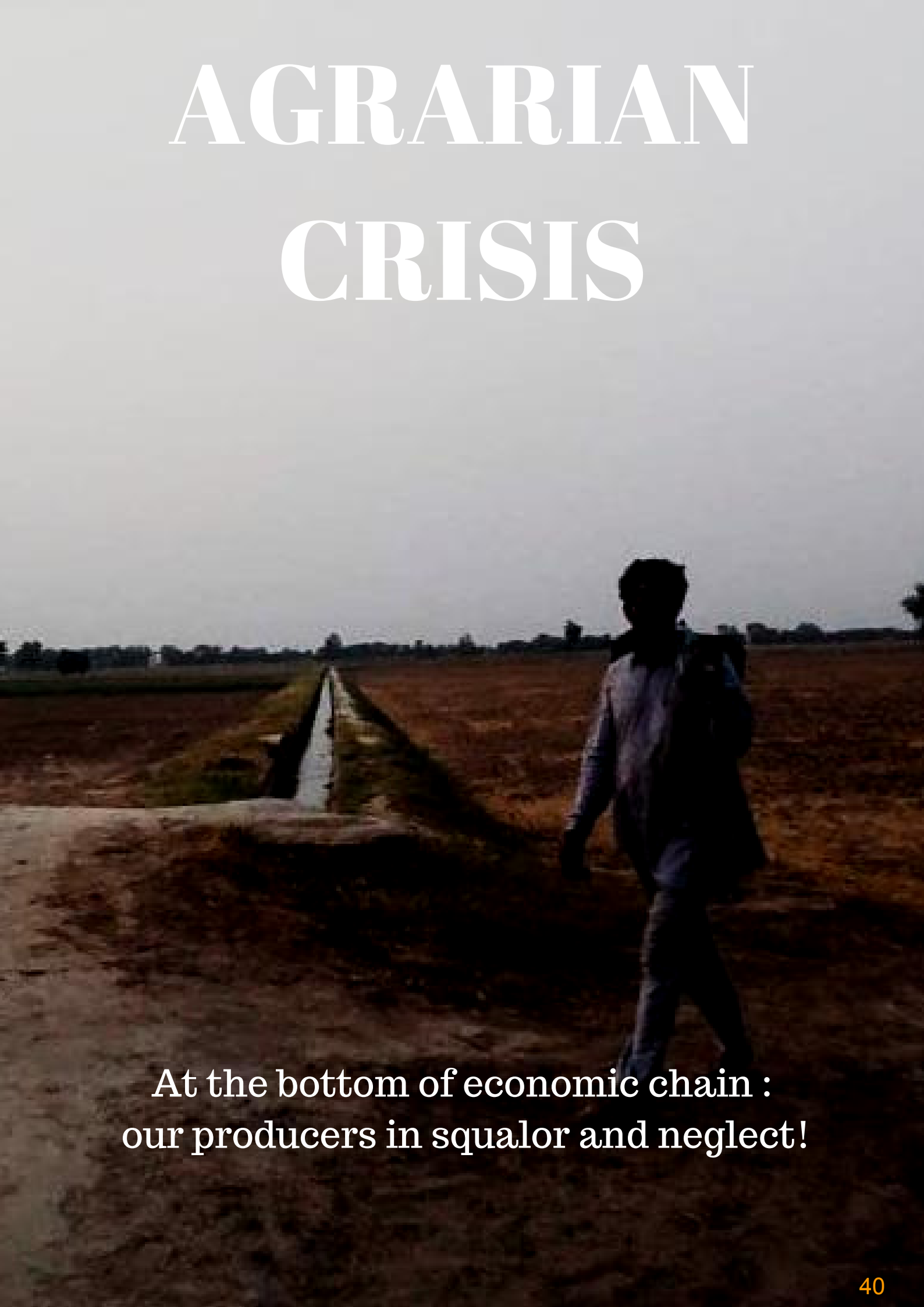
Neuroeconomics is like a magical tool that gives us a hope of making our 'Doraemon dream' come true. Goals surrounding multiple disciplines of science come in different ways of integration of the related domains. As ambitious and proactive the idea of Neuroeconomics is, the rationale of studies under the umbrella of this young field should be accounted for appropriately. The belief that we need a common language or principles to bridge the disciplines is current and neuroeconomics may prove to play that role very fairly.



source: tomfishburn.com

1 Camerer, Colin F., George Loewenstein, and Drazen Prelec. "Neuroeconomics: Why Economics Needs Brains." *The Scandinavian Journal of Economics* 106, no. 3 (2004): 555-79.

AGRARIAN CRISIS



At the bottom of economic chain :
our producers in squalor and neglect!

A TALE OF WOES

चम्पारण सत्याग्रह शताब्दी

CHAMPARAN SATYAGRAHA CENTENARY



Source: istamp.com

“Crisis is what suppressed pain looks like; it always comes to the surface. It shakes you into reflection and healing.”

**BY SANDESH
DHOLAKIA**

The agrarian crisis in status quo today is the summation of the increasing sufferings of the farmers in India. High suicide rates, burden of debt, climate change, and unsuitable crop variants are just what constitute the surface of the story. The crisis reached a climactic point when thousands of farmers marched to Delhi in late November 2018. This however, was not even the first-time farmers decided to gather as one to break barriers. For that matter, if we go back to the Champaran Satyagrah, we realise that farmers' distress has played an important role in shaping our very fight for independence.

After India gained independence, the condition of Indian agriculture was extremely primitive. In

the section below we have tried to put together the changes that have come about in the Indian Agrarian Sector since Independence.

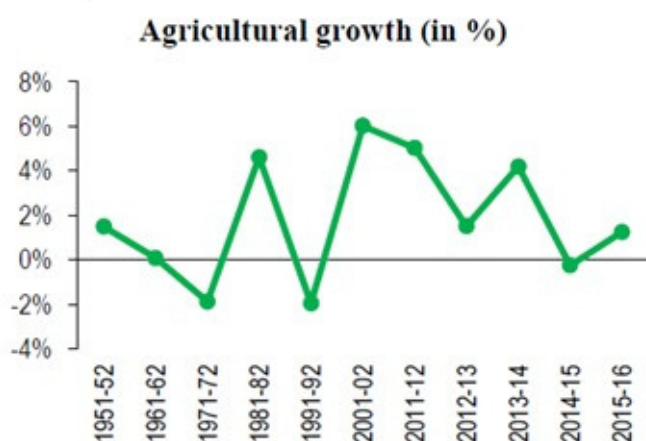
AGRICULTURE SINCE INDEPENDENCE

Ever since independence, the guiding force behind our agriculture policy has been to give impetus to agriculture production along with making sure that the population dependent on the sector goes down. However, we seem to have failed in achieving the latter. Though there has been a fall in the percentage of workforce dependent on this sector from 69.7% in 1951 to 54.6% in 2011, yet even today more than half of the population depends on agrarian sector for its livelihood. However, the earning of an average farmer is far less than what can be called

satisfactory. As per the Doubling Farmers' Income Committee, the average annual earning of a small and marginal farmer household was 79,779 in 2015-16.

As for the growth, the figures of growth in this sector have improved with some years been marked by low growth rates. The graph below summarises the rate of growth in the agriculture sector since independence.

Figure 1: Agriculture growth in percentage



Sources: Agricultural Statistics at a Glance, 2015; PRS.

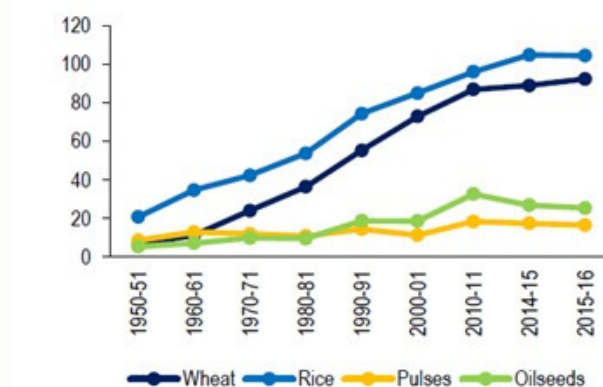
Given the policies that the government adopted, like that of land distribution, after independence, the growth of the agriculture sector in India picked up- Initially, due to the better land allocation and later, due to the green revolution.

The key elements of the Green revolution included price support through open-ended procurement of rice and wheat; encouragement to adoption of the new technology in the cultivation of rice and wheat involving the use of high yielding varieties of seeds, application of chemical fertilisers and pesticides; expansion of agricultural credit, with bank nationalisation playing an important role in this regard; public investment in irrigation and subsidies for the expansion of private irrigation; subsidies on fertilisers and pesticides as well as farm machinery; and state investment in agricultural research and extension.

The agriculture produce in the country thus

subsequently increased. However, the major impact was only on the production of wheat and rice and the benefit majorly restricted to high potential and irrigated areas and that too majorly to big farmers only. While the production of food grains did rise, the income of farmers did not and thus the nation saw another major farmer movement under the leadership of Mahendra Singh Tikait. The demands of farmers have always been simple- Remunerative price for their crops.

FIGURE 2: The figure shows the growth in production of various agriculture produce. It is clearly visible that majorly the benefit of the green revolution occurred to the producers of wheat and rice (figures are in million tonnes)



Sources: Ministry of Agriculture; PRS.

AFTER THE NEW ECONOMIC POLICY, 1991

After the Green Revolution, the next thing, the impact of which, on the agriculture sector is still debatable is, the New Economic Policy. The following table gives an insight about the growth- before and after reform, in various factors that are important from the perspective of agriculture sector.

Table 1: Percentage growth under various heads. (Source: India-Roles and Challenges of Small holder agriculture)

Heads	1980-81 to 1990-91	1990-91 to 1996-97	1996-97 to 2005-6
Technology	3.3	2.8	0.0
Public investment	3.9	1.9	1.4
Private investment	0.6	2.2	1.2
Irrigation	2.3	2.6	0.6
Area under fruit and vegetable	5.6	5.6	2.7
NPK use	8.2	2.5	2.3
Credit	3.7	7.5	14.4

It is evident that except for credit, there has been not been much growth in any of the other aspects of structural reforms in the agrarian sector. Besides pointing out to the fact that we as a country have failed to work on the fundamental problems of agrarian sector, the figures could also be used to get an insight about how our benefit programs are highly skewed towards the big farmers who have access to the formal credit structure.

In post WTO period, the situation of agriculture turned adverse. The growth rate in the output of all crops fell from 2.93 to 1.57 percent. Within crops, a high deceleration has been seen in almost all crops except for sugar. Besides crops, the livestock declined from 4.21 percent to 3.40 percent. The fisheries declined from 7.48 percent to 3.25 percent. Only, forestry witnessed a sharp increase from 0.09 percent to 1.82 percent. (Tripathi and Prasad, 2009).

In light of all the factors, a committee was set up in 2004 under the chairmanship of Prof. M.S. Swaminathan to come up with a comprehensive report on the agrarian sector in India and ways to improve it. The main findings of the report are given below.

Land Reforms

Recommendations by the NCF (National Commission for Farmers) included implementation of laws related to land reforms with particular reference to tenancy laws and land leasing, distribution of ceiling surplus and wasteland, ensuring grazing rights, prevention of diversion of prime agricultural land and forest to corporate sector for non-agricultural purposes, seasonal access for tribals to forests

TABLE 2: LAND DISTRIBUTION IN INDIA

Holding	1970	1980	1990	2000	2010
	-71	-81	-91	-01	-11
Marginal	36	50	63	75	93
Small	13	16	20	23	25
Medium	19	21	22	21	20
Large	3	2	2	1	1
All sizes	71	89	107	120	138

Note: Marginal: up to 1 hectare, Small: 1-2 hectares, Medium: 2-10 hectares, Large: over 10 hectares.
Sources: Agriculture Census 2011; PRS.

Land ownership reflects the inequality in land holdings. It can be concluded from the above figures that there has been a growth in the number of small and marginal farmers. These farmers cannot benefit from economies of scale.

Irrigation

To enable farmers to have sustained and equitable access to water, a comprehensive set of reforms are required- mandatory rain water harvesting to increase water supply and recharge aquifer. Launch of a programme targeting private wells called, "Million Wells Recharge" was recommended.

TABLE 3: SOURCE OF IRRIGATION

Sources of irrigation (as of 2010-11)		
Source of Irrigation	% share of holdings	Number of holdings
Tube wells	44.2%	31,722
Canals	25.7%	18,414
Wells	19.7%	14,101
Other sources	8.4%	6,046
Tanks	5.8%	4,180

Sources: Agriculture Census 2011; PRS.

It can be concluded from the above data that there is a great dependence on tube well for irrigation purposes which is one of important reasons behind degrading ground water table. The above figures also raise questions on the Government's policies in developing irrigational infrastructure since very few farmers are seen reaping benefits from canals.

Credit and Insurance

NCF recommends expansion of formal credit system, reduction in rate of interest for crop loans to 4% with government support, issuance of Kisan Credit Cards to women farmers, establishment of Agriculture Risk Fund to provide relief to farmers in the aftermath of natural calamities and expansion of crop insurance to cover all crops throughout the nation.

TABLE 4: SOURCE OF CREDIT

Land holdings and sources of agricultural credit (as of 2013)							
Size of land (hectare)	Co-operative society	Bank	Money lender	Shopkeeper/trader	Relatives/friends	Others	
0-1	10%	27%	41%	4%	14%	4%	
1-2	15%	48%	23%	2%	8%	6%	
2-4	16%	50%	24%	1%	6%	4%	
4-10	18%	50%	19%	1%	7%	6%	
10+	14%	64%	16%	1%	4%	2%	

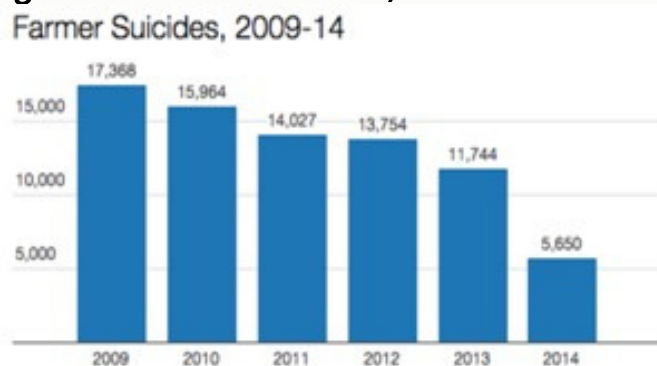
Sources: Table 3.2, Report of the Committee on Medium-term Path on Financial Inclusion, Reserve Bank of India; PRS.

It can clearly be inferred from above data that the farmers are not able to get benefit of organized sector credit facilities which provide loans at lesser interests. The above table also shows that a large number of farmers get exploited by the money lenders.

Prevention of Farmers' Suicides

Due to the alarming numbers of farmers' suicide, some measures were suggested in this regard. It includes providing affordable health insurance and revitalizing primary healthcare centres, extending The National Rural Health Mission to suicide hotspot locations on priority basis and setting up of State level Farmers' Commission. The Government of India has launched a campaign named as 'India emergence through village emergence' in order to improve the means of livelihood amongst the rural. The All India Agricultural Debt Waiver and Debt Relief Scheme were also launched in February 2008. Of late, several state governments have issued loan waivers and the centre has decided upon a direct cash transfer scheme.

Figure 3: Farmers' Suicides, 2009-14



Source: NCRB

Although the nation saw failures in various sectors but there was significant and substantial decrease in the numbers of farmers committing suicide in India. This could be considered as an achievement of the country. The sad part however, is that the suicides continue.

Employment

Agriculture tends to provide a bulk of employment to the rural population of India. Employment strategy in India must seek to create productive employment opportunities and improve the quality of employment in several sectors such that real wages rise through improved productivity.

Current policies consist of agricultural marketing, land lease, forestry on private land, and price incentive for producers, promoting responsible agricultural investments, promoting value chains, promoting producers' alliances linking production to processing and coordination and involvement of states. The stress is on the need for competitive markets or other mechanisms to ensure that the prices received by the farmers do not fall below the level of MSP. Institutional initiatives include promotion of over 510 FPOs by SFAC, some state governments and NABARD with membership of 5.71 lakh farmers.

It is not unknown that the most of the recommendations made by the committee have still not been adopted by the government. In meantime, we have seen several other committees been set up and several been promised. The result ironically has been an increase in number of farmers' protest. Given the number of people who are dependent on this sector for their livelihood and the people who are dependent on it for food, if not dealt with at the earliest, the agrarian crisis would soon turn into an "existential crisis". Observant people shall point out that stage has already arrived!

TWO PLAYERS AND A PRICE WAR



BY
KOMAL SINGHAL

When one talks about the agrarian crisis today, one of the first things that come to the mind is the problem of farmers not getting a remunerative prices for their crops. Over the last few years, the problem has become even worse and it is due to the same that in the past few months, in several cities across India echoed a slogan- "Kisaan Majdoor ki ek hai maang; Uchit Daam, harr haath ko kaam".

There are several factors that make the fundamental structure of our agriculture economy such that an average farmer is not able

to get price for his or her crops. In this essay, we aim to understand some of these factors.

MINIMUM SUPPORT PRICE

After the green revolution, when the production of food grains in India increased dramatically, then for the first time in 1996-67, the government declared MSP for wheat in wake of extended harvest. Since then, its calculation has always been an issue of discussion. The Swaminathan Committee report had in 2006 recommended that MSP should be at least 50% more than the weighted average cost of produce and it is not unknown that the recommendation has not been adopted. Yet, here we shall talk about the MSP that is indeed declared but is distributed inefficiently.

The government normally buys crops on which it declares MSP through its procurement centres and

the purchase is made at specific places and time. Most of the times these centres are located far away and the announcement for procurement is after a very long period after harvesting. Debt ridden farmers are thus forced to sell their produce to middlemen, often below the MSP. The largest procurement is made in wheat and rice which the government needs for its Public Distribution System but there as well, the story isn't flowery. Reports of Department of Food and Public Distribution show that only about 30-33% of the total wheat produce is actually procured. No prizes for guessing that the rest is sold in open market, probably below MSP.

MARKET

We shall still consider the fact that it might not actually be possible for the government to buy all crops produced and it thus came up with the idea of state regulated markets. Agriculture in India is a state subject, thus the wholesale selling of agriculture produce is governed by the APMC Acts for various state governments.

Under APMC act, states are geographically divided into markets and any production in that area has to be brought to the market committee for sale. The APMC act prohibits farmers from selling their crop outside the market. In these mandis there are agents who hold license and are allotted shops. Ideally, the mandis are supposed to have auction but often the traders form cartels and the price is thus determined in a non transparent manner.

Madhya Pradesh became the first state in India to amend its APMC act to allow private procurement yards but the case of fall in the prices of garlic last year show that it too proved to be useless. The prices of garlic fell down to about 200 per quintal in May last year, from 1804 per quintal in January. The situation in the private mandis was found to be no better. States like Bihar where the act was scrapped tell no different story.

PRICE CONTROLS AND INFLATION TARGETING

Looking at the inefficiencies in the system one often starts wondering if it is even possible for the government to solve the problems. The question that needs to be asked in democracies however is, whether it is in the interest of the government to solve the problem. Well, one cannot say for sure. However, the agreement signed by the finance minister and RBI on 20th February 2015 does raise some doubts. India is now following the policy of inflation targeting and while it is not the first country to do so, what makes it different is, as Mr. Harish Damodaran puts it, "the high weightage that food and non-alcoholic beverages have in its CPI." It comes to above 45%, which clearly means that the success of inflation targeting to a great extent depends on keeping prices of agriculture produce low. It is often said that one of the biggest challenges is to decide sides. The government has to choose between being pro-producer and pro-consumer (Ironically, it is pro-middlemen).

While talking about control on prices, one cannot forget the instances when certain agriculture produce were brought under the purview of Essential Commodities Act in wake of rise in their prices (ECA is an act of the Parliament to ensure the delivery of certain essential commodities). In July 2014, the government brought potatoes and onion under the ECA thus empowering states to fix stock limits on them and further a minimum export price was introduced below which the commodities could not be exported. The same story goes for pulses. When the price of pulses surged in 2015-16, not only were the exports banned but also duty free imports were allowed. Such moves in event of the slightest price increase harm the farmers and take away from them their right to sell their produce at a time and price they want.

GLOBALISATION

The case of pulses and imports provide us with an opportunity to try and analyse the effect of yet another economic event in the history of India-Globalisation. The best way to understand this would be to learn about the cotton growers of

Vidharba. After globalisation, in the year 2002, a joint venture between Monsanto and Mahyco introduced Bt Cotton in India. Till then, the cotton growers used the local Indian seeds. Today, about 92% of area under cotton cultivation uses Bt Cotton. The local version required less water, fertilizer and pesticide input and Bt Cotton required more of water and was also prone to pests. The point to be noted here is that the farmers of Vidharba depended primarily on monsoon for water and thus the introduction of Bt Cotton introduced more of uncertainty in their lives which now became dependent on the uncertain rains. Moreover, the cost incurred on pesticides increased. Furthermore, the prices of cotton is determined in the international market and the poor farmers are thus left to bear the financial burden (metaphorically) of the subsidies that US gives to its farmers.

One could still advocate for the benefits of globalisation if Indian farmers were able to get advantage in terms of exports but several factors again prove to be a hindrance here. One of them being, the non adoption of the GM crops in India which reduces its ability to capture the global market. As Prerna Sharma beautifully points out, China imports over 70 million tonnes of GM Soyabean annually but India cannot supply it. (Interestingly, we do allow its import!) Our farm products also face prohibitive import duties. For instance, our dairy products attract about 511% import duty in EU. Export of agriculture commodities declined to 38.6 billion dollars in 2015 from 42.8 billion dollars in 2014.

RISING COST

All in all, while the prices of the commodities aren't as much as remunerative, the cost for the farmers is rising. As per economic survey 2015-16, about 35% of total seeds available are produced by private and public sector companies and farm bred seed account for the remaining. While farmers can develop certain varieties of seeds from the crop they harvest, HYV seeds have to be purchased. The cost of these seeds is too high for any small and marginal farmer.

Moving on to fertilizers, though the price of urea is controlled, the prices of P and K fertilizers were

decontrolled in 1992. As for urea, since only 3 companies are allowed to import urea and the process of acquiring them takes about 60-70 days, black market has grown. Hence, the farmers have to often buy it at a price higher than MRP to make sure that urea is timely available for their crops. Talking about irrigation, as per the Agriculture Census 2011, about 44% of landholdings are irrigated through tubewells and thus comes the cost of electricity. For those dependent on monsoon the risks and costs are even higher. There have been instances when due to delay in rains farmers have had to sow multiple times to finally bear no crop at all. Besides these, there is the cost of pesticides, transportation, storage and that of labourers. Over years, the wages have increased. However, the area of land the labourers could work on has decreased because less of farmers find cultivation profitable today. As per Census 2011, there has been an increase in the percentage of labourers. For males the increase has been 44% while for females it is 24.5%.

While the costs are rising, our farmers are not receiving money for their produce. The dues of the sugarcane farmers of UP haven't been paid by the mills that have been authorised by the government to buy the canes. The price of low quality sugarcane was decided at 315 rupees while that for good quality was decided at 325 rupees but in wake of distress due to delay in payments the farmers in large number sold it in the markets at a much lower price. Often the delay in purchase results in the cane to lose moisture and thus weight. The farmers consequently end up getting less money.

PROBLEM OF OVER-SUPPLY

Keeping all the aforesaid points aside, people often argue that had it not been for the problem of oversupply, there would not have been a problem of low prices. In wake of the fall in prices of onion, last year the farmers of MP chose to grow garlic and consequently the area under garlic cultivation rose to 92000 hectare in 2016-17 to 1.28 lakhs in 2017-18. Thus, the prices fell. Farmers did a similar thing when the price of tomatoes rose to 60-80 rupees per kg in Kolar and consequently, it fell down to 3-5 rupees per kg. Same applies to pulses. But can

this not be dealt with? Of course it can be. Timely market intelligence service, if provided to farmers, as is done by the US department of agriculture can help to a great extent in solving this problem but perhaps it isn't our government's priority.

We thus find that there are numerous factors that contribute in making it difficult for an average

farmer in India to get a satisfactory price for his or her crops and perhaps it is due to this injustice that in the recent past we have witnessed several farmers' protests. It is therefore high time that we stop debating on the fairness of giving loan waivers to the farmers who get trapped in a debt cycle due to flawed policies, and start focusing on the elephant in the room.



FARMERS AND FINANCE



Source: The New York Times

**BY
KHUSHI PODDAR**

India has a long and illustrious history of development of formal sources of rural credit, especially focused on agriculture. In India, farmers require short term credit to purchase seeds and fertilisers, medium term credit to purchase agricultural tools and equipment, and long term credit for buying additional land or reclamation of land, among other things.

Crop failure, low MSP yields a low income for

farmers. Moreover, ancestral debt and unproductive purposes such as social ceremonies are few among the pool of reasons why farmers require credit.

However, the shrewd moneylenders take (they still do) undue advantage of the poverty and illiteracy of farmers, charging exorbitant rates of interests and even resorting to manipulation of accounts. The need for a formal source of credit has, thus, always been explicit.

Rural credit needs in India are met by the rural financing institutes (RFIs) with NABARD as the apex and refinancing agency. Cooperative banks, scheduled commercial banks, and

regional rural banks are the three principal rural financial agencies. Numerous state-sponsored institutions and non-governmental organizations established for development of special sections of the population or particular regions in the country also advance credit to the rural population.

Major efforts to revamp agricultural and rural credit system started in 1954 when the recommendations of Rural credit survey were considered. In its recommendations, RCS suggested state partnership in the cooperative structure at all levels, and thus two funds, the National Agriculture Credit Fund and the National Agricultural Stabilization Fund were formed.

It was also on the suggestion of RCS that several banks were nationalised, just like the Imperial Bank became the State Bank of India with a lot of branches in rural areas. Thus started the entry of commercial banks into the rural credit system.

Table 1: Farmers' access to credit from formal and informal sector, 2012-13 (Source: IFPRI Discussion Paper 01614, March 2017- Calculations made by the author based on unit level data from Situation Assessment Survey of Agricultural Households, 2013. NSSO, Government of India)

Land class	Distribution of households by borrowing (%)				Share of formal and informal credit in borrowing of households (%)	
	Non-borrower	Formal sources only	Informal sources only	Both simultaneously	Formal credit	Informal credit
Marginal	54.67	14.77	21.68	8.88	54.95	45.05
Small	48.32	24.23	14.17	13.27	64.26	35.74
Medium	41.47	29.98	11.57	16.98	67.13	32.87
Large	28.45	39.06	8.92	23.58	74.89	25.11
All	47.94	22.78	16.21	13.07	63.56	36.44

Even today, the farmers, and mainly the small and marginal farmers, who are currently 86.2% of the total farmers in India, and who, actually are in direr need of credit than large farmers, find institutional credit quite inaccessible, and thus still depend on informal sources of credit such as friends, family and local moneylenders.

“A higher percentage of investment is carried out

through informal sources of borrowings such as moneylenders, traders and input dealers by the landless (40.6%), marginal (52.1%) and small farmers (30.8%).”: Status of Farmers' Income: Strategies for Accelerated Growth.

WHY SO?

The hurdles that they face are both supply side and demand side. On the supply side, we see that the formal credit agencies are unwilling to monitor small accounts of a large number of borrowers due to high transaction costs. Also, a lack of credit history gives rise to problems of adverse selection and moral hazard. On the demand side, NABARD's survey shows that lengthy procedure for sanction of loans by institutions, demand for collateral security and short term of crop loans were the reasons for farmers seeking loans from non-institutional sources.

SITUATION OF TENANT FARMERS

Highly under-reported data says total leased-in area within the total operated area to be 11% whereas it may in some states be even higher than 34%. Even though tenant farmers incur far more expenditure than other farmers due to additional costs of paying ever increasing lease rents, they don't get to avail agricultural credit from institutional sources because banks continue to ask for pledge of land holdings even for short term crop loans, even after this being against the RBI guidelines. “What we need is a change in the definition of farmers to include them. Right now they are categorised as cultivators,” said Ramesh Manjunatha, an economist with Osmania University.

DIRECT BENEFIT TRANSFERS AND LOAN WAIVERS:

The wave of loan waiver announcements last year commenced by the BJP government in Uttar Pradesh has really not done much. Sure, loan waivers are like a Band-Aid solution which is required in some cases and might not provide anything except immediate relief. However, its impact on the credit system must be assessed

thoroughly before any announcement. Ground realities show that the announcements of farm loan waivers have been met with multiple implementation glitches, in almost every state that announced such a waiver. For example, an announcement of a 10,000 crore farm loan waiver in Punjab has been currently met with only about 2000 crore rupees, which covers the marginal farmers, but the small farmers are yet to benefit. Besides, loan waivers essentially benefit only those connected to formal credit, whereas, as discussed before, the poorest of farmers (SMFs), about 86.2% of total farmers typically still depend on informal sources.

Loan waivers also deteriorates the credit systems as the banks are reluctant to issue fresh loans after a collapse in repayments.

On the other hand, direct income transfers like the RythuBandhu Scheme in Telangana or Odisha's KALIA really help the farmers more during financial distress, make better use of the fiscal space of the government, and do not hurt the credit systems.

CROP INSURANCE SCHEME

Many reports claim that the crop insurance scheme is a scam. They report that the crop insurance premium is deducted from all the KCC holders without any notice, and when the farmers face a loss, the crop insurance companies do not come forward to repay the rightful amount. In fact, there have been cases where the insurance companies have actually gone to the extent of returning the premium amounts to the farmers in case of crop failure.

This is what happened in Sirsa, Haryana, where more than 2000 farmers were returned their premium amounts and thus they reached the consumer court.

Farmers are instructed to inform the insurance companies for the claim within 48 hours of crop failure. However, even in Haryana, where 70% of residents are engaged in Agriculture, the entire state has only about 2-3 representatives and, thus, many districts lack a single representative from the insurance companies. How, then, are the farmers to reach them within 48 hours, when to reach even one such representative, the farmers have to start a movement here?

Moreover, the tender for insurance companies changes many a times. Premium that the banks deduct are declared to have not fully reached the insurance companies. In many situations, farmers sow one crop, whereas the insurance companies assert that the farmer only has insurance for some other crop.

Thus, it might be evident that restructuring of rural and agricultural credit system is of utmost importance to minimise leakages and maximise potential gains from Indian Agriculture. One important addition might be to ensure timely availability of inputs, while another might be to allocate more companies the task of crop insurance scheme, possibly even the private ones, by providing some kind of tax incentive, which might give the market a stimulant to charge lower premiums. Furthermore, the credit advancement schemes need to be better targeted.

OKONOMOS ASKS: A FARMER ON A REAL ISSUE



BY
ISHAN KASHYAP
HAZARIKA AND
SANDESH DHOLAKIA

Agriculture and the plight of farmers have gained a lot of attention recently- for various reasons. The image of a dying farmer- portrayed often as a valiant soldier, has taken space in our minds and haunts us. The very fact of dedicating an entire

section on to this issue, highlights its seriousness. In this piece of interview, we seek to investigate, find out and get to the root of what actually an Indian farmer feels, does or thinks- and we approach Ballu- a farmer from Odisha, for the purpose.

Interviewer: Hello! We, from Okonomos, Hansraj greet you! We are preparing a section on the Indian agrarian crisis and we wanted to talk to you regarding the same. Would you please, explain to us in brief who an Indian farmer is?

Farmer: Hello, I am Ballu from Gotma, District

Nuapada, Odisha. Speaking about the life of a farmer, the life of a farmer is cyclical. It ends where it starts- farming. It is through agriculture that he feeds his family, lives his life and arranges for happiness. Life is changing for some, some farmers have advanced tube wells now and go for several cycles of cropping. Those by the canal are even luckier. Others live a more stagnant life.

Interviewer: What crops do you grow? And how many cycles do you go through?

Ballu: I mainly grow rice. Farmers, who live by a canal, may go for two cycles, in fact, almost all of them do. But those who lack the means have to be content with one cycle

Interviewer: Agriculture is a seasonal activity. As you are a farmer who goes for a single cycle, what do you do when there is no work in agriculture?

Ballu: You see, the additional works depend on the condition of the farmer. A farmer with fifteen acres of land need not do any other work. But a farmer with just two acres of land has no choice but to find job as a labourer or some other job. The families of small farmers like me have more than one working member. Not all of us are farmers now, some members have to take up jobs.

Interviewer: Do you think going for more than one cycle a year affects the fertility of the soil? Is it also a reason that you have opted for a single cycle a year?

Ballu: No. The fertility depends on the fertilisers that you are using and not on the number of cycles. We use fertilisers, as we have ourselves observed how they help in the growth of the crop.

At the very beginning of the interview itself, we get an idea of the way the farmer fits into the picture and also his view of the affairs. Ballu is a rice grower and opts for monocropping. His choice of crop and the number of cycles of cropping, is almost dictated by external circumstances. Due to the lack of infrastructural support, such as canals, he is forced to go for a single cycle, growing the staple food crop of the region, rice. Despite his beliefs of no

relation between soil health and the number of cycles, monocropping is widely believed scientifically to degrade the diversity of soil nutrients and make the crops more vulnerable to pest-attacks. His excessive dependence on fertilisers and pesticides is of no wonder then. Does he have the free will for business?

Interviewer: What do you use more- chemical fertilisers or manure? Is the use of organic manures prevalent?

Ballu: We mostly use chemical fertilisers. The organic ones are available in the market, but we mostly prefer the chemical ones. It is difficult to know the difference between organic and chemical. We of course know that the chemical fertilisers will definitely work. The chemical ones increase the growth immediately, the organic ones take more time. We therefore prefer the chemical fertilisers.

Interviewer: Has any scheme from the state or the central government regarding agricultural production benefitted you?

Ballu: Yes. The government of Odisha has launched a scheme named the Kalia Yojana. In this scheme, they provide a support of Rs. 5000 to the farmers who have less than 4 acres of land- the usual amount of land holding. I believe they genuinely wish to take the farmers forward. But I am unaware of any central government schemes.

Interviewer: Does the government provide assistance for fertilisers, pesticides etc.?

Ballu: We usually go for cooperative bank loans for the inputs. The cooperative banks are in fact farmers' banks. It is very convenient to work with them. Our loan gets approved about two months before so that we are able to get the materials exactly on time.

Interviewer: Has any other scheme benefitted you and those around you in the past four years? Do you have a bank account?

Ballu: I do have an account in a cooperative bank. These banks are very convenient for us. I am, however, unaware of any government

scheme related to bank accounts. Others though, may have benefitted from such schemes.

A striking fact that stares us is that the farmer has not even heard of any Central Government scheme. The question is whether it is mere ignorance on the part of the farmer, or a failure of the Central Government itself? Has the farmer received almost no benefit from the central government, or has he received substantially but merely does not know that benefits come from the central government? Another concrete fact is that the farmer has benefitted from the cooperatives. The farmer terms them 'farmers' banks'. Are cooperatives widespread? The farmer's use of chemical fertilisers and pesticides is also worth noting. The use of chemical fertilisers and pesticides has increased dramatically since the Green Revolution, but, as we see, the farmers are using the products with almost no proper knowledge of their impacts.

Interviewer: After the production, how do you sell the crops? Do you face any difficulties there? Do you sell the produce directly to the mills?

Ballu: We sell the rice at the mandis. There is not much of a difficulty in selling in fact. If someone does wish to directly sell, he or she may also sell the produce to shopkeepers. We do not directly sell it to the mills however.

Interviewer: Do you know anyone around you who goes for cash crops or multiple cycles of farming?

Ballu: A farmer has to grow rice in the monsoon, in the summers he may go for chana or wheat or some other crop. Rice takes about ninety to hundred days, and this is what most of the farmers here do. There is not much of a trend to adopt cash crops, especially because there is no MSP offered for it.

Interviewer: Given that you claim no difficulty in selling your crops, we would like to know

how much do you earn and are you satisfied with what an average Indian farmer earns?

Ballu: We get a considerably good profit. The government helps us in it. This year the price is Rs. 1700 per quintal, last year it was Rs. 1500 per quintal. The price keeps rising as the demand rises. As the demand rises, it is natural for the price of any product to rise. The earnings may not appear that lucrative, but they are, no doubt, enough for us to have three meals a day.

The farmer, as we see, is satisfied with the earnings that he makes. He is thus unwilling to shift to cash crops. The lack of proper incentives is clear, with no MSP, and cash crop prices being set in the commodity markets, the farmer does not want to forego his income from rice with which he is 'satisfied', to start a new and apparently risky enterprise! But should he ideally shift to cash crops? What does the farmer's dependence on MSP tell us?

Interviewer: Speaking about how frequently Odisha is struck with disasters like Phailin, super cyclone and given the existence of many such reasons which may lead to destruction of your crop, do you have any protection against such unpredictable and devastating phenomena?

Ballu: Yes, we do have mechanisms to provide immunity against such phenomena and one of them is crop insurance. For the insurance, we go through the cooperative channels. We are reimbursed according to the loss and the terms are very transparent in my view. The government may also provide such facilities, perhaps, but I am not aware of such schemes.

Interviewer: Are weather forecasting facilities available? Do you use them, from radio channels or the TV?

Ballu: Yes, weather forecast is easily available. Weather conditions are very important for us to know as farmers- all across India. The situation is different in Punjab however, as they have their

own canal. The project is very big there and they are not entirely dependent on the weather. But we here in Odisha have to keep in mind the weather conditions. The quantity of production is also unbelievably high there, the production in Odisha is nothing in comparison to that.

Interviewer: What demands then a farmer from Odisha has? What are the difficulties that you face?

Ballu: I cannot complain that I have a lot of difficulties. The government is trying hard to help the farmers as much as it can. There are however a lot of demands. (A pause) The government must act on the principles of the Swaminathan Commission Report. I also believe that the government has done very less to educate the children of the farmers. The government must look into this.

Interviewer: The government has decided to pay a sum of Rs. 6000 annually to farmers with low land-holdings. Do you feel it is sufficient?

Ballu: I cannot say. It depends on the particular requirements of a farmer. Say, an unexpected tragedy descends upon the life of a poor farmer- for example the medical costs of the family is twelve hundred rupees- from where will he get that money? So according to me, providing something rather than nothing is better, although, this something is barely anything! You see, a farmer's life is in many respects like a soldier, in terms of the uncertainties he may face.

It is worth noting that the farmer is clear about his view of the differences between Punjab and Odisha. He speaks of low production in Odisha as compared to Punjab. But interestingly, it does not occur to him to demand better infrastructure like Punjab from the government!

The farmer appears to struggle between complaints and contentment. He is aware of the growing farmers' movement, but appears to be confused on what the issues are. Does he know enough about the issues facing agriculture? Does he actually have very little difficulties as a farmer? Or is it that he has taken the conditions to be the

natural state of affairs beyond reform? Where do we draw a line between him being unaware of central government programmes and being unaware of farmer issues?

Interviewer: Speaking about how farming goes on as a legacy in rural India, do you wish to see your children take up the profession too?

Ballu: There may be farmers who impose farming on their children. But I will be happy with any profession that my child chooses. If he works hard, he will be able to opt for any profession, be it farming or any other job and I will be happy with that.

Interviewer: If you get another chance, if you were young again, what would you choose?

Ballu: If I were young again, I would opt for farming again! My forefathers were not that successful, but this age is different. I will choose to improve farming and be a farmer again. This is because agriculture is a unique experience. As a farmer, I am independent. I work for myself on this land and feed my family. I do not have to run from home to office and office to home -this- is agriculture.

We get here a glimpse of the farmer's heart! He may be earning little, but he is content! The phenomenon of farmers sticking to their land and not going for other jobs, perhaps, has something to do with this emotional attachment that a farmer feels for his land and for his work.

Interviewer: Thank you very much sir, it was enlightening to know from you, what farming really is! The life and the struggles, the joys, the emotions that revolve around it brought us closer to the heart of a farmer in the truest sense. The actual decisions and trade-offs that a farmer faces, and the unique view that a farmer entails of Indian agriculture is deeply insightful. We are thankful to you for sharing your experiences, insights and views and helping us peep inside agriculture.

Thank you for your time!

We gain an insight into how an Indian farmer looks into the issue. The inference is of course vague when we attempt to generalise it without due consideration to the specific context. But the insight is, no doubt real- actual- and true. The question of how general or specific the findings

are, depends on further study into the issue. The findings may not be general, but they provide a much detailed and near view of how an Indian farmer sees agriculture. Perhaps this is not the way how every Indian farmer feels, but the example set out here, surely, does exist in the Indian scene of agriculture, and in the most real sense

Do you know a farmer's heart?

*"I don't like poetry."
Said the husband to the wife
"I don't have time for such things
I live a farmer's life."
But the wife said,
"Dear husband, you live a poet's poem.
Do you not reap the harvest
Of seeds by which you have sown?"*

*"I've seen you bow your head in thanks
When God answered prayers for rain.
I have seen your eyes shine with pride
With every baby calf you name."*

*"I guess poetry is ok," he said,
As he kissed the farmer's wife
And silently he thanked the Lord
She saw poetry in their life.*

-Connetta Jean

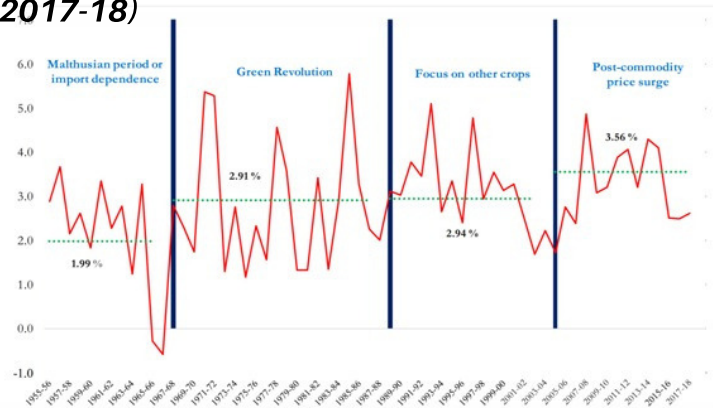
PLANNING THE PLOUGH



BY
ADARSH
AGARWAL

The plough etching a mark in the soil did not realize that they will be forgotten with the sands of the 1991 storm. The modern economic history has a divide in it. Food insecurity and past experiences (read famines) led to an infrastructural set-up that made agriculture uncompetitive in the global markets. To understand how to plan, it is necessary to unwind a bit. Leaving pre-1991 era to the economic historians, I attempt to throw a light on the picture of the developments from 1991 and paint a picture of the present in the shadow of the past.

Figure 1: Graph showing growth rates in agriculture sector. (Source: Economic Census, 2017-18)



Looking at the graph above, we can see that the productivity growth has had a relatively upward trend. The concern remains that the volatility in the productivity is quite high. Also, overall the productivity has remained quite low for India. We are a third of China's productivity which requires a great programme of policies to match.

A certain degree of swings can be digested given the seasonal nature of agriculture but how to primarily smooth out this activity? Here's where the dilemma arises; it is very difficult to segregate the reasons for this volatility beyond a certain level. What my guess is that the lagged response of the sector magnifies the swings. Circling back, the job of a capable infrastructure is to manage the trend and also control the swings. On the other hand, the economic agents should understand that productivity might slow down for a while when significant infrastructural changes are to take place.

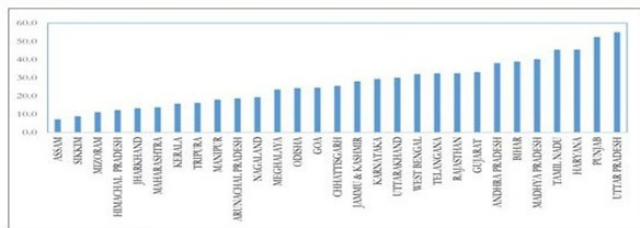
With an ambitious target of doubling farm incomes by 2022, India is expected to be on track, with its ups and downs. Numerous initiatives have been launched, some of which have been successful while others went a bit sour. The problem with the infrastructure is the skewed nature of fiscal incentives towards the farmers with large landholdings and the continuance of sick and dead schemes as a part of tradition leading to misallocation of resources. The best example of such a scheme would be the Minimum Support Price (MSP) scheme and the fertilizer subsidy. The MSP, for example, on paddy is high which leads to disproportionate farming of it. Paddy is highly polluting and leads to depletion of the water table. Another example would be sugarcane production, a water rich crop in a state like Maharashtra, a water scarce state. The MSP has led to a pampered cereal sector and an orphaned pulses, dairy and livestock sector. There is a deep cycle at work here. A protein-deficient diet of Indians forces such an output and such an output forces such a diet on an average Indian. What is important here is to recognize that today's prices will determine tomorrow's supply in the case for agriculture. The structure of a controlled market gives the wrong signals to the farmers which leads to misallocation. Coming to fertilizers, the subsidy is sick. Currently, the more inefficient the firms are, the higher the subsidies they receive. Also, there is an oligopoly in the imports of fertilizers (called canalization in literature). These policies have

been ducked by all policymakers for political reasons.

Ideas of Direct Benefit Transfers (DBT) and Public Distribution Schemes (PDS) are under consideration. The attempt is to make the chain of transfers from the Government to the farmers simpler and direct. One such scheme is the Rythu Bandhu Scheme of the Telengana Government, in which subsidies are given acre-wise to the farmers. Something along the lines of such a scheme has to be the future of transfers and subsidies. Even Rythu Bandhu has to be thought over, as it is regressive in nature- bigger the land, higher the subsidy. If a blanket subsidy is replaced in its place, then the scheme will become progressive in nature, helping the smaller farmers more than the large ones. Also, the problem of 'titling', that is defining ownership rights becomes an issue which Telengana has handled pretty well. If India can work on these lines, we will be able to achieve both, Coase's and Gandhi's dream.

Irrigation and other inputs have been moderate in performance, irrigation on the disappointing side. The use of hybrid seeds and organic manure remains small, highest among marginal farmers and lowest among the large farmers. As far as irrigation goes, the Government launched the 'Prime Minister's Krishi Sinchayee Yojana' (PMKSY) in 2015. Net irrigated area to total cropped area was 34.5% as of 2017-18. The Government did succeed under the PMKSY but there is a long way to go as far as the topic of irrigation goes. The next concern becomes the mechanization of agriculture. World Bank estimates that half of India's population will become urban by 2050 which implies that the agricultural workforce will drop from 58.2% to 25.7% of the total labour force. It becomes important to ramp up the mechanization. It is estimated that the productivity will increase by 30% and costs will fall down by 20% with proper mechanization. These graphs will help give a better picture:

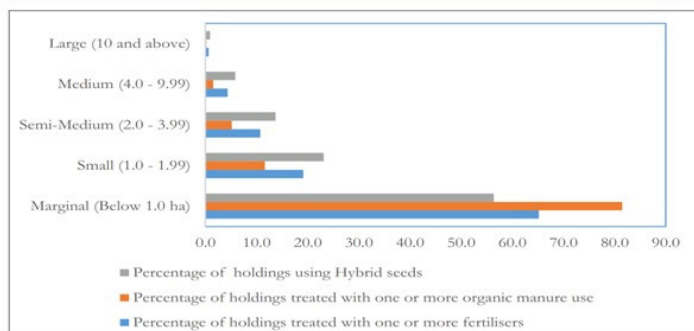
Figure 2: All India use of inputs by agricultural holdings by size group



Source: Directorate of Economics and Statistics.
 Note: Net Irrigated Area is Gross Irrigated Area minus Area irrigated more than once.

It can be clearly seen that in almost half of the states, the percentage of net irrigated area to total cropped area is below 30%. Moreover, the figure below shows that the small and marginal farmers have the highest usage of hybrid seeds, organic manure and fertilizers. While it cannot be said with certainty as to why is this trend observed, but what is clear is the fact that it increases the cost for those who are already having a difficulty in getting an appropriate price.

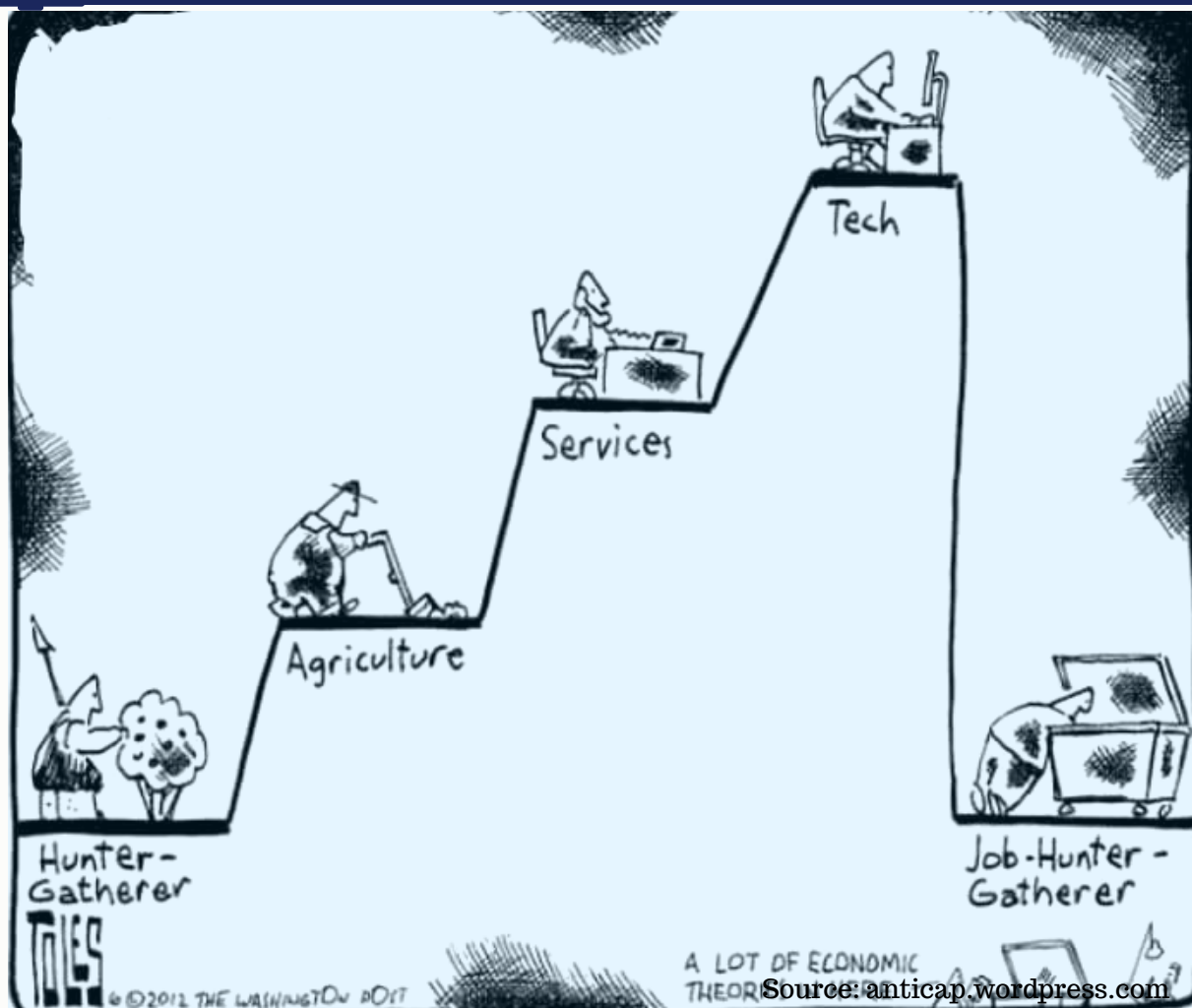
Figure 3: All India use of inputs by agricultural holdings by size group (Source: Input Survey, 2011-12, Department of Agriculture and Cooperation)



With these bits and strands I hope the readers can imagine a sketch of the agriculture infrastructure. The topic of the external sector could not be discussed in detail due to word constraints. Also, the article is much like an entrée to the debates and discussion going on in the infra space for agriculture. The road ahead for India remains in perfecting its transfers and subsidies schemes along with doing away with dead schemes. Research and Development remains crucial in all phases to provide. Informational infrastructure remains a key, as the credibility and effectiveness of policies depends on it. To end, much like for a good harvest, the ground of macroeconomic and agronomic policy framework has to be tilled properly.



THE ANSWER



**BY ISHAN
KASHYAP
HAZARIKA**

Agriculture is a burning topic today, with allegations and agitations.... Are loan waivers good? What is the right MSP? Is an MSP even necessary? Why don't farmers shift to cash crops? And the suicides continue, just as politics does! But what shall we do? What can be done for this? This article, seeks to provide an answer.

Agriculture has drawn the attention of economists for long. The 'Theory of Population' by Malthus, for an example, makes a sharp prediction- lack of food in the future will cause famines, ever more severe, and population

growth beyond a level will be deterred. Ricardo too looked into the physical limitations on the supply of land and predicted dauntingly high land rent- with taxing the landed farmer one of the few ways to ensure social stability.

The problem of course today, is not the relative scarcity of food or the humongous wealth of farmers, but the opposite, the abject poverty and over supply of food, in such proportions as to induce people to die, take their own lives! As Amartya Sen pointed out, famines today are not caused merely by the lack of food, but because people cannot purchase or use the food that can be produced. And as we see today, farmers cannot sell their produce either!

The use of these theories however, tells us something very important- how things can change, and in structurally important ways.

The fact of excessive productive power in agriculture, on the other hand, was evident by the time Marx started his work. His analysis was simple, surplus in agriculture will allow people to migrate to the industrial sector, and in fact, this very phenomenon, Marx hinted, naturally gives rise to capitalism! In modern terms, the share of population devoted to agriculture will fall and so will the sector's contribution to the GDP.

Several models in agricultural and development economics bear some similarities to this line of thought. The model proposed by Lewis, and the one by Ranis and Fei are widely discussed. A basic and oversimplified description could be this- a rise in labour input raises the total product, but the marginal output falls. A stage arrives when using more labour leads to no increase in production, the MPL - is zero. When such a stage is reached, some people do engage in agriculture, but with no net increase in production at all! This, is an instance of 'disguised unemployment.'

Up to an extent then, the withdrawal of labour from agriculture will not lead to any substantial fall in agricultural output, and their entry in manufacturing will also lead to rise in production there. The wage in the industrial sector need not increase too, until the MPL in agriculture is not zero.

Simple arguments based on ideas such as Engel's Law, Rybczynski's Standard Trade Theorem etc. combined with empirical arguments also suggest that fall in contribution of agriculture to the GDP is very likely, as observed.

Why do we not observe much population movement from the agricultural sector to the industrial sector then, in India, especially when the sector is in such a pathetic state? Or do we? Some movement from agriculture to industry is observed. The rural exodus and the population boom in cities may be of some interest, but this issue also includes topics from economic

geography etc. and we refrain from commenting on them here. But perhaps, the extent is not as large as one may expect, when the sector employs about half of the workforce, to produce merely 17-18% of the GDP. This fact can have many reasons. One idea is that India has not yet reached the 'tipping point' where a large shift from agriculture to industry is seen. Some believe that this point is nearing and we may soon observe the shift predicted in the model. Others may not agree to this to the full extent.

This forces us to dive into the microeconomics of agriculture, from the macroeconomic view we have so far pursued in this article. The agricultural sector is, in fact, a very interesting one for microeconomic study, partly because it is one of the very few areas that closely resemble the perfect-competition model so often discussed in microeconomics. But it is to be noted that significant imperfections of course also exist. As Narendar Pani explained for the 2017 Indian case, farmers opt for crops based on the prices at the time of sowing, a large number opting for similar crops. At the time of selling, the over-production leads to crashing prices. The system is similar to the Cobweb model, where prices are taken beforehand and fluctuation results. Systemic risk exists, and it is unlikely that this will not show up once farmers go for industry. The problem is not always specific to agriculture as seen. Then, can an individual-level analysis answer the question of 'why farmers are not shifting to industry too?'

There is always an apparent inertia, not only in farmers, but in any individual. We seek not to change our pension plans to the better, or change our room to another, simply because that is not what we are used to. This is the 'status-quo effect' that behavioural economics has to offer. The land and the tools of a farmer perhaps, are not just means to earn a living, but are constant companions by his side, in days of prosperity, and in distress. Given such a fact, it is not difficult to understand that only large incentives will make farmers change their sector altogether- a

life changing endeavour.

It is difficult to comment on whether the incentives are 'large'. Some estimates suggest that the average urban income is four times the rural. But again, the urban incomes also vary considerably. A poor farmer cannot be expected to learn construction overnight or set up a consulting firm, that is costly. The poverty of a rural farmer forces him not only to leave agriculture and move to cities, but also to accept low-wage jobs if he does shift. He needs skills and resources! A shift may thus also require government greasing, with programmes to provide skill-training to farmers and education in general. Funds by way of transfers or loans may also be provided. Its impact on government budget and the rest of the economy is however, questionable.

There are also others, who believe that a shift may not be desirable at all! Mohandas Gandhi was an ardent advocate of boosting the rural economy and J.C. Kumarappa made his ideas concrete. The lack of capital, large supply of labour and the proximity of the production centres to the raw material were some of the arguments he considered. He advocated for a "decentralised" economy and further argued that imperialism is, actually, a child of centralised industry, and that centralised industry too, cannot survive without imperialism!

To keep the population profitably in agriculture, countries today often provide subsidies. These subsidies however, often create tensions both domestically and internationally. The supporters point out the poor conditions of the farmers while the opponents point out the price distortion and deadweight loss. The negative impact of subsidies given to farmers in the developed countries on the farmers of the developing countries is also well documented. Low-interest loans are also provided to help farmers procure inputs. Loan waivers are no wonder a hot issue. The exact answer on whether MSP and subsidies shall be provided, and farm loans shall be waived also, thus, depends on the normative questions

of whether we want to keep the population in agriculture or encourage it to shift to industry. As is clear, the answer is vague and with trade-offs all around. A government answer involves lack of information and a private answer- systemic risk. The myriad ways in which any policy can affect agriculture and the rest of the economy are stunning!

So what is the answer to the issue mentioned in the beginning of this article? And does an answer even exist?

As described, the ideas on agriculture and rural economy have seen drastic alterations and changes. The Ricardian fear of destabilisingly rich farmers may even seem absurd today (although it may have validity for other forms of land ownership). This highlights one point; how research and a constant search for understanding, can provide dramatically new and different insights. Insights provide understanding, and understanding provides solutions. The New Growth Theory of course makes us optimistic, that whatever be the problem, humans can after all, given enough time, solve the problems, and in now unimaginable ways.

So this is the final answer; it is dedicated, objective and rigorous attempts to further develop the existing theories and if required, develop newer ones; passion to solve real world problems with deep and systematic theoretical insights. The answer, is to go to the fields and collect data, the answer, is to pick up our pens and analyse the structures, the answer is imagination, creativity and understanding! That, is what we can do, as students of economics to solve this problem; contribute to the economics of agriculture!

INTERVIEW WITH HARISH DAMODARAN



A man who has traveled far and wide bringing into focus rural affairs and in particular the agricultural markets, Harish Damodaran is a pioneer in this field of journalism and reporting. Providing an in-depth analysis with a nuanced understanding of Indian history, macroeconomic policies and agricultural produce, his writings blend together all aspects intricately. He has held high positions at The Press Trust of India, The Hindu Business Line and is currently the Rural Affairs and Agricultural Editor at The Indian Express. Read to know what he has to say in reply to some poignant questions centric to the agriculture theme.

1) The agriculture sector in India was never in a good state but what exact changes do you think have come about in the nature of the Agrarian crisis over all these years?

I think there have been at least four triggers to this crisis.

The first one was a crash in global agri-commodity prices. Between 2003-04 and 2013-14, India's agricultural exports shot up from around \$ 7.5 billion to \$ 43.25 billion, which was greatly enabled by rising global prices of farm commodities. The Food and Agricultural Organisation's Food Price Index (Base year 2002-2004=100) rose from 97.7 in 2003 to 229.9 in 2011 and remained at 200-plus levels right till 2014. But after 2014, the index fell to 164 in 2015, 161.5 in 2016, 174.6 in 2017 and 168.5 in 2018. The crash in global prices not only led to India's agricultural exports declining to \$ 39.1 billion in 2014-15, \$ 32.8 billion in 2015-16 and \$ 33.7 billion in 2016-17, but also imports of farm commodities rising from \$ 15.5 billion in 2013-14 to \$ 21.2 billion in 2014-15, \$ 22.6 billion in 2015-16 and \$ 25.6 billion in 2016-17. In short, while India became less globally competitive in exports, its farmers also become more vulnerable to imports. The effects of falling global prices were further accentuated by a strengthening rupee. The rupee's trade-weighted real effective exchange rate against a basket of 36 currencies, which also adjusts for inflation differentials vis-à-vis the trading countries concerned, has gone up by 15.9% between 2013-14 and 2017-18. That has again made imports to India cheaper and exports that much less competitive, ultimately affecting prices realised by our farmers. The second trigger was drought. 2014 and 2015 were both bad monsoon years. This was the first time since 1986-87 that India has back-to-back monsoon failures – and made worse by the unseasonal rains and hailstorms of January-March 2015 that caused massive damage to the standing rabi crop. But the fact that the consecutive droughts and adverse weather events did not create all-round food

inflation, unlike in past years, is something to be taken note of. The third trigger, I believe, was the policy of inflation targeting that was adopted by the new Narendra Modi government through an Agreement on Monetary Policy Framework signed with Reserve Bank of India (RBI) in February 2015. This agreement committed the RBI to achieve a 4 per cent inflation target based on the Consumer Price Index-Combined by 2016-17. Given the high weightage that food and non-alcoholic beverages have in the CPI-Combined (at 45.86%), the success of inflation-targeting obviously rested disproportionately on reining in farm produce prices. This was even more so, given that it was not wholesale but retail inflation that was sought to be targeted, it created an inherent anti-farmer bias. I shall elaborate on this point later.

The fourth trigger was demonetisation and the Goods & Services Tax (GST). Most of farm produce trade in wholesale mandis takes place in cash. Demonetisation, we know, led to a sudden withdrawal of cash and liquidity from markets, which led to crash in prices through the familiar money supply route. But it has also had a more permanent impact on both liquidity and sentiment through creation of an environment that deters cash transactions in general. Today, there is a virtual ban on making payment in cash above Rs 10,000 to any person in a single day, with the Union Budget for 2017-18 amending the Income Tax Act to give effect to this provision. Earlier, farmers could receive the entire payment for the crop sold by them in cash at one go. But with the new rule, not only are they denied full payment in cash, but the traders in mandis are also afraid to deal in cash. Now, I have personally nothing against digitization and would favour any move away from cash transactions in the medium to long term. But you cannot do such things overnight. Anyone familiar with how markets work on the ground would know the importance of sentiment and animal spirits. What demonetisation and restrictions on cash transactions have done is to kill sentiment, particularly in agricultural markets where it is

impossible to introduce a digitisation ecosystem overnight. Demonetisation and GST have further destroyed the informal and unorganised sector, which previously acted as a 'shock absorber' or 'employment sink' for people in rural areas. In previous episodes of agrarian crisis, whether due to crop failure or low prices, there were always non-farm avenues of employment. People used to also migrate to urban centres and cities, where they would invariably find some work in construction sites or small scale industries. Those avenues are far fewer now, which seems to have been largely brought about by demonetisation and GST. One indicator of such distress extending beyond agriculture is rural wages, which have annually risen by just 4.5% on an average in the last four years. On the whole, I will say two of the triggers for the current crisis have been external (global price crash and droughts) and the other two entirely policy-induced or government-caused (inflation targeting and demonetisation/GST).

2) Sir, we have often heard you saying that the policy of inflation targeting to a great extent contributed to the present agrarian crisis. This year we had an opportunity to interview Dr. Viral Acharya and this is what he said regarding the issue-

'The inflation target assigned to the RBI by the Government under the flexible inflation targeting framework is in terms of headline CPI-Combined inflation, and not in terms of either food inflation or inflation in any major component of CPI. It is correct that the average food inflation has been low in recent years at 2.2 per cent in 2017-18 and 0.8 per cent in 2018-19 (so far), but the headline inflation averaged at 3.6 per cent in each of these two years. This shows that RBI's monetary policy remains fully consistent with the goal of achieving overall price stability over the medium-term, with average headline inflation hovering only marginally below the inflation target of 4 per cent. During this period, food inflation has been highly volatile, ranging between (-) 1.7 per cent in November 2018 to 4.9 per cent in December 2017, whereas the business cycle conditions or

the aggregate demand situation in the economy have remained comparatively stable. It is the latter which is influenced by monetary policy to achieve the goal of price stability. When individual item-specific dynamics give rise to inflation shocks to some items, that may alter relative prices, but unless such shocks create the risk of either generalised inflation or deflation, monetary policy may not respond. A large part of the decline in food inflation has emanated from favourable supply shocks, i.e., successive years of record production, coupled with the impact of adequate buffer stocks and low international prices adding to the domestic supply glut in some items.'

What is your take on this? If this argument is indeed valid, what changes have exactly occurred in the past few years to have made the crisis worse?

India is the only country that has opted for inflation-targeting where the underlying index (the CPI-Combined, in this case) has a very high weight (almost 46%) assigned to food articles. Monetary policy instruments, such as the RBI's short-term 'repo' lending rate or even open-market operations (via buying and selling of securities), can work on the demand side of the economy. A hike in repo rate cannot help bring down onion or tomato prices! So, from an economist's standpoint, did it make sense at all to target inflation based on an index overwhelmingly composed of commodities whose prices, at least in the short run, are influenced more by supply-side than demand-side factors. It is interesting that in the last 30 months from September 2016 to February 2019, consumer food price inflation has been consistently lower than general CPI inflation. By the RBI Deputy Governor's own admission, a large part of the decline in food inflation "has emanated from favourable supply shock", which means RBI's monetary policy had no role and the inflation target was met or even exceeded on its own! But inflation-targeting willy-nilly also did was to create an environment conducive for

“supply-side management” actions such as export restrictions, duty-free imports and imposition of stockholding limits on farm produce by the government. Inflation-targeting basically provided legitimacy for measures that depressed prices through artificial means – in addition to the effects of the collapse of the global agri-commodity boom and a strengthening rupee. The government and the RBI worked in close collaboration – the former on the supply side and the latter on the demand side – to ensure that the inflation target under the new monetary policy framework agreement was met or over-achieved.

3) In your recent article you have advocated 'giving farmers unfettered rights to sell any quantity of their produce to anybody, anywhere and at any time.' One such effort was made by the Maharashtra government with reports later revealing that farmers still sold in APMC markets. The farmers in our country are indeed at a disadvantage as far as logistics and infrastructure is concerned. Given these factors, do you think that it would make much of a difference to provide a free market to them? On the same note, what are your views on ENAM?

An APMC mandi is nothing but a marketplace. The mandi offers certain facilities – auction yards, weighbridges, godowns, etc. – plus a centralised meeting point for multiple sellers to meet multiple buyers. The mandis will, hence, continue to be relevant and there is no question of shutting them down. My objection is against monopoly: Why should agri-produce trade take place only in mandis? Why should farmers in an area be compelled to sell only in the notified mandi of that area and why do traders have to procure separate licences for each mandi? Let there be competition, which will force the existing mandis to offer better facilities for both sellers and buyers. ENAM is a good initiative, because it widens the universe of buyers for the farmer. That universe for him/her is currently limited only to the traders possessing the licence for buying from the particular mandi where he/she is compelled to sell. The more the buyers, the more the trading platforms – whether a

physical mandi or an electronic marketplace – and the more the quotes, the better the price discovery. Ultimately, it all boils down to offering the farmer more choice of selling to anyone and anywhere. I am equally against export bans, stockholding limits and other such restrictions that are imposed whenever prices of and farm produce go up. Let us remember that the farmer sells his/her produce in quintals and tonnes; lower prices, hence, impacts his/her income and livelihoods. We urban consumers, on the other hand, buy in kilos and higher prices will not impact us that much. Moreover, if tomato prices are high today, the consumer has the choice to substitute tomatoes with, say, brinjal or okra. The tomato or onion farmer does not have the same flexibility to shift acreages from one crop to another in the short run.

4) There has been involvement of several multinational corporations, namely Monsanto or DuPont Pioneer in changing dynamics in farming and research of hybrids. What role do you think these companies will play in alleviating farm distress in the coming years? Talking of this we would be glad to know your views on the recent case of the three companies, Glencore, Africa's Export Trading Group and India's Edelweiss group found violating India's antitrust laws. Does this case point to the fact that it wasn't actually the curb imposed on exports that resulted in fall of price of pulses? Was globalisation really a move that crumbled the Indian agrarian sector?

I think Monsanto, Bayer, DuPont, Syngenta and even private Indian companies such as Mahyco, Bioseed and Jain Irrigation have done a great job in breeding hybrids in vegetables, cotton and maize and also promoting new cultivation techniques like drip irrigation and tissue-culture planting in the last 20 years. I will give equal credit to large trading multinationals like Cargill, Louis Dreyfus, Glencore, Bunge and Olam for spreading into the interiors and identifying the potential for sourcing commodities from places (for example, maize from Bihar's Seemanchal belt or Nabarangpur in Odisha) where no organised

Indian player went to. I believe India has a comparative advantage in agriculture and services. While we have leveraged that well in services (especially software and BPO), we haven't done that in agriculture. India has a geographical advantage of being closer to large markets such as Southeast Asia, West Asia and even China. If we get rid of outdated laws such as Essential Commodities Act and export restrictions, India can attract large investments from big agro-multinationals in warehousing, refrigerated transport and processing infrastructure and harness the true potential of Indian agriculture in boosting rural jobs and

incomes. At the same time, we should ensure that the public sector (Indian Council of Agricultural Research and State Agricultural Universities) invests more in crop breeding and we also strengthen institutions such as IFFCO, Amul, NAFED, FCI and National Seeds Corporation to ensure that MNCs don't have a monopoly in seeds and other farm inputs. The biggest enemy of farmers is monopoly - whether of traders or technology suppliers. That is where the role of the government comes in - as a regulator and protector of the rural producer and poor consumer.



There
just aren't any
jobs out there.
I give up.

Then
congratulations!
You are no longer
officially
"unemployed."

UNEMPLOYMENT



HOW'S THE JOBS?...SHHH 🤫

EDUCATION AND JOBS: A DIFFICULT MATCH MADE IN THE ECONOMY

BY GOVIND GUPTA

We are a nation of around 1.5 billion of which around 65 percent are under the age of 35. A study by Goldman Sachs says that India will be the largest contributor to the global labour force in the coming decades, and will add about 110 million workers by 2020. In contrast, China's labour force will increase by 15 million.

India is looking towards and is fast headed to a prerogative of having increasing workforce when the rest of the world is slumping into a quandary of dealing with an ageing working population. But as Shashi Tharoor points out in a TED talk, if this young dynamic workforce isn't equipped properly to acquire skills and work then what seems to be an ordained demographic dividend could very well turn into a demographic disaster. India has, to put it mildly, been sluggish in providing employment to its people.

In fact the job scenario is such that in 2018 itself as per a report by CMIE (Centre for monitoring Indian economy), 11 million Indians lost their jobs. The rural areas accounting for two thirds of population, women in general and those who are uneducated



were the worst hit. Previously the government too brought out employment data, but now CMIE privately brings out data studying a fairly large sample. As per the labour survey of the government's National Sample Survey Office, unemployment in 2017-18 was a 45-year high of 6.1% compared to 2.2% in 2012. And the government not realising employment data since 2016, isn't helping.

The primary factors which exacerbate the issue of unemployment in India are the lack of quality education, proper skill training and vocational guide. While a lot of blame can be pinned on the state's inability to create new jobs for its citizens, and in a democracy rightly so; but the underlying issue which evades popular concern is India's inability to churn out "employable youth" from its archaic education system creaking under obsolescence. India's dismal education system which is negligent of alignment with work produces unemployable college graduates. According to a report by McKinsey only 25 percent of the engineering graduates are suitable for employment. Infosys and other IT firms faced with such a conundrum had but one option, to hire

and re-train its new employees. Had the numerous institutions produced skilled graduates, the country wouldn't have lost more than a year of productivity by re-training these employees. The scenario is gloomy in the primary education sector as well. As per the Annual status of education report, with half of the students studying in class 5 not being able to read a class 2 text and unable to work out a simple arithmetic operation, we are creating conducive conditions for rampant future unemployment.

Furthermore, with a huge number of job positions lying vacant in the education sector itself, it is inflicting a two way injury: reducing rightful employment to the teachers currently, and aggravating the government educational sector, jeopardising future of students studying in these government institutions.

There are over 13 lakh vacancies in the education sector, including 9 lakh in elementary schools and 4.17 lakh unfilled positions under Sarva Shiksha Abhiyan, a programme aimed at the universalisation of elementary education in a time bound manner. 1 lakh posts of secondary level teachers are also lying vacant. Kendriya Vidyalayas across the country have a shortfall of 7,885 teachers as of August 2018. The pernicious effects of this isn't solely limited to employment only, this in fact undermines meritocracy in the governance. A quality education system produces talents who sit and operate at the crucial spots in administration of the country. There's a pressing need to upgrade universities as per global standards and

align education with work skills. Ince political investment in education sector takes years to manifest and yield, it is one of the

least of concerns for parties. Hence they appease by reserving more quotas without addressing the quality of education. We need to understand that the world of the 21st century operates on "three" raw materials rather than "the two: raw materials and energy" during the traditional epoch. Dr Yuval Harari believes that the third element now is "knowledge" which is both self reinforcing and augmenting the other two. Hence education and impartation of knowledge is the only way to a better tomorrow.

To alleviate the working poor barely surviving from pay check to pay check, the idea of a new kind of social safety net is being tried out in various cities in the United States and Finland and lately proposed by the Congress in India. Basic cash handouts without any strings to everyone (remember universal basic income), has its own lot of critics voicing sensible concerns: attitude to work may be dented, federal expenses will skyrocket and until when should it be in practice?

While the experiments are still underway without conclusions, one thing is clear that it will only stop the bleeding, for the healing we need to prepare and enable people for jobs. But with the rise of AI and technological developments by leaps and bounds, we need to be wary so as to update the youth, and their skills in order to cope with and survive in the future workplace which is teeming with uncertainties.

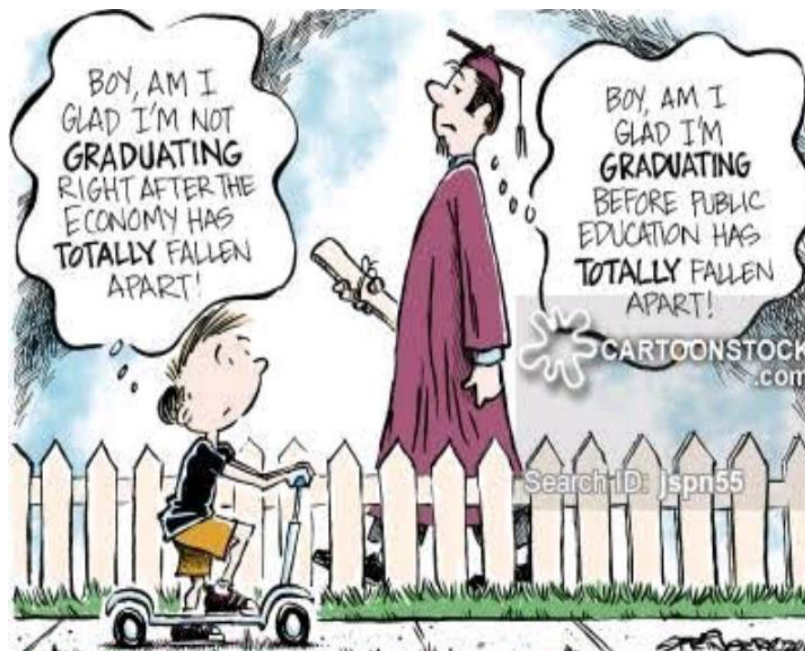
Inevitably, a lot of works would have to be sacrificed to newer automated cost effective methods. With such precarious circumstances lying ahead, the issue of unemployment becomes more severe and serious. With the roads congested with "delivery

guys” working for Amazon, Flipkart, Zomato and Übereats, one might be tempted to think that employment will increase as these services grow. But the important thing here is that these jobs are fleeting sand dunes; they are not to stay here forever.

These private mammoth companies have already started to roll out economical automated robotic drone delivery system in the

rich countries.

A Dominos pizza already gets delivered by a pavement droid in Netherlands! Klaus Schwab, founder of World Economic Forum says, “Soon, the most precious resource will be talent, not traditional capital.” The first step to nurture talent is through education. Since we are a country with a tremendous potential if things done right and the demographic divide reaped.





INTERVIEW WITH MR. MAHESH VYAS, DIRECTOR CMIE

Samples, surveys, statistics and studies. Majorly, these are what the Centre for Monitoring Indian Economy revolves around. Mahesh Vyas has been its director and CEO for more than two decades, spearheading all operations. He is known for creating the Consumer Pyramids database for household surveys and other similar ones across industries ensuring a reliable, fast and technologically advanced method of survey. Being at the helm, his experience and understanding has been essential in CMIE becoming a comparative tool to assess the economy and in developing highly superior databases.

Q.1) Of late, there has been quite a hype about the vacancies in government jobs and the move of the government to abolish posts. While we may argue about the capacity of state to generate employment, to what extent do you think the financial constraints can prove to be a hurdle in the process? Is the state really financially capable to fill all posts and more so sanction new ones?

The government owes several basic services to the people of the country. The question is – is the government really providing us with the basic services we expect it to provide. If the answer is no, then we need to make the government provide these services. Raising the finances to be able to provide these services is the next necessary step. But, the first step is to recognize that the government is required to serve us.

We need the government to provide us a safe environment and we cannot (or should not) accept an argument that there are no financial resources so we, the citizens, must accept low safety. Similarly, the government is required to provide us with an efficient judicial system. There are a host of similar necessary government services that the government must provide.

The government does not provide us these services adequately currently. One of the reasons for this is under-staffing. There can be no excuse in financial constraints to not provide such services.

Inflation has been in control and the fiscal deficit is apparently in control as well. We do have the fiscal head-room to increase the strength and efficacy of government services. It therefore, makes sense for the government to hire aggressively and ensure that it delivers the essential services it is required to provide the citizens.

Being a fiscal hawk and suffering very low levels of essential government services is foolish in my opinion. The idea of fiscal conservatism is over-sold. The idea of government inefficiencies is accepted to a point of extremely low expectations from government. And, the available fiscal space is rapidly being taken by preferential allocation of resources. This is a self-defeating position to be in. It would be much better for the government to ensure that it delivers the services it is required to provide and expands its headcount to do so.

Q.2) The individuals surveyed by CMIE are members of a panel of households included in CMIE's consumer pyramid survey but it is often said that this kind of a sample wherein the same households are surveyed becomes unrepresentative after some time. Moreover, disregarding the legality of the nature of work, it considers 'beggars' too as employed. In this context what do you have to say about the problems associated with the CMIE Survey? What according to you is the major reason that we find a difference of about 3.6% in the unemployment rate given in 2016-17 by CMIE and Labor Bureau?

CMIE's Consumer Pyramids Household Survey (CPHS) has a large sample panel of households. However, the sample is not static in size. It keeps expanding by adding new households – at the rate of about 2 per cent per annum. Old households remain and new ones keep getting added. New villages and new urban blocks are added every year to ensure that the sample size increases broadly at the same rate that the population of households increases. This ensures that we can conduct good representative cross-sectional analysis and also keep doing time-series analysis that a large panel enables.

“Work” is not captive to the legal framework of a society. For example, we consider prostitution also as employment. Prostitution is not legal in India but, that does not take away the fact that it is work performed for wages. Begging is work for profit. Similarly, there are many more activities that are not legal. Examples are extortion, smuggling, professional hunting for goods like animal skin or tusks, illegal wood cutting, etc. But, they are work nonetheless. We are agnostic to the legality of work. We are also similarly agnostic to the legality of income. “Black” income is also income. We do not distinguish legal from illegal. Work is work and income is income.

The Labour Bureau provides the unemployment rate by the Usual Principal and Secondary Status (UPSS). This considers a person to be employed for a year if a person was employed for at least 183 days out to the 365 days preceding the date of the survey. This is a rather liberal definition. Even the definitions for Current Weekly Status and Current Daily Status are very liberal. Besides, all of these have serious recall problems. CMIE's CPHS has a tighter definition and a very short recall period. It seeks the status of a respondent on the day of the survey or the day preceding the date of the survey. Such a method has no recall problem and the definition has no ambiguity – such as in understanding principal economic activity against secondary economic activity, etc as is done in the Labour Bureau and NSSO surveys. Further, the large sample size and fast-frequency nature of the CPHS allows it to capture seasonality of labour markets adequately as well.

The CPHS is precise in its definition and in its reference period. It therefore delivers more reliable estimates of labour market statistics than the Labour Bureau of the NSSO household surveys.

Q.3) What changes have come about in the nature of the unemployment crisis in past few years? Is it still about the inability of industries to absorb the population or has there been any significant change in the dynamics of the problem?

India's labour market crisis has many dimensions. A new dimension that we have unveiled is the sharp fall in the labour participation rate. India already suffers a very low labour participation rate compared to world standards. Its participation rate has also been falling. But, post demonetization this fell suddenly very sharply. Women labour participation has taken a big hit. Demonetisation and then the GST that followed in quick succession are the two new sources of serious disruption of the labour markets.

These two disruptions have caused a very sharp fall in labour participation rates. This sudden fall in labour participation rate reflects the severity with which labour has been impacted. It reflects the exhaustion of hope of finding jobs in the labour markets. As small and medium enterprises bore the brunt of demonetization and then GST they made it evident that there was no hope of a revival. This evaporation of hope is very disturbing. It is imperative that hope is repaired in the creation of larger and better organized industries that provide more formal jobs in the organized sector. This then, would be a price worth having paid for the disruptions of demonetization and GST.

Q.4) You have often emphasized that increase in investment is the only way out of the present crisis of jobs but how do you think can the rate of investment be increased? Moreover, which sector do you think has the highest potential in terms of creating jobs, given that appropriate investment is made?

Investments are necessary for jobs. We have seen a fall in investments since 2011-12. This is showing up in the labour market stress. The alternate to investments is government schemes like MGNREGA and income support schemes such as those announced by the Congress President, Rahul Gandhi recently. These schemes become necessary when the economy fails to provide gainful employment to the point it that it causes serious financial distress in society.

Such schemes are at best a short term solution to a crisis. But, they cannot be a lasting solution. The only lasting solution is investments.

Investments have suffered because of a series of shocks over the last decade. The first was the 2008 global financial crisis. Then we faced problems in supplies of coal, natural gas and iron because of regulations and monopoly pricing power of some suppliers. This happened mostly through 2012-13. Then we suffered demonetization in 2016 and then GST in 2017. Besides, there were droughts in 2014 and 2015.

We must ensure that the economy is not subjected to further shocks.

Most sectors are job-creating – if not directly then, indirectly. We should be agnostic to sectors. Cherry-picking some industries with fiscal benefits would not be a good idea.

Q.5) When we talk about the educated unemployed youth, what according to you is the reason that they are not able to get jobs? Is this because of lack of skills or the lack of willingness to take jobs that are not at par with the expectations they have, given their qualification? What do you think can be a solution to the problem?

There seems to a gap between the kind of education we require and the kind of education we provide. We need to revamp, quite substantially, our basic educational system. Creating additional layers on top of a fundamentally creaky education system – like Skills Development programs are patches, at best.

A fairly large part of the educated unemployed is unemployable at the wages they expect. While the educational system is failing us, expectations of the educated are often not in line with the services or the productivity they deliver. So, there is a need for the educated to have a more realistic understanding of their contribution and their expectation. Fixing the education system is a very long battle. A quicker way out of the problem is to engineer large investments into new capacities. Such large investments should factor in the need to re-train the labour force – fill in a gap that a poor education system has left with us.

Lack of sufficient investments has reduced the supply of jobs and demographic transition of recent times has increased the supply of labour. This has depressed wages even as wage expectations have risen. This situation could get worse as the nature of work is changing and as large companies automate more aggressively.

Perhaps, the educated cannot rest on their laurels. Education will become a never-ending activity like never before. And, we do not have the luxury of time.

Q.6) What do you have to say about the idea of Universal Basic Income and Employment Guarantee? What are the problems and possibilities?

The concept of Universal Basic Income is fascinating. It is equally fascinating that the concept has not been accepted in any country that has tried it. Not even the Scandinavian countries that could afford it have adopted it.

A UBI or employment guarantee or some income supplement scheme may just become necessary if we are unable to provide sufficient jobs. So far, the fall in jobs has been buffered by women moving out of the labour force. Presumably, this has not hurt the entire family. But, the situation could turn politically hot if the fall in employment continues. In such a case a UBI (or some variant of the same) could become a political compulsion.

It is not entirely desirable that a UBI is established without making other changes to our distributive economy. If a UBI must be done, it must be done by removing all alternate employment or income guarantee schemes and also removing all subsidies. Further, it is best that such a scheme is truly universal and does not try targeting beneficiaries.

It would be much better if a UBI were not to be introduced in India. We need to work harder to provide gainful employment to the masses rather than give them a safety net. The pressure to turn the business cycle towards greater investment and employment needs to be sustained. A UBI will be an easy escape and will delay carrying our larger changes on the investments front to drive growth and employment.



GST, DEMONETISATION AND UNEMPLOYMENT

BY TANISHA SUKHIJA

Not easily can one forget the Ghazi attack, where Indian navy's INS Vikrant had to face numerous forays by the submarine Ghazi. The Indian economy, from the months of November 2016 to July 2017, had to face some substantial metamorphosis the repercussions of which continue till date.

On November 8, 2016, India was left in the state of consternation by the steps of the man whom some people refer to as the nation's hero. Demonetisation was announced to torpedo black money's stature in the India economy. While the citizens were rehabilitating from the haywire caused by the demon, came in another corollary act of the government, the Goods and Service Tax. That is, before the people could come back on their feet after huge amounts of wreckage caused by the previ-

ous move of the government, the government dropped another grenade.

Both the acts of the government had rather significant impacts. Starting from the ordeals of long queues outside the banks, to the perplexing GST procedures, both the moves together contributed to causing great amount of inconvenience to the common man. But these are just the scratching of the shell. Looking into the matter deeper, the predicaments that have surmounted are much more alarming- One of the major impacts being on the employment scenario.

Like every other topic, there are conflicting views on the aftermath of GST and demonetisation on employment. Some who are in support of the government policies,

point out to the Employees Provident Fund Data- that depicts growing job rates. Contrarily, others bring to light the household surveys which highlight the condition of deteriorating job rates.

The Business Standard reported that unemployment rate is at a 45 year high at 6.1 percent. Whereas, if the current weekly approach of NSSO is taken into consideration, that defines the status one week before the survey is conducted, the rate stood at 8.9%. The Centre for Monitoring Indian Economy has revealed that more than 1.5 million jobs were lost in the stretch of January-April '17. The labour force participation rate (LPR) has also taken a downturn, which is a sign of economic slowdown for a developing country like ours. The surveys conducted by The All India Manufacturers' Organization (AIMO) also concluded that the economy witnessed a 60 percent drop in employment and 55 percent loss in revenue.

The withdrawal of 86% currency in circulation from the economy was a major hit to the business as major part of "CASH IN HAND" was taken away. The lack of availability of cash in hand was one of the biggest ordeals that the business suffered. Small and Medium enterprise sector (SME), which comprise a major part of the economy experienced a fall in labour wages as wages in this sector are largely paid in cash. The low wages contribute to unemployment, by reducing purchasing power and thus a decline in demand. The Manufacturing sector that comprises of large number of skilled and semi-skilled labourers witnessed large amounts of layoffs. Keeping in mind the dwindling investments, Mahesh Vyas, the managing director of

CMIE, states that "The effect of both these shocks has played out over a steady fall in investments. The steady fall in investments had reduced the rate at which new jobs were being created and the two shocks reduced the jobs on hand. The combined effect of these factors was the steady fall in employment." On one hand, where demonetisation caused cash crunch, GST brought in predicaments through the structure which we accurately call out be 'labyrinthine'.

The small firms were among the major sectors that crumbled in the hands of GST, due to lack of availability of amenities for successfully understanding and implementing the perplexing tax. Big firms and enterprises still could shake off the initial difficulties due to available resources. Yet again, Indian economy defied the science by survival of the richest, rather than the fittest.

Analysing the benefits of GST in the long haul, those who are in a favor of GST contradict the data claims, by substantiating the fact that GST will be giving birth to multifarious job opportunities in the course of time. GST will contribute in the augmentation of the production possibility frontier, and boost India's growth by more than two percent.

By the eradication of the cascading effect, that was one of the prominent characteristic of the earlier prevailing taxation system in the economy, the investment procedures are now anticipated to smoothen. The plain sailing procedures are expected to help in germination of numerous investments by captivating FDI, which has recently been facing a downward trend. The increase in FDI will ultimately lead to increase in

employment opportunities. The tax revenue of the government is believed to have risen by a significant amount since the new taxation system has been brought into effect. An enhancement in public savings has been one of the after effects. This is one of the steps taken by the government in the direction where there lies, what is left of the hopes of the unemployed in the economy by giving boost to businesses.

However, this argument too has been refuted by some. The detailed analysis of the GST regime sprouted up relationships between the effective IGST (integrated Goods and Service Tax) and the Revenue Neutral Rate. 'Revenue neutral rate (RNR) is a structure of different rates established in order to match the pre GST revenue generation with revenue post GST'. The deviation between IGST rate in effect and the RNR can lead to a change in the disposable income if the IGST will be greater than the RNR. This will lead to a fall in the disposable income. The fall in disposable income will, as a direct result, cause fall in equilibrium output due to fall in demand. However, to make sure that the government generate enough revenue to compensate the states for loss, the IGST rates need to be higher than the RNR.

Nothing is ever black or white. Everything comes in different shades of grey. Something similar can be inferred about

the impacts of the two biggest reforms that were brought into action, in a rather spontaneous manner, under the Modi regime. Often known to be the 'Twin Shocks', demonetisation and GST came as a hurricane, the aftermath dust of which has still not settled. One still cannot validate the positive or negative impacts of the two. The data which has been brought into light till date has proven to highlight the negative impacts of the two on the employment situation of India, making it reach a 45 year high level. While some take into consideration the present data, others try to put emphasis on the future possibilities that will be induced in the economy. We have just been able to witness the negative impacts in the short run, and we look forward to the better side that are claimed to occur in the long run, soon.

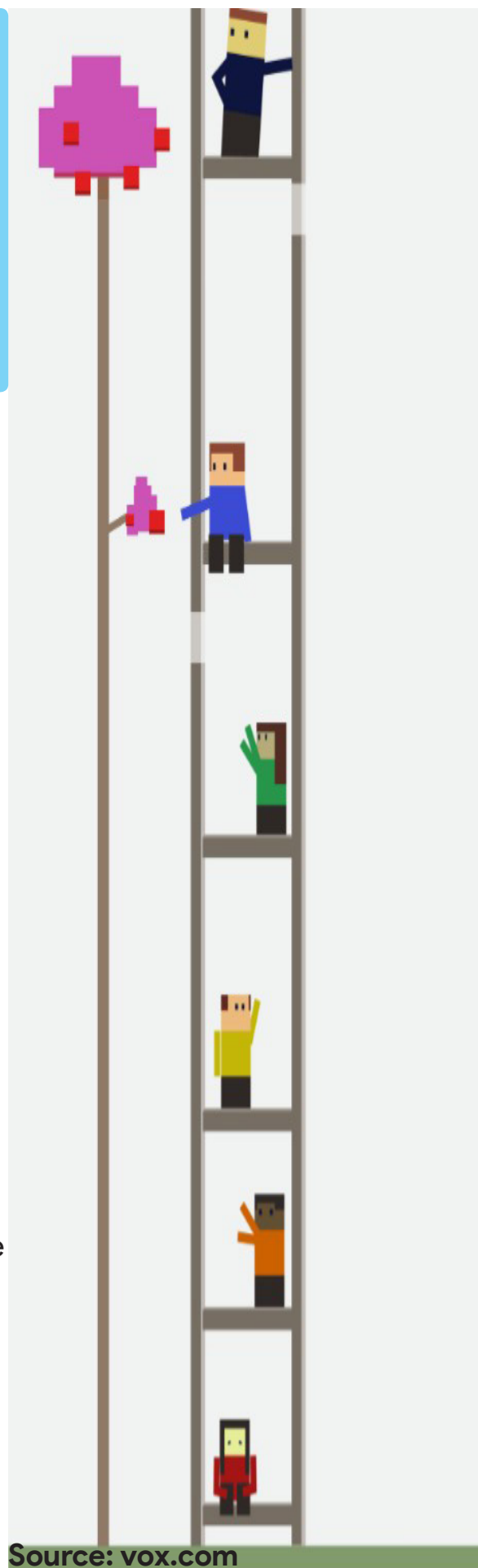
The government now needs to take steps to make the people see the silver lining of the cloud which should by now be visible, after going through a long troublesome period! Concluding with the brilliant words of Franklin D. Roosevelt, where he emphasises on what an evil unemployment is- "Not only our future economic soundness but the very soundness of our democratic institutions depends on the determination of our government to give employment to idle men."

AN ECONOMIC REVIEW OF THE 10% RESERVATION BILL

BY MAHIMA YADAV

With the 2019 Lok Sabha elections round the corner, the Modi government decided to play its trump card. On January 9, 2019 parliament passed a bill to make amendments to the Article 15 and 16 of the constitution, by adding a clause which makes provisions for the advancement of people from the economically weaker section among upper castes, making reservation of 10% seats in government colleges and jobs for the aforementioned. The legislation was welcomed with open arms in the parliament with 165 members voting in favour and only 7 against it. Consequently, the Constitution (103rd Amendment) Act 2019 received the assent of President Ramnath Kovind and came into force.

It has offered hope to people from the EWS who will prove to be the beneficiaries but it has been strongly opposed by many Indians, to whom it has thrown the gauntlet of competing for much fewer opportunities for education and employment. Some argued on grounds that it exceeds the maximum limit of 50% on reservation laid down in the constitution (after the 1993 Indira Sawhney case.) In response to the writ petitions filed by Advocate Reepak Kansal and Advocate Pawan who sought to challenge the validity of the amendment, the court avers that the existing constitutional provisions are favourably aimed at socially and educationally backward communities, not the economically weaker section (EWS), the subject of the new legislation.

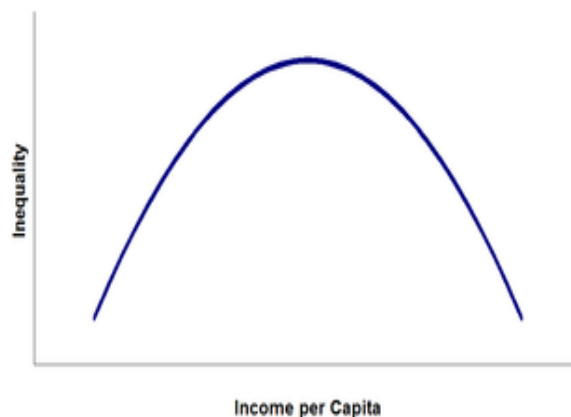


Source: vox.com

In his article 'The Changing Course of Income Inequality in the Course of Economic Development', Albert O. Hirschman has aptly used 'The Tunnel Effect' to elucidate how the society readily tolerates income inequalities, in anticipation of greater economic well-being in the long run by reaping the benefits of a rising economy. Suppose you are stuck in a traffic jam inside a tunnel and the lane next to yours starts to move. Hirschman says that it will give you a sense of satisfaction because now there's some mobility to the previously stagnant traffic. This is what happens in economies when people accommodate income inequalities hoping they would be benefitted by the surging economy in later stages. Soon enough they realise that the benefits are not equally distributed among the population, which becomes a source of resentment among a large population. In a rapidly growing economy like ours where GDP is exponentially rising, it is imperative that the distribution of economic resources be fair and square. Income inequalities are inevitable. Let us look at the economy of the UK, where the income of the top 10% of working population is 12 times that of bottom

10% of working population. The number has increased from the ratio of 8:1 over a span of 10 years. It is ostensible that income inequalities have only widened even in the United Kingdom, despite it being a developed nation. Social mobility is in no way, going to bring about economic equality. Given this argument, the step can be justified as being one that could help in reducing inequality.

However, Kuznets curve presents a different argument. The inverted U shaped curve shows that as income increases, initially the inequality is bound to rise. However, after reaching a maximum point, any further increase in income level in economy would lead to fall in inequality. As the rich start spending more there is an increase in production and thus income for all. If one is to believe in this theory, a system of reservation can be viewed as one that might reduce efficiency and thus the rate at which income rises and consequently cause a delay in the process of reducing inequality. The argument of reduced efficiency as a result of reservation however, lacks empirical evidences.



THE KUZNETS CURVE

It may also be useful to look into the behavioural aspect of this policy decision. Picture how many students will lose the impetus to achieve better grades in order to seek admission in the top-notch colleges in the country. Now suppose the average cut-off for the EWS in a given course is 80% against the mean cut-off of 90% for the non-EWS general community. The people to be benefitted by the EWS reservation is estimated at 190 millions, let us assume 80 million are the students seeking college admissions. Now, these 80 million students are vying for 10% reserved seats in government colleges. It boils down to the question of how many students can be absorbed into the benefits of reservation. Millions of students will end up disappointed and their academic performance will be lowered, as a matter of behaviourism, because they will be targeted towards seeking college admission using the 10% reservation.

However, a positive growth will be observed in working class with an increase in labour participation rate, owing to the fact that when people benefitted by reservation think they are more likely to get a job, they will start actively looking for jobs, thus pushing up the numerator in the labour participation rate. However, employment opportunities remaining unchanged, it will lead to a rise in the unemployment rate because more people who are willing to work will end up without work due to a scarcity of job opportunities. The socio-economic cost will also be very high in terms of unemployment of the more competent individuals, indicated by the GDP gap. It goes without saying that the reservation system has contributed in magnificent ways to the upliftment of communities which have been discriminated against, however, given

that we are still not in a position of doing away with it, its efficacy is doubtful. In such a scenario, using it once again, this time to reduce economic inequality is something that must be backed by proper research. This research seems to be lacking. The announcement was made with no clarifications as to the theoretical background supporting its effectiveness. As of now, we can only wait and see what effects it shall have.



Source: liberation.typepad.com

ECONOMIC IDEAS



Which page to turn to:
left or right?

MARX AND A SCIENCE OF SOCIETY

by Ishan Kashyap Hazarika



Source: adst.org

The seventeenth century, a writing brought an earthquake in the academic world. Allegations of sorcery to duplicity followed, as the work made a peculiar claim, that the same laws that govern the Earth, also govern the heavens! The writing is 'Philosopheae

Naturalis Principia Mathematica' by Isaac Newton. Similar works followed as New Chemistry and the Theory of Evolution. Science- had taken place!

Before moving on, it is imperative to ask and answer, "What is science?" While there is no definite answer and a host of paradoxes, we hold that a theory that is empirically testable and generalised is scientific. This is in line with the works of Karl Popper, arguably the most well known philosopher of science.

Such a formulation interestingly places no special attribution to nature. A question that generally follows is then, 'Can there be a science of society'? Social thinkers such as Max Weber stood up for anti-positivism. Political Science too remained involved with political philosophy. But another group of social thinkers thought otherwise, that there can be a science of society-economics!

Early efforts began by the end of the eighteenth century, when Adam Smith successfully turned to asking 'why is' diamond more valuable than water, from Aristotle's 'what should' be the fair price. Ricardo developed his theory of rent and Malthus his theory of population. But these theories addressed parts of society. Can there be a general theory of society as a whole, as Newton did with physics? Karl Marx, laid his hands on it.

His theories were controversial and

still are. They led him to being expelled from his own country. But here, we intend to indulge in no normative analysis and only involve in “the dispassionate development and testing of theories” that science is.

Marx published a glimpse of the theory in 1848 in ‘The Communist Manifesto’, but took two more decades to provide a technical analysis in 1867, ‘Das Kapital’.

According to Marx, a typical society begins with primitive communism, where humans live in caves and hunt for food. As technology develops and surplus is generated, the powerful ones seize to work and feed off the work of the weaker ones. As slave-owners lived off slave labour and feudal lords lived off serf labour. But technology develops and productivity rises, each level of technology leads to the end of one economic system and the emergence of another. Class conflict pushes society from primitive communism to slave society to feudalism to capitalism. This is observed across the world, in Europe, in India, in China etc. Marxists hold this to be a general analysis of the history of any society. Culture and politics follow the economic dominance. The ruling class gets its way, and the revolutionary class revolts. Here we attain one theory, explaining society’s economics, politics, culture and traditions in all periods of time across the world! The same laws that govern the history

of India, govern the history of Europe too!

At present, the historical epoch in Europe and the US is capitalism, while India is semi-feudal, moving from feudalism to capitalism. In the early phase of capitalism, rising productivity in agriculture allow some people to abandon it and leave for urban areas. The rise of factories and mass production is seen. Agriculture ceases to be the biggest contributor to production, feudal lords lose power and the capitalists gain. Small-scale industries are unable to compete with large specialised firms and disappear. This is seen today in India and was seen in Europe two centuries back. The population gets divided into two classes, big capitalists- bourgeoisie and the labourers- proletariat, the majority. As competitive bourgeoisie squeeze wages, proletarian demand falls and this causes recurring crises, in some form, but with the same underlying cause- 1929 or 2008. The bourgeoisie raises technology as a solution, but this only aggravates future crises. They further colonise other places to expand markets, the colonisation of America, Africa, India etc. and the WTO led globalisation being just special cases of this general phenomenon. On the other hand, the falling wages lead to poor living standards of workers, and as more and more countries essentially become capitalist, conditions across the world become similar. This, it is

predicted, will lead to proletarian solidarity across racial, ethnic and national barriers. As crises and alienation of labour aggravates, a time will come where wages reach bare subsistence levels so that bourgeoisie can no further bring it down to save capitalism, and the system will end in a revolution of united workers. The capitalist system, it is predicted will be followed by 'socialism', where workers themselves control the means of production.

The trivialisation of religion, tradition etc. to mere means of oppression may upset many, and perhaps on legitimate grounds, but doing so, Marx was able to explain in a unified manner so many features of the history and present of society, and also predict the future, that it cannot be denied that this approach does contain some merit. This can, if not anything else, be seen at least as a sincere attempt to develop a unified science of society, just as Newton did for physics or Darwin for biology. Ignoring normative positions for now, scientifically, does Marxist theory survive evidence?

The question is difficult to answer, as unlike physics or chemistry, economic theories cannot always be tested using controlled experiments. This makes economists use methods akin to meteorologists, astronomers and to some extent, evolutionary biologists. Also to an extent, there seems to be a lack of empirical research on the va-

lidity of Marxism in the midst of political rhetoric from both the supporters and the opponents. As we have seen however, Marx's claim of similar trends of history across the world has found support among historians- what does the similarity of three orders in Europe and the caste system in India suggest? The crises also occur every few years as predicted. But on the other hand, it misses certain observations, the biggest one being, perhaps, the Soviet experiment, when in 1917, an allegedly socialist revolution succeeded in Russia, even in the absence of a proletarian majority. Despite several ad-hoc explanations, a completely scientific reconciliation of the 1917 revolution and classical Marxism remains to be developed. The efficacy of Marxism in short run predictions is also questionable, and it provides only a long run analysis in many cases.

By the end of the nineteenth century on the other hand, another revolution shook the field of economics- the Marginal Revolution. Economists trained in the mathematical methods developed rigorous mathematical models of the market system. Inspired by energy physics, equilibrium analysis of economic phenomena became widely popular. Energy flows until there is energy equilibrium, prices change until there is demand and supply equilibrium. Keynes also provided an analysis of the macro-economic scenario. Samuelson successfully

unified the theories in his 'Foundations of Economic Analysis'. This 'Neo-Classical Synthesis' has great predictive power and remained dominant for decades. But they remain partial theories that address only parts of society. The recent times however, has seen the rise of newer ideas. 'New Growth Theory' works to explain the long run dynamics of the economy, also internalising technological growth. Although not based on Marxism, ideas such as 'Creative Destruction' bear striking similarities to Marxist concepts. Even more encouraging is behavioural economics, where the old rational-representative agent is replaced by more humane ones. The question of human behaviour is reopened and the long ignored theory of alienation of labour can be looked at again. Experimentally speaking, not only wages, but ownership also plays an important role. Humans evaluate an object twice as valuable when they own it. Social responsibilities also display value, in experiments, where people are more willing to work for free than for some money. These nuances in human behaviour become much more effective when we talk about the emerging creative economy- the knowledge economy. As behavioural economist Dan Ariely, the author of 'Predictably Irrational' noted, if Adam Smith is to be followed for the manufacturing economy, Marx must be for the knowledge economy.

Economics is far from having a unified theory of economy today; the unified or general theory of society is further away. The newer fields of behavioural economics etc. by disproving sections of the rational choice theory have forced economists into looking at specific policy problems and not grand theorising. But can such a grand theory be successful without accurately describing human behaviour itself? The development of a grand theory of society on an economic basis is going to require much effort, from people who have been working so long, and young aspiring economists as us. This may not be an easy task; it has not been easy for other fields as well. Physics still searches, for its 'Theory of Everything'. But isn't some effort, actually deserving for the development of our discipline, for the development of economics- the economic science? Whichever course future research in economics takes however, Karl Marx is deemed to remain relevant, and rightly so.



MODERN CAPITALISM AND COMPETITION

By Aarti

An analytical article paper on the existence of competition and the threats to the implicit feature of capitalism under Modern Capitalism

Introduction

Capitalism and ruthless competition have historically been believed to go hand-in-hand. Competition - perfect or not, but unsparing - drive creative innovation and technological change, the setting by which the market tools of supply and demand are brought into coordinated balance for a group of goods, and an institutional mechanism for individuals to freely find their own place to best acquire a livelihood in society. As debated as the roots of capitalism are, time - over and over again - has led us to a conflict that brings into question whether changing capitalism or, modern capitalism, has been able to ensure competition in the market. Capitalism - in literature - is an idea that cannot sustain with tons of regulations. While studying corporatism, however, we can find that the government has seen a history of rewarding big market players, or rather, the winners, with more regulations that limit the newcomers that in turn make the prevailing capitalism less competitive.

Categorizing Capitalism

On the basis of regulation, capitalism can be classified into two categories: 1. Regulated Capitalism and, 2. Unregulated Capitalism. In practice, both types of capitalism tend to eliminate competition from the modern market. Shreds of evidence proving the role of “regulated capitalism” eliminating

competition in a market can be observed in the poor/underdeveloped countries.

In the poorest of the African countries, capitalism is believed to be establishing power in the hands of a minority capitalist class that exists through the exploitation of the majority working class. This is most probably why these poor countries tend to fail as an ideal market and as an economy in the first place. The ‘regulators’ in these nations leave no stone unturned to ensure that capitalism is perceived as a phenomenon that triggers inequality, corruption, and economic instabilities.

This mechanism that leads to the failure of capitalism could be very well termed as ‘Unregulated Regulated Capitalism.’

‘Unregulated Capitalism’ has also been seen as a mechanism that kills competition in a market. Going a couple of decades in past, one can recall the U.S. government ending the monopoly of AT&T, a telecommunication company, in its own fashion. Had the U.S government not decided to ‘regulate’ and put an end to AT&T’s monopoly, there would not have been a fair competition in the industry when the advent of cell phones took place sometime later after the regulation decision.

History would have been remembered it as a classic example of unregulated capitalism killing competition in a market.

Capitalism and Success

What could be the possible answer to this question: “What is the secret to the success of Capitalism?” One possible answer could be limiting competition to the economic realm of economic activities such as production and eliminating competition from the political domain of obligation.

Here is one thing that I would like to bring into your notice and then relate it to the previous paragraph- “Monopoly is a failure of badly regulated capitalism.” As it goes, a monopoly can arise in a free market and they do not generally pose a problem because they do not survive for long. The common notion of a monopoly not surviving for too long, by principle, is conditioned on another notion- new firms will enter soon into the market and eliminate the monopoly.

Considering a hypothetical but a very probable situation- a situation where the newcomers do not enter the market, at all. The reasons for this could certainly be many. One of the most probable, and actually happening could be that maybe some obstacles have been posted to stop the potential newcomers from entering the market. What if, the government has granted that monopoly some explicit or, even implicit legal protections from any possible competition that could pose a threat to the extra normal profits that they earn?

One could contend that this is what

happens indirectly, if not directly. It has not been too long since the Cellular Operators Association of India (COAI) slammed Telecom Regulatory Authority of India (TRAI) for biased rules favouring Reliance Jio and called on the government to urgently intervene, saying that regulations and policies that were not based on fair play would further aggravate the financial stress in the industry, kill future investments and leave thousands of jobs at stake. Now going back to the key of Capitalism’s success that was mentioned earlier in the article, “Limiting competition to the economic realm of economic activities such as production and eliminating competition from the political domain of obligation” and relating it to the previous paragraph - a recent case study in a nation that is a haven for investors from the incalculable realm of share markets around the world - probably a classic but ironic model of capitalism.

These arguments lead us to understand how weak the mechanism of Capitalism has become or, rather, one could say, has been made in the modern era, in the modern markets. Political intervention, with a good dose of corruption, has been enough such that fair competition, at times, ceases to exist.

Contemplating Competition

Of course, capitalism and competition do not mean or in any case, imply

that all the participants in the market are supposed to get an equal return from the same asset. It means, that, all the participants should ideally get an equal degree of opportunities and that, there should not be any alteration in the opportunities to the participants because of any political interference. Be it the real estate, automobiles, pharmaceutical or even education; no sector, no industry, has been left out from the “unfair political intervention.” What has made it worse? Globalization. This might make the article sound like conservative in nature, but this has what happened. Globalization led to multinational corporations (MNCs). MNCs have definitely helped the world coming a lot closer than ever. It also led to one more thing. It made the MNCs, not under one government’s control. It led to an MNC making use of different types of capitalism all over the world for their profit motive that ultimately led to monopolies.

An MNC “Q” gets into talks with a government A and evades taxes in the country “A” gaining a huge fraction of market share from “A,” it pays all the taxes in “B” but is selling its customer’s private information to the government of C, the government of C rewards this MNC by allowing to evade taxes freely, like a boss. This chain is longer and vicious than we think.

Concluding Remarks

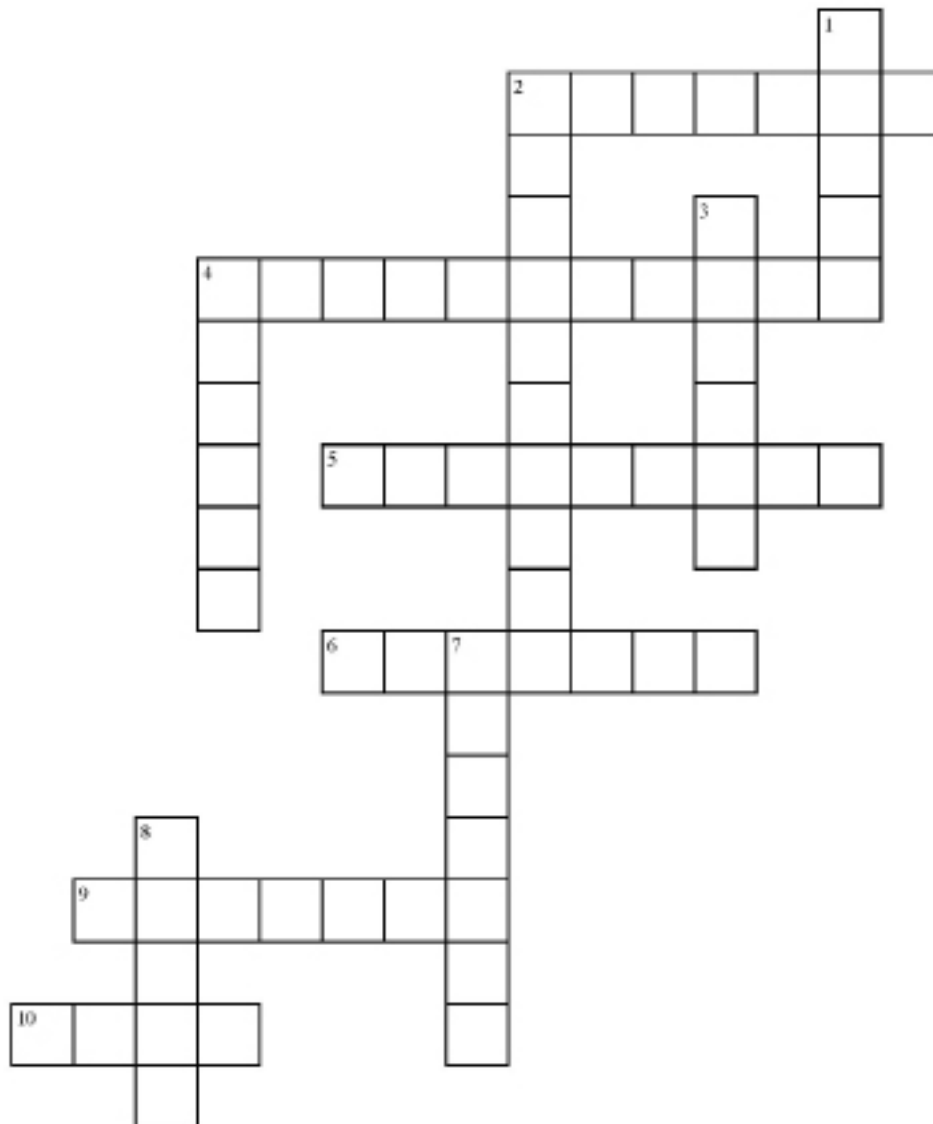
Could we argue that the participants

of the same industry as that of the MNC ‘Q’ have a chance to kill and throw out its monopoly? One could contend that a simple ‘no’ would be the answer.

I would like to conclude with a note that corruption, unfair political interference has made capitalism weak, it is no more able to work as it was supposed to be working.

‘Unregulated Regulated Capitalism’ could be blamed as one of the root causes to this problem. Capitalism is no more capable of or is fulfilling its motive of ensuring competition in modern markets. Regulation capture should be minimized. The economists, the bankers, the academicians, the firms- especially the small enterprises, should come ahead and talk about this disease of a problem to the very concept or the idea of a free economy and capitalist - competition.

CROSSWORD



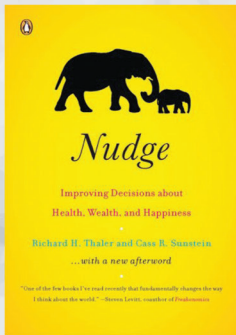
ACROSS

2. The tensesd war which comes to an end meanwhile across oceans India's economy liberates.
4. The branch of economics which produced this year's Nobel laureate behaviorial
5. The phenomenon of rising worth but decreasing in real value
6. Flipkart's largest shareholder
9. A panicky public run which can literally run down money stock
10. Opposite of bust (economics)

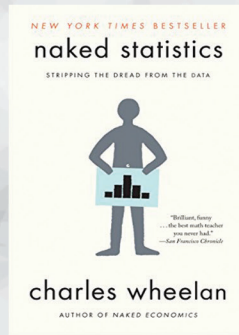
DOWN

1. Not Wall yet exchange happens in this street in India
2. This economic system's motto : consumer's king
3. I am based on trust, future and banks earn because of me. If I am good it's good , if bad it's terrible for everyone.
4. Recent precarious departure from shared union
7. The driving raj which came to its end with deregulation in India
8. Elite Congregation among the alps

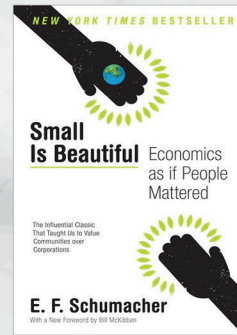
BOOK RECOMMENDATIONS



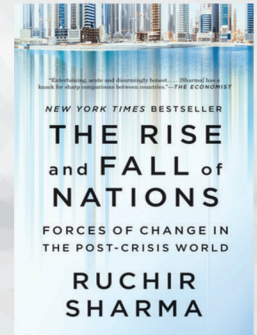
NUDGE
CASS SUNSTEIN &
RICHARD THALER



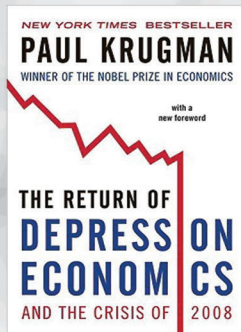
NAKED STATISTICS
CHARLES WHEELAN



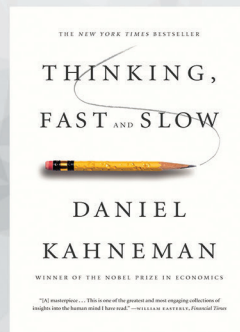
SMALL IS BEAUTIFUL
E. F. SCHUMACHER



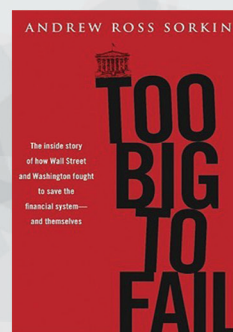
THE RISE AND FALL OF NATIONS
RUCHIR SHARMA



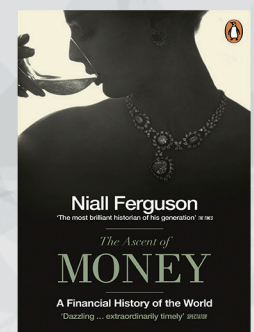
THE RETURN OF DEPRESSION ECONOMICS
PAUL KRUGMAN



THINKING FAST AND SLOW
DANIEL KAHNEMAN



TOO BIG TO FAIL
ANDREW ROSS SORKIN



THE ASCENT OF MONEY
NIALL FERGUSON

BLOG RECOMMENDATIONS



ECONLOG



MISES INSTITUTE

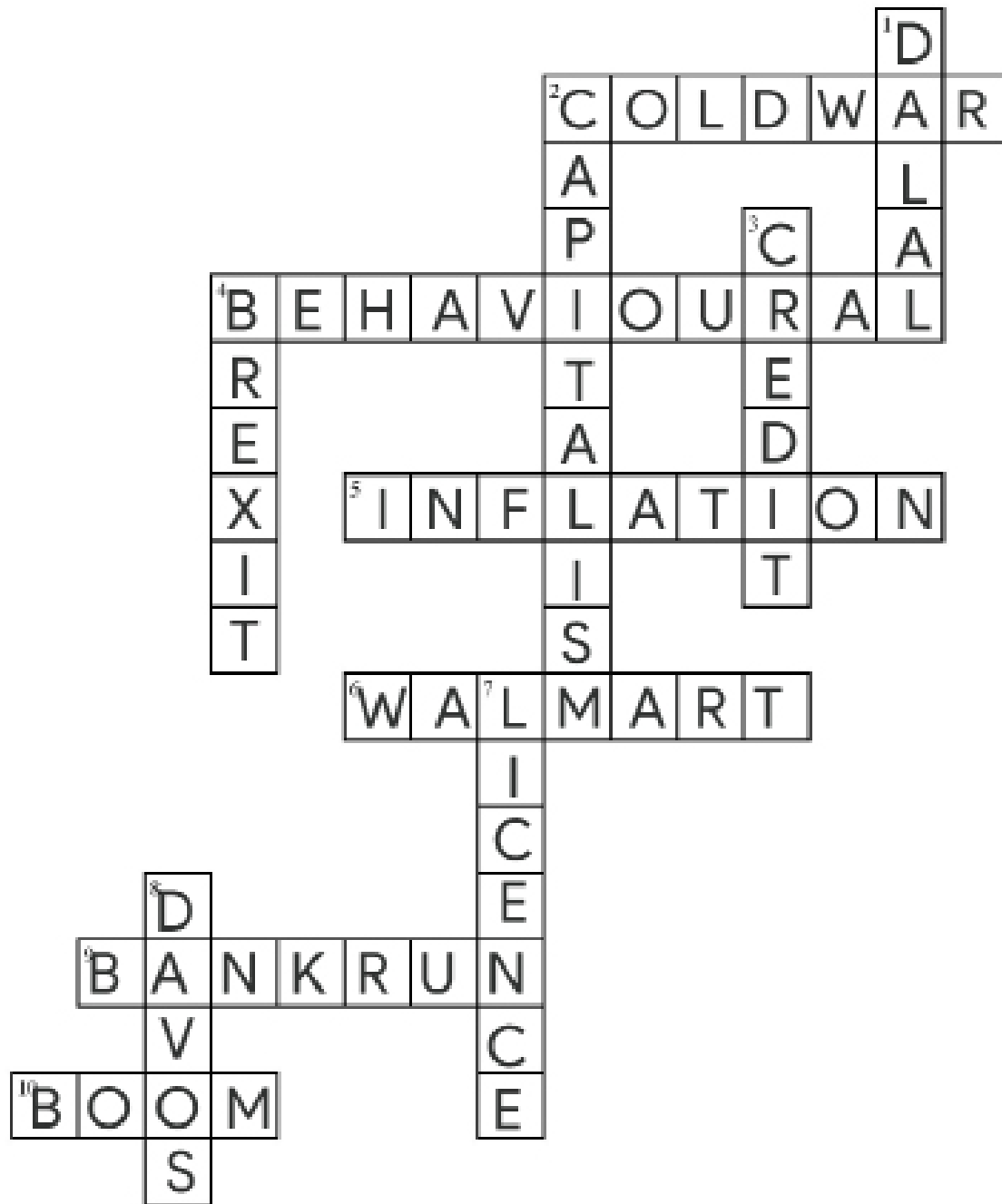


GRUMPY ECONOMIST



THE MINSKYS

CROSSWORD SOLUTIONS



ACROSS | DOWN

- | | |
|----------------|---------------|
| 2. Coldwar | 1. Dalal |
| 4. Behavioural | 2. Capitalism |
| 5. Inflation | 3. Credit |
| 6. Walmart | 4. Brexit |
| 9. Bankrun | 7. Licence |
| 10. Boom | 8. Davos |

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