DEPARTMENT OF ECONOMICS

ILLUMINATUS

Radiance of Knowledge

2018 | Volume IV

ILLUMINATUS

Rediance of Knowledge

Department of Economics
St. Xavier's College, Jaipur

Preface Message

The aim of mankind has always been to transcend the boundaries drawn by the steeds of time. And it has been successful in doing so. Where were we a thousand years ago, or even a hundred years ago? Questions that once belonged to Philosophy have become a part of Science. We have moved far beyond the exploration of our own skies, into the vastness of outer space, exploring the deepest secrets of the Universe. This instinct to invent, to question, to discover has always given us hope that the emancipation of humanity is within our reach, we will reach the stage of Singularity, the consciousness of Nirvana. But, time and again we lose this hope, this instinct when we see the many problems that plagues our society. But should not we strive to become the master of our problems and slay them with the blade of our intellect, should not we follow in the footsteps of our pioneers. 'ILLUMINATUS' an undergraduate research journal is a humble step in this very direction. This initiative marks a departure from the legacy of just bookish knowledge which continues to shape our system and causes a gap between the theory and practice.

We are happy that Department is coming up with its fourth volume of Illuminatus, the Annual Department Journal. We hereby take this opportunity to thank the Management of the college Fr Varkey Perekkatt S.J., Rector, Dr Sheila Rai, Principal, Fr Joshy Kuruvilla, S.J. Our sincere thanks and congrats to for editorial team who has spent all needful corpus of sweat and have appreciably networked with the students and all others associated with this spectacular event and made this congregation a success. I also appreciate the efforts of the students who have contributed papers for the Journal.

I wish all the readers an enjoyable reading. We encourage researchers to actively participate by contributing well researched articles in the future.

Happy reading!!!

Department of Economics

From the Editor's Desk

Research is all about looking at the facts, figures and situations from a different perspective. Going deep into the topic and thinking beyond the ordinary is what makes research a "research". Volume 4 of Illuminatus is not just a collection of these deep thoughts and extraordinary thinking, but, it's a collection of thoughts and understanding on the topics that matter the most.

Illuminatus 2018 covers a huge variety of topics. The research papers are complemented by a policy review, a book review and a survey and review on Budget 2018. Topics like Agricultural Income Distress, Universal Basic Income, Creative Destruction give the readers a deep insight of the current as well as the core topics of Economics.

Without the combined efforts and hard work put in by the paper contributors, our teachers and the editorial team, Illuminatus would not have had the face it has now. The support and guidance of the teachers, the tireless working of the editorial team and the relentless efforts of the paper contributors have added immense value to the journal. Sincere apologies to those whose papers could not be published due to the paper limit we had. The papers were in no means less than the other papers.

Working for the journal has been a great experience of learning. We hope you find great value and knowledge in Illuminatus.

Happy Reading!

Isha Koolwal
Samidha Agarwal

Messages

I congratulate the Department of Economics for successfully publishing the fourth edition of Illuminatus. The efforts of the students, the editorial team and the guidance of the teachers have very well paid off and the wide variety of topics researched upon makes me really happy. I hope that the students continue these efforts wherever they go.

Fr. Vereky Parakett S.J.
(Rector)

Research is an integral part of student life. Knowing by exploring is not just important but also necessary in order to achieve a fuller and better understanding of things. The Department of Economics, with its initiative has aroused and promoted the interest of students in the field of research. I wish the students all the very best for their future endeavours.

Dr. Sheila Rai
(Principal)

I am happy to know that the Department of Economics is coming up with the fourth edition of its journal, "Illuminatus". An initiative like this enables the students to hone their research skills right from an early stage. I would like to congratulate the editorial team and the paper contributors for their meticulous efforts and wish them good luck for their future.

Fr. Joshy Kuruvila
(Vice Principal)

Editor's Speak

Authoring and editing research papers, it has been a year of drastically challenging my reasoning at each step and being amazed at the way things turned out to be linked. It develops in you an instinctive critical perspective, which carries forward in all areas. Kudos to all the contributors and the editorial team for keeping at it and seeing it through to the end!

Sakshi Bansal
(Associate Editor)

In the making of this issue of 'Illuminatus' we have discovered and dismissed various multitudes of our own ideas, and yet enkindled the art of finding, reading and reviewing. I thoroughly enjoyed the process of making of this Journal, this journey gave the team both good and bad days but undoubtedly, they were the times of immense learning and exploration. With the hope that readers experience didactic reading, I wish all Happy Reading!

Vedika Bihani
(Associate Editor)

It is with great pride, enthusiasm, and anticipation that I invite you to read this edition of your department journal. An enormous amount of work has gone into the development of this journal and I believe you will see that effort reflected in this edition. It has been an interesting journey, many aspects of which my fellow team members shared in their welcome notes. Finally I want to thank our submitting authors and teacher coordinator. They make reciprocity a reality.

Shubham Ojha
(Associate Editor)

Journal alleviated me with different point of views and opinions which unwrapped my mind towards dissimilar dimensions of thinking. The discussions, meetings, structuring of research paper and almost missing the deadlines manifested excellent team work. Being part of the editorial team made me realize how professionals think and work. Working in ILLUMINATUS was none less than a roller coaster ride with experience which will always be cherished.

Surbhi Rawat
(Assistant Editor)

CONTENTS

INDIAN ECONOMY AT A GLANCE

FINANCE AND BANKING

FOREIGN POLICY AND TRADE RELATIONS

UBIQUITOUS ECONOMICS

POLICY REVIEW

REPORT

BUDGET SURVEY

INDIAN ECONOMY AT A GLANCE

SECTION 1

WPI v/s CPI: A Comparison

Samidha Agarwal

B.A Eco III

Abstract

Inflation rate is a statistical trickery which helps in figuring out the inflation in an economy. There are two entirely different questions that can be asked about inflation. The first being, well, what's the change in price of a specific standard of living? An absolute standard that is? The second is, well, what's the change in price of the standard of living that people actually have. The bandwagon effect plays a crucial role in determining expected inflation rate in India, here, rumours about increasing rate in inflation have a huge carryover effect on the remaining population, people need to realize that the increase in price of their dream car or of price of vegetables does not, and should not, affect the perception they have for inflation in the country. The paper highlights how the CPI and WPI have impact the consumers and reflects the better measure of inflation. It also suggests the changes required in the basket of commodities of various goods and services for India to come up with a better measure of inflation.

Keywords

Wholesale Price Index (WPI), Consumer Price Index (CPI), measure of inflation, Price level, goods and services.

Objectives

The objectives of this paper were:

- To compare WPI and CPI as a measure of inflation and figure out a better measure of inflation by analyzing the RBI move from WPI to CPI as a measure of inflation in India.
- Study the importance of commodities in the basket of goods.

Research Methodology

The study is mainly based on secondary data collections from research papers, articles and reports of some reputable institutions and economists. The research paper has utilized both quantitative and qualitative data.

Review of Literature

Vidya Mahambare and Surjit S Bhalla in their article published in the Financial Express highlight how CPI is a better inflation measure than WPI. They are amongst the most influential economists of India and their analysis helps in analyzing the better inflation measure for India. Pranai Agarwal in his research depicts the true picture of the transition from WPI to CPI as a measure of inflation highlighting the pros and cons of both measures. He also depicts how a little change in the goods basket of the measures of inflation can help to get a better picture of the situation prevailing the society. A RBI working paper series by Praggya Das and Asish Thomas depicts the goods and services included in the CPI and the WPI basket, their analysis is validated by the statistical data making it easier to compare the inflation conditions prevailing over the years.

Introduction

When the prices of good increase it automatically leads to the decrease in purchasing power of the currency or devaluation. Every dollar now tends to buy a comparatively lesser amount of commodity or service it was previously buying. The measure of inflation is the inflation rate. A measure of inflation is necessary for both, the national accounting and business purpose, especially for purchasing power accounting. Since it is impossible to find the average of all the goods and commodities due to their sheer number, the calculation takes place considering a basket of goods, the annual change of which is measured with the help of Consumer Price Index (CPI) or Wholesale Price Index (WPI), the results are in percentages to expeditiously show the change in price level over a period. The rate of inflation is often controlled by monetary regulations and policies by the government.

Inflation

The Central Bank controls the inflation rate in India, they often like to have expectations in the inflation rate (so that they can move up and down on the Philips curve and remove unemployment without really affecting the inflation rate). Inflation for accustomed people is about daily haggling prices, cursing over rise in price of their daily products.

While for a rich people, a sigh, after they hear about the rise in the prices of the latest model of BMW. It in whole hurts the sentiments of people and figuring out of realistic solutions for it is mandatory. Inflation is defined as an increase in the general price level of goods.

Formula used for calculating inflation in a commodity for current year is Lasperes formula:

$$\frac{\text{Price of current year-Price of Base year}}{\text{Price of Base Year}} * 100$$

Wholesale Price Index

WPI is the measure of change in the price of commodities at early stages for the bulk sale. The WPI measures the price of goods at the retail or corporate level i.e. before it reaches the consumers. It is used to measure the demand and supply of the goods in the economy. For the calculation of WPI the prices of base year are compared with prices of current year. The WPI for all the different commodities included in the basket of goods is calculated separately and then combined after taking the average weighted mean to calculate the rate of inflation, the commodities are given weightage according to their level of supremacy in the economy.

Significance of WPI:

- The WPI measures the inflation at retail level thus helps in identifying the problem beforehand. This helps in timely intervention by the government to check the rates of essential commodities.
- The decisions of global investors are generally influenced by the change in WPI and they consider it as a key macro indicator. The private investors often rely on WPI as it gives a better forecast for the future business prospects.
- The WPI is used by Central Statistical Organization (CSO), Planning Commission and Department of Civil Supplies for their schemes as they rely on the price trends revealed by the index of Wholesale prices.

- It is often used for indexation in business contracts, Indexation refers to the changes made in rates of taxation due to the inflation rate, it is done in order to protect publics' purchasing power during the conditions of inflation.

Consumer Price Index

It measures the change in prices of commodities from the perspective of the purchaser or the consumer. It indicates the average price paid by the households for their consumption of goods and commodities. To measure the consumption expenditure, there are various items which have been divided into different heads like rural and urban combined to measure their overall index in the consumption expenditure. CPI is used to calculate the standard of living of the residents of an economy. In most countries CPI is used as the measuring index for inflation, it is used to find the real change in wages , salaries, pensions etc., many countries use CPI with population census in national economic statistics.

Significance of CPI:

- The foremost advantage of measuring inflation through CPI helps us in identifying the inflation in the cost of living of the people and draw conclusions. The consumer is very conscious of increasing prices of the commodities of their day to day life and CPI measures the direct impact on them. The interest in CPI is therefore just not limited to press and political parties.

- It is difficult to measure the change in price of certain commodities due to quality change, of government goods and specially public services. The CPI is the most favorable price index in that regards as compared to other flows.

- The government considers it as a major index for various economic indicators such as Gross Domestic Product (GDP), it uses it to improve benefit level of recipients of social security schemes too.

- CPI is one of the key indicators to measure the health of an economy. It is used for the adjustment of social security benefits and other payments and estimating changes in the cost of living.

India's Measure of Inflation

India switched to the Consumer price Index as the key measure for inflation, the bold and thoughtful announcement for which was made in the first bi-monthly monetary policy meeting of 2014-15 by RBI under the tenure of RBI Governor Raghuram Rajan. There are various factors which are to be considered while deciding the inflation measure, the timelines of their measurement, inclusion of services, food and energy contribution in the basket and also the frequency of data collection associated with it, most important being the weights and basket of commodities associated with it. The main reasons that India was measuring inflation through WPI , firstly, India didn't had a CPI that could represent the whole country, there were three-four CPI measures relevant for the different strata of society. Now we have one single measure to calculate CPI wit further disaggregation to measure rate for both urban and rural population. Secondly, the CPI data was available every 2 months while of WPI was available for every 2 weeks. The CPI index is now available every month. CPI includes nearly 36% of services, which includes education, housing, healthcare, transport etc., i.e. things having a direct impact on the consumer.

WPI V/S CPI

- The data on WPI is available every week while of CPI is available every month. The comparison becomes easier for the Government as RBI to intervene and make policies for the change in inflation rate. The availability of the index makes it easier to policy analyst and think tanks to make decisions.
- Though the government may target WPI for measuring inflation and consider it for major policy decision, but this needs to be understood that it does not reflect the prevailing prices or the current market conditions of the economy. The WPI inflation rate may be down for a period, but the effect of the low inflation does not flow down to the common people and they stay burdened with rising daily prices. The CPI inflation is driven by the potential consumer demand and available supply.
- The industrialists and magnates benefit from inflation as they happen to be the borrowers, who pay low interest rates and pay back when the money is less worth than that they borrowed on, the whole burden of the high inflation shifts on the common people who lend at low interest rates getting negative yields on their deposits. It is important to have positive interest rates with low inflation for country's progress.

- CPI includes various services like changes in housing prices, education, healthcare, transport, personal care and communication. The new CPI measure gives around 36% weightage to services while WPI excludes services like education, healthcare and rents. The services however comprise of 60% of the GDP, and CPI comes out to be a better measuring index.
- CPI takes into consideration the profits and taxes of the middlemen. It also takes into account the behavior of common man due to change in prices, further helping in formulation of people friendly future predictions and policies.
- In India, the WPI index is published by Office of Economic Advisor under Ministry of Commerce and Industry. On the contrary, CPI index is declared by Central Statistics Office under Ministry of Statistics and Programme Implementation.

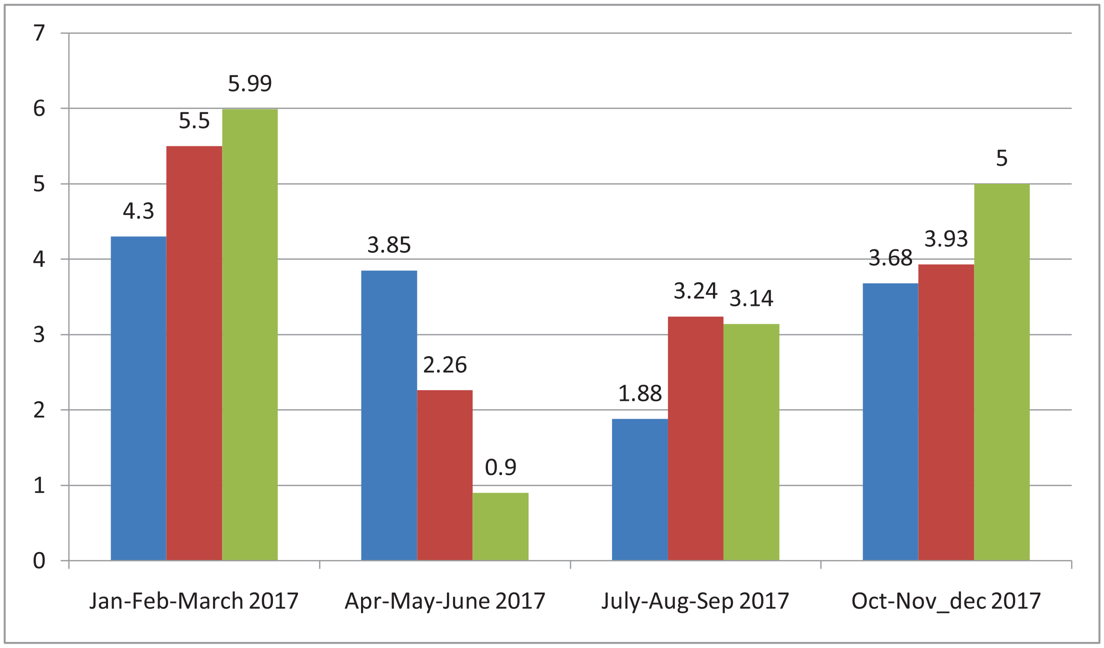
Commodities Included

WPI

The WPI index includes commodities falling majorly under 3 groups:

1. Primary Articles: food articles, non-food articles and minerals.
2. Manufactures Goods: Food products, beverages, tobacco and tobacco products, wood and wood products, textiles, paper and paper products etc.
3. Fuel And Power: Coal, Mineral oils, electricity.

Wholesale Price Index Change

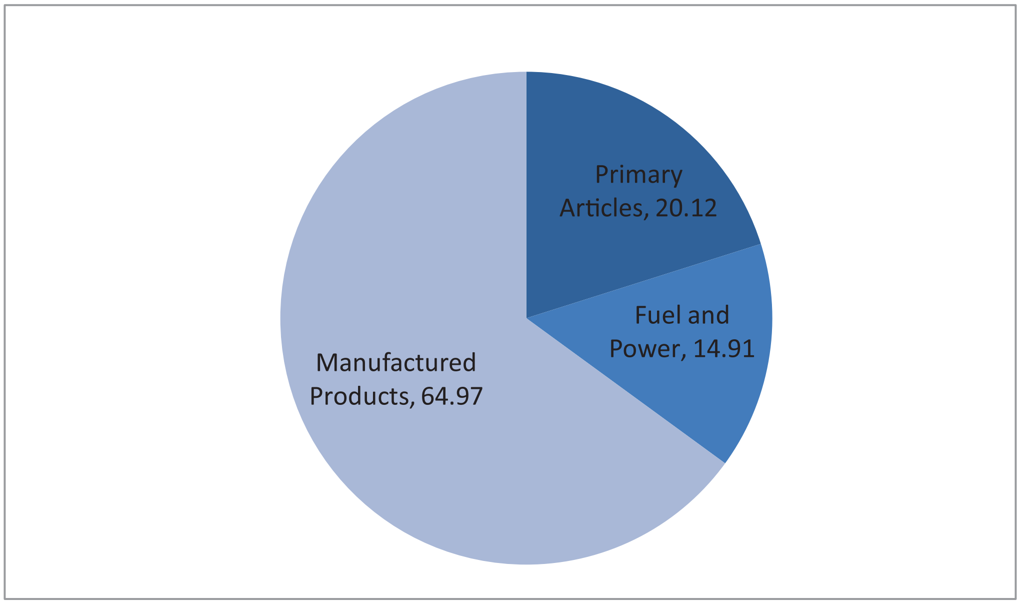


Source: tradingeconomics.com

The index basket of 2011-12 as a base year has a total of 697 items, including 117 items of Primary Articles, 16 items for fuel and power and 564 articles for manufactured products. The prices considered are ex-factory price for manufactured goods, mandi price for agricultural and ex-mines prices for minerals.

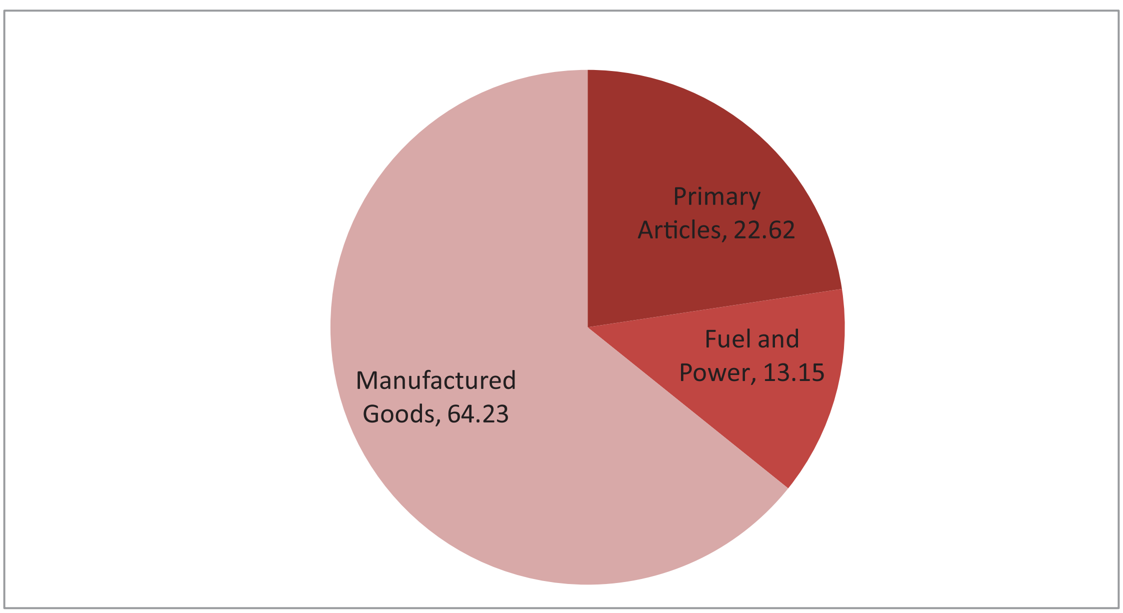
The Government in order to improve the quality, coverage and representativeness of the index periodically revises the base year of the WPI; the WPI in India has undergone revisions in1952-53, 1961-62, 1970-71, 1981-82, 1993-94, 2004-05 and 2011-12 so far making the current revision as the seventh one.

WEIGHTS in 2004-05



Source: Quora

WEIGHTS in 2011-12



Source: Quora

CPI

People have become conscious about the increase in the prices of the commodities and services of their daily use and the impact it has on their living standard. The data on CPI is released monthly to monitor the changes in price closely.

Before January 2012, the CPI was calculated under 4 indices to be released on national level,

- Industrial Workers (IW) on base year 2001.
- Agricultural Laborer (AL) on the base year 1987.
- Rural Laborer (RL) on base year 1987.
- Urban Non-Manual Employees (UNME) on base year 1985.

The 4 indices considered by the Government to calculate CPI before 2012 were not sufficient enough to represent the whole consumer class and covered only a particular section of the society. These indices failed to present the true picture of the price behavior of all the consumer class, this led to an urge of index which could solve the purpose for both the rural and the urban class for calculation on the basis of CPI. The Central Statistics Office (CSO) of the Ministry of Statistics and Programme Implementation gave new indexes for the calculation of CPI,

- CPI for Urban population i.e. CPI(Urban)
- CPI for Rural population i.e. CPI(Rural)
- Consolidated CPI for Rural And Urban

The purpose to cover the whole consumer class for measuring inflation could now be done and these CPI measuring indices are compiled at State and all India levels.

The further disaggregation done in CPI for comparing the basket of goods is:

1. Food, beverages and Tobacco.
2. Fuel and Light.
3. Housing.
4. Clothing, Bedding and Footwear.
5. Miscellaneous.

Group	CPI(Rural)	CPI(Urban)	CPI(Combined)
Food, beverages and tobacco	59.31%	37.15%	49.71%
Fuel and Light	10.42%	8.40%	9.49%
Housing	-	22.53%	9.77%
Clothing, Bedding and Footwear	5.36%	3.91%	4.73%
Miscellaneous	24.91%	28.00%	26.31%
Total	100%	100%	100%

Source: Central Statistics Office

**Data for CPI (Rural) Housing not compiled.*

The purpose is to measure the Cost Of Living Index which tends to depict the real picture, but revising the base year every 5 or 10 years fails to depict the reality. Steps are required to reduce the potential bias in the best possible way, one way to do this is to update the weights every alternate year so that the Index for CPI can be used to correspond to the latest expenditure weight reference period.

Services in CPI (Weights)

Description	**Weight**
Communication Services	1.04
Labour Intensive Services	4.17
Health Services	0.87
Education	3.01
Leisure Services	0.71
Transport Services	2.52
ESI Contribution	0.52
Overall Services	12.84

Source: Economic and Policy weekly.

The newly adopted measure of the RBI to switch to CPI has the inflation measuring Index from WPI for a more realistic view and for an accurate representation of economic fundamentals. Time will show whether this measure emerges as an advantage or disadvantage for the economy. However, even CPI does not hold perfect in its current form, the unequal weights given to food of 48% and unequal representation of rural v/s urban population needs to be revised. The RBI should move towards reducing the weight given to food so that it can depict the better position for the other 500 plus goods and services.

Conclusion

Inflation has to be controlled by the RBI in near future by reduction in interest rates and further boost the economy to propel growth above the trending rate. Though the government has been taking a slew of measures to reduce hoardings, the bandwagon effect needs to be balanced to encourage investor class in the economy. The decisions one measures of inflation and its components are necessary but matters like hike in the Minimum Support Price and supply bottlenecks are also to be dealt soon. RBI has to work cautiously and intelligently to achieve goals which presently seem unachievable. Creation of single nationwide agricultural market, cold storage facilities and transportation and FDI in multi-brand retail can definitely be good steps on the initial stage. The government needs to learn lessons from the countries like the U.S where the inflation measure, i.e., the personal consumption expenditure index excludes food and energy prices. CPI in India, needs to be revised to counter the weights given to certain items. We often find that as the income of the consumer increases, he tends to spend more and his standard of living increases. Inflation, by definition helps us find inflation over time which we calculate by taking the average change in price in standard of living. We keep on changing the index as the taste and price in the average lifestyle changes and that's where we get it wrong. The inflation by means is now hopeless in tracking the changes in any lifestyle over a period of time instead it calculates the cost of average lifestyle in each year which is an entirely different thing. We should change the inflation basket as the tastes, preferences and spending change. But we should understand what we're doing when we do it. What we're not doing, by definition, is measuring the change in the price of the same lifestyle over time.

References

1. Pranai Agarwal (2015).ISB Insight,Inflation in India: Will the switch from WPI to CPI give us a truer picture? Retrieved from *http://isbinsight.isb.edu/inflation-india-will-switch-wpi-cpi-give-us-truer-picture/*
2. International Labour of Organisation. Uses of consumer price indices. Retrieved from *http://www.ilo.org/public/english/bureau/stat/download/cpi/ch2.pdf*
3. Vidya Mahambare and Surjit S Bhalla (2013). Is CPI a better inflation indicator than WPI, Financial Express. Retrieved from *http://www.financialexpress.com/archive/is-cpi-a-better-inflation-indicator-than-wpi/1176955/*

4. Mirae Asset. WPI & CPI Inflation Indices.Retrieved from
   http://miraeassetmf.co.in/uploads/downloads/wpi_vs_cpi.pdf
5. Revision of Base Year of All-India Wholesale Price Index, 2017. Retrieved from
   https://www.bestcurrentaffairs.com/revision-base-year-india-wholesale-price-index/
6. Government of India. Ministry of Commerce and Industry (2017). Manual on Wholesale Price Index. Retrieved from
   http://eaindustry.nic.in/uploaded_files/WPI_Manual.pdf
7. Adam Hayes, Investopedia. Inflation: What is Inflation?Retrieved from
   https://www.investopedia.com/university/inflation/inflation1.asp
8. Mr. Anupam Mitra (2017), Arthapedia. Wholesale Price Index (WPI). Retrieved from
   http://.arthapedia.in/index.php?title=Wholesale_Price_Index_(WPI)
9. Dinesh Sairam (2016), Why did the RBI suddenly switch from WPI to CPI for the monitoring of inflation for fixing interest rates in India? What are the benefits, if any? Retrieved from
   https://www.quora.com/Why-did-the-RBI-suddenly-switch-from-WPI-to-CPI-for-the-monitoring-of-inflation-for-fixing-interest-rates-in-India-What-are-the-benefits-if-any
10. Praggya Das and Asish Thomas George (2017), Reserve Bank of India. Working Paper Series No. 05 Comparison of Consumer and Wholesale Prices Indices in India: An Analysis of Properties and Sources of Divergence. RBI Working Paper Series No. 05. Retrieved from
    https://rbi.org.in/scripts/PublicationsView.aspx?id=17450

An Analysis on the Effect of Goods and Services Tax on Income Divergence

Aditi Shukla, Chahat Preet Kaur
and Tamanna Mudgal

B.A Eco III

Abstract

The purpose of this research paper is to throw light on the convergence theory and to analyse the convergence of per capita income of Indian states. The paper will focus on recently implemented Goods and Services Tax and its effects on income convergence of the states. Through this paper we will analyse the change in per capita income and revenue of economically backward states due to implementation of GST. The analysis shows that GST being a destination-based tax will increase the tax revenue of states which consume more. This will eventually lead to increase in income of economically backward states.

Keywords

Convergence Theory, Per Capita Income, Goods and Services Tax, Tax Revenue

Objectives of Study

1. To study the effect of GST on indirect tax revenue earned by Indian states.
2. To study the impact of GST on the situation of income divergence in India.

Research Methodology

The study is mainly based on secondary data collected from various sources.

Review of Literature

1. Economic Survey (2016-17) in its tenth chapter compared the convergence trend of states in India with other federal nations such as China and analysed why India is not following the convergence trend like other federal nations.
2. Praveen Chakravarty and Vivek Dehejia in their article analysed the impact of GST on economically backward states.

Introduction

Economic Convergence

Economic Convergence is described as the gradual tendency of two or more economies to become similar to each other in terms of economic prosperity and growth. Also known as the catch-up effect, it is based on the hypothesis that the per capita incomes of poor economies will tend to grow at a faster rate in comparison to the economies of the richer countries, thus bridging the gap between the poor and the rich nations. Eventually all economies would converge in regard to per capita income. The idea of convergence in economics lays stress on the belief that the developing countries have the ability to grow at a faster rate in comparison to the developed countries because as compared to the capital rich countries they experience less diminishing returns. Moreover, poorer countries can repeat the methodology used by rich countries in production, technology and institutions.

Economic Divergence

The possibility of No Convergence or Divergence comes into existence when the poor countries are not able to catch up with the developed countries over a period of time. This results in falling living standards of low income countries thus widening the income gap between the developing and the developed countries. In this scenario the rich countries get richer while the economically backward countries get even poorer than before.

According to the economic survey 2016-17 the principle of convergence is applied in case of states where some states are more developed while others are underdeveloped.

According to the convergence theory the less developed or economically backward states should show higher growth rate in comparison to the richer states and rapidly catch up with them to assure stability and equality amongst the various economic regions of the country. However, this has not been the case in India. India has been rapidly moving on the divergence path from past few decades and it is believed that in a decade or so the per capita income of the richest state in India would be four times the per capita income of the economically backward state as the divergence gap between the rich and economically backward states is on constant rise. But due to the implementation of goods and services tax this divergence trend could reverse.

GST: An Overview

GST is a comprehensive, multi-stage, destination-based tax that is levied on every value addition. It is an Indirect tax levied on the supply of goods and services.

There are four taxes applicable under GST.

1. CGST: CGST is a tax levied on Intra state supplies of both goods and services by the central government and is governed by the CGST act.
2. SGST: SGST is a tax levied on Intra state supplies of both goods and services by the state government and is governed by the SGST Act.
3. IGST: IGST is a tax levied on all Inter-state supplies of goods and services and is governed by the IGST Act. It is applicable on any supply of goods or services imported into India or exported from India.

- Under IGST exports would be zero-rated and tax would be shared between the central and state government. IGST will approximately be a sum total of CGST and SGST/UTGST.

4. UTGST: UTGST is levied and collected by union territories without state legislatures on Intra state supplies of taxable goods or services.

Finance Minister Arun Jaitley on August 30, 2017 Wednesday released the country's maiden GST revenue data that surpassed government's internal expectation of Rupees 91,000 crore revenue and recorded tax collection of Rupees 9,2283 crore from just 64.42 percent of the total taxpayer base.

Main Content

Factors Affecting Income Convergence:

1. Diminishing Returns to Capital

The rate of return to capital directly impacts the convergence theory because more investment is made in areas which are comparatively more productive i.e. they offer a higher rate of return on the capital invested. Thus investment is shifted from rich states experiencing low return to economically backward states which experience high returns on investment.

2. Mobility of Factors of Production

The mobility of factors of production rapidly affects the convergence theory as the investment would move to those areas where the cost of factors of production such as labour costs are low as it would be more beneficial to make investment over there. Hence, investment would move from richer states where costs are high to poorer states where costs are low.

The Curious Case of India

According to the Economic Survey (2016-17) India has been showing strange repetitive inclination to the no convergence or divergence phenomenon wherein its rich states are growing richer and economically backward states are growing poorer thereby constantly adding to the difference in gap between their revenues and per capita incomes. This situation is contrary to the principle of convergence which state that the states which are at a low level in terms of income or consumption tend to have higher growth prospects in comparison to the richer states. Only India has been exception to this principle of convergence because other Asian countries such as China are following the convergence trend and are able to bridge the gap between the rich and economically backward state. The poor Chinese provinces are catching up quickly with richer ones while in India the richer states are racing far ahead of the poor ones.

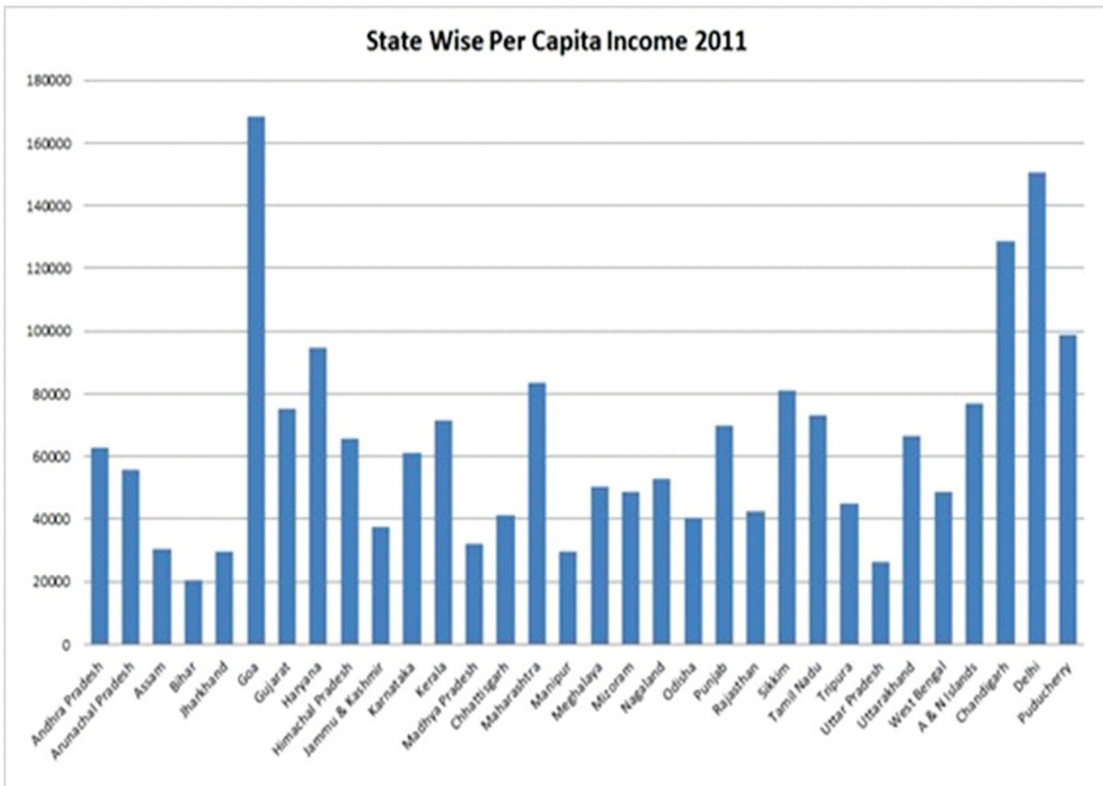
Some backward states such as Bihar, Madhya Pradesh, and Chhattisgarh had shown some signs of improvements in their relative performance but this improvement was negligible and could not be sustained. Thus it didn't have any significant impact on the growing divergence and inequality in the country.

The economic scenario in India is indeed ambiguous as it violates the convergence principle while other countries such as China have been strictly following the convergence trend. The phenomenon of convergence occurs mainly due to trade and mobility of factors of production. The less developed or economically backward states attract more capital and labour due to high rate of return on capital. This enhances the productivity of the states and their ability to catch up with richer state.

China has observed successful conversions despite there being high restriction on trade because of migration of people to underdeveloped provinces which led to rise in productivity and wages in the poorer nations faster than the richer nations. On the other hand, in India despite free trade and high mobility of labour in recent years convergence does not take place. Possible assumptions of divergence in India are failed governance and more reliance on growth of skill- intensive sectors rather than low skill sectors.

Difference of per capita income of Indian states

State Wise per Capita Income Comparison



As per the figures of 2011 shown in the graph, Goa has the highest per capita income in the country followed by Delhi, Chandigarh, Puducherry and Haryana. On the other hand, the states with the lowest per capita incomes are Assam, Jharkhand, Madhya Pradesh, Manipur, Uttar Pradesh and lastly Bihar which has the lowest per capita income.

Goa leads the country with the per capita income of Rupees 1,68,572 while in Bihar the per capita income is the lowest of about Rupees 20,708 only. Therefore, it can be seen that there is huge divergence in the country as an average person in Goa earns 8 times more than an average person in Bihar which is a shocking figure.

SI.No	State/UT	2010-11 (Rupees)	2011-12 (Rupees)	2011-12 % Growth
1.	Goa	168572	192652	14.28%
2.	Delhi	150653	175812	16.69%
3.	Haryana	94680	109227	15.36%
4.	Tamil Nadu	72993	84058	15.15%
5.	Kerala	71434	83725	17.20%
6.	Assam	30569	33633	10.02%
7.	Jharkhand	29786	31982	7.37%
8.	Manipur	29684	322284	8.75%
9.	Uttar Pradesh	26355	29417	11.61%
10.	Bihar	168572	192652	19.18%

Source: Handbook of Statistics on Indian Economy-RBI

The given table gives us the state wise per capita income comparison between 2010-11 and 2011-12. From the above figures we can see that the growth rates in per capita income of rich states are relatively quiet high when compared with the growth rates in the per capita incomes of the economically backward states in India.

Goa being the richest state shows a high increase in its per capita income rising from rupees 1,68,572 in 2010-11 to rupees 1,92,652 in 2011-12 which amounts to 14.28% growth in per capita income of the state. Similarly, Delhi shows a 16.69% increase, Haryana shows a 15.36% increase while Tamil Nadu and Kerala witness growth rates of 15.15% and 17.20% respectively.

However, the economically backward states in India are not witnessing the same level of growth in terms of per capita income with Bihar being an exception as it experienced an exorbitant growth rate of 19.18% from rupees 20,708 in 2010-11 to rupees 24,681 in 2011-12. All other states except Bihar witness very little or almost no growth. Assam grows by only 10.02%, Jharkhand by 7.37%, Manipur by 8.75% and Uttar Pradesh by 11.61%.

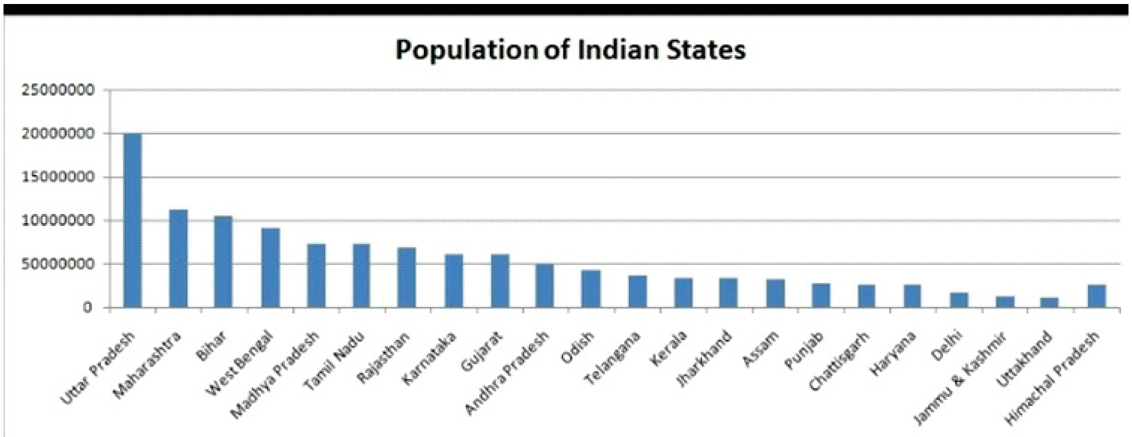
Hence it can be concluded from the graph that the divergence or difference in income between the states is constantly rising causing the rich states to become richer and the economically backward states to become poorer. The economically backward states are not progressing at the desired level and are unable to get in alignment with the rich states of India.

Effect of GST on Economically Backward States

In terms of taxation, a 'rich state' is a state which has a higher tax collection. In India most of the states which are less developed or poor are those which are not industrialised such as UP, Bihar, West Bengal, MP, Rajasthan, etc. they are not the producer or manufacturer states but are only consumers of goods and services. Since GST is a destination based tax which accrues to the consumer states of goods and services. In the earlier regime manufacturing states like Tamil Nadu, Gujarat, Maharashtra used to get benefit as their manufactured goods were sold to another states and since a lot of businesses are in these states, they are rich because all those businesses used to pay taxes to the originating state.

With the abolition of various indirect taxes and the introduction of new GST regime there would be a single market hence the consumer states would become the new beneficiary by getting GST on all their purchases of goods and service from other states.

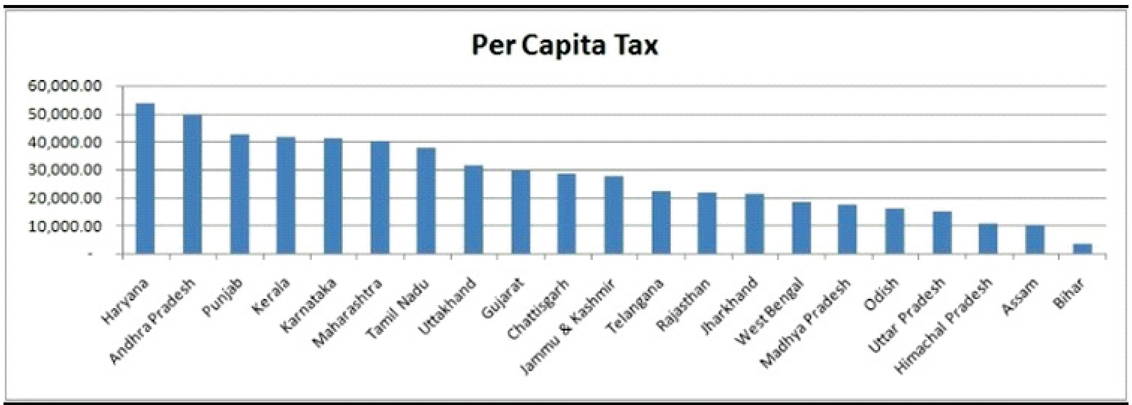
GST would make the tax collections in economically backward states rise as it is not a production based tax but is a consumption based tax. It has shifted the tax collection from going to the originating state in the previous scenario to tax collection going to the destination state in the present scenario in case of Inter-state sales because in a consumption based tax collection goes to the state where the goods are being consumed and not where they are produced.



Source: Handbook of Statistics on Indian Economy-RBI

According to this graph, look at Bihar for example, it has the third highest population in the country, but its tax collections are very low as compared to other states.

To get a more precise view of this examine the graph below which shows the per capita tax collection of states [tax collection divided by no. of people].



Source: Handbook of Statistics on Indian Economy-RBI

As shown in the graph the third highest populated state is Bihar which generates taxes of about Rupees 3000 per person on the other hand Punjab being one of the sparsely populated states generates taxes as high as Rupees 40,000 per person.

As we see here that the states having lower population pay more taxes than those states which have a relatively higher population. This means that states having more manufacturing plants, service sectors, trade and commerce will obviously pay more taxes because these states, rich as they are providing better facilities to businesses and better incentives to develop them. These states provide power, water, labour to industries which encourages them to set up plants over there. The rich states offer huge resources to the industrial and business sectors as seen from above. This encourages industries to set up their plants in these states which brings huge tax collection to the states from the industries. Large industrial units present in the rich states of the country automatically generate employment for a huge amount of labour force. This in turn causes huge amount of tax collection from rich states even though they are less populous. States like Bihar cannot do the same because they are not rich enough and their tax collections are low. Economically backward states cannot afford to provide good infrastructure to the industries, because of which industries can't be set up; which further pushes them down to poverty and results in no convergence in our country.

With the introduction of GST tax collection will go to states where consumption takes place. Goods and services which were previously manufactured in rich states and sent to economically backward states were taxed by rich states [say Gujarat government]; now the same Goods and Services will be taxed by poor state [say Bihar government].

Through the above analysis, we can say that in the long run economically backward states [say Bihar] will be able to provide better infrastructure to various industries and businesses. As a result, their will be further increase in the tax collections which will lead to further development. This will eventually result in the generation of employment opportunities and thus lead to increase in income of the people. Thus in the long run GST will lead to income convergence in Indian states.

Conclusion

The increase in tax revenue of economically backward states due to GST will lead to industrial development in these states. With development there would be more employment opportunities and will result in the increase in income of people thereby increasing the per capita income of the states. Hence, Convergence would take place.

References

1 Government of India. (2017). Income, Health and Fertility: Convergence Puzzles.Economic survey 2016-17 Retrieved from

https://www.google.co.in/url?sa=t&source=web&rct=j&url=http://indiabudget.nic.in/es2016-17/echapter.pdf&ved=0ahUKEwj4vMS_vKnYAhXEsY8KHWicB0EQFggmMAA&usg=AOvVaw3-J4nLrpV4YaUcyyAR4XSL

2 Government tax collection gets bumper start: India's first GST revenue of Rs. 92,283 crore explained. Business Today. (2017). Retrieved from

http://m.businesstoday.in/story/gst-effect-govt-tax-collection-gets -a-bumper-start-indias-first-gst-revenue-of-rs-92-283-crore-explained/1/259282.html

3 Clear Tax. What is GST? The Goods and Services Tax Law Explained. (2017). Retrieved from

https://cleartax.in/s/gst-law-goods-and-services-tax

4 Kanodia, M.The Convergence Hypothesis: Types and Paths | Economic Growth. Economicsdiscussion. Retrieved from

http://www.economicsdiscussion.net/economic-growth/the-onvergence-hypothesis-types-and-paths-economic-growth/15460

5 Reserve Bank of India (2017). Handbook of Statistics on Indian Economy. Retrieved from

https://m.rbi.org.in//Scripts/AnnualPublications.aspx?head=Handbook+of+Statistics+on+Indian+Economy

Understanding Reasons behind Farmers' Suicides with Special Emphasis on Returns to Cultivation and Bankruptcy

Vedika Bihani

B.A Eco II

Abstract

Suicides from farming sector constitute of 9.4% of total suicides in India. This percentage share shows growth in every annual report of National Crime Record Bureau. Poor returns to cultivation and lack of non-farm opportunities results in the low income of small and marginal farmers. The consumption expenditure of such farmers exceeds their total income, hence forces them to take debts. Indebtedness is the major reasons behind farmers' suicides. 38.7% suicides are caused due to this reason. Among such suicides those caused due to loans taken from Financial Institutions like Bank/Registered Micro Financial Institutions were found to be much higher than that of the informal sector. The percentage share of institutional credits only increases with the increase in land possessed. The other reasons contributing to higher incidences of suicides are farming related issues, family problems, illness, marriage-related issues, property disputes, etc. There is a need to urgently devise ways to increase returns to farm business and find an alternative to this business. There is also a need to decrease the cost of farming by further developing indigenous technology of farming. Villages are required to form SHGs to financially assist farmers or alternative cooperative financial resource pooling systems are needed to be developed.

Keywords

Farmers' suicides, financial institutions, profitability, cost, minimum support price

Objectives

1. To study the effect of reducing profitability on farmers' suicides
2. To understand the core reasons behind farmers' indebtedness.

Research Methodology

The study is mainly based on secondary data, from CACP website and GOI's reports.

Review of Literature

Dr. Vandana Shiva and Kunwar Jalees in their study 'Farmers Suicides in India' found that farmer' suicides are majorly accounted due to failure of institutional delivery of the credit to the farmer's. The paper emphasized upon reluctance of institutional mechanism to lend loans to the farmers, due to high risk of repayment involved. The authors of the paper highlighted the paradox that farmers repay loans to informal system despite high interest rates whereas become defaulters in the institutional credit system. This happens mainly because of uncertainty among farmers to receive loans again even if they repay the amount. The hardships faced by the rural agricultural sector to borrow money from formal sector makes them the defaulters. The paper also highlights the incidences of mounting NPAs due to industrial and corporate sector, which amounts far more than that of agricultural sector.

As the concluding note, the paper suggests better functioning of NABARD and creation of micro credit mechanism. This alternative combines the strength of the formal banking system with the reach and flexibility of the informal SHGs to make credit accessible to the rural poor. The paper has extensively studied state-wise reasons behind low farm income, which converts into indebtedness of farm sector.

Introduction

Agriculture plays a vital role in India's economy. 54.6% of the population is engaged in agriculture and allied activities (census 2011) and it contributes 17% to the country's Gross Value Added (current price 2015-16, 2011-12 series). A distinct slowdown in agricultural growth has been witnessed despite the acceleration in the Indian economy. Agriculture's contribution in national product has been declining, without a significant decrease in the number of people employed in the sector. This agrarian distress is manifested in form of suicide of farmers, particularly of the small and the marginal ones. The single largest and underlining reason behind farmers' suicide was found to be bankruptcy or indebtedness. This paper understands indebtedness as the symptom of a larger problem, therefore the cause of indebtedness is what calls for an urgent attention.

The declining profitability and increasing cost of production further push farmers into the debt trap and hence triggering them to commit suicide. Various reasons can be cited for decreasing profitability of the farmers such as insufficient facilities available, low productivity, outdated technology etc. The support systems for farming have weakened, public investments in agriculture have declined and institutions have become unresponsive. In the absence of any breakthrough in cost-reducing technologies, the rising input prices have made cultivation un-remunerative. The result is the manifestation of agrarian crisis, often, in the extreme form of distress that results in suicides by some farmers. Rs. 100000 is compensated to the family of the cultivator who commits suicide. This compensation amount often works as an incentive to these farmers to commit suicides. But, why does indebtedness effects farmers the most? Declining economic conditions of farmers are accompanied with a low flow of agricultural credit especially to the small and marginal farmers. Institutional credit mechanism has failed to reach and cater the demands of the farmers.

Reducing Profitability of Agricultural Produce

The source which yields the maximum amount of income is said to be the principal source of income. Agricultural households' principal source of income is cultivation followed by wage/ salaried employment. According to the 70th round of NSSO survey 63.5% of agricultural households are dependent on cultivation for their livelihood and 22% on wage/ salaried employment.

Majority of agricultural households depend on cultivation for their subsistence and returns from farm output is a major contributor to their total income. Reducing returns from cultivation is the prime reason behind falling income of agricultural households and hence resulting them to take debts. The proportion of the increase in returns is less than that of increase in factor input, hence reducing the profitability of farmers.

Table 1.1: All India Net Returns on actual estimate of Cultivation of Paddy for the years from 2008-2015

Year	Cost C2	GVO	Net returns Rs/ha	Percent	Change
2008-09 to 2010-11	33696.94	38741.11	5044.17	14.97	0
2009-10 to 2011-12	37733	42282	4550	12	-2.97
2010-11 to 2012-13	42441	46797	4356	10	-2
2013-2014	47547	53242	5696	12	2
2014-2015	53538	57803	4265	8	-6
Total Change					-8.97

Table 1.2: All India Net Returns on actual estimate of Cultivation of Jowar for the years from 2008-2015

Year	Cost C2	GVO	Net returns Rs/ha	Percent	Change
2008-09 to 2010-11	18800.44	19162.52	362.08	1.93	0
2009-10 to 2011-12	22996	24904	1908	8	6.07
2010-11 to 2012-13	27297	27227	-66	-0.2	-8.2
2013-2014	30546	29659	-887	-3	-2.8
2014-2015	32947	29474	-3473	-11	-8
Total Change					-12.93

Table 1.3: All India Net Returns on actual estimate of Cultivation of Tur for the years from 2008-2015

Year	Cost C2	GVO	Net returns Rs/ha	Percent	Change
2008-09 to 2010-11	26287.73	34193.94	7906.21	30.8	0
2009-10 to 2011-12	30327	38845	8518	28	-2.8
2010-11 to 2012-13	34012	39517	5505	16	-12
2013-2014	38593	46505	7912	21	5
2014-2015	42002	48586	6585	16	-5
Total Change					-14.8

Table 1.4: All India Net Returns on actual estimate of Cultivation of Groundnut for the years from 2008-2015

Year	Cost C2	GVO	Net returns Rs/ha	Percent	Change
2008-09 to 2010-11	32661.39	35061.52	2400.12	7.35	0
2009-10 to 2011-12	39754	44073	4319	11	3.65
2010-11 to 2012-13	49425	56513	7088	14	3
2013-2014	56913	63119	6206	11	-3
2014-2015	60758	66851	6092	10	-1
Total Change					2.65

Table 1.5: All India Net Returns on actual estimate of Cultivation of Sunflower for the years from 2008-2015

Year	Cost C2	GVO	Net returns Rs/ha	Percent	Change
2008-09 to 2010-11	14905.83	14086.64	-819.18	-5.50	0
2009-10 to 2011-12	18103	18651	548	3	8.50
2010-11 to 2012-13	22461	23613	1152	5	-2
2013-2014	23958	23579	-379	-2	-7
2014-2015	26027	24359	-1668	-6	-4
Total Change					-4.50

Table 1.6: All India Net Returns on actual estimate of Cultivation of Cotton for the years from 2008-2015

Year	Cost C2	GVO	Net returns Rs/ha	Percent	Change
2008-09 to 2010-11	42143.35	57454.83	15311.48	36.33	0
2009-10 to 2011-12	49439	651129	15689	32	-4.33
2010-11 to 2012-13	57666	70400	12734	22	-10
2013-2014	64931	74519	9588	15	-7
2014-2015	69664	73618	3954	6	-9
Total Change					-30.33

Profitability of the crops can be analyzed from the data tables given above. Profitability of all the Kharif crops has decreased over the span of seven years except Groundnut, whose total change in profitability is positive. Jowar has earned negative returns from the year 2010 and the fall in profitability of cotton is maximum. The proportion of increase in factor prices of input is more than the proportion increase in GVO, which results in declining net returns. Other than declining net returns high instability in returns to the farmers can also be observed from the above-mentioned data. Declining profitability may not necessarily result in negative income of the farmers, positive or negative income can be studied by drawing relationship between farmers' income and expenditure.

Table 2.1: Monthly Per Capita Income and consumption by Size-Class of Holdings, 2012-13

Size-class (hectares)	Income (Rs)	Consumption	Estimated number of agricultural households
<0.01	4561	5108	23857
0.01- 0.40	4152	5401	287381
0.41- 1.00	5247	6020	315008
1.01- 2.00	7348	6457	154810
2.01- 4.00	10730	7786	83964
4.01- 10.00	19637	10104	33519
10.00+	41388	14447	3499

The Table 2.1 (SAS, 2013) indicates that the monthly per capita income to a farmer household is much lower than the monthly per capita consumption expenditure. This holds for near landless, lower marginal, upper marginal, small and semi-medium farmers. Medium and large farmers have income higher than their consumption expenditure. About 83% of the total agricultural households spend on consumption more than their income. This class lies within those possessing less than 2.00 hectares of land. This is also the class to which institutional credit is least available.

From the above two analysis, it can be stated that there is a decline in profitability from cultivation to the farmers. Moreover, cultivation is the principal source of income of the majority of the farmers. Hence decline in profitability results in considerable fall in income of farmers. Furthermore, this income is insufficient to cover the consumption expenditure of such farmers, hence leaving negative balance with the agricultural households. This negative income leaves the farming class indebted. (Therefore two major reasons behind indebtedness of farmers are 1) poor returns to cultivation, 2) increasing factor cost.

Minimum Support Price

The minimum support price is a nodal policy of the Union Government to safeguard farmers from unstable prices of agricultural commodities. The price of agricultural commodities are inherently unstable due to variation in supply, lack of market integration and information asymmetry, a good harvest results in low agricultural prices, which in turn results in low produces. Such low produce creates supply constraints and a sharp rise in prices occurs. To counter this instability and safeguard farmers from low market prices MSP is announced before sowing season. This helps the farmers to wisely choose the crop to produce and take a decision regarding the type of fertilizers and pesticides to be used. There are 24 crops covered under MSP. This paper intends to discuss parameters where MSP has failed to fulfill its objective and led to low returns to the farmers.

Awareness about MSP

The major objective of this scheme is to help farmers make an intelligent choice about the crop that should be produced. Thus the proper implementation of the scheme can only ensure fulfillment of the objective. But, it was often observed that the either MSP was announced after the beginning of the sowing season or farmers weren't aware of MSP at all until they began sowing of seeds. In states such as Assam and West Bengal farmers were unaware of MSP both before and after sowing thus didn't benefit themselves from the scheme. Among those who were aware of MSP before sowing themselves made an effort to know about it. Therefore there was lack of information dissemination by the respective state in charges at all India level. The above said situation can be better understood by the following table.

Figure 3.1: Awareness of farmers on MSP of their crops

States	Total Farmers	% of farmers aware of MSP	Declaration of MSP before sowing	Declaration of MSP after sowing	Can't say
AP	80	100	1	99	-
Bihar	120	98	32	53	15
Gujarat	80	48	-	48	52
Karnataka	80	85	1	51	48
MP	160	90	-	72	18
Maharashtra	120	45	24	59	17
Odisha	120	68	-	-	100
Punjab	80	100	29	71	-
Rajasthan	120	57	22	38	40
UP	138	100	-	100	-
Uttrakhand	40	100	-	100	-
Total	1238	81	10	62	28

It may be seen from the above table that 81% of the farmers were aware of the MSP but among them only 10% knew about MSP before sowing the crop. It can be concluded, though farmers are aware about MSP but they do not take cropping decisions keeping MSP as an important criteria. This is major failure of the MSP scheme.

MSP and Cost

Minimum Support Price is determined using various factors, cost of production is the most vital determinant. Besides cost, the CACP (Commission for Agricultural Costs & Prices) considers other important factors such as demand and supply, price trend in the domestic and international Department of Agriculture, Cooperation & markets, inter-crop price parity, terms of trade between agricultural and non agricultural sectors and the likely impact of MSPs on consumers, in addition to ensuring rational utilization of natural resources like land and water. Thus, pricing policy is rooted not in 'cost plus' approach, though the cost is an important determinant of MSP.

Indian farmers usually have a weak bargaining power and are forced to sell the produce at the predetermined market price. Farmers are price takers and not price makers. To ensure that these farmers at least cover their cost of production and also earns decent profit MSP is set. Though according to the SAS, 2013 reports, of the total paddy and wheat growing farmers aware of MSP only around 20% of them sold at MSP. This was mainly due other reasons followed by procurement agencies not available. Some also received a better price than MSP but the number was very low.

The costs can be seen from three different perspectives A2, A2+FL and C2

A2 (Actual paid out cost)costs cover all paid out expenses in cash or kinds, that are the expenses incurred on fertilizers, seeds, chemicals, hired labors etc. A2+FL (Actual paid out cost-plus imputed value of family labor) cover all the cost under A2 plus the imputed value of the unpaid labor. C2 (Comprehensive cost including imputed rent and interest on owned land and capital) cost is more comprehensive, it includes interest on the fixed capital assets, on the top of A2+FL.

Table 3.1: MSP, Market Price and Projected Cost of Paddy, 2016-17

	Q1	Q2	Q3	Q4
MSP	1410	1410	1410	1470
Market Price	1491	1504	1535	1555
Projected Cost (C2)	1378	1378	1378	1378
% Returns at MSP	2.32	2.32	2.32	6.67
% Return at Market Price	8.20	9.14	11.39	12.84

Table 3.2: MSP, Market Price and Projected Cost of Tur, 2016-2017

	Q1	Q2	Q3	Q4
MSP	4625	4625	4625	5050
Market Price	7591	7999	6816	5570
Projected Cost (C2)	4314	4314	4314	4314
% Returns at MSP	7.20	7.20	7.20	17.06
% Returns at Market Price	75.96	85.41	57.99	29.11

Table 3.3: MSP, Market Price and Projected Cost of Groundnut, 2016-2017

	Q1	Q2	Q3	Q4
MSP	4030	4030	4030	4220
Market Price	4061	4071	4786	4176
Projected Cost (C2)	4300	4300	4300	4300
% Returns at MSP	-6.27	-6.27	-6.27	-1.86
% Returns at Market Price	-5.55	-5.32	11.30	-2.88

Table 3.4: MSP, Market Price and Projected Cost of Cotton, 2016-2017

	Q1	Q2	Q3	Q4
MSP	3800	3800	3800	3860
Market Price	4569	4509	4788	4887
Projected Cost (C2)	3920	3920	3920	3920
% Returns at MSP	-3.06	-3.06	-3.06	-1.53
% Returns at Market Price	16.55	15.02	22.14	24.66

From the above data tables, it is evident that returns at MSP of crops are very low and in some cases (cotton, groundnut) even below the projected cost. However, it was seen that the returns at market price were high except of groundnut. Besides low MSP, market prices of crops fluctuate on a daily basis and such unstable prices are major reason behind farm distress. In the above data fluctuation can't be observed as average data is used for calculation.

Agricultural Credit in India

Indebtedness is found to be the single largest underlying reason behind farmers' suicides, 38.7% suicides in farming sector are caused due to bankruptcy. In the year 2015, 4409 suicides were caused due to indebtedness out which 3807 were committed by the cultivators. Hence this can be said that highest suicides in the country due to indebtedness is committed by the farmers. Therefore credit distress effects farmers the most, why does debt effects farmers the most? The 70th round survey of NSSO revealed that about 52 percent of the agricultural households in rural India were estimated to be indebted, the average amount of outstanding loan per agricultural household was estimated approximately as ₹47000.

Sources of Loan

Table 3.1: Per 1000 distribution of outstanding loans by institutional sources of loan taken for each size class of land possessed

Size Class of Land possessed	Govern-Ement	Cooperative Socciety	Bank	Total	% of outstanding loan from institutional credit
<0.01	4	16	129	149	14.9
0.01-0.40	13	146	310	469	46.9
0.41-1.00	17	139	376	532	53.2
1.01-2.00	26	147	475	648	64.8
2.01-4.00	19	156	500	675	67.5
4.01-10.00	38	175	502	715	71.5
10.00+	11	143	635	789	78.9

It may be seen from Statement 3.20 that the share of institutional loans increases with increase in the size of land possessed. For the agricultural households belonged to the lowest size class of land possessed (i.e. possessing less than 0.01 hectares of land), only about 15 percent of the outstanding loans were from institutional sources (government, co-operative society, bank), whereas the share was about 79 percent for the households belonging to the highest size class of land possessed (i.e. possessing 10.00 + hectares of land).

Solution to the Problem

Major reason behind agrarian distress is indebtedness, this can be directly linked to farmers' inability to pay due to low income of farmers. Returns to yield in this sector is very low as the rise in input price is greater to that of rice in prices of agricultural produce. Along with rising input prices and reduced profitability, unawareness about MSP before sowing of the crop and low MSP over C2 costs are also primary reasons behind low farm income. In budget 2018-19 too Government has announced 150% MSP over the cost, but has not mentioned the type of cost it will take under consideration. There is an urgent need to take C2 cost as basis of calculation of MSP. Focus should be shifted to food processing industries to absorb the surplus of farm produce. As high produce leads to low returns and poor produce results in indebtedness. Imports of those agricultural commodities should be restricted, which has high surplus in the domestic market.

By definition, traders are agents who buy in one market and sell in another. The markets where they buy and those where they sell are separated either spatially or temporally, or both. An incident of spatial trade takes place when the trader buys form a producer at the local village market and sells to a wholesaler in a distant city market. Inter-temporal trade takes place when the trader buys at one time, say in the post-harvest period, and sells at another point of time, say in the pre-harvest period. In the first case, the farmer cannot reach the distant city market because of the lack of an appropriate network. In the second case, he cannot hold his stocks from the busy post harvest season to the lean pre-harvest season due to immediate cash requirements and lack of credit. So, in both the instances he has to depend on the trader, who in turn makes full use of this dependence to reap supernormal profits. Of course, such supernormal profits would not be possible if there were sufficient competition among traders. Unfortunately, in many Indian agricultural markets such competition is absent and markets are controlled by a small number of traders who manage to earn oligopolistic profits. Thus there is a need to build a uniform platform where such traders can either be eliminated or have minimal duty to perform.

According to RBI's report "Three main factors that contribute to agricultural growth are increased use of agricultural inputs, technological change and technical efficiency. With savings being negligible among the small farmers, agricultural credit appears to be an essential input along with modern technology for higher productivity. Agricultural credit is further needed to finance rising input prices and other farm expenses. Low returns to yield further pushes farmers to take loans, but the inability to pay such loans traps them into a vicious cycle and leads to suicides.

References

1. Government of India, (2013). Income, Expenditure, Productive Assets and Indebtedness of Agricultural Households in India. NSS 70th Round, 576 (70/33/3). Retrieved from *http://mospi.nic.in/sites/default/files/publication_reports/nss_rep_576.pdf*
2. Government of India, (2016). Evaluation Study on Efficacy of Minimum Support Prices (MSP) on Farmers, NITI Aayog, 231. Retrieved from *http://niti.gov.in/writereaddata/files/writereaddata/files/document_publication/MSP-report.pdf*

3. Commission for Agricultural Costs and Prices (CACP) (2016-17). Price policy for Kharif crops, The Marketing Season 2016-17. Government of India. Retrieved from *http://cacp.dacnet.nic.in/ViewQuestionare.aspx?Input=2&DocId=1&PageId=39&KeyId =574A, Narayanamoorth*
4. (2017). The Hindu, Why our farmers are killing themselves, 2017. Retrieved from *http://www.thehindubusinessline.com/opinion/real-reasons-behind-indias-farmer-suicides/article9503209.ece*
5. Ministry of agriculture and farmers' welfare (2016-17). Annual Report 2016-17, Government of India. Retrieved from *http://agricoop.nic.in/sites/default/files/Annual_rpt_201617_E.pdf*

Impact of Price Expectations in Agriculture

Sakshi Bansal

B.A Eco II

Abstract

Rising price volatility and the production-lag typically found in agriculture have resulted in price expectations having a significant impact on farmers' incomes. Of the two main expectation formation Hypothesis, while adaptive expectations is seen more prominently amongst Indian farmers and is also the cause behind the frequently observed cobweb phenomenon that leads to price crashes, rational expectations is obviously the optimal process. However, it is extremely utopian and far removed from Indian agriculture's realities of information deficiency and the lack of ability to process such information to arrive at accurate forecasts. The way forward is to reduce expectational errors by providing relevant information to farmers through comprehensive market information systems while simultaneously developing their understanding of the market, thus enabling them to productively use available information.

Keywords

Cobweb, availability of information, price expectations, rationality

Objective

This paper aims to give concise outlines of the adaptive and rational expectations Hypothesis and to examine the existence and implications of each in agriculture. It further aims to find trends of cobweb pattern in Indian agriculture and then goes on to examine the role of information in expectation formation.

Research Methodology

This paper is based on various published works of research, data made available by the Govt. of India and other secondary sources.

Review of Literature

Haile, Kalkuhl & Usman in their paper 'Market information and smallholder farmer price expectations' based on empirical research done on smallholder farmers in Ethiopia found that due to the production lag in agriculture that makes the role of information indispensable, farmers invest in gathering information and 'processing of price and other information, which they believe is a good predictor of prices at harvesting time. Identifying the information set that smallholders use, and modelling how this information set is utilised in their production decisions, hence is important.' They thus concluded that 'disseminating accurate and timely information, particularly on the current planting season cash prices of the nearby grain markets, would be critical in improving smallholders' price expectations' and emphasised the role government can play in establishing market information systems based on the farmers information sets.

Introduction

Expectations are essential in any economic model as they affect the outcome of the model. The assumptions regarding expectation formation for the various agents (firms, consumers, government) who are making economic choices, taking into consideration uncertain yet predictable variables in an economic model, determine what the model predicts. Thus, expectations influence outcome, but, the inverse is also true. The past values of a variable of interest determine an agent's expectations of that variable's future value. Till the 1960s, this was the main expectations formation model followed by economists. This type of expectation formation hypothesis is known as adaptive expectations but with the assumption that expectations are based *solely* on past values. Recent news reports show that bumper crops have led to price crashes in Indian agriculture markets displaying a trend similar to the cobweb model. The working of this model has, for its cause expectation formation by the farmers based on previous year(s) prices, i.e., adaptive expectations.

Adaptive Expectations

Under adaptive expectations, expected value of the variable of interest is equal to a weighted average of the past values of that variable, with the weights decreasing for less recent observations. The agent also accounts for a gap in the expected value and actual value (i.e. the current observed expectational errors) in his expectations for the successive period, by including an error term when forming expectations using past values. Thus adaptive expectations are also known as error-learning hypothesis. But the agents only ever incorporate a part of their error. Therefore, in light of expectational errors, they would revise their expectations to make their predictions more in line with the new trend observed, but this would take place slowly. The following equation represents adaptive expectations formation-

$$p_{tx} = p_{t-1} + \alpha(p_{t-1} - p_{(t-1)x})$$

where p_{tx} is the expected price for current period, p_{t-1} is the preceding period's actual price, $p_{(t-1)x}$ is the expected price for the preceding period and α is between 0 and 1, according to the weight given to the error term(p_{t-1} - $p_{(t-1)x}$). This equation contains only the preceding period's price but equations may contain values of several earlier periods' prices with different weights as per the agent's discretion.

However, adaptive expectations came to be criticized on the grounds that it does not conform to the assumptions of rationality and optimality in economic theory on the part of agents. A rational person would not ignore available relevant information with regard to an economic variable, nor would he not try to make accurate predictions about it. This is because he has strong incentive to do so in order to make optimal choices that are most beneficial to him, regardless of whether he is a consumer or a producer. Also, it is observed that in light of new information, agents revise their expectations quickly.

Rational Expectations

In response to these drawbacks, the rational expectations theory was developed by John F. Muth in 1961. It came to prominence in the 70s and 80s and since then has been the dominant theory used in almost all macroeconomic models.

According to Muth, "Expectations will be identical to optimal forecasts (the best guess of the future) using all available information". Rational expectations hypothesis assumes that the agent optimally uses all relevant information on the economic variable of interest to predict future values. The value that he so arrives at is the same as predicted by a relevant economic model. Thus this hypothesis believes the expectation formation process to deliver model-consistent expectations.

Rational expectation assumes all systematic (regular) errors to be eliminated. This implies that the expectations will be accurate other than when there is information impacting the variable which was unavailable at the time of formation of expectations. Thus, if it were to be assumed that complete relevant information was available, then the agent's expectations according to rational expectations hypothesis would be perfectly accurate.

But for the rational expectations hypothesis to work, there are two conditions that must be met-

1. Availability of all relevant information

2. Agent's ability to use this information optimally

Even with the progress in ICT, assuming availability of all relevant information would still be an extremity. As for the equivalence of agents' expectations to the predictions of economic models, this would require that the agent know the working of the economic model and be able to analyse complex economic relationships amongst various variables. Thus, this questions the ability of the agent to optimally utilize the information and arrive at the same predictions as a professional economist. It might be more realistic to assume that the point of no systematic errors is reached after a long learning process where the agent adapts to various deviations in expectations and results, making this a hypothesis that is fulfilled in the long run.

Existence of rational expectations may be questioned if equilibrium is not attained. Since this hypothesis promises optimal and accurate expectations on the part of all agents, it is only logical to assume that equilibrium must be attained as all decisions would be based on true future values of economic variables.

Agriculture and Price Expectations

Agriculture is characterized by a production lag- the time gap between sowing and harvesting. This implies that production decisions have to be made much before actual selling prices are observed, leaving room for a strong role of price expectations. Price volatility on the supply side may be driven by expectation errors or real shocks. The former would follow the logic of adaptive expectations and the cobweb phenomenon. The latter would imply rational expectations as in this case price dynamics are not caused by incorrect forecasts (rational expectations hypothesis assumes accurate predictions).

The Case for Adaptive Expectations

The case for adaptive expectations is built by the implausibility of the rational expectations hypothesis in Indian agriculture, for none of the two conditions for it can be considered satisfied. Complete information impacting prices is not available to the farmers and when majority of them are barely literate, they can hardly be expected to have the analytical ability to derive expectations even if the relevant information were available.

According to rational expectations, price dynamics are driven by real shocks. If so then market equilibrium would be restored itself and government intervention would be of no use. However as pointed out by Gouel (2016), “if we take account of all the potential market failures in agricultural markets, and especially in developing countries”, existence of rational expectations would not be a logical conclusion.

The Cobweb Phenomenon in Agriculture

The cobweb phenomenon refers to a price-production spiral, and explains cyclical movements in situations when production decisions are taken before prices are observed and production cannot be changed significantly before the completion of one whole period once production plans are made, a classic case found in agriculture.

Another assumption required for the cobweb model to work is that the supply decisions must be made on the basis of the preceding period's prices, i.e., the farmer expects the present prices to continue in the future. This is the kind of backward looking expectation formation behavior propounded in the adaptive expectations hypothesis. It also assumes that the prices are not regulated but are determined by demand and supply freely.

With these assumptions, the working of the model in agriculture can be explained as follows: if the price of rice increases in a year due to some external reasons, the farmers, expecting these high prices to continue, will have an incentive to increase production by diverting more of their land to growing rice as compared to other crops. However, they may increase production beyond what is warranted by the high prices, leading to a glut in the market. This will reduce the prices substantially, and the farmers, basing their production decisions on these current low prices, would reduce the acreage under rice leading to a shortfall in supply and consequent high prices. This cycle will be repeated and equilibrium may or may not be attained. The pattern these fluctuations trace resembles a 'cobweb'.

When adaptive expectations are introduced in the cobweb model, the farmers may not form future expectations based on only the past year's data as proposed in the traditional cobweb model, but, an average of previous two or three years' prices, plus the expectation error term.

Cobweb Phenomenon in Indian Agriculture

In Maharashtra, the prices of Tur crashed after production increased from 4.44 lakh tonnes in 2015-16 to 20.35 lakh tonnes in 2016-17. The cobweb phenomenon is evident by the fact that all-India WPI of Tur was a high 193.2 in 2015-16, with higher peaks during the year and in certain regions. Expecting these high prices to continue, farmers boosted production in the following year, leading to substantial price crash.

A similar trend was observed in red chillies in Telangana and Andhra Pradesh and grapes in Maharashtra. News of farmers dumping produce of onions by the roadside has been frequent as prices fell to a level that didn't even cover input costs. There are also instances when farmers do not collect back their produce from cold storage warehouses as the prices are so low that there is no point of incurring even the cold storage payment charges.

Table 1: Trends in WPI And Acreage For Tomato For The Last Six Years

YEAR	WPI	AREA (in '000 hectare)	% CHANGE INWPI	% CHANGE INAREA	AVERAGE OF LAST 2YEARSWPI
2011-12	100	907.1	-	-	-
2012-13	116.5	879.6	16.50	-3.03	-
2013-14	160.5	882	37.77	0.27	108.25
2014-15	160.6	893.7	0.06	1.33	138.5
2015-16	173.6	774	8.09	-13.39	160.55
2016-17	131.6	809	-24.19	4.52	167.1

Base year- 2011-12=100, Data source: data.gov.in

In Table 1, a very basic analysis has been attempted to find cyclical cobweb patterns in prices and acreage response for tomatoes. The average WPI of previous two years has been taken as the expected price for the next year. But the data does not convey any such trends. This might be due to effects of changes in demand controlling the prices, as even though sown area increased in 2013-14, prices rose substantially. Similarly, the decrease in cropped area in 2015-16 despite good prices in the past two years does not conform to the cobweb model and is likely to have a different reasoning.

However, price crashes in the case of tomatoes have been observed in the states of Karnataka and Telangana. In the time span of a month, prices fell from ₹15 per kg to ₹2 per kg in Karnataka and in Telangana, the high price of ₹10,000 per quintal of 2016 fell to just ₹2,500 in the following year due to a bumper harvest. Thus, the cobweb phenomenon has been observed regionally and in short time spans. But due to high spatial variations in prices and wide fluctuations in the prices during a year being averaged out in the all-India annual data as studied in Table 1, it is harder to observe the cobweb effects on a large scale. But that does not in any way reduce the significance of the impact. In fact, the hardest hit by these short period and regional price fluctuations are the smallholder farmers who do neither have storage capacity nor the means to sell in faraway markets.

Public Intervention

"If price volatility is caused by a failure to forecast next period market conditions, future scarcity is not driving resource allocation and the state of the economy could be improved through public intervention." (Gouel 2016)

Thus, when there are errors in price expectation as in the case of adaptive expectations that lead to a cobweb effect, producers' incomes can be stabilized and protected through intervention by the government.

Stabilization policies must be formed after analyzing the reasons for price fluctuations and the costs of stabilization. Trading and stocking up are the two options to stabilise supply and by extension, prices. Stocking up is considered a costlier option and opposed by advocates of free trade. But the transportation and storage costs of procurement can be avoided by paying the farmers the difference between the market price and the MSP, as is being done in Madhya Pradesh through the Bhuvantar Bhugtan Yojana.

Price stabilization is the cure after the prices have crashed, but, in the cases where price volatility is due to incorrect price forecasts, the need for stabilization policies can be removed by eliminating the root cause, i.e., expectational errors.

Information and Price Expectations

In order to minimize expectational errors, first a conclusion needs to be drawn regarding the expectation formation process.

Haile, Kalkuhl and Usman (2015) in their survey on smallholder farmers in Ethiopia found that farmers used information on past and current prices in local markets, the central wholesale prices as well as information on rainfall to form their price expectations. Moreover, a farmer with limited means preferred to find prices at the time of sowing rather than the last season's harvesting prices. These were the results even with the farmers being surveyed having low literacy levels.

This combined with the results from Table 1, show that both adaptive expectations and rational expectations are extreme assumptions. While the all-India annual statistics didn't show much evidence of adaptive expectations in the form of cyclical cobweb patterns, there has been evidence of adaptive expectational behavior at the regional level causing farmers substantial losses. But while adaptive expectations are obviously largely inaccurate, rational expectations seem unrealistic and utopian. What is required is "*making correctness* (of expectations) *a function of available information and skill level*"[6] ?

Expectational errors can be reduced by expanding availability of relevant and timely information. Studying farmers' information set, i.e., which variables farmers take into consideration while forming expectations and the sources of information used, will help in recognizing the areas in which information provision to farmers needs to be upgraded.

Conclusion

A comprehensive system is required to enable the farmers to 'know what to grow'. Such a system must have a two pronged approach- quick access to relevant and accurate information, and building the farmer's ability to productively use such information. Ultimately, we must enhance the farmer's understanding of the market through a market intelligence service suited to India's progress in ICT.

The problem of excess production can be overcome with the help of B2B links amongst farmers. A platform consisting of farmers is required whereby the current sown area under a crop can be known at regional levels as against estimated demand of the same. Thus regional glut and price crashes can be avoided by preventing excess planting itself of any particular crop.

Information accessed at the time of sowing must stay relevant at the time of marketing the produce. For this it is essential that the government make long term plans and policies for effectively maintaining price stability and ensure good prices at the right time. In 2016, despite excess domestic production of pulses, imports of pulses was still allowed, and, in 2017 import duty on soyabean was hiked *after* the farmers' produce had already been sold. Thus policy decisions such as import tariffs that impact agricultural prices significantly must be made with a view to maintain price stability.

In Rajasthan and Gujarat the governments have taken the initiative to release market outlook forecasting reports of major crops before the sowing season, to provide information on prices.

ITC's agribusiness division provides information services to India's farmers free of cost through 6,500 e-Choupals (Internet kiosks). Presently operating in 40,000 Indian villages, these kiosks are hubs where farmers can obtain price information; seek options for selling their produce etc.

Such efforts, by both the government and the private sector are required as delivery of information comes with the reality that this process cannot be universalized for a nation with a huge and diverse farming community. Thus, efforts by many are required to cater to various levels of ability of data processing, identifying the information sets and consequently developing appropriate points of access.

Despite all efforts towards accurate forecasting, it remains to be seen whether it leads to optimal decision making. Theoretically, the rational behavior of agents requires them to make the most profitable production decisions. But, yet again, this utopian view of rationality ignores the different levels of understanding of common agents who are not aware of the economic model.

References

1. World Bank (2011). ICT IN AGRICULTURE Connecting Smallholders to Knowledge, Networks, and Institutions. 64605. Retrieved from *http://indiagovernance.gov.in/files/ict_in_agriculture.pdf*
2. Christophe Gouel (2012). Agricultural price instability: a survey of competing explanations and remedies, Journal of Economic Surveys, Wiley, 2012, 26 (1), pp.129-156. Retrieved from *https://hal.archives-ouvertes.fr/hal-01001218/document*
3. Ramesh Chand and Jaspal Singh (2017). The Indian Express, Food for Reform. Retrieved from *http://indianexpress.com/article/opinion/columns/indian-farmers-food-prices-inflation-indian-economy-food-for-reform-4898307/*
4. Mishkin and Frederic S., The economics of money, banking and financial markets, 2011.Retrieved from *https://spu.fem.uniag.sk/Marian.Toth/finance/20142015/MBFM.pdf*
5. Haile, Kalkuhl and Usman (2015). African Journal of Agricultural and Resource Economics, Market information and smallholder farmer price expectations. Volume 10 Number 4 pages 297-311, 2015.Retrieved from *https://ageconsearch.umn.edu/bitstream/229811/2/3%20%20 Haile%20et%20al.pdf*
6. Lyman Mlambo(2011). Adaptive and rational expectations hypotheses: reviewing the critiques. ISBN 978-0-321-58471-7. Retrieved from *http://ijeb.faa.ro/download/459_MLAMBO.pdf*
7. Thomas J. Sargent (2008). Library of Economics and Liberty, Rational Expectations. Retrieved from *http://www.econlib.org/library/Enc/RationalExpectations.html*

Privatization of Indian Railways

Vaishnavi Agarwal – *B.A Eco II and*

Mercy S Philip - *B.A English II*

Abstract

At present Indian Railways (IR) is amongst the largest rail networks of the world. Rail transport structure is linked with all the major cities of the country. Rail transport system is aiding movement of the people with the lowest fare and the source of transportation from big cities.With the pressing need for greater incomes and foreign capital, superior service quality requirements and need for well-built infrastructure facilities, privatization of the Indian Railways has become a necessity. Numerous efforts have been made in the past to involve the private sector in cargo trains, terminals, warehousing facilities, catering facilities, and other rail infrastructure through contracts framed by the rail ministry, whereas the public sector struggles to uphold the required infrastructure.

Keywords

Privatization, foreign capital, lowest fare, national resource.

Objective

The aim of this research is to discuss the issues compelling privatization of Indian railways and options available for improving efficiency without allowing the national resource go out of the hands of the government and maintaining the reasonably priced rail charges.

Research Methodology

The study is based on the secondary data collected from various research papers, published and unpublished reports of various reputable economists.

Review of Literature

Dr. Desh Gupta: He examined the causes that resulted in the turnaround of the Indian Railways from a low performing department to a high performing one.

Karan Kumar: In his research paper, he mentioned startling facts about IR and a critical analysis of government's policy.

Madhu Ranjan Kumar: He talked about the management of overall quality maintenance as the basic transformation of Indian railways.

S. Sriraman Partnership like public-private partnership would go a long way in giving rise to a more optimal modal split when viewed from the perspective of the economy. Though a small beginning has been made by giving licenses to private parties to run container trains, the complementary nature of the relationship between the two modes needs to be promoted.

Introduction

Privatization refers to the involvement of private influences in businesses and services and redirects the ownership from the public sector (or government) to the private sector as well. It is seen as the most efficient means of improving economic problems in developing countries. India is a mixed economy with both the private sector and the public sector performing various activities in accordance with regulations. But the public sector is affected by inefficiencies and incompetence in a non-sustainable manner.Owing to economic crisis and pressure from World Bank and International Monetary Fund, in 1991, India's ninth prime minister from Indian National Congress, Narasimha Rao altered the economic policy and began privatizing government companies, beginning from Bharat Aluminum Company, Bharat Sanchar Nigam Limited, few airports like Delhi airport, Mumbai, Hyderabad and Bangalore to Maruti Udyog.

But sometimes privatization would just create a private monopoly which might seek to set higher prices which exploit consumers. Private sector focuses more on profit maximization and less on social objectives. Thus this paper intends to analyze the present status of privatization in Indian railways and how deep the private stakeholders and enterprises should be involved in Indian Railways, which not only provides employment to over 1.54 million people, making it the seventh-largest employer in the world but also commute 13 million people from one part of the country to another every day.

The Beginning

If it was the trade of iron and steel or, it was the trade of cotton, among other things that impelled the railway age in India with the journey of the first ever passenger train in India between Bombay (Bori Bunder) and Thane on 16 April 1853. Railways were the most important infrastructure development in India from1850 to 1947.As the twentieth century progressed, railways became a force for independence and democracy. Railways are the only sector which flourished and benefitted from the colonization of India inherited a total of 55,000 km of British Indian railways, with about 40 percent of the railway line passing through Pakistan.

Indian Railways, which has become the lifeline of the nation, has since then been an integral part of the nation for transport and trade. The first fifty years of Indian Railways was an exhilerating task which covered one of the most ambitious projects in India- Connecting the massive subcontinent, so that transportation becomes easier and less time consuming and integrate markets to increase trade.

Privatization of Indian Railways: An Overview

.The Indian Railways is considered the backbone of the nation and, hence, the responsibility of carrying the economy on its shoulders lies on the shoulders of railways and the ones who are maintaining it. According to the IMF, India's growth is expected to rebound to 7.2% in the 2017–18 fiscal and 7.7% in 2018–19 and hence there is the immediate necessity of upgrading and improving rail infrastructure of our country.The creation of world-class infrastructure would require large investments in addressing the deficit in quality and quantity. Public-Private Partnerships (PPPs) are an inventive mode of conveying modern, high-class public services and stimulating the country's competitiveness.During 2002 and 2014, 8 port connectivity projects worth about Rs. 3153 crore were implemented. These covered the linking of Mundra Port and Pipavav- Surendranagar, Hassan- Mangalore, Gandhidham-Palanpur and Bharauch-Dahej gauge conversion projects.Hyderabad Metro Rail Project (Telangana) and Mumbai Metro (Charkop-Bandra-Mankhud corridor) are some of the projects of PPP cell.

Condition of Indian Railways

The railways in India are the largest rail web in Asia and fourth longest in the world, is owned and operated by state-owned Indian Railways and includes an operating route length of more than 65,000km.With a huge workforce of about13,07,000, it runs almost 22500 trains every day, including 9212 passenger trains railways is surrounded by numerous reasons which inhibit its development.

- **UnfavourableGeographical Conditions**

Some regions like hilly region, deserts are beyond the reach of railways due to unfavourable geographical conditions. As railways are the 'lifeline' of the nation connecting each part of the country thus government should work upon this area such that construction of railways can be made feasible in these places and to eradicate regional inequalities in economic growth.

- **Outmoded Technology**:

Due to increase in population and railways being the most convenient way of the traveling explosion in the number of passengers severely oppressed the ripen railway system, which had been constructed to a fairly low standard. As the conclusion, Rail accidents have not been a rare case in our country. It's congested as well as untidy. Observers say successive governments, uninterested to take hard steps to face its perpetual list of issues, have hampered the growth and development of Asia's oldest rail network. According to a 2012 government panel report, over 40% of accidents occurred due to the failure faced by railway staff in India. It has also been observed that between 2006 and 2011 a rising number of accidents were generally because of wreck and sabotage. It has been known that the government of India in their initial years have “Tried” to modernize the Indian Railways, it is unfortunate that the Country is still stepped behind from a developed technology Railway System.

- **Political Pressures:**

The ultimate curse for a democracy is the coalition government, it is a monotonous milestone to align coalition government & satisfy its allies.*Politicians* are detained at the elections, for how they have gratified the voters. So the major ruling party is willing to conduct any level of task in order to conciliate their coalition partners. The saddest part is that Railway is the most vulnerable to these voters. Predictably it has a grievous influence on both functioning and administration of railways.

A regional politician who had served as railway ministers during consecutive coalition governments had used their finances to endorse to their localized political constituencies, declaring projects that have economic or commercial sustainability.

- **Safety** - Indian Railways have been in the news bulletins for erroneous causes. With the rapid increase in passenger and goods traffic, the frequency of train accidents is increasing rapidly. This has raised serious doubts in the public mind about the safety of Rail travel and the general health of the railway network.

In highlights of the last few train accidents in Uttar Pradesh (UP), here is the presentation of some details around accidents and safety measures in the Indian Railways. The number of rail accidents has gone down from 325 in 2003-04 to 106 in 2015-16. In 2015-16, more than half of these unfortunate incidents were caused due to derailments (60%), followed by accidents at level crossings (33%). In the last decade, rail tragedies caused due to both these reasons have reduced by about half of the initial. According to known news reports, because of the derailment of coaches, the recent railway accidents UP occurred. According to the Khanna Railways Safety Review Committee Report, nearly 25 percent of the total railway track in India is overaged and is due for replacement.

The recent spirals of rail accidents have resulted in the loss of people's life close to the count of 200. Statistics on the Indian Railways' website indicate that thousands of people die every year due to other rail causes such as level crossing, over-crowding in trains, etc.

From the time of independence, while the rail network has risen up by 23%, passenger and freight traffic over this network have also gone up by 1,344% and 1,642% respectively. This advice that railway lines are severely congest

Merits of Privatization

- Privatization indeed is beneficial for the growth and sustainability of the state-owned railways. The advantages of privatization can be perceived from the following points.
- Even though the state has a will to modernize and make massive investments in the sector, it doesn't have the money. Privatizing railways would bring in the much-needed investment and capital.
- PPP projects in railways have given pace for creative and innovative thinking for the development as well as systematic and strategic planning to realize the full potential of the economy.
- Privatization will also help the government raise funds through taxes and other in

train services offered by IRCTC already. Thus these funds can further be used for the development of the infrastructure and maintenance of railways.

- If private parties are allowed to invest in railways. Quality of train coaches and facilities may improve due to the competition among various operators.
- If the power of Railways is shared between the state and the private enterprises it will help to control corruption in the sector which will ultimately escalate productivity and consequently improve the profits. This can also ensure control the price hike and keeping the rail fares under check.

Limitations of Privatization of Indian Railways

- Privatization regardless of the abundant welfares it provides to the state-owned enterprises, there is always another side to the coin. Following are the major setback of privatizing Indian Railways.
- Privatization intensifies price inflation in general as privatized enterprises do not enjoy government subsidies after the deal and the burden of this Inflation affects the common man. Thus these capitalist economies can rise up in the market of train operations and citizens can suffer from the burden of unexpected expense on rail traveling.
- Previously Indian Railways had made numerous endeavors to rope in private association in areas such as catering, wagon ownership and leasing and joint ventures for rail Infrastructure projects. But this has given aid to the corruption and prohibited ways of acquiring licenses and business between the government and private dealers'.These efforts were, nonetheless, limited in measure and scope.
- IR has always given utmost importance to the annihilation of corruption and has been given emphasis on improving transparency to address consistent complaints and allegations against service delivery in the public, however, there is lack of transparency in private sector as common men do not get the complete information about the functionality of enterprise.

- Privatization loses the track with which the enterprise was established and profit maximization becomes sole agenda consequently encouraging malpractices like serving low-quality food in trains, elevating the hidden indirect costs, price escalation of construction rail tracks and bridges etc.

Conclusion

After the economic liberalization in India, policymakers and the government have shed their inhibitions and uncertainties about privatization and have formulated liberal reforms to disinvest the huge capital investment in PSUs and enhance the efficiency and profit generation of the state-owned enterprises. Thus it is found that private ownership alone does not automatically generate economic and employment gains in developing economies; pre-conditions (especially the regulatory infrastructure) and the process of privatization are important to attain a positive impact. Such factors include well-designed and sequenced reforms; the implementation of complementary policies and its effect on the common man; the creation of monitoring capability; consideration to poverty and social impacts; and strong public communication; a list which is often challenging in developing countries.Ensuring privatization is believed to prove as a benefit for the Railways. If handled judiciously it can help in improving the condition of one of the largest railway networks.

References

1. Prabhu, S. (2017). No privatization for Indian railways. The Times of India. Retrieved from

   https://timesofindia.indiatimes.com/business/india-business/suresh-prabhu-no-privatisation-of-railways/articleshow/58394424.cms

2. Kousadikar, A. and Singh, T.K. (2016). Advantages and Disadvantages of Privatisation in India, International Journal of Advanced System and Social Engineering Research. Vol 3, Issue 1, 2013, pp18-22. Retrieved from

   https://bipublication.com/files/ijaser-v3i1-2013-04.pdf

3. Bahri, C. (2017). 40% of Indian Railways' tracks used beyond capacity: Overworked tracks make train travel unsafe. Retrieved from

   http://www.firstpost.com/india/40-of-indian-railways-tracks-used-beyond-capacity-overworked-tracks-make-train-travel-unsafe-3365066.html

4. Parry, S.A. and Kadakol, Dr. A.M. (2017). Should Indian railways be privatized? International Journal for Advanced Research. ISSN: 2320-5407. Retrieved from *http://www.journalijar.com/uploads/504_IJAR-14042.pdf*
5. 24 Coaches (2016). Indian Railways: Facts and Figures.Retrieved from *https://24coaches.com/indian-railways-facts-and-figures/*

Commercialisation of Healthcare

Kritika Garg and Kishori Pareek

B.A Eco I

Abstract

India is a developing country, where most of its people possess a lower middle income. As we know, India is a Democratic country, where we choose our representatives; therefore, we expect our leaders to provide us with the best possible services. Although the Government is working hard to land up to the expectations of the people, due to the shortcomings in the system (corruption, middlemen, etc.), the Government is unable to render its services in an effective and efficient way. Due to the inefficiency of the Government, the Private sector has risen and has sharply taken over as the sole provider of the services. Following the introduction of the policy of L.P.G in the 1990s, there has been a gradual shift in the provisions of public goods, like Health and Education, to its private counterparts. The concept of segmented medical care was given in the World Development Report – offering private, market-oriented, better quality health care for the rich. This paved the way for the Private sector to enter into the Healthcare industry. As a result, the government expenditure on health care declined rapidly. The healthcare system in India consists of the public sector, private sector, and an informal network of care providers.

The current Doctor-Patient Ratio in India is as bad as 1:1,647, which shows the lack of public health facilities in India and the reason for the emergence of private healthcare centers.

Keywords

Privatisation, public health care, current situation, Indian health care system

Objectives of Study

1) Whether Privatisation should be done or not?

2) Suggested measures for better health delivery in the country.

Research Methodology

The source of data and stats used in the following research analysis have been obtained from various Secondary Data Sources- such as research papers, various articles, Blogs, and surveys done by various institutions and organizations of the government.

Review of Literature

A lot no. of researches have been done on the topic- Whether commercialization of healthcare should be done or not? Most of the researches on this topic support the public healthcare sector by suggesting an improvement in the public healthcare services. "Rama Vaidyanathan Baru" in his researcher paper "Privatization of Healthcare in India" suggested that the country needs an all-India service of public health workers along the lines of the system of Tamil Nadu, which is observed to be the best in the world. He's of the opinion that, while the middle & the upper middle class can choose to use either the public or the private services, the poor may not be in a position to do so. This calls for the policy of public provisioning & regulate the private sector. In addition, the public insurance schemes can be given a serious thought to remove the inequalities.

"We need doctors, we need nurses, we need community health care workers, and we need a multilayered health workforce".

An article published in "Hindustan Times" under the title "National Health Policy must not push Privatisation of Healthcare" written by "Soumitra Ghosh" also suggested that the additional funds should not only go in maintaining the current health system, with its skewed spending choices. The Indian spending has often favoured treatment at hospitals only in large cities over more widely available basic and preventive health. The reports also suggested that 70% of the public spending should be done on primary care. The reports also suggest that the doctors should be paid adequately for what they do and they should also be given incentives in the public sector.

Introduction

The Healthcare sector in India is facing unparalleled challenges in the recent times with the increasing competition and partial privatization of the industry. The healthcare sector in India is operated by the 3 basic owners in the industry - namely "the Government or the Public sector", "the Private sector", and "the PPP model (Public-Private Partnership)".

This research paper gives a complete analysis of the healthcare sector of India with the main problem resting with the Public sector, which deals with the lack of professional doctors and nurses in the country, and the ultimate solution lying in the success of the Joint Ventures or The Public-Private Partnerships, giving an overview of the same.

Main Content

1. Privatization of Healthcare:

Private Healthcare or private medicine is healthcare and medicine provided by entities other than the govt. People are no longer satisfied with general panaceas for their ills. A large no. of people prefer to have their conditions diagnosed with the help of available and latest technologies. A privatized system can provide better nursing and allied services. In private health centers, you will be prioritized by your doctor, when you're getting sick, this is known as "As soon as possible treatment", however, this is beneficial for those who have no time but enough money to afford their healthcare services. You can choose your own physician, the most advanced equipment to treat you, and other things that can make sure that you'll stay healthy. Private healthcare facilities are you usually well-maintained with private wards, private bathrooms, phones, televisions, and better quality food. Privatization has helped improve health services- their type, scope, quality, and consequences. Private healthcare services continue to flourish since they provide curative and rehabilitative services that the State does not provide. Private facilities are fast to adopt new and innovative treatments and testing methods and offer them to privately insured patients. Private facilities will provide with the peace of mind that comes with knowing you will always get the care you need when you need it, in a comfortable and personalized setting. India's health spending (4.1% of GDP) is much lower than the spending of organizations for economic cooperation and development (OECD) member countries. The private sector can bridge the investment deficit and improve the efficiency and outreach of service delivery.

On the contrary, the economically deprived are bound to suffer in a private health system. Privatization develops an arena of unhealthy competition among those in the field because the ultimate objective is not only to earn but to earn more than others. Privatization leads to a steep rise in health expenditures, cost of medical consultations, drugs and devices, medical tests, and hospitalization. Promoting healthcare as a consumer service and product is both, unhealthy and risky. Because of the pressure to make profits, many private doctors, hospitals, and diagnostic centers promote treatments in order to recover their initial investment costs. The general decline in standards of medical education and research in most Indian medical colleges can be partly attributed to Privatization. Running private medical colleges is lucrative, but the standards of education have fallen especially at the undergraduate level since the primary motive is to make money. Privatization has undoubtedly improved the quality of healthcare and widened its scope, but has created a no. of problems in the Indian society because "private medical practice has become a profession, where everyone involved has to earn, and only earn!!"

2. Public Health Care System:

The public health system in India comprises a set of state-owned health care facilities funded and controlled by the Government of India. Some of these are controlled by agencies of the Central government while some are state-owned. The government has made health a priority in its series of five-year plans. The first ever policy laid by the government focusing on healthcare was the National Health policy endorsed by the Parliament, which aimed at universal health care coverage by 2000, and the program was later updated in 2002. In order to address the lack of medical coverage in rural areas, the government launched the National Rural Health Mission in 2005 focusing the resources on rural areas and poor states which have weak health services in the hope of improving health care in India's poorest regions. Lack of adequate health coverage by the public health system in India (which can be seen with the doctor: patient ratio being 1:1,647, there's only one government hospital bed for every 2,046 people and, one state-run hospital for every 90,343 people) results in many Indians to opt for private healthcare providers, although this option is generally inaccessible for the poor. It is a matter of routine that the patients share beds and the doctors are overworked. According to the World Health Organisation the healthcare workforce of India is quackery reporting that only one out of five doctors in rural India is qualified to practice medicine (According to WHO report, published in 2016, said 31.4% of those calling themselves allopathic doctors were educated only up to class 12, also 57% practitioners didn't have any medical qualification, showing the lack of medical workforce in the country).

On the contrary, the public healthcare system provides a medical base for a large proportion of the Indian population as it's affordable for the population of a country where most of its people live below the poverty line by providing them with free medicines and cheaper services against the sky-high prices of the private hospitals.

3. Current Situation:

The healthcare system in India is one of the largest sectors of both employment and revenue generation. This sector has grown at a compounded annual growth rate of 16.5%. This significant growth within the healthcare industry has been facilitated by a rapid privatization of healthcare. Multiple surveys conducted across India show a preference for private healthcare delivery, both in rural and urban areas. The 71^{st} National Sample Survey (NSS) conducted during January- June 2014, found that out of the total hospitalizations cases in rural areas, 42% were in Public hospitals, and 58% in private. The shares of the same in urban areas were, 32% in public, 68% in private. This clearly depicts a decline in the share of public hospitals in treating patients. This bleak situation in the country has resulted due to excessive shortage of highly qualified doctors (it was reported that the country needed more than 700,000 but medical universities could only produce 30,000 doctors per annum), also the main motive of the government is not “profit maximisation” but “social welfare”, therefore, doctors shift from public to private for better earnings.

It is estimated that 15% of India's population still has no access to healthcare services, either due to lack of availability or due to economic reasons. Moreover, 75% of the qualified doctors practice in urban areas and 23% in towns, while only 2% practice in rural areas.

According to booming medical tourism in India by RNCOS, India's share in the global medical tourism industry has reached around 3% in 2013, which gives a boom to the private health care system as the Private hospitals in India charge much less than those abroad.

“The Indian health sector operates in a largely unregulated environment, with minimal controls on the type of services to be provided by whom, at what cost, and in what manner…!”

Conclusion

Foreseeing the problems and shortcomings of the public healthcare system, and the advantages of opting for a private healthcare system, we come to a conclusion that a combination of the services of the private healthcare system, and the welfare motive of the public healthcare system should be opted in the form of "Public-Private Partnership (PPP)", in order to achieve maximum health delivery in the country.

PPP is a collaboration between the public and the private sector that enables fulfillment of certain common goals by overcoming the visible limitations. Based on studies and the sample surveys conducted, the government has the pivot of framing health policies and programmes specific to the requirement of each country. PPP in context of the health sector is an instrument for improving the health of the population. PPP is to be seen in the context of viewing the whole medical sector as a national asset with health promotion as a goal for all health providers, private or public. The private and Non-profit sectors are also very much accountable to overall health system and services of the country. Therefore, synergies, where all the stakeholders feel they're part of the system and do everything possible to strengthen national policies and programmes, need to be emphasized with a pro-active role from the government. Some of the successful PPP experiences in India are:

1) Contracting in Sawai Man Singh Hospital, Jaipur:

The SMS Hospital has established a lifeline fluid drug stored to contract out low cost, high-quality medicine, and surgical items on a 24-hour basis inside the hospital. The agency to operate the drug store is selected through bidding. The successful bidder is a proprietary agency and the medical superintendent is the overall supervisor in charge of monitoring the store and its functioning. The SMS Hospital shares resources with the drug store such as electricity, water, etc. The contractor provides all staff salaries, distribution of medicine, etc. The SMS Hospital provides all medicines to the drug store, and the contractor has no power to purchase or sell medicines himself. The contractor gains substantial profits, could expand his contacts, and gain popularity through LLFS. However, the contractor has to abide by all the rules and regulations, as given in the contract document. The SMS Hospital has also contracted out the installation, operation, and maintenance of CT Scan and MRI services to a private agency. The agency is paid a monthly rent by the hospital and the agency has to render free services to 20% of the patients belonging to the poor socio-economic categories.

2) Emergency Ambulance Services Scheme in Tamil Nadu:

The Government of Tamil Nadu has initiated an emergency ambulance services scheme in Theni district of Tamil Nadu in order to reduce the maternal mortality rate in its rural areas. The major cause for the high MMR is an on-medical cause-the lack of adequate transport facilities to carry pregnant women to health institutions for childbirth, especially in the tribal areas. This scheme is part of the World Bank-aided health system development project in Tamil Nadu. Seva Nilayam has been selected as the potential non-governmental partner in the scheme. This scheme is self-supporting through the collection of user charges. The government supports the scheme only by supplying the vehicles. Seva Nilayam recruits the drivers, trains the staff, maintains the vehicles, operates the program, and reports to the government. It bears the entire operating cost of the project including communications, equipment and medicine, and publicising the service in the villages, particularly the telephone no. of the ambulance service. However, the project is not self-sustaining, as the revenue collection is lesser than anticipated.

“Therefore, we suggest that the country should opt for more and more joint ventures as it would be beneficial for both, the private sector as well as the government, also we'll be able to achieve the enormous task of health delivery.”

References

1. Mukhopadhyay, A. Public-Private Partnership in the Health Sector in India. Retrieved from
   http://unpan1.un.org/intradoc/groups/public/documents/apcity/unpan047037.pdf
2. Akinci, F. (2002). Privatization in Health Care: Theoretical Considerations and Real Outcomes, Journal of Economics and Economic Education Research, Volume 3. Retrieved from
   http://www.alliedacademies.org/articles/privatization-in-health-care-theoretical-considerations-and-real-outcomes.pdf
3. Public-Private Partnerships in India, KPMG. IBEF.Retrieved from
   https://www.ibef.org/download/PublicPrivatePartnership.pdf

4. Ratnika Sharma (2012). PPP is the way forward to improve healthcare in India: McKinsey.Retrieved from

http://www.downtoearth.org.in/news/ppp-is-the-way-forward-to-improve-healthcare-in-india-mckinsey-39883

5. Healthcare System in India. International Student Insurance.Retrieved from

https://www.internationalstudentinsurance.com/india-student-insurance/healthcare-system-in-india.php

6. Bhattacharjee, A. and Mohan, D. (2017). India's Healthcare System Is Becoming More and More Unequal, The Wire. Retrieved from

https://thewire.in/featured/india-healthcare-system-inequality

7. Jindal, S. (1998). Privatisation of health care: new ethical dilemma. Indian Journal of Medical Ethics. Vol 6, No.3 Retrieved from

http://ijme.in/articles/privatisation-of-health-care-new-ethical-dilemmas/?galley=html

8. Aggarwal, A.K. (2008). Strengthening Health Care System in India: Is Privatization the Only Answer? Indian Journal of Community Medicine. 33(2): 69–70. Retrieved from

https://www.ncbi.nlm.nih.gov/pmc/articles/PMC2784627/

Universal Basic Income

Surbhi Rawat

B.A Eco I

Abstract

Despite of making exceptional advancement in bringing down poverty from about 70 percent at the time of independence to about 22 percent in 2011-12, it can be said that bringing out every person from poverty is still a way long journey. Administration has taken a lot of steps to shrink this deprivation but still a lot have to be done. According to many economists and researchers, the active reforms and policies are not enough to cease poverty. Hence this requires a more universal system .i.e. universal basic income.

This research paper includes an introduction to UBI , Arguments for and against basic income , History of UBI and with pilot projects on it in India

Keywords

Poverty, Universal Basic Income

Objectives

- Introduction to UBI
- Arguments for and against basic income
- History of UBI
- How can UBI be more effective than the earlier reforms
- Pilot project on universal basic income in India

Research Methodology

This research paper includes data and facts collected from government websites and from basic income economic network (BEIN). It also includes economists' opinions and other published and unpublished reports.

Review of Literature

Richard Mcghaey in his article "universal basic income and welfare state" stated that

"UBI is a floor to provide a basic level of subsistence, as a complement to existing welfare state policies, or in some cases as a replacement for the welfare state. Much of the current interest in UBI stems from a belief that technology is rapidly eliminating jobs faster than new ones can be created, and future job growth will be much lower.

Usman Chouhan in his article on UBI stated that "Universal Basic Income is a long-standing umbrella concept that is attracting ever more attention in light of the prognostications of a dire future wherein economic inequality is greatly exacerbated by various socioeconomic and technological factors." Therefore universal basic income is a way for betterment of all the classes on equal bases.

Introduction

Nation today is competing with slow economic and job growth, fiscal pressures from rising benefit costs, demographic changes, and fears of structural economic transformation and job losses caused by information technology and computerization. These economic issues have been further studied by many of economists to explore new ways for welfare of state. In the face of these problems, some advocates are calling for introducing a Universal Basic Income (UBI), either as a floor to provide a basic level of subsistence, as a complement to existing welfare state policies, or in some cases as a replacement for the welfare state.

Many policies have been formulated by government to reduce poverty and increase economic as well as social growth like national rural employment guarantee act (NREGA), Pradhan Mantri Grameen Awas Yojana, National Benefit Schemes, Mid-day Meal etc which have been quite a capable of reducing poverty and backwardness but still not have been able to bring a greater change in growth rate and development. Hence many of the researchers are giving universal basic income as answer to all the complications arising in economy and in nation as whole.

Basic income is a form of social security which guarantees the necessary material for foundation of life and to ensure basic goods and life of dignity. Basic income is a much simpler and more crystalline system when it comes to putting it in function. But many of the economists and researchers believe that basic income can lead to free loader problems. UBI gives concrete expression to the idea that we have a right to a minimum income, merely by virtue of being citizens.

Criticism For and Against Universal Basic Income

For UBI:

- Poverty and vulnerability reduction: basic income would reduce poverty significantly and will free nation from unrealistic and opaque policies. UBI paradoxically is more feasible in country like India where it can be pegged easily with low levels of income.
- Transparency and administrative efficiency: basic income is a much simpler and more effective system of reducing poverty. It is much transparent and reduce administrative burden.
- Freedom: poor have always been treated as objects of government policy. Our current system administers an indignity upon the poor by assuming that they cannot take their decisions on their own. An unconditional transfer through basic income treats them as agent and not object. The circumstances which keeps a person trapped in poverty are varied and state is not in the position to determine which risk to be mitigated and how the priorities should be set. UBI liberates individuals from such paternalistic environment. This might not be the case in kind transfers.
- Psychological benefits: Poor households are often faced with idiosyncratic shocks such as bad health and job loss, and covariate or aggregate shocks such as natural disasters and political risk. A study finds that the poverty component of vulnerability dominates the idiosyncratic and aggregate components vulnerability.
- Improved financial inclusion: payment transfer would lead to greater usage of bank accounts which would further lead to higher profits for banking corporations and improvement in financial inclusions. Increased income will release the restrictions on access of credit which were there due to low income levels.

Against UBI:

- Conspicuous spending: there can also be the situation that if there would be unconditional income then the household may spend it in wasteful activities mostly male members of the family.
- Moral hazard (reduction in labour supply): Basic income can make potential workers frittering away their productivity. Some of school of thought have argued that it is a truly a diminution to human dignity. As main motivation for people to work is to fulfil their basic necessities and if we provide them unconditional income, will make them lazy.
- Gender disparity: Women face worse prospects in almost every aspect of their daily lives – employment opportunities, education, health or financial inclusion. In sharing UBI gender disparity can play a vital role as men are likely to have control over spending of income which in no way would be helpful for women in households .
- Implementation and fiscal cost: execution of UBI can be burdensome for banking system due to the current status of financial access among the poor. It may become difficult for the government to wind up a UBI in case of failure.

History of UBI

As the concept of universal basic income gains importance where thinkers from around the globe are regularly giving their feeds on this emerging policy there was a juncture in which it was taken more as a dismissive process. In fact, this idea is hardly new but has repeatedly resurfaced over the centuries of time. Thomas more was the first one to advocate about basic income in his novel utopia (1516). But it wasn't given much importance during that time. Then Marquis De Condorcet again shaped this idea in some kind of a social movement in around 1920. In 1960s and 1970s basic income was debated numerous times in Canada and United States but soon completely vanished in 1980. But at the same time it gain importance in Europe.

From twenty first century basic income has become a more scorching topic in many countries. A number of countries have tried or is about to carry out local experiments with basic income to get the knowledge of positives as well as loop holes of unconditional income for their particular region. There has also been a national referendum on basic income, in Switzerland 2016. It was rejected though, with 73 percent voting against the proposal. In the 2010 basic income have especially been discussed due to automation and robotisation which will mean that there will be less paid jobs in the future, and hence the need for a new welfare mode.

Pilot Project for Universal Basic Income

Basic income pilots are small scale preliminary experiments which are carried out on selected members of the relevant population to assess the feasibility, cost and effects of the full scale implementation of basic income or the related concept of negative income tax, including partial basic income and programs.

INDIA: Madhya Pradesh Unconditional Cash Transfer Project (MPUCT)

In the Indian context, the criticism that basic income leads to free-loader problem has been proved to be wrong by extensive evaluation of the pilot experiments conducted in rural India.

1. In 2011, a pilot project was carried out in Madhya Pradesh to evaluate universal basic income called the 'Madhya Pradesh unconditional cash transfers project (MPUCT)' through self-employed women's association (SEWA) in collaboration with UNICEF. There were two pilot studies, in one study 20 villages were taken from which 8 villages were given unconditional income whereas 12 other similar villages didn't and in other study two tribal villages were taken from which one was given unconditional income and other village was taken as control group. In the beginning, in the 8 villages each adult received 200 rupees a month and each child got 100 rupees a month. After 12 months, the amounts were raised to 300 rupees and 150 rupees respectively. In the tribal village, the amounts were 300 rupees and 150 rupees for the entire period of 12 months.

2. The project was evaluated in the villages before, after and during the experiment. This was done using multiple rounds of statistical surveys and mathematical evaluations, and then they were further configured against the villages that had not received basic income transfers.

3. In total, the surveys covered over 15,000 individuals. In addition there were a lot of case studies done on the experiment and every aspect of project was taken under consideration there were interviews with key respondents, along with a tracking of children's weight for age and their attendance and performance in schools to assess if these outcomes were influenced by receipt of the basic income.

4. There were three main features of these grants: they were applicable to all, there was no burden on buying specific commodities and services, and the cash was transferred on every individual's bank accounts rather than on household basis. These were to ensure that there is no harassment or corruption which often happens in case of households as in villages money related decisions are taken by male members of the house ignoring women's needs.

5. The result of these pilot project appeared affirmative suggestion and can be seen as positive walk towards contradicting old myths that basic unconditional transfers in rural India wouldn't be helpful in reducing poverty instead may lead to moral hazard such as reduction in labor supply and increase in laziness among workers or the money can also be misused in alcohol consumption or other trivial pursuits by the villagers.

6. A few of the staggering results, as mentioned by Guy Standing who is a Professorial Research Associate at SOAS University of London and co-founder of BIEN, are written below:

- The basic living conditions depicted numerous pleasing results .i.e. starting with sanitation, better access to clean drinking water, improvements in cooking and lighting energy sources, improved significantly. There was a major increase in food sufficiency, improved diets, better nutrition and reduction in seasonal illnesses. However, there was no evidence that this cash transfer had led to a rise in alcohol consumption, contrary to popular belief.

- As told by principal of school the attendance as well as academic performance also increased significantly due to improved health of children. The basic income also allowed their parents to spend more towards their education as on books, school uniforms and stationary etc.

- The cash transfer also facilitated small scale investments such as buying better raw materials and equipment, which resulted in higher income. There was also a shift, especially in the tribal village, from wage labor and bonded labor to invest in own farms and other forms of self-employment.

- Women empowerment was another significant outcome of the pilot studies, as it improved their participative power in the economic decision making in the household. Women made decisions on how to spend money only about 9% of the time. At the end of the original study, women were making monetary decisions nearly a quarter of the time, while in the recent follow-up, this had gone up to virtually one-third of the time.

- These experiments also had a direct, positive impact on the debt structure. It facilitated reduction in debts, as it enabled the villagers to both borrow less from the moneylenders (at a high interest rate) and pay back to the money lenders with the basic income. The villagers who were provided with the UBI found that 70% had reduced their debt

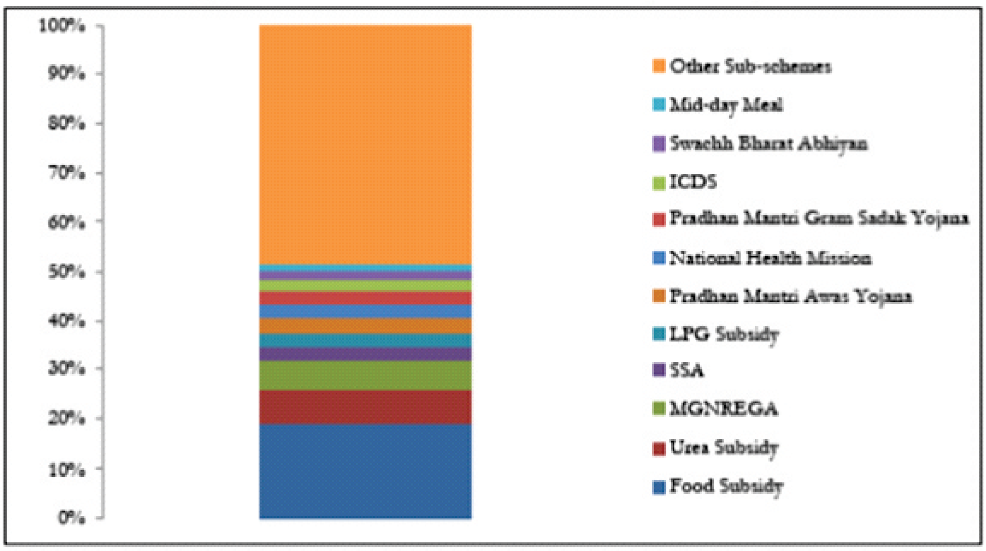
According to Renana Jhabvala, who has long been associated with the Indian Basic Income Network, basic universal income is financially viable too. She states that currently the Government of India spends more than 7 lakh crores on subsidies and welfare schemes for the poor, with little to show for results. If, however, the same money were allocated to be used as universal basic income, every family in India would receive 2500 rupees each month. And if this were to be transferred to only the lowest 60% income level families, it would rise to 4000 per month. This would provide a majority of the poor population of our country to get out of the destitution resulting from social and economic vulnerabilities. In the current economic situation that India is, even a basic income of 1000 rupees would go a long way in providing the citizens with a life of dignity and freedom.

Earlier Reforms to Eradicate Poverty

Government has introduced numerous policies to reduce poverty. There are about 950 central sector and centrally sponsored sub-schemes in India accounting for about 5 percent of the GDP according to budget allocation. Problem of poverty have always been a drawback in the country's growth and development

Let us consider some central schemes carried out by government for poverty reduction:

Figure 1. Centrally Sponsored and Central Sector Sub-schemes by Budget Allocation, 5.2% of GDP (2016-17)



Source: **Budget 2016-17**

Food Subsidy: It is a financial help or contribution made by government to keep low prices of agriculture production. Food subsidy is India's largest subsidy program in the world that has made food available for the low paid or under privileged. This subsidy includes largest share in budget every year. But it has always been criticized on large proportion because of its immense contribution in government budget deficits, economic inefficiency and poor targeting.

MGNREGA: Mahatma Gandhi National Rural Employment Guarantee Act was established for the purpose of enhancing income security in rural areas by providing at least 100 days guaranteed wage employment in one financial year to every household whose adult members are volunteer to do unskilled works. But it was also not able to put a deep impact on poverty reduction due to which it was further criticized for corruption as this includes a lot of involvement from discretionary powers.

Pradhan Mantri Awas Yojana: Pradhan Mantri Awas Yojana is an initiative launched by government to provide housing facility to urban poor. This was done to give housing security to the poor living in slums or on roads. This project have not yet finished since construction of houses have not completed in all the targeted cities.

Mid Day Meal: Mid-day Meal program was initiated with dual objective; one to improve nutritional status of children as well as to increase the attendance of children in schools. Since due to free food students will attend classes as well as will get a balanced diet. Despite of the success of the program, child hunger is still a problem persisting in India.

Similarly there have been quite a lot of policies and acts brought up by government like Jawahar Gram Samridhi Yojana (JGSY) National Old Age Pension Scheme (NOAPS), National Family Benefit Scheme (NFBS), National Maternity Benefit Scheme, Annapurna and Integrated Rural Development Program (IRDP) but all these policies have two similar worries which are-

- Misallocation of Resources : Misallocation basically means allocating in wrong direction and all of the above mentioned policies have this basic drawback of improperly allocating resources in wrong direction. It have been noticed the fact that poorest areas of the country often obtain a lower share of government resources compared to its richer counterparts.

The two graphs below provide the extent of misallocation in government policies.

Figure 2a shows the overall poor living in each district. The darker shade of red shows more number of poor and light shades of green shows less number of poor. Figure 2b shows difference between the share of overall spending and share of overall poor. If there would be more difference than it means it has more misallocation of resources. Preferably the difference should be zero. Again darker shade of red shows more misallocation of resources whereby more light shade of green means less misallocation

Figure 2a. Share of Poor across districts

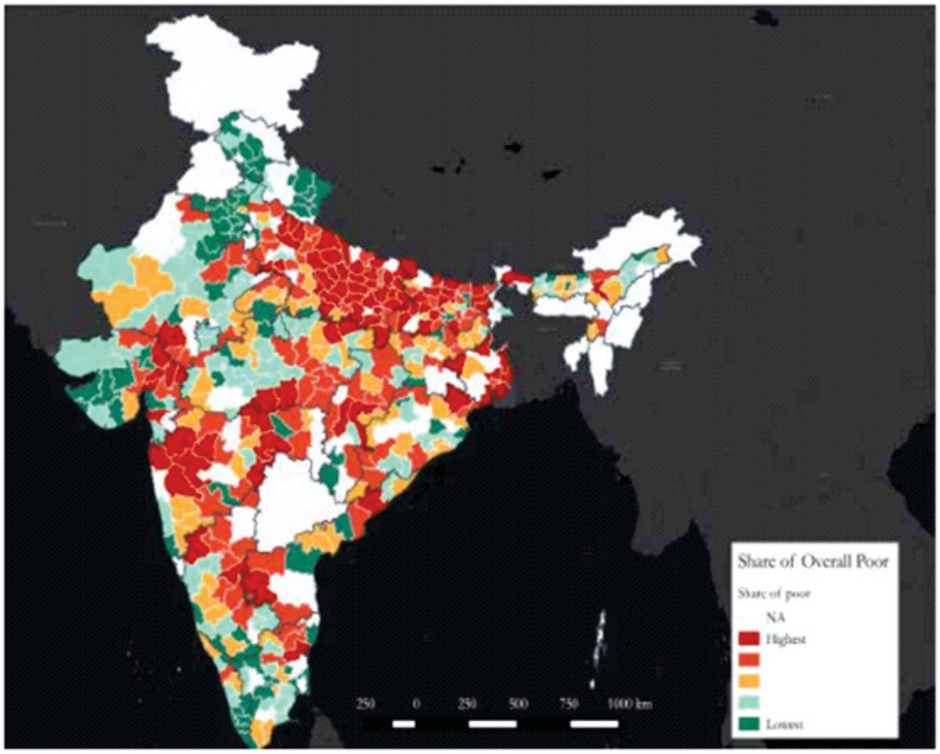
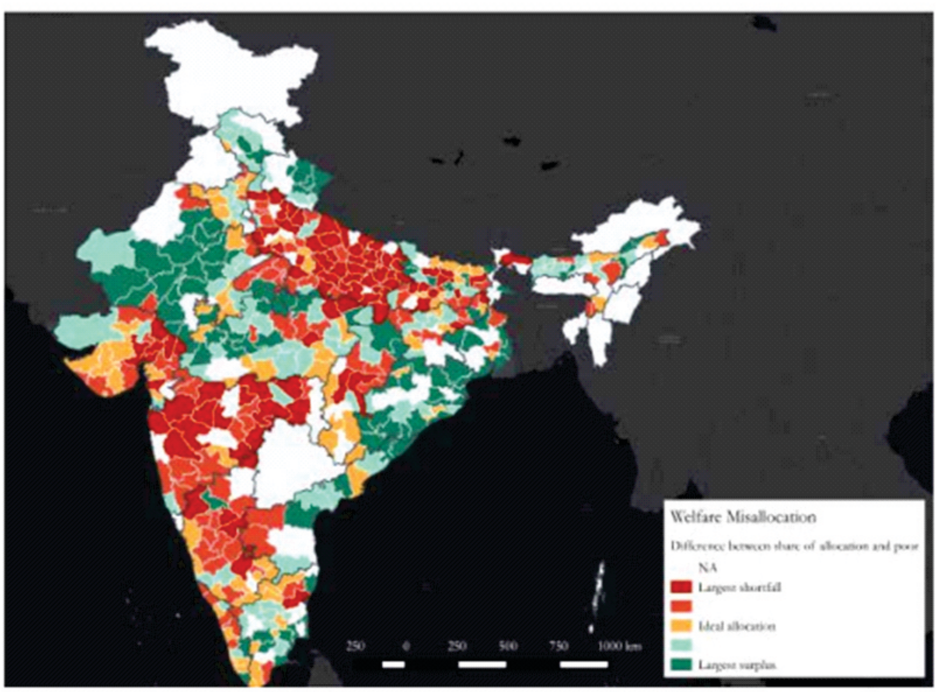


Figure 2b. Misallocation - Shortfall in Allocation to Poor



- Corruption : Other most important drawback of these schemes is dishonesty. In these government programs discretionary powers are directly involved due to which beneficiaries do not get the advantage as they are in the hands of government officials.

How Can UBI Eradicate These Issues?

UBI was effectively designed to handle matters related to misallocation. In UBI the beneficiaries have to simply withdraw money from their bank accounts without approaching government offices. UBI fastens itself by eliminating local bureaucrats as compared to other schemes which involves a lot of government officials in their processing. UBI also further reduces the burden on administration. Furthermore, UBI have a lot of coverage and hence it is answerable to large section of society. UBI gives very fewer avenues for leakages proving to be better than other schemes.

Conclusion

This research paper concludes that unconditional income can be effective in reducing poverty. Basic income guarantees income to every individual with a reasonable standard of living and social security . It can be derived from the Madhya Pradesh Unconditional Cash Transfer Project (MPUCT) that UBI have increased both economic and social life of poor. Unconditional income provides transparency and administrative efficiency as well as freedom to the citizens. UBI liberates individuals from paternalistic environment as it gives freedom to people to invest their income wherever they want to. It provides psychological benefits and improves financial inclusion. But at the same time there are few disadvantages of UBI as well like decrease in labor supply and conspicuous spending.

References

1. Government of India, Union Budget 2018-2019. An overview on Indian budget regarding the budget of policies taken by government to eradicate poverty. Retrieved from

   http://www.indiabudget.gov.in/

2. Mcgahey, R. (2016). Universal Basic Income and Welfare State. SSRN. Retrieved from

   https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2863954

3. Wikipedia. Basic Income. Retrieved from

   https://en.wikipedia.org/wiki/Basic_income

4. Douillard, A. (2017). First National Conference on Basic Income. Indian Network of Basic Income. Retrieved from

http://basicincome.org/news/2017/05/india-first-national-conference-universal-basic-income/

5. Chohan, U. (2017). Universal Basic Income: A Review. SSRN. Retrieved from

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3013634

6. Roy, B. (2016). Universal Basic Income: A Promising Experience. Degrowth. Retrieved from

www.degrowth.info/en/2016/05/universal-basic-income-in-india-a-promising-experience/

7. Guy Standing. Unconditional Basic Income: Two pilot projects in Madhya Pradesh. Retrieved from

https://www.guystanding.com/files/documents/Basic_Income_Pilots_in_India_note_for_inaugural.pdf

FINANCE AND BANKING

SECTION 2

The Financial Fiasco of 2008

Nandini Malani and Swati Chitlangia

B.A. Eco III

Abstract

The financial crisis of 2007-2008 has taught us that the confidence of the financial market, once shattered, can't be quickly restored. In an interconnected world, a seeming liquidity crisis can very quickly turn into a solvency crisis for financial institutions, a balance of payment crisis for sovereign countries and a full-blown crisis of confidence for the entire world. The US economy was on the brink of recession by 2007. The financial markets were unstable due to the consumer expenditure being low and unemployment being high. But it was the September 2008 collapse of Lehman Brothers, a major Wall Street investment firm, that paved the way for the worst banking crisis the country had witnessed since the Great Depression. Both the business cycle dynamic combined with free-market capitalism and the monetary policies enacted by the Federal Reserve played a major role in creating the crisis. Hedge Funds, banks and insurance companies were the drivers of subprime mortgage crisis. The former two created mortgage-backed securities while the latter covered them with credit default swap. The demand for mortgages led to a housing bubble. After that the Federal Reserve raised the Fed Funds rate, which sent the adjustable mortgage interest rates skyrocketing followed by home prices plummeting and borrowers defaulting. Together with declining global demand and slackening commodity prices, it led to fall in exports, thereby relaying financial sector crisis to the real economy.

Keywords

Financial crisis, Subprime mortgage loans, Housing bubble, Mortgage backed securities

Objective of Study

The objective of this study is to analyse the grounds and repercussions of the 2008 financial crisis.

Research Methodology

Secondary sources of data have been used; such as newspapers, internet articles, magazines among others.

Review of Literature

Lewis Renieri, former bond trader and Vice Chairman of Salomon Brothers introduced securitization to the financial world. In 1977, banks were facing financial problems involving funding short-term, high interest demand deposits with longer-term, low interest mortgages. Therefore, banks were reluctant to hold too many mortgages. That is when Lewis Renieri came up with an innovative solution where he created five- and 10-year bonds from 30 year mortgages.

Introduction

The financial crisis of 2008 is a stark reminder that transparency and disclosure are essential in today's marketplace. It revealed important weaknesses in many areas of the financial system. The heart of the 2008 financial crisis was a coterie of reckless financial executives, working for too-big-to-fail financial companies, who were handsomely compensated for taking risks that almost ruined the economy when they failed.

When the US sneezes, the world catches a cold. This adage of the twentieth century has never been truer. In today's interconnected financial system, what began with some unwise lending decisions in the US, had spread throughout the world. It all started with a housing bubble and cascaded into a full- blown recession.

Sometimes, the aftermath is more devastating than the storm. That is the story of the 2008 financial crisis.

Causes

Was this the case of one group or one company falling asleep at the wheel? Is this the result of too little oversight, too much greed, or simply not enough understanding? As is often the case when financial markets go awry, the answer is likely “all the above”.

US Government Policy

In 2001, the US economy experienced a placid recession which existed for a short time, but the fear of recession engaged everybody's minds. To safeguard the economy, the Federal Reserve lowered the Federal funds rate 11 times-from 6.5% in May 2000 to 1.75% in December 2001, creating a flood of liquidity in the economy. The Fed funds rate, needed to maintain the Federal Reserve requirement, is the rate that banks charge each other to lend funds overnight. Cheap money flowing into the economy was a ray of hope for the subprime borrowers, who wanted to realize their life's dream of acquiring a home. As the home prices were continuously rising due to the increased demand in the real estate market, the US banks and other investors saw their chance to gain money. The Fed continued slashing interest rate, as lower as 1% in June 2003, the lowest rate in 45 years. The whole financial market resembled a wholesale market where everything was available at huge discount.

Subprime Mortgages

Many mortgages were bundled together and formed into new financial instruments called mortgage-backed securities, introduced by Lewis Ranieri, father of Mortgage-backed bonds. Mortgage-backed securities appeared as low risk securities partly because default rates were historically low due to the underwriting standards of the MBS and they were backed by Credit Default Swaps insurance. The demand for this new product hiked indefinitely. As the maximum capacity of prime mortgage takers was reached, US banks started to issue subprime mortgages or call it the infamous "NINJA LOANS" (which are mortgages given to people with no income, no job and no assets), one of the major reason for the 2008 market crash and housing crisis, due to wide-spread defaulting on subprime mortgages

Collaterised Debt Obligation

A CDO is a structured security issued by an SPE for which the collateral is a pool of debt obligations that are later divided into three tranches- senior bonds, mezzanine bonds, and subordinated bonds dividing the risk as compared to an individual mortgage loan. The senior tranche being the most secure gives the holders preference when first money payments from mortgage loans is filled in. Therefore, the received interest rates are low but anytime better than 1% of the Fed. This premium tranche of a CDO is given AAA rating, the highest and safest investment rating, attracting investors with risk restrictions like pension funds and retirement funds. The mezzanine tranche with moderate risk and interest rate, is usually rated A or B and its holders are secondary to the senior tranche. The subordinate or equity tranche carries the highest risk, therefore the highest interest rate and are the lowest rated if the rating agencies bother to rate these junk bonds. The investment banks creating CDO's based them on metrics and algorithms of quants and traders. With demand for this new product going global, the market for CDO expanded. To serve the market demand, investment banks started struggling to fill their CDOs with mortgages. In contrast to old ones, they were now filled with subprime mortgages containing a high risk of default. An investment bank collected a series of assets- often high-yield junk bonds, mortgage-backed securities, credit default swaps and other high risk, high yield products from the fixed-income market. They were marketed as investments with definite risk and reward. Rating agencies were bribed to give these toxic CDOs high class AAA rating. Rating agencies not only made huge gains but also made alliances with the big investment banks to continue their partnership.

But what seemed the greatest strength of CDO's proved to be its greatest weakness- the complex formulae for easy pricing of CDO's turned out to be flawed. In early 2007, Wall Street began to feel the first tremors in which hedge fund managers, commercial and investment banks, and pension funds, all of which had been big buyers of CDO's, found themselves in trouble. What was worse was that CDO's aren't traded on exchanges, so when the market for CDO's underlying assets began to disappear, it was impossible to unload the swaps, subprime mortgage derivatives and other securities held by CDOs. When the financial crisis peaked, Banks found themselves with a trillion dollars tied up in now worthless assets, of which around half, that is $500 billion, was tied up in CDO's.

Housing Bubble

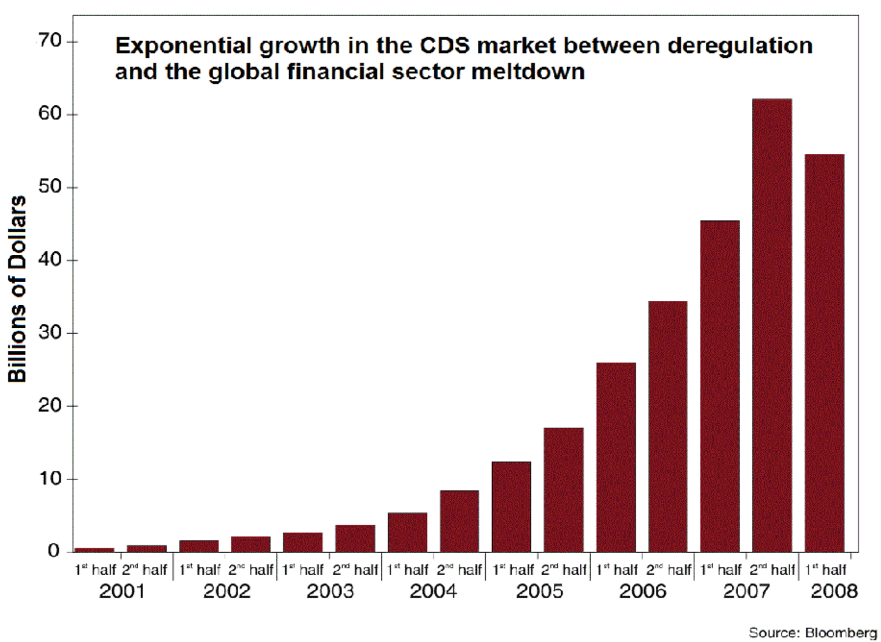
As the housing prices reached their zenith in 2006, people were continuously buying home, this time not for shelter but to resell for quick profit. The spectators increased the demand further. This scenario is exactly what we call the beginning of Housing Bubble. What followed next was the downtrend in the housing prices reaching new lows due to the stagnated demand and increasing supply. And boom, the bubble bursts! Generally, this bubble comes into existence when there is a high level of trading activity on a particular asset class (in this case, housing) at price levels that are significantly higher than their intrinsic values. Fearing this downward trend, everybody was eager to get rid of their properties before they lose money anymore. In the subprime mortgage market, “foreclosure rates increased by 43% over the last two quarters of 2006 and increased by a staggering 75% in 2007 compared with 2006”. This downward trend now seemed unstoppable, trapping even the prime lenders as their house prices decreased undeviatingly.

At this point, selling the house was a better option than continuing to pay mortgages.

Role of Credit Default Swap in Crisis

A credit default swap also referred to as credit derivative contract, which enable the market participants to transfer or redistribute the risk. It involves three parties- the bond issuer, CDS buyer (normally the bond buyer) and the CDS seller (generally insurance companies and banks) in which the buyer of the swap makes payments (premium amount) to the seller up until the maturity date of the contract. In case the bond issuer defaults, then the CDS buyer will receive the money from the CDS seller. From the perspective of CDS Seller, CDS provides a source of easy money if there is no credit event. During the financial crisis, the CDS Seller thought that the bond issuer wouldn't default because the company issuing bond had major assets as land and houses. Even if their daily operations would go in losses, they wouldn't default because of ever-rising prices of the housing market. But, then came the housing bubble and finally the housing prices went down and suddenly all of them out of business and so, the bond issuer. They started defaulting.

CDS has drastically increased since 2001. The volume of CDSs exploded from $1 Trillion in 2001 to $54.6 Trillion in 2008. The size of the CDS rose more than 50 times.



The advent of interest-only loans combined with mortgage backed securities added so much liquidity in the market that it created the housing boom. The risk was not just combined to mortgages all kinds of debts were repackaged and resold as Collateralized debt obligations.

Deregulations

In 2000, US government deregulated derivatives in the financial market. This gave the financial market an opportunity to develop financial products of speculative nature and great risk, in order to fill their pockets, leading to the creation of Collateralised Debt Obligation (CDO). At this time, derivatives couldn't meet the needs of all the investors and CDOs could fill this gap. To increase the competition in the industry, government regulations were eliminated .The large brokerage firms such as Bear Stearns and Lehman Brothers were allowed to voluntarily use lower capital requirements, relying primarily on their own risk management models.

US Stock Market Crash

In 2007, the Dow Jones Industrial Average opened the year at 12,459.54 and rose thereafter, despite growing concerns about a housing market slowdown. By the end of January 2008, the economy lost 17,000 jobs and Dow hovered between 12,000 and 13,000 until March. March 17 marked the first casualty of the subprime mortgage crisis involving the failing of investment bank, Bear Stearns. The Dow dropped to an intra-day low of of 11,650.44. Federal Reserve intervened as they expected the intervention would help avoid a bear market. By May, the Dow rose above 13,000 making it look that the worst was over. In July 2008, the subprime mortgage crisis threatened government-sponsored agencies Fannie Mae and Freddie Mac which required a government bailout. The Dow fell, closing at 10,962.54 on July 15. In September, Lehman Brothers, a 158 year old investment bank declared bankruptcy and the Dow dropped 504.48 points. In October 2008, Congress finally passed the bailout bill but the damage had already been done. The Economy lost 159 thousand jobs in prior month as reported by the labour department leading to Dow shedding 800 points, closing below 10,000 for the first time since 2004. According to Bureau of Economic Analysis, the economy had contracted 0.3% in third quarter. The nation was in recession.

Impact of Crisis on US Economy

- **Income** – The financial crisis cost the U.S. an estimated $648 billion due to slower economic growth, as measured by the difference between the Congressional Budget Office (CBO) economic forecast made in September 2008 and the actual performance of the economy from September 2008 through the end of 2009. That equates to an average of approximately $5,800 in lost income for each U.S. household.
- **Government Response** – Federal government spending to mitigate the financial crisis through the Troubled Asset Relief Program (TARP) will result in a net cost to taxpayers of $73 billion according to the CBO. This is approximately $2,050 per U.S. household on average.
- **Home Values** – The U.S. lost $3.4 trillion in real estate wealth from July 2008 to March 2009 according to the Federal Reserve. This is roughly $30,300 per U.S. household. Further, 500,000 additional foreclosures began during the acute phase of the financial crisis than were expected, based on the September 2008 CBO forecast.
- **Stock Values** – The U.S. lost $7.4 trillion in stock wealth from July 2008 to March 2009, according to the Federal Reserve. This is roughly $66,200 on average per U.S. household.
- **Jobs** – 5.5 million more American jobs were lost due to slower economic growth during the financial crisis than what was predicted by the September 2008 CBO forecast.

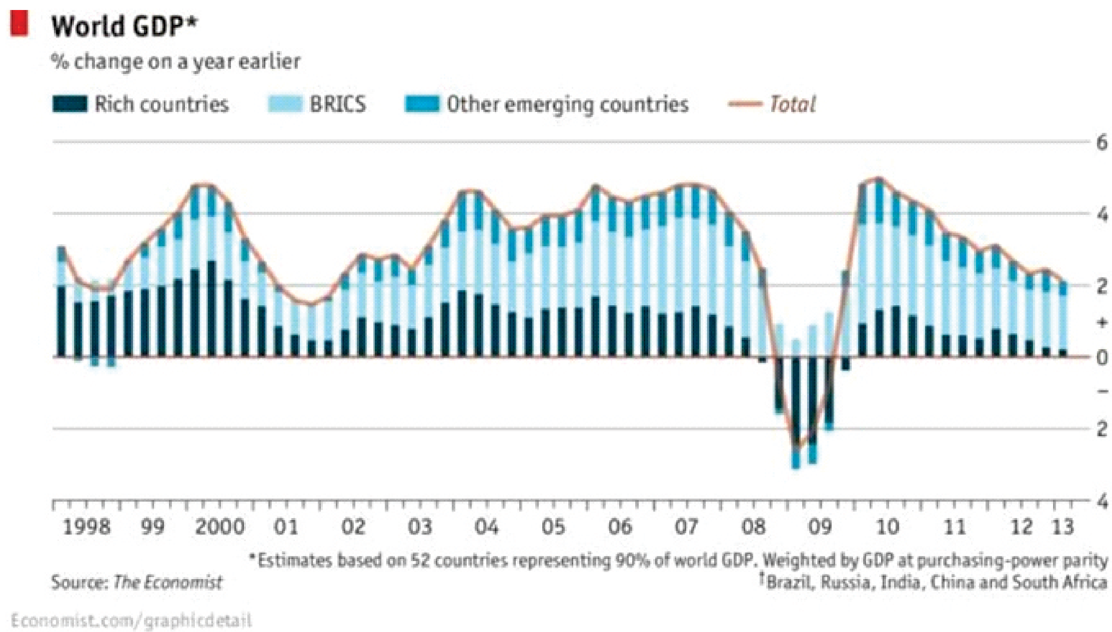
Impact of Crisis on Indian Economy

The financial crisis affected the Indian economy mildly as the economy's sizable contribution to GDP was from domestic sources. The linkages with the money and the foreign exchange markets and the vulnerability to the toxic financial assets had a direct impact on the financial sector of the Indian economy. While export growth was vigorous till August 2008, it became low in September followed by negative, from October 2008 to July 2009. The rupee depreciated by 21.2 per cent against the US dollar during the fiscal year 2008-09. The US dollar however appreciated by 17 per cent against the broad index

(FRB, New York) between March 2008 and March 2009, suggesting that only 5 percentage points of the rupee depreciation was due to India-specific factors. The reserve money contracted more than 15% between august 2008 and November 2008. A sharp fall in growth of India's manufacturing sector started in second quarter of 2007 due to recession in India's exporting countries. The community, social and personal services including GDP from government administration accelerated. The recovery of Indian economy was fast and GDP growth rate in 2009-10 was 8.6% and 2010-11 was 9.3% which showed the resilience of the Indian economy against the external shocks.

Impact of Crisis on World Economy

The deep recession in the United States and the spreading financial crisis played havoc with global trade linkages. It created an insecure environment which developed a sense of fear of losing money or job in the minds of consumers leading to lesser consumption and spending. As a result, US exports decreased which in turn affected suppliers from China and Japan. More than 10 million migrant workers lost their jobs in China. The downturn in G7 economies intensified during the December quarter- especially in Japan- and spread to other parts of the world, including Asia, Latin America and Eastern Europe. In December quarter, GDP declined more than 5% in some countries of East Asia. Chinese and Indian economies continued to flourish during the period, their growth rate was reduced significantly. The Brookings Institution reported in June 2009 that US consumption accounted for more than a third of the growth in global consumption between 2000 and 2007. Since the consumption and spending of US economy was too high, the rest of the world depended on US consumer as a source of global demand. With the recession coming into the picture, US spending declined drastically and had a direct impact on the other economies. For the first quarter of 2009, the annualized rate of decline in GDP was 14.4% in Germany, 15.2% in Japan, 7.4% in the UK, 18% in Latvia, 9.8% in the Euro area and 21.5% for Mexico.



It all started when Federal Reserve lowered the interest rates to enable more and more Americans to realise their dream of homeownership. The fundamental change in the lending policy by reducing the underwriting standards for mortgages encouraged risky lending which later resulted in the housing crisis. US government failed to identify the risk of modified mortgage product as they relied on the past data of ever rising housing market prices and therefore enabled the housing market breakdown at the end of 2006. The highly deregulated financial sector- banks, investment banks, insurance companies, rating agencies and especially the market for derivatives, combined with low Fed Funds rate motivated investment firms to construct complicated financial products almost unfathomable for outsiders. Investment banks took advantage of the ambiguous nature of the products and focused on making money through selling it to millions of investors all over the world. The Investment banker's greed fused with the inappropriate ratings of the corrupted rating agencies created the downturn of the financial sector. To conclude, we can say that several parties have been involved to trigger a financial crisis but in the end almost no one of these bankers were condemned by the court. These banks, institutions and people created a crisis that cost tens of millions of people their savings, their jobs and their homes. They created trillions of dollars of wealth loss and it needed more than 700 billion only to save the banking system in the US. In the end, Lewis Ranieri's Mortgage Backed Securities mutated into the monstrosity that collapsed the whole economy.

References

1. Mukher, S. Global Financial Crisis and Its Impact on India's Growth. Economics Discussion. Retrieved from

   http://www.economicsdiscussion.net/india/global-financial-crisis/global-financial-crisis-and-its-impact-on-indias-growth/10947

2. Wikipedia. Financial Crisis of 2007-2008. Retrieved From

   https://en.wikipedia.org/wiki/Financial_crisis_of_2007%E2%80%932008#Summary

3. Jain, M. (2013). What exactly is a Credit Default Swap (CDS)? Quora. Retrieved from

   https://www.quora.com/What-exactly-is-a-Credit-Default-Swap-CDS

4. Singh, M. The 2007-08 Financial Crisis in Review. Investopedia. Retrieved from

   https://www.investopedia.com/articles/economics/09/financial-crisisreview.asp?ad=dirN&qo=investopediaSiteSearch&qsrc=0&o=40186

5. Conley, P. (2017). Collateralized Debt Obligations and the Credit Crisis. The Balance. Retrieved from

   https://www.thebalance.com/cdos-credit-crisis-417122

6. Edey, M. (2009). The Global Financial Crisis and its effects. The Online Library. Retrieved from

   http://onlinelibrary.wiley.com/doi/10.1111/j.1759-3441.2009.00032.x/full

7. The PEW Charitable Trust. The Impact of the September 2008 Economic Collapse (2010). Retrieved from

   http://www.pewtrusts.org/en/research-and-analysis/reports/2010/04/28/the-impact-of-the-september-2008-economic-collapse

8. Barnes, R. the Fuel That Fed the Subprime Meltdown. Investopedia. Retrieved from

   https://www.investopedia.com/articles/07/subprime-overview.asp#ixzz56X1sT2Px

9 Investopedia. Deregulation. Retrieved from

   https://www.investopedia.com/terms/d/deregulate.aspv

Growth Reflected by Financial Markets

Shubham Ojha

B.A. Eco II

Abstract

This paper tries to explain that the growth (increase) in the financial market is not real but an illusion to some extent. It compares the data of Y-o-Y change in Sensex, Growth in Gross Domestic Product and Inflation. Data of years 2010 to 2016 are used for comparing the above indexes. Using the above-stated data this paper will explain how India was not able to increase the demand for general goods (indicated by the low level of inflation) but the Indian stock market (which is ultra-sensitive to demand) is touching new highs. So, from where is the money coming from FII (hot cash). It's scary as it makes our financial market quiet volatile (for short-run) as this money can exit the market anytime.

Keywords

Change in Sensex, percentage growth in GDP, Inflation index, Keynes liquidity preference theory.

Objective of study

1. To check the relation between financial market growth, GDP and inflation.
2. To find the reason behind the growth in the financial market.

Research Methodology

The study is mainly based on secondary data collected from various sources.

Review of Literature

John Maynard Keynes was the first to introduce the liquidity preference theory in Chapter 133 of his book The General Theory of Employment, Interest and Money. According to Keynes, individuals value money for, “the transaction of current business and its use as a store of wealth.

Introduction

From the last one year government had taken a number of decisions for economic development and some of them or more precisely two of them i.e. Demonetization and implementation of GST (Goods and service tax) can be regarded as major economic reforms. Most of the economists were of opinions that in short run these reforms can cause unrest or downfall in the economic growth and economy will be nourished by these reforms in long run. But if we take a look at the financial market growth indices then we can address a bullish phase i.e. the market is growing at a really good pace. Why is this happening? Is this a speculation game played by big traders/ investors or are people really that much faithful towards the companies in their portfolio? We will try to answer this question using some data (Year on year growth in Sensex, Gross domestic product, inflation etc.) and analyze them from different angles.

Main Content

In the beginning, let us try to figure out either the financial market really registering a growth or we are just getting fascinated by seeing one after other all-time highs of the market. For this let us compare the year over year percentage change in the market indices. It is hard to compare all the market indices, as they are divided on the basis of stocks exchange, on the basis of different industries etc. Therefore we took **SENSEX,** which is otherwise known as the S&P BSE. Sensex index is the benchmark index of the Bombay Stock Exchange (BSE). It is composed of 30 of the largest and most actively-traded stocks on the BSE.

Sensex Index (Yoy Change)

YEAR	PRICE	PRICE	PERCENTAGE CHANGE*
2010	17554	21004	19.67%
2011	18211	15454	-15.18%
2012	16154	19444	20.36%
2013	19663	21193	7.78%
2014	20851	27241	30.64%
2015	27887	25838	-7.34%
2016	26160	27274	4.2%
2017	26150	33679	28.79%

SOURCE- Money Control

**Percentage change= (Closing price – Opening price/ Opening price)*100*

As we can figure out from the above table that only 2014 and *2017*** are the year's which registered more than 20% YOY increase (almost 30%) i.e. 30.64% and 28.79% respectively. Growth in 2014 can be justified as this year BJP government came into power that too with a big majority. Moreover, the government promised to boost the infrastructure, power, banking etc sector in their election manifesto so, there was a huge inflow of money in these sectors. But it is interesting to see that in the next year (2015) there was a YOY decrease of -7.34% in the market. A question might arise are we going to register a YOY decrease in 2018? Let us keep this question aside as of now and continue our former discussion. So as already mentioned SENSEX include top 30 companies of different sectors and an increase in Sensex means the companies under it must have grown therefore they should have contributed some extension in the GDP also.

SENSEX → Companies grow on an average → Production ↑

↓

GDP ↑

Gross Domestic Product-

Now we will look at the data of growth in Gross Domestic Production (GDP) to figure out whether the relationship we have defined above holds true or not.

GDP Index

YEAR	PERCENTAGE CHANGE
2010	10.3%
2011	6.6%
2012	5.5%
2013	6.4%
2014	7.5%
2015	8.0%
2016	7.1%
2017	6.7%

SOURCE- Statista

We will keep our focus mainly on the year **2014** and **2017** because they are the year of maximum YOY growth in SENSEX.

In 2014, GDP grew from 6.4% (2013) to 7.5% i.e. more than 1% increase in GDP which is quite decent because if we look at previous year data we can see a constant decline in GDP (from 10.3% in 2010 to 6.4% in 2013) and in 2014 market also did quite well. So we can say that when the market does exceptionally good**,** growth in GDP is directly comparable to it during that particular time span.

But if we look at the figures of *2017*** in which GDP decline and SENSEX did exceptionally well.

*** In 2017 data is not taken from (April-March) as all figures are not known for this period therefore that 12 month period is taken in 2017 for which all data is available and impact of GST and demonetization can be studied clearly.*

Now let us divide the growth in GDP for the year 2017 on the quarterly basis to have a clearer picture of the trend in percentage GDP in decline.

Quarterly Change in GDP 2017

YEAR	**PERCENTAGE CHANGE**
July 16 - September 16	7.5%
October 16- December 16	7.0%
January 17 - March 17	6.1%
April 17 - June 17	5.7%

SOURCE- Trading Economics

Therefore the conclusion we drew from the previous year data that there is a direct relationship between growth in GDP and growth in the financial market (when market do exceptionally well or vice-versa.) is wrong to some degree if we consider the contradictory data of 2017. But the reason why is this occurring? Unquestionably, demonetization and

GST had a major impact on the economy but we cannot just paste this statement whenever we face a question about the economic slowdown. So let us take a deeper dig in this situation.

Let us assume * that-

1. People in India have become investment friendly.
2 They have full faith in the market.
3. They are diverting a significant portion of their money into the market as they are considering it the best possible investment.

*****
these assumptions are quite normal if we consider any economy like America but if we consider Indian economy they are not that normal because people here consider the equity investment as gambling rather than investment.

Now let us cross-check with another index whether our assumptions hold true in a real situation. We will take data of Inflation Index to assess the consumption pattern of the population.

Inflation Index

YEAR	PERCENTAGE CHANGE
2010	12.11%
2011	8.87%
2012	9.30%
2013	10.92%
2014	6.37%
2015	5.88%
2016	4.97%
2017	2.07%

SOURCE- Inflation.eu

As we can see that inflation is remarkably low i.e. 2.07%. It is almost touching the lower limit of normal inflation range as defined by Reserve Bank Of India (i.e. 4% +/- 2%). According to the theory, major reason for the fall in inflation is-

1. Fall in demand
2. Increase in supply

The second point cannot be considered in this situation because the growth in GDP declined during this period. As we know GDP stands for Gross domestic production and if production on a whole decreases how the supply of consumer goods can be increased. Now we have first point i.e. fall in Demand. Before continuing our discussion on this point let us throw some light on J.M. Keynes Theory of Liquidity Preference.

World-renowned economist John Maynard Keynes was the first to introduce the liquidity preference theory in Chapter 13 of his book 'The General Theory of Employment, Interest, and Money'. According to Keynes, individuals value money for, “the transaction of current business and its use as a store of wealth.” For this reason, Keynes purports that they tend to relinquish interest earnings on their money in order to spend their money in the present. He also suggests that these individuals prefer to keep their money on hand as a precautionary measure.

The Three Motives

As Keynes describes the liquidity preference theory, he explains three motives that determine the demand for liquidity.

The Transactions Motive refers to the fact that individuals have a preference for liquidity in order to guarantee to have sufficient cash on hand for basic transactions because income is not always readily available. With this motive, the level of an individual's income determines that amount of liquidity that is demanded; higher income levels equal a demand for more money to accommodate increased spending.

The Precautionary Motive is related to individuals' preference for liquidity as additional security in the event that an unexpected occasion or problem arises that requires a substantial outlay of cash.

Individuals may also have a Speculative Motive, based on the belief that bond prices may begin to significantly decrease, thus offering the investor the opportunity to use liquid funds to make an investment offering a more attractive rate of return. Basically, the speculative motive refers to investors' general reluctance to commit to tying up investment capital in the present for fear of missing out on a better opportunity in the future.

Now let us consider our case again in which demand fell to such an extent that inflation tanked to 2.07%. If we keep this figure in mind we can estimate the fall in demand must be significant. Moreover, Consumer Price Index basket of goods include almost all the goods for which money kept for the transactional purpose (and for the precautionary purpose to some extent because CPI also includes services of doctors, hospitals etc) is used. As Keynes said people divide the money with this priority list transaction motive, precautionary motive, and speculative motive. Although the amount of money to be kept for speculative motive is affected by interest rate which means people can increase or decrease demand for money for this purpose according to the interest rate. But we should keep this in mind that the change in demand of money for speculative motive will not be done at the cost of demand of money for transactional motive as it includes good of basic necessity. Let us try to explain this with a hypothetical example-

There are 2 consumers X and Y, one earns 10000 rupees per month and another 5000 rupees per month respectively. X spends in the ratio *2:2:1 i.e. 4000 rupees, 4000 rupees, and 2000 rupees. And Y, on the other hand, spends in ratio 3:2:0 i.e. 3000 rupees, 2000 rupees, and 0 rupees. What I tried to explain here is even if interest rate doubles Y cannot shift much of his income for speculative purpose. So the one will always keep demand for money for transactional motive over and above speculative motive.

**Transaction: Precautionary: Speculative*

So we can say that people will not transfer their demand for money for transactional purposes to speculative purposes that inflation will fall to such an extent. Therefore we can say that our assumptions do not hold true. Then why is inflation that low? We only have two arguments left, first people do not have money and second people are not bringing that much money into circulation. Both the given arguments lead to one conclusion i.e. the velocity of money, the rate at which money is exchanged from one transaction to another or how much a unit of currency is used in a given period of time is decreasing in the economy. So we have proved that slowdown in the economy is because people's faith has not been restored in the economy till now. But the major question, why the financial market is growing in such adverse situation? Before drawing any conclusion let us discuss one more point so that we can analyze the situation from one more angle.

Most of the mutual fund companies (A mutual fund is an investment vehicle made up of a pool of money collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and other assets. Mutual funds give small or individual investors access to professionally managed portfolios of equities, bonds, and other securities) have claimed that they are addressing a continuous increase in their Assets Under Management, (Assets under management (AUM) is the total market value of assets that an investment company or financial institution manages on behalf of investors.) which according to them means money is continuously flowing into the mutual fund market. Defiantly the data is 100% correct but the way it is presented or more accurately the way people receive it is wrong.

An increase in AUM means an increase in the market price of the fund and not increase in the value of the fund. An increase in the value of the fund is known as Corpus. Let us take an example to clarify what these terms actually mean.

Let's assume a very small mutual fund has an initial investment of 1,000 units and each unit is worth Rs 10. Hence, the total amount of the fund is Rs 10,000. This is referred to as the corpus. Later, some other investors invest Rs 2,000. Now the corpus will be Rs 12,000 (Rs 10,000 + Rs 2,000).

The total amount invested (Rs 12,000) is called the corpus or the total amount of money invested in the fund.

Now let's say the corpus is Rs 12,000 but, due to a rise in the price of the shares it has invested in, the value of the units has increased. So the Rs 12,000 invested is now worth Rs 15,000. This figure is referred to as AUM.

Of course, the market value of the fund is increasing as the market is addressing a bullish phase but this does not imply an increase in the inflow of money into the market(inflow of money increased but the figures shown by mutual fund companies do not show a clear picture).

Conclusion

After analyzing the situation from every angle we can conclude that the growth of financial market SENSEX is majorly due to the inflow of money by big pocket investors or FII's. They are speculating the market and making huge profits on their investments. India definitely has that much production capacity or growth potential that it can justify the current financial market figures one day and even cross it but as of now the growth in the financial market indices is not real but an illusion. According to current conditions market is quite volatile* in short run (short run means 1to 3 years)

**volatile here means that the market will see a correction or downfall and not sudden ups and downs*.

In short run, the market will fall but this will be not as big as Great depression or 2008 crisis. And that time of downfall will be the time for long-term investors to buy. As Warren Buffet said, "Price is what you pay and value is what you get." I referred this quote here because even if you buy a nice stock at present price you will make a profit in long run but the price of most of the stock is more than the value they will add to your portfolio.

References

1. Mutual Fund.Retrieved from *https://www.investopedia.com/terms/m/mutualfund.asp*
2. Assets under Management – AUM.Retrieved from *https://www.investopedia.com/terms/a/aum.asp*
3. Velocity of Money. Retrieved from *https://www.investopedia.com/terms/v/velocity.asp*
4. 12 mutual fund terms you must know. (2006, December 22). Retrieved from *http://ia.rediff.com/getahead/2006/dec/22mf.htm*
5. Liquidity Preference Theory. Retrieved from *https://www.investopedia.com/terms/l/liquiditypreference.asp*

Central Banks role in Inequality

Shivangi Agarwal

B.A. Eco II

Abstract

The purpose of writing this research paper is to know how central banks are contributing to inequality which is a shattering reflection on the kind of society we are living in.The share of income going to those at the very top increases whenever the market booms and when the boom goes bust, that share drops somewhat, and again comes back roaring higher with the next asset bubble. Monetary policies and credit expansion are hardly mentioned as a likely source of rising wealth and income equality. Studies also show how inflation increases inequality depending on the channel it takes. As seen, that our monetary system is somehow increasing inequality, and if the purpose is to improve the standards of living of the least well-off in society, then central banking and the artificial monetary creation could be more costly than usually assumed by policy-makers. In the case of banking crashes, private banks incur massive losses and to fill up these losses Central banks prints the money electronically and inject it free of charge into the failing private banks. It also shows the inequality by central banks in the 2008 financial crisis. Overall the paper shows how the central banks and the financial institutions made the rich richer and poor poorer and thus increasing inequality.

Keywords

Central Banks, Inequality, Monetary Policy, Economy

Objectives of study

The research paper is based on the following objectives:

- Does monetary policy influence inequality?
- Should central bankers consider inequality in their monetary policy deliberations?
- How central banks address inequality?

Research Methodology

The study is based on the secondary data collected from various research papers, published and unpublished reports of various reputable economists.

Review of Literature

Dominique Plihon in his new economic model explained that income and wealth inequality have been rising in the past three decades. Surprisingly, inequality has been largely ignored in the literature and practice of monetary policy. However, due to the crisis, this question has been gaining more attention. Recent studies have shown that unconventional monetary policy implemented to fight the Great Depression in advanced economies has significant distributional effects and tends to exacerbate inequality. This poses a challenge for central banks. Not the least because increasing inequality is likely to affect monetary policy's transmission mechanism, thereby reducing the effectiveness of monetary policy

Introduction

Income inequality by the central banks has been a matter of concern in today's economy, especially in the United States. For a long time “benign neglect” shows the attitude of central banks towards inequality. Traditionally the directives of central banks and inequality are considered to be independent of each other.

It has been seen that whenever the market share increases, the share of income going to those at the very top increases and when the boom goes drops down, that share drops but then it comes again rising even with the higher asset bubble. Studies suggest that monetary policies of central banks along with the deep structural changes in the economy are said to be the key structures of economic inequality. The study also reviews the statements by officials of the three major central banks: The Fed, The Bank Of England (BOE) and the ECB (Europe Central bank) and shows how the 2007-08 financial crisis, the role of interest rates, asset bubble etc. contributes in promoting inequality.

Explanation

It has been seen that many of the richest earn their great fortunes while the poor are being deprived of that. The study below shows how this disparity between the rich and the poor is growing inequality among the people. It has been seen that the financial sector contributed in a massive amount to the growth of billionaire's wealth as seen in the seen table below :

Sector contribution to growth in wealth and number of billionaires, 1996–2014 (percent)

	Wealth growth			Growth in number of billionaires		
	United States	Europe	Other advanced economies	United States	Europe	Other advanced economies
Resource related	2.8	2.6	8.0	4.2	5.2	5.8
New sectors	22.1	7.8	33.5	19.0	12.7	31.9
Nontraded sectors	23.0	21.7	42.9	15.7	20.2	33.3
Financial sector	35.0	10.2	−1.3	41.6	13.5	11.6
Traded sectors	14.9	52.4	13.2	14.7	43.4	13.0
Other sectors	2.1	5.3	3.6	4.7	4.9	4.3

Source: Freund and Oliver (2016).

Below are the main reasons which show the growth of financial markets stimulated by an expansion of money supply:

(1) Financial titles are often seen to be used as collateral in debt contracts.

(2) Both the demand for and the supply of financial titles can be encouraged by the anticipation of price-inflation, which is a common trait among all fiat money regimes, which discourages the hoarding of money.

(3) Because the outlay of money through central banks is a matter of complete human will and is therefore prone to developing moral-hazard in the financial world. This creates a relatively huge demand for financial titles and also increases the supply of such titles by the same token.

(4) in the course of a business cycle, the demand for capital and the capital structure gets affected to a large extent in the short run due to low-interest rate and manipulation of credit by central banks and banks.

Disparities

In advanced economies, there is an extreme high gap between the rich and poor while inequality trends have been more mixed in emerging and developing countries. Monetary policy and credit creation are the two important points which have been ignored by many economists in the inequality of the central banks.It has been seen that the richest 1 % who now hold over 20% share in the economic market as compared to 8 % economic share in the year 1975. Between 2009 and 2012 the real income of the top 1 % jumped 31.4%. According to the sources, available economists had analyzed that the richest 10% received 50.5% of all their total incomes which was recorded in the year 1917 and is the largest share data first recorded.

Causes

Inequality trends or the changes in inequality seemed to increase when government regulations eased and bank failures rose. When we look at the financial crisis of 2007-08, when Lehman Brothers collapsed, central banks took unprecedented steps to revive the ailing world economy. Income inequality goes up and as a result earnings of the middle class become stagnant while earnings of the rich skyrocketed, a trend forced by lower tax rates on both labor and capital income. Because consumer was very sluggish, rich people eventually run out of sensible things to invest all the money they have and they finance loans to middle-class borrowers who can't afford them as their incomes are sluggish. When housing prices began declining and adjustable mortgage rates were raised to a higher level, a number of borrowers began defaulting on their mortgage loans. Asset-backed securities linked to the mortgage market began losing value. As the mortgage-backed securities were spread across all financial institutions, the crisis spread to other assets is based on short-term debt. Repo markets, asset-backed commercial paper markets, and money market mutual funds were at the center of this crisis. As concerns about marketability rose, securitization loosened the link between creditors and borrowers and created the possibility for illiquidity.Between 1976 and 2007, of every dollar of real income growth that was generated, Rajan wrote, “58 cents went to the top 1 percent of households.”

In other words, for decades, to increase the additional wealth of the richest Americans who needed more of liquid investments, more than half of the increase in the country's GDP is being poured in their bank accounts. In between the period of 1979 and 2007, incomes for the middle 60% increased less than 40% while inflation was 186%. However, the remaining 99% saw their income increase by meager 4% between 2009 and 2012. This shows the undesirable ways of income inequalities or legal counterfeiting by the central banks. According to the economists have studied that income inequalities and profits go hand in hand and they can't be divorced. Prime Minister Margaret Thatcher analyzed this concept of the inseparability of income inequality very well. She once said that it is better to have large income inequalities and have everyone near the top of the ladder than have little income differences and have everyone close to the bottom of the ladder.Every dollar the central bank creates benefits the early recipients of the money—the government and the banking sector — at the expense of the late recipients of the money, the wage earners, and the poor. The dollar has lost 82 percent of its value since the creation of a fiat currency system in 1971 while the banking sector has gone from 4 percent of GDP to well over 10 percent today.When central banks create money, it causes the price of transactions to increase without creating anything real; neither resources nor goods and services. The original quantity theory of money clearly shows how money is related to the price of anything money can buy, including assets. When the central bank creates money, traders, hedge funds, and banks — being first in line — benefit from the increased variability and upward trend in asset prices. Also, future contracts and other derivative products on exchange rates or interest rates were unnecessary prior to 1971, since hedging activity was mostly unnecessary.

The central bank is responsible for this added risk, variability, and a surge in asset prices unjustified by fundamentals. Below are certain statements made by representatives of major central banks and the IMF on this issue:

Bank of England (2014 and 2016)

- Over the shorter term, central bank policies can affect inequality; for example through extraordinary monetary accommodation which has boosted asset prices and exacerbated inequality.

  The long-term structural trends in the economy cannot be reshaped by the tools at the disposal of central banks like interest rates, money supply, regulations, etc.

ECB (Europe Central Bank)(2016):

- Over the medium-term, monetary policy reduces unemployment, which benefits poorer households the most. A faster return to full employment should, in turn, contribute to lower future inequality.

The IMF (2012) :

- Monetary policy shocks play a significant role in cyclical fluctuations in inequality, but cannot account for the increasing trend in income inequality.

- ➢ The standard measure of income inequality which has been measured by the Gini coefficient that ranges from 0 to 1 (when everyone has an identical income to when all income goes to only one person) stood at an average of 0.29 in OECD countries in the mid 1980's. By the end of the last decade, it has increased to 10% to 0.32. The conservative central bank focuses mainly on income and wealth stabilization rather than on the allocation of economic resources or on distribution. However, it has been seen now that Central bankers became recently aware of the effects of monetary policy on distribution. There is increasing direct evidence that monetary policies and distribution are related. The issue of distribution has taken a specific dimension in the euro area which calls for attention. Slower growth of the economy largely affects the reason for high inequality.

- ➢ Bank for international settlement or BIS also noticed the changes for the rise in the income inequality.A recent study by the Bank for International Settlements (BIS) describes that the larger amount in the asset valuation is being held by the wealthier class and also leads to large inflows in the equity markets when central banks purchases non-productive assets.

- ➢ Organization for Economic Co-operation and Development (OECD) studies and finds that income inequality is at least in part attributable in the U.S. to the fact that these capital-markets holdings are disproportionately owned by wealthy households, with the study showing – as does the BIS analysis – that moderate-income individuals principally derive wealth from their homes. Authors from the European Central Bank (ECB) also finds the fact and studied that home ownership is the principal wealth-accumulation engine in the U.S.

- ➢ According to the theory of the Cantillon effect which was developed by Richard Cantillon who explained and showed that the graph of income share will be rising for the premier ones who had received the newly created money while as the consumer price inflation comes, the last ones to receive the newly created money will see their purchasing power declining.

- The cash balances of the early receivers of the newly created money increase as the stock of money increases. Correspondingly, the marginal utility they give to money decreases and the individuals in question buy either investment or consumption goods, thus bidding up the prices of those goods and increasing the cash balances of their sellers. Consistently as the process continues, the prices of goods will increase only gradually which affects both the distribution of income and wealth as well as the different price ratios. As seenin accordance with the Cantillon effect, inflation can increase inequality depending on the channel it takes, but increasing inequality is not a necessary product of inflation. Inflation could become the cause of decreasing inequality if it happened that the poorest in society were the first receivers of the newly created money.

The labor wage rate of the economy has shrunk, reflecting the retreat of the middle and the lower income households. At the same time, investment income's share, almost exclusively earned by the wealthier and the richer class.

- **How Central banks should respond to the channel of growing inequality: Conclusion of the analysis :**

The focus could be on the redistribution by the central banks and can be seen to be the one solution, but without changing the structural format which caused the inequality to grow, redistribution would also have to grow to keep up. Alternatively, the govt. could make structural changes that reach out the causes of inequality. Central banks should take into account the distributive effects of their actions; not the least because these actions effects may affect the channels of monetary policy and its effectiveness with respect to the goals of monetary and financial stability. Central banks should be assigned broader targets and need to have broader objectives and instruments. In particular, employment creation, more rapid economic growth, financial stability, as well as poverty and inequality reduction, should join inflation stabilization as key goals of central bank policy. Nominal GDP targeting, leaving more space for GDP growth, as proposed by some economists (Woodford, 2013), may be more efficient in the presence of high inequality. Evolution of the prices of goods and services is equally important but the focus should not be only on that, other factors should also be taken into consideration. The impact of monetary actions on the evolution of the prices of financial assets, including real estate prices should also be taken into consideration. This should be the case specifically when quantitative easing policies, resulting in the creation of a huge volume of liquidity, may lead to sharp increases in the prices of financial assets with important distributional effects. Central banks should systematically report the ways and show how inequality affects the efficiency of their policies, and on how their policies affect inequality. Banking-sector statistics is being available to most central banks and, for example, to publish the distribution of deposits and credits by income groups.

Second, in their consideration, central bankers should identify winners and losers of their policies and make sure the costs and benefits of their choices are not too unequally distributed. Decision makers should focus and consider with caution to implement a policy that benefits only a few without displaying undeniable aggregate welfare improvement.

While designing, calibrating and comparing the policies, central banks should take inequality into account. Different income and wealth structures modify the transmission channels of monetary policy, and an optimal monetary policy must reflect that.

Transparency about the effects of monetary policy on inequality, the inclusion of inequality concerns in policy decisions and implementation of more efficient policies (by incorporating information on income and wealth structures) are three dimensions that can only have positive outcomes for central bankers. Such practices would foster public trust in central banks and reduce the risk of having their independence challenged. They would also help implement more efficient monetary policies and reduce the risk of the unintended consequences that inequality might trigger.

With price stability and financial stability central banks provide a central public good. Solving inequality is certainly not the primary job of central banks, but it is a factor that they should not ignore. Securing balanced growth and a fair distribution of the benefits and costs of price stability and financial stability is a public good, too.

References

1. Plihon, D. (2015). Central banks and distribution. Institute for New Economic Thinking. Retrieved from *https://www.google.co.in/url?sa=t&source=web&rct=j&url=https://www.ineteconomics.org/uploads/papers/PLIHON.pdf&ved=2ahUKEwih8JuB5JHaAhXFRo8KHcpSCY0QFjAAegQIAhAB&usg=AOvVaw2JVmF-adEYMLfzrac_iLUe*

2. Domanski, D. (2016). Wealth inequality and Monetary Policy. BIS. Retrieved from

   https://www.bis.org/publ/qtrpdf/r_qt1603f.htm

3. Rouanet, L. How central banking increased inequality. Mises Institute. Retrieved from

   https://mises.org/library/how-central-banking-increased-inequality

4. Voinea, L. and Monnin, P. Inequality should matter for Central Banks, CEP - Council on Economic bodies. Retrieved from

   https://www.cepweb.org/inequality-should-matter-for-central-banks/

An Analysis of Increasing NPA in Indian Banking Sector

Pranav Sharma, Parikshit Yadav, Lopamudra Mishra

B.A. Eco I

Abstract

Public Sector Banks in India have not been showing remarkable progress and are facing great challenges for their existence in terms of adequate capital. And one of the key reason behind it is Non- Performing Assets. Therefore, the objective of this paper is to study the reasons responsible for increasing Non Performing Assets in banking sector of our country. Mainly, the study focuses on the bank policies of lending and advances (credit) and also the guidelines for recovery. The recent enactment by central government to expedite the recovery process and to curb unnecessary legal proceedings, impact of increasing Non Performing Assets on country's economy in term of financial Implications which lead to slow growth of economy, has also been covered in this study. This study also shows, how RBI can play a pivotal role to minimize the Non-Performing Assets of Indian Banks.

Keywords

Non-Performing Asset, Global Financial crises, Subprime crises, Reserve bank of India, State bank of India

Objectives of Study

- To collect data, statistics and surveys related to the variation in the level of NPA of various public and private sector banks present in India and critically analyses the variation and similarities found
- Highlighting the position of NPA in Indian banks as compared to other developing and developed countries
- To estimate the possible threats and losses due to high level of NPA in near future
- To suggest appropriate methods and techniques to curb the possible threat in coming years and also discuss policies and laws sanctioned by RBI for the same

- Discussing the change undergone by the Banking sector after liberalisation in 1991 and establishing an interesting relationship with then to the present day crises of NPA.

Research Methodology

Since most of the data cannot be obtained from the primary sources, secondary sources of data have been used; such as newspapers, internet articles, magazines among others.

Review of Literature

Namasivayam and Ranachandriaiah, suring their study in 2000 concluded that the productive loan as a proportion was higher for marginal farmers. The crop loan tended to be more often misused than term loans, partly due to untimely issue of loans. Later in 2002, Samal had a different study where he found NPA overhang was due to absence of proper legal framework for non-payment of bank's dues. In 2006, Sachin Agrawal and Kavita Agrawal held that proper policies adopted by the banks regarding disbursement of the loan, good chain of recovery has also made the NPA to diminishing rates. Lakshmanan C and Dharmendran A in 2007 studied the impact of NPA in Chennai Central Co-operative Bank. On examining NPAs on different variables like net profit, investment, legal expenses and spread were negative and insignificant at 5% level in all the equation. Thus they concluded that the effective management of NPA is essential to strengthen the financial position of the bank. Mayilsamy R and Revathi Bala M (2009) in their work entitled "Management of NPA in District Central Cooperative Banks in India, felt that the Narasimhamn Commitee Report-1998, rightly pointed out that NPAs constitute a real economic cause to the nation in that they reflected the application of lacking capital land credit finance to inefficient uses. Lastly, the study of Vighneshwara Swamy (2013), has established that private banks and foreign banks have advantages interns of their efficiencies in better credit management inn containing the NPAs, which indicates that bank privatization can lead to better management of default risk.

Introduction

Indian banking system can be broadly categorized into two main sectors: Public sector and Private sector. The prime concern of Public sector Banks are to maximize the welfare. Similarly, the Private sector banks have its own limitations under which it works, keeping the idea of welfare aside, focusing on profit maximization.

Banking sector was not at all in good condition during the era of independence. Private banks were in a chaotic situation, depositor's savings dwindled resulting high instabilities in banking sector. This was the time when our banking sector needed a rescue policy and liberalisation happened (1991). The nationalization of Indian banks took place, RBI got established in 1935. This way the Banking sector started to strengthen, formation of the SBI and subsequent acquisition of state owned banks by SBI in 1959 made the government the dominant player in banking industry.

Concept of NPA

The banking sector has to concentrate on the effective management of funds to avoid the hindrance of rotation of funds. Because many studies highlighted that most of the beneficiaries have used the loan amount for the purposes other than actual diverted the loan amount have used it for social ceremonies prior to spending on house maintenance and repaying old debts. This may be one of the causes for accumulation of overdue balances. This will lead to poor recovery performance and will affect the banking regular activity. So the concept of NPA is developed to help financial institutions to speed up the collection and to make special effort to recover with the help of various Laws in force. Also, efforts should be made in the direction to bring down the level of NPA to an internationally accepted level of 2-3 % (of loan assets)

What causes NPA?

- Improper selection of borrower's activities
- Weak credit appraisal system
- Industrial problem
- Inefficiency in management of borrower
- Slackness in credit management and monitoring
- Lack of proper follow up by the bank
- Recession in the market
- Due to natural calamities and other uncertainties

Impact of NPAs' on Banking Operations

High levels of NPA affects the profitability, liquidity and solvency. Apart from this it results in a fall when it comes to the interest income of banks. Banks profitability gets affected adversely due to doubtful and chaotic debts. The return on investment suffers a wide reduction along with the cost of capital going up. Lastly, asset and liability mismatch widen limiting the recycling of funds.

Impact of Liberalisation on NPA

During post economic-liberalisation period, a steady improvement can be witnessed when we analyse the quality of assets present at the Indian Banking sector. A steady declination in Gross NPAs as % of Gross Advances from the year 2000-2013 cannot be ignored. The level of NPA decreased from 12.4 to 3.6 in public sector which is nearly one third of the figure in the year 2000. Private sector banks also have managed to show a declination in the level of NPA i.e. from 8.4 to 1.8 since 2000 to 2013.

A credit appraisal process was adopted by SCBs, the reason why the gross NPA to gross advances of SCBs (Scheduled Commercial Banks) placed at 11.4% in 2001 has declined to 3.2% in 2012-13.

The low level of NPA during the period of 2008-09, indicates the insulation of Indian Banking sector against the Global Financial Crises..

GROSS NPA‘s OF 24 PSU Banks		
Year	Gross NPA‘s	GNPA Ratio
Dec‘12	157,784	3.87
Dec‘13	218,579	4.61
Dec‘14	261,843	5.09
Dec‘15	393,047	7.16
Dec‘16	614,872	11.00
*In Rupees Crore		

Year	Gross NPA‘s as % of Gross Advances				Net NPA‘s as% of Gross Advances
	Public Sector Banks	Private Sector Banks	Foreign Banks	SCB‘s	
2000-01	12.4	8.4	6.8	11.4	6.2
2001-02	11.1	9.6	5.4	10.4	5.5
2002-03	9.4	8.1	5.2	8.8	4.4
2003-04	7.8	5.9	4.6	7.2	2.9
2004-05	5.5	3.8	2.9	5.1	2.0
2005-06	3.6	2.6	1.9	3.3	1.2
2006-07	2.7	2.4	1.8	2.5	1.0
2007-08	2.2	2.8	1.8	2.3	1.0
2008-09	2.0	3.3	4.3	2.4	1.1
2009-10	2.3	3.0	4.3	2.5	1.1
2010-11	2.4	2.5	2.5	2.5	1.1
2011-12	3.3	2.1	2.6	3.1	1.4
2012-13	3.6	1.8	3.0	3.2	1.6

Private Sector Bank Vs Public Sector Bank

According to a report released by RBI on 1 September 2015, The Reserve Bank of India (RBI) designated State Bank of India (SBI) and ICICI Bank Ltd, the country's two largest lenders, as Domestic Systemically Important Banks (D-SIBs), meaning their collapse could have a cascading impact on the entire financial system and the economy.

This decision of declaring these two banks as having strategic importance in Indian Banking sector is purely based upon their performances in maximizing the country's GDP. Banks with assets that exceed 2% of GDP was considered to be part of this class of lenders. As of 30 June, SBI's loan book was worth Rs.12.8 trillion and ICICI's loan book was close to Rs.4 trillion.

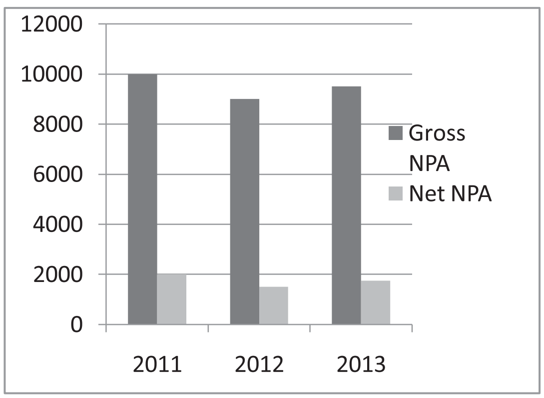
SBI accounts for 16.3% of the total market capital of all listed banks, which was Rs.11.47 trillion at the close of trading on the BSE on Monday; ICICI's share is 14.08%.

Out of four systemic importance buckets, SBI falls in bucket three while ICICI Bank is in bucket one. The higher the bucket number, the more systemically important the bank. So, among the two, SBI is more systemically important. Thus the country's economic condition mainly lies in the hands of public banking sector even if not solely.

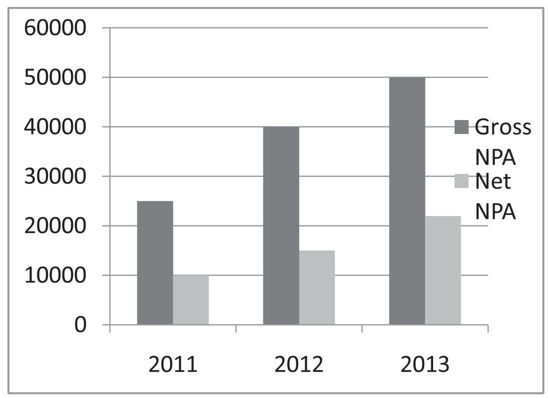
On Comparison of NPA Level

As discussed above, SBI and ICICI emerged as leading banking sectors in 2015 and even the RBI declared them having some strategic significance in Indian banking system, so its time to compare the NPA levels of both the firms to have a better understanding of the matter.

ICICI BANK



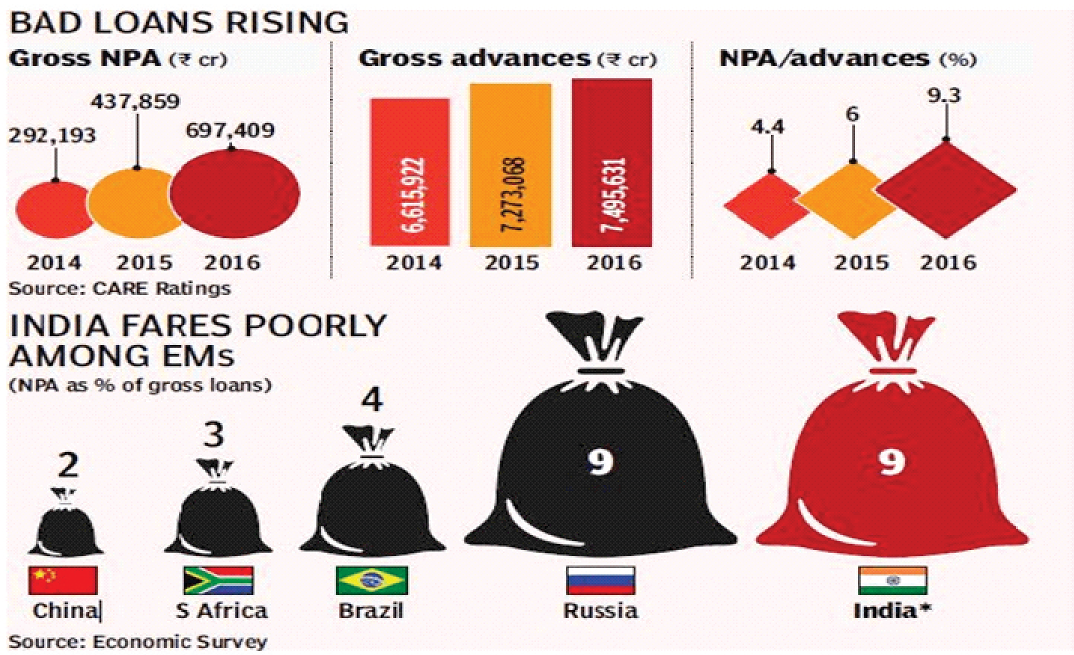
STATE BANK



The NPA problem in India is worst when comparing other emerging economies in BRICS:

- According to a recent Economic Survey conducted, we've found that the NPA level of India amongst various developing and developed countries is surely a major concern that one must ponder over.
- This bad performance is not a good sign and can result in crashing of banks as happened in the sub-prime crisis of 2008 in the United States of America.
- Sub-Prime Crises Of 2008, US: Housing boom took place due to low interest rates on housing loans which resulted many lenders lending home loans to individuals with poor credit. This way the real-estate bubble reached its saturation point when many borrowers were unable to make payments on their subprime-mortgages.

- Global, regional or national **financial crisis** which results in erosion of margins and profits of companies, therefore, stressing their balance sheet which finally results into non-servicing of interest and loan payments.
- On critically evaluating the data of Economic survey presented to us, countries like China, South Africa, Brazil have a fairly low percentage of NPA(of gross loans) i.e. 2,3 and 4 respectively.
- Russia and India, on comparing their NPA levels, Russia emerges as a stronger economy irrespective of its high percentage of NPA on gross loans unlike INDIA.



China's Bad Loans

China is slowly emerging as a powerful economy and its growth rate is quite evident from the statistics shown above. Emerging out of such a contentious issue and that too so smartly and consistently within few decades is something India must learn and implement in its economy. It's time to take this as a lesson for our economy, RBI and government should take this as an excellent example that how China managed onto its bad loans and have been managing since 2000. To be precise, in early 2000s, the condition of NPA in China was too bad. It was even higher than that of India then but gradually China made a significant effort to fine-tune NPAs; today, they are much less than in India. It is also interesting to note that during the same period, lending by Chinese banks has been far higher than by Indian banks, which have been historically reluctant to extend credit and even more reluctant lenders post the 2008 financial crisis.

So how did the Chinese go about solving the NPA problem they had in the early 2000s?

They adopted a four point strategy to address the problems:

- Strengthening nationalized banks, spearheading reforms of the state-owned enterprises (SOEs) by reducing their level of debt
- Enacting laws that allowed the creation of asset management companies, equity participation and most importantly, asset-based securitization
- Ensuring that the government had the financial loss of debt "discounted" and debt equity swaps were allowed in case a growth opportunity existed
- Producing incentives like tax breaks, exemption from administrative fees and transparent evaluations norms

How is this relevant to India and how can we address the NPA issue more effectively?

It is important to note that we have followed some parts of the strategies mentioned above, but not in full. One of the key points, mentioned by the IMF as well as others, is the need for an environment for fair valuation of assets. In the context of cases such as Kingfisher Airlines (where only one bidder eventually came forward), the role of asset reconstruction companies becomes very important. There need to be more structural protections for fair valuations, especially in the context of the bankruptcy law that was passed by Parliament last year.

Another important point that has bypassed the domestic policy narrative is securitization. The thinness of the domestic investor base needs to be overcome, coupled with a robust securitization structure. In addition, this process should involve the transfer of debt to privately managed specialist vehicles that have a clearer mandate and expertise to engage in corporate restructuring. Only this method has the potential to drive faster restructuring of a debtor company, otherwise securitization will merely change the ownership of its debt.

The RBI must make a concerted effort to distinguish between genuine performance-related loan issues and companies that are taking the system for a ride. For example, the top 10 corporate groups in India owe more than Rs5.73 trillion to state-controlled banks. Generic regulatory control is affecting the credit flow to Small and Medium-sized Enterprises (SMEs). It is important that schemes such as the Pradhan Mantri Mudra Yojana are promoted in tandem to provide credit to genuine SMEs and stricter measures are first directed at the big companies that own large chunks of NPAs at the national level. This distinction is important to address the problem in a more targeted manner and find effective solutions without affecting genuine business professionals and entrepreneurs at large.

To conclude, it is important to look at some of the key measures taken by other countries to address the NPA issue. China's NPA rescue mission is one such case study. India should learn from it, especially in the context of valuation, securitization and more targeted NPA redressal mechanisms.

Bad Loans Emerging as a Monster's Paw

Loans, when sanctioned, involves an agreement between the lender and the borrower stating time frames and period of repayments. When this process of repayment start suffering irregularities, it enters into the category of bad loans. I.e. the loans which makes the firm enter into the state of insolvency and liquidity due to the incapability of debtor in making required payments under specified time period. In recent years we've been witnessing a heavy rise when it comes to Bad loans in Indian banks. It's like an earthquake which has been shaking the entire banking industry like a deadly earthquake. And mainly, the Public sector banks are seen struggling a lot with the issue because of non-effective monitoring of loans. The earning capacity of banks are highly effected because of the ongoing bad credit crises. This is spreading as an uncontrollable virus disturbing the whole economy, making the banking sector highly chaotic in terms of credits. Bankers are custodians of liquid capital of the country. The fluidity and distribution of the capital is extremely important for any kind of progress in our economy.

With reference to the recent TIMES OF INDIA report, Bad loans are emerging as a canker worm, eating up the banking sector from within. Bad loans will rise to 11.1% from 10.2% in a year, says RBI.

“The overall risks to the banking sector remained elevated due to asset quality concerns. Between March and September 2017, the gross non-performing advances (GNPAs) ratio of Scheduled Commercial Banks (SCBs) increased from 9.6 per cent to 10.2 per cent and the stressed advances ratio marginally increased from 12.1 per cent to 12.2 per cent," the RBI said in its Financial Stability Report (FSR) released in 2017.

Apart from this if we look into the data presented to us by a recent Economic Survey conducted, the Gross NPA and Gross Advance figures since 2014 till 2016 i.e. within a span of 2-3 years it has soared quite high resulting NPA/advances as nearly 10% of the net loans sanctioned. On studying the figures of 2014-16 shown, a high difference of 4.9% can be witnessed which is just enough to have a vague idea of existing financial condition of Indian banks.

Possible Threats Related to NPA in the Near Future

Rising NPA levels is posing as a threat to Indian Economy. The public sector banks gross NPA ratio may increase from 12.5% (2017 data) to 12.9% in March 2018 as approximated and predicted by RBI. Erosion in deposition is one of the worst calamity that the government must look after as soon as possible to avoid future disbalances . NPA threatens to erode half of the total capital bare of public sector banks today.

If this defaulted situation is not attended with proper measure then history might repeat itself [Global Financial Crisis 2008(U.S.)]. The main cause that one may look after when it comes to regulating the NPA level in the country is pinpointing the defaulters who are dragging banks to bad loan crisis. One must take a lesson from the Global Financial Crisis-2008 which happened in U.S. and the way lehman Brothers dealt with its collapse.

In India, our experts express contrasting views on what went wrong with the banks. An inability to pinpoint the reason of this huge seven-million dollar bad loan is the main reason why banks are not able to form a credible action plan to tackle NPA.

EconomicSectors Responsible for the High NPA Levels

1. Realty Sector:

   This sector is highly affected by this three letter word NPA due to high mismanagement in the banking sector, unscrupulous borrowers and bad debts. Mainly this is happening due to the allowance of conversion of agriculture land into housing complexes. The government also allowed 100% FDI in realty sector after

2005. This way it failed to keep a check on the massive black money poured into the realty sector. The top management of banks are often forced by politicians and bureaucrats to throw good money often bad in case of unscrupulous borrowers.

Government created more jobs in urban sector then in rural sectors which had triggered migration. Real estate bubble also has got nurtured compelling more people to take housing loans at higher interest. This way politicians and builders join hands to cash in on the people's basic need of a house in urban India.

2. Power Sector:

   The power sector also ammasing huge NPA's. Hydroelectric projects in Uttarakhand were destroyed in the 2012 flood and loan became an NPA. Also one bank had net examined the availability of coal before sanctioning power projects, and it NPA grew to 12% in the power sector.

3. Housing Sector:

   Many housing projects were allowed on hill slopes in Assam, Himachal Pradesh, Uttarakhand which were prone to natural disasters. Banks have sanctioned housing loans on those hill slopes without examining the environmental factor

4. Agricultural Sector:

   Due to poor input management, lack of research, lack of transparency in market has lead to 6% NPA growth in Agricultural sector. Big companies source village produce through middlemen and give less profit margin to original producers the lack of strong farmers' cooperative reduces the bargaining power of the farmer producers. All these factors have an impact on the repayment capacity of the farmers.

Measures Taken and Policy Designed to Curb the NPA Crisis

According to research and study till now, it is very clear that the NPA crises is emerging as a threat to India's economy. If things are not handled properly in coming years then it will get really difficult for us to manage with the growth pace of other developing countries and at last they'll successfully surpass us emerging as strong economies of the world. For any country to flourish and develop at a greater pace than before, it's very important to understand the state policies, laws and regulations implied on its financial sector, by also understanding its impact and how the regulation is done over years. The designing of various policies and agendas for curbing the rising NPA level is not at all a recent thing. This legacy dates back to the year 1991 where Liberalisation was just into India's economy as a savior and establishment of Narsimham Commitee took place to tackle NPA. This was then followed by various other measures and yojanas introduced by government:

- DRTs – Debt Recovering Tribunals (1993)
- Credit Information Bureau – 2000
- Lok Adalats- 2001
- Compromise Settlement- 2001
- SARFAESI Act – 2002
- ARC – Asset Reconstruction Companies
- Corporate Debt Restructuring – 2005
- 5.25 rule – 2014
- Joint Lender Forum- 2014
- Mission Indradhanush- 2015
- Strategic Debt Reconstruction (SDR) – 2015
- Asset Quality Review – 2015
- Sustainable structuring of stressed assets- 2016
- Insolvency and Bankruptcy code Act – 2016
- Public ARC Vs Private ARC – 2017
- Bad Banks – 2017

The highlighted acts and measures are some of the important ones implemented by government and needs some introspection at minute level:

- DRTs – Debt Recovering Tribunals (1993):

These were designed to regulate the recovery of debts efficiently without much wastage of time and energy. The scheme involves various financial institutions to provide easy access on recovering of loans by the customers. DRTs can take cases from banks for disputed loans above Rs 10 lakh. At present there are 33 DRTs existing in the country. However in 2014, the government introduced few more (six new DRTs) to speed up loan related dispute settlement.

However DRTs need to meet the following issues to overcome its shortcoming:

- The number of DRTs are small given the increasing number of cases
- Delay in settling the cases is long
- The DRTs were not able to handle cases related to large borrowers
- Timely appointments of officials for DRT has not been made
- Corporate Debt Restructuring – 2005

Based on the experience in countries like UK, Thailand,

Korea, Malaysia etc. of putting in place an institutional mechanism for restructuring ofcorporate debt and need for similar mechanism in India, Corporate Debt RestructuringSystem was evolved and detailed guidelines were issued by the Reserve Bank of Indiaon August 23, 2001 for implementation by financial institution and banks. In 2008,comprehensive guidelines for both institutional restructuring as well as non-institutionalrestructuring were issued. Master guidelines were issued in 2012, the RBI revised theCDR guidelines on May 30, 2013.

The name itself suggests that it involves alteration and reconstruction of already existing norms related to specific payment period, amount repayable, amount of instalment or the interest rate etc.

- Joint Lender Forum- 2014

A group of banks join their hands together in lending money to an entity or the borrower, this was introduced to speed up the decisions when a loan of Rs 100 crore or more turns out to be a stressed asset.

Main purpose of JLF is to revive accounts that are stressed. The JLF has to initiate

Corrective Actions when an account becomes the potential of being an NPA. As per thepresent norm, the JLF can take steps when an account with a size of More than Rs 100 crores or more doesn't return payments and becomes a special mention account.

- Asset Quality Review – 2015

  The fact that the rising NPA level is emerging as an immense problem in the banking sector is nothing new. But assessing the quality of the asset in this context is an extremely new measure introduced by RBI. After all quality check is something which should be regulated very often to know the current status of the asset present at the bank.

  But the rising level of NPAs has tempted the RBI to come out with additional inspectionson the balance sheets of the banks to check the genuine nature of bank assets. TheRBI during 2015 has conducted inspection of selected banks' balance sheets inrandom. The report from such inspection is termed as Asset Quality Review (AQR). So,AQR is the result of asset quality inspection by the RBI on commercial banks. Mainfeature of AQR is that it may not be periodic and rather it is random check.

- Bad Banks – 2017

  A new tool has recently got introduced while to make the study of banking sector relatively easy. It's exclusively designed to deal with bad debts and if necessary also regulates the liquidity and insolvency of the reserved asset present at the bank. The banks can transfer the bad debt at a discount to the bad bank. With the stressed asset off its balance sheet, the bank's capital adequacy norms will improve and it can focus on running the banking operations rather than chasing the defaulted borrower.

Conclusion

The condition of Non-Performing Asset in Indian Banking sector has seen all possible shades of boom and depression periods. After studying and critically analyzing the various impacts, causes and trends, it's time to reach a conclusion which will summarize the research making the study crystal clear for the readers to frame their own point of view.

On collecting the data related to levels of NPA of private (ICICI) and a public sector bank (SBI), we found that the NPA has undergone a wide range of variation since when the liberalisation happened. On analyzing the data we also found that till 2013 the NPA level was steadily declining without posing any major problem but however it soared high after that and is currently at 10%. Hence it's high time that one must strive towards bringing down the NPA to internationally accepted level (2-3% of loan assets).

Adoption of correct measures should be done to tackle the NPA level as it was done by US during 2008 when sub-prime crises took place. This was the main reason of comparing the levels of NPA and highlighting India's NPA in comparison with other developing and developed countries.

Given, however, that public sector banks are much bigger than private sector banks, private sector banks cannot substitute fully for the slowdown in public sector bank credit. We need to get public sector banks into lending to industry and infrastructure, else credit and growth will suffer as the economy picks up.

High NPAs is not just affecting the banks but also the economy as a whole. Borrowers to be made aware of the fact that borrowing money from the banks are always a safer and secured option than Money lenders.

References

1. ClearIAS. Non-Performing Assets (NPA): How serious is India's bad loan problem? Retrieved from
https://www.clearias.com/non-performing-assets-npa/

2. Lenzener, R. (2012). The 2008 Meltdown And Where The Blame Falls. Forbes. Retrieved from
https://www.forbes.com/sites/robertlenzner/2012/06/02/the-2008-meltdown-and-where-the-blame-falls/#6e13ec3ba72a

3. Wikipedia. Financial Crisis of 2007-2008. Retrieved from
https://en.wikipedia.org/wiki/Financial_crisis_of_2007%E2%80%932008

4. Reinhart, C.and Rogoff, K. (2008). Is the 2007 U.S. sub-prime financial crisis so different? An International Historical Comparison. NBER Working Paper Series. Retrieved from
http://www.nber.org/papers/w13761.pdf

5. Amadeo, K. (2017). What caused the 2008 Global Financial Crisis? The Balance. Retrieved from
https://www.thebalance.com/what-caused-2008-global-financial-crisis-3306 176

6. NPA woes continue at ICICI bank, GNPA at 8%. Financial Express. (2017). Retrieved from

http://www.financialexpress.com/market/npa-woes-continue-at-icici-gnpa-at-8/783471/http://www.financialexpress.com/market/npa-woes-continue-at-icici-gnpa-at-8/783471/

7. Singh, V. (2016). A Study of Non-Performing Assets of Commercial Banks and it's recovery in India. Annual Research Journal of SCMS, Pune. Chapter 9. Retrieved from

https://scmspune.ac.in/chapter/2016/Chapter%209.pdf

8. IAS Score. NPA issue in India: An Analysis. Retrieved from

http://www.iasscore.in/special-details-34.html

9. Pragya Srivastava (2017). India's Bad Loans: Here is the list of 12 companies constituting 25% of total NPAs. Financial Express. Retrieved from

http://www.financialexpress.com/industry/banking-finance/indias-bad-loans-here-is-the-list-of-12-companies-constituting-25-of-total-npa/903396/

10. Legal Services India. Non-Performing Assets. Retrieved

fromhttp://www.legalservicesindia.com/article/article/liberalisation-of-indian-banking-&-regulation-1023-1.html

11. Murugandos, K. and Murugan, P. (2015). Concept of NPA and its position after economic Liberalization. Retrieved from

http://www.indianmba.com/Faculty_Column/FC1598/fc1598.html

12. Das, S. (2017), Rising NPAS, Treat to Economy. The Pioneer. Retrieved from

http://www.dailypioneer.com/columnists/oped/rising-npas-threat-to-economy.html

13. Balasubramaiam, S. (2017). NPA resolution: What RBI can learn from China's strategy against bad loans. Retrieved from

http://www.livemint.com/Opinion/THhRqYhQRV5ftaTs5aHp7H/NPAresolution-What-RBI-can-learn-from-Chinas-strategy-aga.html

FOREIGN POLICY AND TRADE RELATIONS

SECTION 3

Asian Giants in a Game of Hegemony

Divyansh Sharma and Pranay Sethi

B.A. Eco III

Abstract

Since ancient times, India and China have been culturally and aesthetically different, yet quite similar. The voyages of Faxian and Xuanzang to India were seen as one of the major cultural exchanges of the ancient world. The infamous theory of String of Pearls (China) and how India is trying to retaliate to it in the name of String of Flowers (theory) is also mentioned in the paper. China, knowingly or unknowingly, created a debt trap for many countries; so to overcome this fiasco and by good diplomacy from Indian side; many countries have now established ties with India. Because of the recent initiative took by the China, OBOR, China will connect with major parts of Asia and Europe; India has started its own way of counteracting it by strengthening the ties with the Central Asian and European nations. This paper majorly focuses on the strained relations of India and China, the major organizations of which these two nations are part of, and an alternate war scenario and how it would create a major impact on the world forum.

Keywords

A string of Pearls, String of Flowers, BIMSTEC, NSG, MTCR, SAARC, UNSC, IORA, Ashgabat Agreement, Strait of Malacca, Chinese debt, BRAHMOS, Naval War, War Simulation, Doklam, Foreign Naval Bases, Djibouti.

Objectives

There are three major questions which are addressed in this paper.

1) How would India retaliate to China's aggressive economic and geopolitical strategies?

2) Trade routes between India and China and their present and future, and how does it shape the upcoming economic situations of the Asian giants.

3) What will be the alternate naval war scenario?

Research Methodology

Since most of the data cannot be obtained from the primary sources, secondary sources of data have been used; such as newspapers, internet articles, magazines among others.

Review of Literature

In an article of ZEE News, it was found out that due to the Japanese and Indian influence on making two deep sea ports, Bangladesh is now not so keen on having China as it was China's strategy on having a way-in the Bay of Bengal region.

Ms Mridusmita Choudhury in her article on Quora, 'Introduction to One Belt, One Road (OBOR) Initiative', implies that since ancient times, trade has been one of the main reasons for Chinese boosting economy, and the Silk Route has played a great hand in it. And the OBOR or the modern silk route per se, will connect the Eastern China to the European world, helping China to increase its trade.

Introduction

"India conquered and dominated China culturally for 20 centuries without ever having to send a single soldier across her border"

Sino-Indian mainland has always been an interesting concept, even since the ancient times. The major events during the ancient times were the formation of the Silk Road, the spread of Buddhism, and the exchange of cultures of the two great empires the ancient world ever saw.

In the medieval times, many Indian and Chinese travelers and monks traveled across extensively during the period. Travellers like Xuanzang and I Ching studied in the Nalanda University, while Indian travelers like Buddhabhadra and Bodhidharma pioneered the Shaolin Monastery and founded the Chan/Zen Buddhism respectively. Even the Tamil dynasties like the Cholas and the Pallavas had good trade relations with the Chinese dynasties. But there were no or little relations between the Mughals and the Chinese dynasties viz. Ming and Manchu (Qing) dynasties. Though in the later years, the late Mughals and even the Sikhs led wars again China (Sino-Sikh War) for the annexation of Chinese and Tibetan mainland.

After British occupied India, the British used Indian sepoys against the Chinese army in the Opium Wars and the Boxer Rebellion. The main traded community was opium which was grown in India and exported to China.

After independence, it has been known that India and China have had a rocky history between them. One of the early issues was the possession of Tibet, upon which China claimed control while India considered Tibet as an independent state. But after the Chinese annexation of Tibet, India never raised the issue globally again. Aksai Chin was one disputed area which was the spearhead of all the skirmishes and battles forthcoming. The Sino-Indian war of 1962 and a small skirmish of 1967 were the results of border disputes among the Ladakh and Sikkim area respectively.

Since then, there have been many talks and small disputes over the support of terrorism in Pakistan and POK region of India, with the most recent one being the Doklam standoff in June 2017.

All in all, till now China is the largest trading partner of India. China and India majorly trade in Cotton, Gems and Precious Metals, Plastics, Electronic Items, and Fertilizers to name a few.

India's Retaliation Towards China's Policies

Bay of Bengal Initiative for Multi-Sectoral Technical and Economical Cooperation (BIMSTEC)

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) organization was formed on 6th June 1997 in Bangkok comprising of 7 member countries including Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand. Its chairmanship rotates in alphabetical order. Nepal formally took over the new chairmanship as on March 4, 2014.

BIMSTEC was neglected for all these years since its formation with only three summits in twenty years. Now due to the intensification of the India-China rivalry in the Indian Ocean region, India is now backing on BIMSTEC to open a free trade route amongst the member states; where India leads the sectors of transport and communication, counter-terrorism and transnational crime.

Nuclear Suppliers Group (NSG)

Nuclear Suppliers Group (NSG) is a multilateral export control regime and a group of nuclear supplier countries that seek to prevent nuclear proliferation by controlling the export of materials, equipment, and technology that can be used to manufacture nuclear weapons.

India' reason to enter NSG is to get access to low-cost nuclear technology which will help in meeting future demands of electricity. Being the third largest greenhouse gas emitter it is also necessary to gain access to this technology as nuclear power is a source of clean electricity. Having access to low nuclear tech, India can tap its rich thorium deposits instead of importing nuclear fuel which will further help country's BOP.

China is the major country blocking India's bid into NSG and there are a few reasons for it. Firstly, China is the biggest nuclear power in Asia and having India in NSG it may lose that status. Secondly, despite having NPT China has still not gained access to MTCR while India has. Thirdly, Pakistan is an ally of China, China is also pushing for Pakistan's entry into NSG if India gets an entry.

Missile Technology Control Regime (MTCR)

The Missile Technology Control Regime (MTCR) is an informal and voluntary partnership among 35 countries to prevent the proliferation of missile and unmanned aerial vehicle (UAV) technology capable of carrying above 500kg payload for more than 300km.

India formally applied for its membership in 2015 and was granted entry in June 2016 after approval of all 34 members. Due to India being a member of MTCR, it is now a step closer to NSG. Due to its entry in MTCR, India can now buy high-end missile technology easily, and also India now can export its infamous cruise missile BRAHMOS to other countries. Vietnam has shown a keen interest in buying the BRAHMOS missile which now can happen.

China applied to join MTCR in 2004 but was denied membership because of China's export control standards. Also in 2004, USA banned 8 missile companies of China charging them with the proliferation of missile technology. China now wants to join MTCR because of a few reasons. Firstly, India now is a part of MTCR which enables them access to advanced missile technology which China also wants. Secondly, India now can sell its infamous BRAHMOS missile to other countries, and China also wants to do that with its own cruise missiles.

Indian Ocean Rim Association (IORA)

IORA is a regional organization of the bordering states of the Indian Ocean. Coming into existence in 1997, it comprises of 21 member states, and 7 dialogue partners, with the observer status being granted to Indian Ocean Tourism Organisation and Indian Ocean Research Group. Its main focus is aimed at strengthening regional cooperation and sustainable development. Also, IORA works primarily in the areas of Maritime Security, Trade Facilitation and Liberalisation, Disaster Risk Reduction and Tourism Promotion & Cultural Exchanges among others.

China wants an entry in IORA because of its constant trade routes and inclusion in the Indian Ocean, and the rising threat it feels due to the supremacy of the Indian Naval forces in the region.

United Nations Security Council (UNSC)

United Nations Security Council is one of the secondary organizations under the United Nations. Headquartered in New York, it came into existence on 17 January 1946. It has five permanent members, viz. United States of America, United Kingdom, Russia, France and the People's Republic of China. These members have the power to veto any substantive Security Council resolution, including those on the admission of new member states or candidates for Secretary General.

While four of the five members are in favor of India's inclusion in the UNSC as a permanent member, China has often vetoed it. This dubious behavior, coupled with the recent Doklam and other issues, does not put India and China as the best of the bilateral partners.

South Asian Association for Regional Cooperation (SAARC)

SAARC is an economic and geopolitical organization of eight countries, primarily located in the Indian Subcontinent. Formed on 8th December 1985, the SAARC policies aim to promote welfare, self-reliance and socio-cultural development in South Asia. The SAARC has developed external relations by establishing permanent diplomatic relations with the EU, the UN (as an observer), and other multilateral entities. Headquartered in Kathmandu, the main lucrativeness which these countries provide are the low-price labor, availability of resources and the vast market to the developed and the group of developed countries.

India is the major contributor in nearly every facet among the member nations, and thus the role of Pakistan is prominently lessened. China, being a masked adversary of India, and a prominent ally of Pakistan, has always tried to increase its status from the observer state to a full member nation. The reasons why India does not promote the entry of China into the organization are the availability of the market for India and the Pakistan-Nepal-China triangle against India.

String of Pearls

The String of Pearls is a geopolitical theory on potential Chinese intentions in the Indian Ocean region. It refers to the network of Chinese military and commercial facilities and relationships along with its sea lines of communication, which extend from the Chinese mainland to Port Sudan. The sea lines run through several major maritime choke points such as the Strait of Mandeb, the Strait of Malacca, the Strait of Hormuz, and the Lombok Strait as well as other strategic maritime centers in Pakistan, Sri Lanka, Bangladesh, the Maldives, and Somalia.

This policy is said to be Chinese attack on Indian Navy dominance in the Indian Ocean region but all the countries which invited China are now having a burden of debt in their BOP.

String of Flowers

Though this is also a geopolitical theory it is not a very popular one. It is said to be India's retaliation towards String of Pearls for strengthening its position in the Indian Ocean. This theory is based on India's network of military and commercial infrastructure around Asia which includes Chabahar port of Iran, military bases in Oman and Qatar, airstrips on Assumption Island (Seychelles) and Agalega Island (Mauritius), Andaman and Nicobar Islands and naval base in Vietnam.

Reducing Influence in Neighbouring Countries

Bangladesh

Chinese companies had signed MOU with Bangladesh authorities in the construction of components of Payra Deep-Sea Port; this port is much closer to Indian coastline which can be considered as a threat because of also involving operational rights to those Chinese companies, though this deal was scrapped because of the company's financial strategies.

Dhaka's cancellation of the Sonadia Port, on the south-eastern corner of Bangladesh, has scuttled China's plan to come closer to India by increasing its presence in the Andaman and Nicobar Islands.

Now as the deal is scrapped with China, India may soon win the bidding for the Payra Deep-Sea port. India has also introduced connectivity projects with Bangladesh through land and sea to boost ties.

Sri Lanka

From 2004-2014 China has provided 7 billion dollars in loans to Sri Lanka including loans to build the Hambantota Sea Port. As Sri Lanka was not able to pay back the loans for Hambantota port, the Sri Lankan government sold a majority stake to a Chinese state company. Though Sri Lanka retains control of port security this still gives a security concern to India as China is indirectly an owner of that port.

Since 95% of Sri Lankan government's revenue is used to pay back loans, Sri Lankan government had to sell their stake in the Rajapaksa International airport which was also a Chinese blunder, due to the geopolitical rivalry between India and China; India bought the majority stakes in the Rajapaksa airport.

Myanmar

China first used Myanmar to bypass the Strait of Malacca for importing its crude from the Middle East by constructing a strategic road along the Irrawaddy River linking Yunnan province of China to the Bay of Bengal and also the construction of oil and gas pipeline stretching 2380 km from Burma's Arakan Coast to Yunnan. Beijing also funds road construction linking Yangon and Sittwe, providing the shortest route to the Indian Ocean from Southern China. China is also the most important supplier of military aid and maintains extensive strategic and military cooperation with Myanmar.

Myanmar is an important ally and a neighbor of India. To counter Chinese influence in Myanmar, India has taken an infrastructure initiative in the name of 'India-Myanmar-Thailand Friendship Highway' in order to boost economic ties and tourism. The route begins from Guwahati in India and connects to Mandalay in Myanmar, the route continues to Yangon in Myanmar and then to Mae Sot in Thailand, which then continues to Bangkok.

Trade routes of India and China

One Belt One Road (OBOR)

The One Belt One Road initiative, also known as the Belt and Road Initiative is a project initiated by the Chinese government, headed by President Xi Jinping. Its primary objective is to facilitate the Land trade routes (Belt) and the Maritime Silk Road (Road) for the better connectivity of China with the Rest of the World. The Land routes will connect the Mainland China with Europe and Middle East Asia. The Sea routes will connect China with South-East Asia, Africa, and Central Asia.

Objectives:

1) Yuan strong – OBOR will connect various countries, and thus will increase the volume of trade between them. Thus, Yuan will play a major role in the trade, as it is one of the stable currencies among all; thereby strengthening the role of Yuan in the international markets.

2) Trade and exports boost – Since recent years, the pace of the Chinese economy has not been what it used to be. And China is looking forward to the increment in the volume of trade between the OBOR connected countries, giving a boost to its GDP in the process.

3) Influential boost to China – Since China is yet not a part of some major organizations of the world; it is hoping that the OBOR Initiative will help increase its influence around the globe.

Challenges:

1) Middle East Crisis – Since the route of OBOR also includes the Middle-East Asian countries, which tend to be unstable due to the political situations around the area; it will cause the Asian giant one big threat.

2) Not many countries are economically well balanced like China. So OBOR can create a massive debt burden on those countries. In addition to that, if the relatively poor countries feel that they are being exploited by the OBOR Initiative that can cause unrest for the initiative.

North-South Transport Corridor (NSTC)

NSTC project was first thought of on 16th May 2002 between three countries, viz. India, Iran, and Russia. This project is stated to be of 7,200 km for transportation of goods to & from Mumbai and Moscow. The primary objective of the NSTC project is to reduce costs in terms of time and money over the traditional route currently being used. The modes of transportation in the NSTC are rail, road, and sea. The current member states are India, Iran, Russia, Turkey, Azerbaijan, Kazakhstan, Armenia, Belarus, Tajikistan, Kyrgyzstan, Oman, Ukraine, and Syria.

Ashgabat Agreement

Ashgabat Agreement is a multimodal transport agreement between the Middle Eastern and Caucasian countries facilitating transportation of goods between Central Asia and the Persian Gulf. The agreement was first signed on April 25th, 2011 between Iran, Oman, Qatar, Turkmenistan, and Uzbekistan. Qatar withdrew in 2013. Kazakhstan and Pakistan joined the agreement in 2016 and India on February 2nd, 2018. The first phase of the agreement is connecting Turkmenistan, Iran, and Uzbekistan via rail while the second phase will be creating a corridor to the Bandar-Abbas and Chabahar port in Iran.

NSTC and Ashgabat Agreement in Synchronisation

Due to India's entry in the Agreement, the agreement can synchronize with International North-South Transport Corridor for transporting goods between India, Russia, Iran, Europe and Central Asia. This would enable India to tap the Central Asian markets which it desperately wanted since the establishment of NSTC because Pakistan was denying easy road and rail access to Central Asia.

India's answer to OBOR is that India is now connected to major countries of the Asian continent through its own 'OBOR', because of its inclusion in Bangladesh China India Myanmar (BCIM), NSTC and Ashgabat Agreement. Thus India has now nullified the impact to China's OBOR.

War Scenario

Participants:

1) China

2) ASEAN Countries

3) India

4) Pakistan

Assumptions:

1) Only Naval War

2) No Nuclear War

3) India on defense, China on attack

4) War scenario during the years 2019-21

5) India develops its Naval Base on Andaman and Nicobar Islands.

6) Both the countries use their foreign naval bases.

7) No shipping routes were affected other than the South China Sea and China's oil supply.

8) UN does not intervene.

Scenario:

1) Mid 2019: Tensions arise between ASEAN Members and China over the issues of Spratly islands in the South China Sea, and the borders of SCS.

2) 2019 Nov: ASEAN decides to have a naval exercise with India, in the Bay of Bengal.

3) 2019 Dec: China sneaks up on the naval exercise. After this, the Indian Foreign Secretary issues a statement in a press conference about "China falsifying the claims of spying on the naval exercise, and this is no Act of Peace from China."

4) 2020 Jan: Beijing feels threatened by the statements previously issued by Indian and ASEAN foreign Secretaries, and decides to take action through its navy.

5) 2020 Feb: China creates a blockade against the islands claimed by Philippines and Vietnam. They take it as an Act of War and decide to retaliate with full naval force. ASEAN goes with full force in the war in the South China Sea.

6) 2020 Mar: Feeling outnumbered, and in fear of losing the war, ASEAN asks India for help. Hence, India blocks China's oil supply from Middle-East and monitors the blockade by using its Qatar and Oman base.

7) 2020 Mar: China raises this issue at the UNSC meeting.

News Headlines:

'China goes to UNSC and asks them to stop India from creating such blockades against China's Oil supply as its public is suffering from oil crisis. UNSC them proposes that "China first withdraws from the ASEAN War, and then we will ask India to remove the blockade."'

8) 2020 Apr: Facing a failure in the UNSC meeting, China asks Pakistan to intervene and using its navy assets in Djibouti base, attacks India on the Western front.

9) 2020 May (end): Since India has more diverse naval assets than Pakistan and China's Djibouti base, India successfully defeats them maintaining the blockade.

10) 2020 June: Casualty update:

Pakistan - Personnel 40%, Asset 60%

India – Personnel 5%, Asset 10%

China – Personnel 15%, Asset 15%

ASEAN – Personnel 20%, Asset 35%

11) 2020 July (mid): Due to the heavy casualties borne by all the sides, they decide for peace talks.

12) 2020 August: All sides agree upon appointing Russia as their peace moderator, and the peace meeting takes place at Moscow.

News Headlines:

'After some heated arguments, the peace talks between ASEAN & India and China did not end on a positive note after China's representatives stormed out of the meeting as they felt that the sanctions on China for the remunerations of war were very harsh.'

13) 2020 Nov: China creates a blockade around the Spratly Islands, especially islands of Philippines, Vietnam, and Indonesia by using frigates for surrounding the islands. This creates a rift between the nations in the South China Sea and China; hitting up the year-old issue again.

14) 2020 Dec to 2021 March: Philippines, Vietnam and Indonesia attack on the frigates of Chinese Navy to break the blockade. This escalates the tense situation leading to a full-scale war with China on one end, and these 3 nations on the other end. In an effort to subdue the Vietnamese, China attacks the Vietnam harbor, and attacks the Cam Ranh Bay, where the Indian naval base is situated. Due to the attack on the Indian naval base, India and ASEAN join the war, but Pakistan backs out as it suffered heavy casualties in the Arabian Sea War. In the battle of South China Sea, ASEAN nations suffer a huge amount of loss against Chinese navy and are unable to defeat them but are able to significantly slow them down.

Casualty Update:

ASEAN – Personnel 40%, Assets 50%

China – Personnel 20%, Assets 20%

To lure China out of South China Sea, India sends some frigates and destroyers over the Malacca Strait and launches missiles towards a Chinese fleet near the Malacca Strait. No major damage is dealt with that fleet, because of the Chinese evasive maneuvers. China, even though it realizes that it is an Indian strategy to lure them into the Bay of Bengal area, retaliates by sending its maximum force available (Japanese threat), even when it knows it will be a high risk going down there. Even though China used its minesweepers, India using its stealth frigates destroys all of the minesweepers and guarding frigates, at the Dumai and Pulau Rupat area. After that, China retaliates by sending more ships, but after losing them through the remaining mines at the Malacca strait; it takes an alternate route through Jakarta. It now follows a similar strategy to that if India, by using its stealth frigates and surprising the Indian navy at Indira point. But due to the highly developed military base of India at Andaman and Nicobar Islands, India does not deal much heavy damage. Due to the long route was chosen by China, the backups it got were much slower. But due to the technical superiority China possesses, it still gives a fight to the Indian navy, but loses many battles; and in turn, the naval war.

Casualty Update:

China – Personnel 40%, Assets 60%

India – Personnel 40%, Assets 40%

*All these stats are the compounded values.

The conclusion of the war:

"There is no instance of a nation benefitting from prolonged warfare"

This war proved that any kind of war between the two Asian giants will result in heavy casualties. The matter of South China Sea is still unresolved. The only thing answered was that China's arrogance is met with an equally capable attack. The heavy casualties on the Indian side prove that there is still a long road ahead in the field of technological prowess.

This war is an improbable war, but all wars are improbable and thus this alternate should act as a ballpark.

Conclusion

It is well known that world considers China as an Asian giant because of it being one of the biggest market as well as an exporter in the world. But in recent times, it is losing its edge over the world because of the hubristic approach masked in its diplomacy. Chinese financial strategy can be compared to a modern form of colonialism, taking an example of Pakistan, Sri Lanka, and Kenya among others. But China needs Pakistan to surpass Strait of Malacca to import crude oil from the Middle East, and thus is still investing in Pakistan's pocket-sized economy. But considering Islamabad's dual nature, China must not rely on Pakistan for help in the crisis.

Due to this aggressive approach of Beijing, the world wants another country to step up to maintain a balance. And India is using this opportunity to strengthen its position in the Asian region. Using effective diplomatic strategies, India has developed good relations with almost every major country in the world.

Because of the growing influence of India on the world, a conflict between India and China can be seen, which in the coming years, can also take a face of war. By being a part of major organizations of the world like MTCR, India can use the best available resources and technology. India has been considered one of the pioneers in the missile technology world because of BrahMos and AGNI missiles.

India growing as a superpower has its own reasons. Majorly, India will have the largest workforce by 2025. Since in the world, both Birth and Death rates are decreasing significantly, the world will need workforce; and the Prime Minister of India is eyeing this opportunity. Also, Indian products are superior in quality when compared to the Chinese products which give them markets around the globe. With confirm agreements in NSTC and Ashgabat Agreements, the Central Asian markets are now open for India. In the end, at this rate of effective and efficient diplomacy, India may soon enter the elite club of 'Developed Nations'.

References

1) Ashgabat Agreement. Retrieved from

   https://en.wikipedia.org/wiki/Ashgabat_agreement#Connectivity

2) Bangladesh scraps China-proposed deep sea port, India offers help to develop another. Retrieved from

   http://zeenews.india.com/news/south-asia/bangladesh-scraps-china-proposed-deep-sea-port-india-offers-help-to-develop-another_1853296.html

3) Bhattacharyya, A. (2017).Joining $46 bn China-Pakistan Economic Corridor would be adverse for India, hurt sovereignty.*Financial Express*. Retrieved from

   http://www.financialexpress.com/opinion/joining-46-bn-china-pakistan-economic-corridor-would-be-adverse-for-india-hurt-sovereignty/494730/

4) Biswas, S. (2018).What are the consequences of India's entry into the Ashgabat Agreement for China, Pakistan and the CPEC. *Quora*. Retrieved from

   https://www.quora.com/What-are-the-consequences-of-Indias-entry-into-the-Ashgabat-Agreement-for-China-Pakistan-and-the-CPEC

5) China-Sri Lanka relations. Retrieved from

https://en.wikipedia.org/wiki/China%E2%80%93Sri_Lanka_relations

6) Choudhury, M. (2017). What is One Belt, One Road in China?*Quora*.Retrieved from

https://www.quora.com/What-is-One-Belt-One-Road-in-China

7) Holmes, J. (2017).Who will win the Great China-India Naval War of 2020?.*Foreign Policy*. Retrieved from

http://foreignpolicy.com/2017/08/07/who-will-win-the-sino-indian-naval-war-of-2020/

8) India-Myanmar relations. Retrieved from

https://en.wikipedia.org/wiki/India%E2%80%93Myanmar_relations

9) Indian Navy. Retrieved from

https://en.wikipedia.org/wiki/Indian_Navy

10) North-South Transport Corridor. Retrieved from

https://en.wikipedia.org/wiki/North%E2%80%93South_Transport_Corridor#Objectives

11) String of Pearls (Indian Ocean). Retrieved from

https://en.wikipedia. org/wiki/String_of_Pearls_(Indian_Ocean)

China and India Trade Relations

Prachi Gupta

B.A. Eco II

Abstract

China–India relations refers to the bilateral relationship between the People's Republic of China *(PRC) and the Republic of India which began in 1950. At that time, India was amongst the first few non-communist nations to end formal ties with China. China and India are the two* most populous countries *and* fastest growing *major economies in the world. In the present era, relationship between the two nuclear armed countries had been hampered due to a military standoff in* Bhutan *but are now improving to an extent. Cultural and economic relations between China and India are from historic times.*

India's trade with China showed a rapid increment from post economic reforms period to the current era. China emerged as its largest trading partner replacing United States since 2008. Firstly,India's trade in services with China is miniscule. Secondly, India's exports to China represents only a small share of total exports to the world while its import from China has a higher share in its total import from the world.

India's Information Technology sector, with its massive investment needs, can be the natural destination for Chinese investments. Investment in India's Information Technology sector can be the basis of stronger relationship between the two countries.

The paper focusses on the improvisation of relations between the two neighbouring countries, the import- export basket of the two countries, challenges faced by the Indian economy in export and import of commodities and government schemes to overcome them.

Keywords

Diplomatic Ties, Buffer Zone, Bilateral Trade Agreements, Trade Deficit, Information Technology Sector, Government Schemes.

Objectives of Study

This research paper has the following objectives –

- To understand the trade relations between the India and China
- To know the constitution of commodities in the export and import basket of India.
- To find the causes for trade deficit and government measures to improve it.

Research Methodology

The paper is mainly based on secondary data from government reports, research papers, articles and some recognized websites. Both quantitative and qualitative data have been used.

Review of Literature

Janardhana Anjanappa in his paper "The Rise of China's Economy: Opportunities and Threats for India" said that 'Chinese export to India relies strongly on manufactured items, meeting the demand of fast expanding sectors like telecom and power sector in India. Chinese companies supply relevant equipments at competitive prices due to favorable macroeconomic policies'. This is the main reason for growth in trade deficit for India, though it being the fastest growing exporter among world's top 10 economies. Therefore, India should expand exports in the sectors like manufacturing and IT services in order to reduce the trade gap.

Introduction

India was the second non-communist nation to establish diplomatic ties with China on January 1, 1950. As Tibet was considered a buffer zone in between China and India, the Tibetan delegates signed a pact with India with the approval of Chinese sovereignity on May 1, 1950. This pact stated that the traditional trade shall be continued between India and Tibet as India never wished to acquire Tibet. In 1954, the Chinese leader Zhou Enlai and the Indian prime minister Pandit Jawahar Lal Nehru jointly initiated the famous five principals of peaceful coexistence. Initially, despite the border issues both countries were having amicable relations. There was no territorial controversy among the nations.

In 1954, India published new maps that included the Aksai Chin region within the boundaries of India. The Chinese sovereignity accused India of expansionism in Tibet and throughout the Himalayan region. China claimed 104,000 km² of territory over which India's maps showed clear dominance, and demanded alteration of the entire border.

Border disputes resulted in a short border war between the People's Republic of China and India on 20 October 1962.The border clash resulted in the defeat of India. Relations between the PRC and India deteriorated during the rest of the 1960s and the early 1970s as China–Pakistan relations improved and thus china- Russia relations worsened. The People's Republic of China also backed Pakistan in its 1965 war with India.

The trade relations were disrupted since 1954 and they started improving in 1978. The two countries signed the “Most Favoured Nation Agreement” in August 1984 in order to promote greater harmony between the two countries. Seven yearly trading agreements have been signed in sequence since 1986. In 2003, an agreement was signed in which one point was enhancing the bilateral trade to US$10 billion by 2005, which was unaccomplished till 2005. Moreover, the year 2006 was commemorated as 'Friendship Year' between India and China.

Export-Import of Goods and Services Between the Two Asian Countries

Indian exports to China as well as Indian imports from China are essential for maintaining the bilateral trade relations between India and China.

Since 1991 when Indian economy was in the process of becoming an open economy from a closed one, i.e. the post liberalization period, the two-way trade between the two countries steadily increased by a big margin. Also China entered into the liberalization phase in 1978.The bilateral trade in 1991 accounted to US$265 million. In 1995, it raised to US$1162 million. There was further an increment of 20.9% in trade in 1996 as compared to the previous year by taking 1995 as a base year amounting to US$1400 million. In 1997, the two-way trade was calculated as US$1830 million, showing an increment 30.2% taking the base year as 1996 for calculating the trade amount in the current year which was 1997.

According to the statistical data published by Chinese Custom Authority, in 2001, bilateral trade rose to US$3.6 billion, of which China's export was US$1.9 billion, the import was US$1.7 billion. The total amount of Sino-Indian trade in 2002 was registered as US$4.95 billion whereby the Chinese exports to India amounted to US$2.68 billion, while the imports by China from India amounted to US$2.27 billion. By the end of 2002, the number of Indian-Chinese Joint Venture Companies reached 71, out of which actual Indian investment accounted for nearly US$63 million. The Sino-Indian economic and trade relations improved a lot over these years, especially due to a quick rise in the two-way trade. However, the total trade volume between China and India in 2002 accounted to 4.8% of India's total trade to world. In the year 2003, Indian imports from china were five times of the Indian exports to China. In 2004, India became the 11th largest trade partner of China.

The main commodities exported in 1997 were ores, slag and ash, residuals, wastes of food industry, animal fodder and cotton. In the year 2000, the major contribution was of ores, slag and ash, cotton, organic chemicals, plaster, lime and cement, fish, crustaceans, etc. By 2003 the items which India exported to China were ores, slag and ash, iron and steel, plastics and articles thereof and organic chemicals.

The main commodities imported in 1997 were organic chemicals, mineral fuels, oils, distillation products, electrical, electronic equipments, nuclear reactors, boilers, machinery, and inorganic chemicals, precious metal compound and isotope. In the year 2000, the major contribution was of mineral fuels, oils, distillation products, etc. organic chemicals, nuclear reactors, boilers machinery, etc. electrical, electronic equipments and silk. By 2003, the items which India imported from China were electrical, electronic equipments, organic chemicals, nuclear reactors, boilers machinery, etc. silk, mineral fuels, oils, distillation products, etc.

In the financial year 2014-15, Indian exports to China amounted to US$9.01 billion which constituted 3.6% of the total world exports. Similarly, Indian imports from China amounted to US$ 61.71 billion which constituted 15.8% of the total world imports. Thus India's trade deficit amounted to (-) US$52.70 at the end of the financial year 2014-15.

In 2016 India became the 18th largest exporter in the world and the 14th largest importer in the world. Currently, India is the biggest trade partner of China in South Asia. The exports to China comprises of ores, slag and ash, iron and steel, plastics, organic chemicals, and cotton. At present, iron ore constitutes about 53% of the total Indian exports to China.

The imports from China are electrical machinery and equipment, organic chemicals, nuclear reactors, boilers, machinery, silk, mineral fuels, and oils. Value added items also dominate Chinese exports to India, like machinery, precisely electrical machinery, which forms about 36% of Chinese exports to India.

Indian information technology exports to China is an essential part of the total Indian exports to china, with the Sino-Indian trade accounting to US $ 11.3 billion in the year 2005. There is a huge potential for India in the two-way trade in the information technology sector. The export of services from China is very minuscule.

The recent laws of china on restricting the foreign software companies selling software in home country has been a setback for Indian software companies. Due to this the amicable trade relations between the two countries have been hampered.

Not only software products, the Indian software companies also export Information Technology- based know-hows to the Chinese software firms. Chinese officials and executives of almost all major Chinese software companies travel to the Silicon Valley of India or the city of Bangalore in order to learn the essence of India's software industry.

Many Indian software firms under the Confederation of Indian Industries signed a Memorandum of Understanding with the Shanghai-Pudong Software Park of china to promote Indian and Chinese co-operation and coordination in software. Moreover in order to accelerate the Indian information technology exports to China many Indian software firms have moved into the park.

Some of the major Indian software houses like NIIT, Infosys, Satyam, and Tata Consultancy Services have been outsourcing their services in China. They are in an advantageous position due to their superior traditional skills in terms of management compared to the weaknesses of Chinese developers.

Reasons for Deficit in Trade in Context to India

There was a continuous increment in bilateral trade between the two countries but mostly China had a favourable trade balance. The Indian imports were more than the Indian exports because traditionally Indian export basket consisted of primary and resource based products while the Indian import basket consisted of manufactured products and low and medium technology products. So, the raw materials (major export commodity) were cheaper than the finished goods (major import commodity) which resulted in unfavourable trade balance in respect to India. Also, the number of products that India sold to china was less than the number of products China sold to India.

Meanwhile there are various other reasons for the increasing deficit in the bilateral trade, which are as follows-

1) Indian exporters fail in their attempts to understand the nature of product the Chinese economy demands.

2) Other than this, there are many trade barriers, like excessive custom duties, levies with frequent rate changes, complex procedure of custom valuation, import substitution, different quality testing standards, etc. in order to minimise imports and promote exports.

3) Sometimes even the diplomatic and political issues play an important role in deteriorating trade relations.

Measures Taken by the Indian Government

1) In order to increase Indian exports to china, there is a need to lay more emphasis on export of diverse range of high value added products, including, auto engine components and automobiles, organic and inorganic products, pharmaceuticals, metal and metal based products like alloy steel bars and rods, engineering goods like diesel engines and compressors, marine foods, fresh and processed fruits and vegetables, medical and optical diagnostic equipment and laboratory equipment, consumer durables, textile yarns, etc. in order to capture Chinese market.

2) In order to increase the level of Indian exports to China, there should be a continuous interaction through exchange of meetings, enhancing participation in each other's trade fairs and seminars and facilitating trade through positive initiatives.

3) There should be more promotion of information technology services of India in China through setting up of a central nodal agency which will help in linking of the IT sector of both countries and controlling the bilateral trade of information technology services.

4) Moreover with the help of the local and language-specific expertise of Chinese professionals, the Indian firms can capture the Chinese domestic market.

5) Niryat Bandhu Scheme- This scheme facilitates entrepreneurs wishing to enter exports through training, counselling and informative sessions through the active network of 36 Directorate General of Foreign Trade offices spread across the country.

6) MEIS (Merchandise Exports From India Scheme) - With the aim in making India's products more competitive in the global markets, the scheme provides incentive in the form of duty credit scrip to the exporter to compensate for his loss on payment of duties. Duty Credit Scrip is a pass that allows the holder to import Commodities by not paying a specified amount in import duties. The incentive is paid as percentage of the realized Freight on Board value (in free foreign exchange) for notified goods going to notified markets. To determine the quantity of incentive, the countries have been segregated into three groups. Incentives on export of each product depend on the group in which its destination country belong.

There are essentially three country groups. Group A has India's traditional destinations such as the EU countries and USA. Group B has the maximum number of countries and covers almost all of India's major export destinations globally. It is worth mentioning here that Group B has the highest quantum of incentive. Group C on the other hand has no incentive at all. It can be divided into, SAARC, Australia and New Zealand, some EU and African countries.

Conclusion

The bilateral trade between China and India raises year by year with trade volume rapidly increasing, along with diversification of exchanging commodities slowly raising, and the human relations between the two nations strengthening.

The present annual trade volume between the two countries is still not equivalent with the overall economic strength and huge market demand of both countries. China and India have many similarities and are complementary to each other in many sectors, such as chemical and pharmaceutical, machinery and electronics. There is a big potentiality for increase of trade and expansion of economic co-operation between the two economies.

Indian exports of services to China has become a new bridge between the two countries in order to build strong relations. Moreover the productive conditions of china like the upcoming opportunities in China, its economic growth, political stability, and human resources makes China an ideal place for establishing a second global delivery centre for Indian software firms.

China attaches great importance to strengthening of economic and trade relations with all her neighbours. So there is a bright future for the expansion of bilateral trade and economic cooperation.

References

1. India China Trade Relations. Retrieved from

   https://business.mapsofindia.com/trade-relations/india-china/

2. Raghavan,S. (2017, September 23).What do India's latest export and import figures tell us?, *The Hindu*, Retrieved from

   http://www.thehindu.com/data/what-do-indias-latest-export-and-import-figures-tell-us/article10877759.ece

3. Bhattacharya, S. (2016, April 26). Plummeting exports: China continues to be a pain in PM Modi's Make in India initiative. Retrieved from

   http://www.firstpost.com/business/plummeting-exports-china-continues-to-be-a-pain-in-pm-modis-make-in-india-initiative-2750048.html

4. Sitharaman, N. (2017, July 25). Trade deficit with china a matter of concern. *The Economic Times*, Retrieved from

   https://economictimes.indiatimes.com/news/economy/foreign-trade/trade-deficit-with-china-a-matter-of-concern-nirmala-sitharaman/articleshow/59735997.cms

5. India Imports from China.Retrieved from

   https://tradingeconomics.com/india/imports/china

6. The Observatory of Economic Complexity. Retrieved from

   https://atlas.media.mit.edu/en/profile/country/ind/

7. List of the Largest Trading Partners of India.Retrieved from

   https://en.wikipedia.org/wiki/List_of_the_largest_trading_partners_of_India

8. Anjanappa, J. (2017). The Rise of China's Economy: Opportunities and Threats for India. Retrieved from

   https://ssrn.com/abstract=2915409

9. Foreign Trade of India. Retrieved from

   https://en.wikipedia.org/wiki/Foreign_trade_of_India

10. China India Relations. Retrieved from

    https://en.wikipedia.org/wiki/China-India_relations

11. Economic and Trade Relations between China and India. (2004, December 15). Retrieved from

http://bombay2.mofcom.gov.cn/article/bilateralcooperation/inbrief/200412/20041200010319.shtml

12. Niryat Bandhu Scheme, DGFT, 2014.

http://dgftcom.nic.in/exim/2000/nbandhu/NiryatBandhu2014.pdf

13. MEIS Scheme. Retrieved from

https://www.eepcindia.org/MEIS/about-MEIS-scheme.aspx

Impact of Trump Government on World Economy

Ishaan Arora and Himani Tilwani

B.A.Eco II

Abstract

Donald Trump as the President of the USA is going to exercise an erudite influence and impact on the entire global economy. Some of the significant impacts of Trump's regime on the world economy comprise - Trump stands for a significant regime shift in the US policy. Trump has promised to at least double Clinton's infrastructure spending implying at least 0.6% of the GDP per year and recommended tax cuts of US$ 3000 billion (1.6% of GDP). Although it is very difficult to estimate the actual effect of Trump's economic plan one can expect a much more expansionary fiscal policy. With Donald Trump elected as the President of the USA, USA is expected to become more protectionist i.e Trump wants to renegotiate free trade deals to get better terms. He wants to bring manufacturing jobs back to the US by entraining on a seven-point Trade Policy plan. Some of these include Withdrawal of the US from TPP (Trans-Pacific Partnership), Appointment of tough US negotiators, Renegotiate the NAFTA(North American Free Trade Agreement) to get a lot better terms and if not viable, withdraw from it. However, there is a risk of a global trade war if the other countries retaliate. Since the USA is a more protectionist economy, this would lower US potential growth in the long run. Moreover with Trump as the US President, it is expected that more antipathetic and offensive US trade and foreign policies would be endorsed which would prove to be negative for emerging markets which is a repercussion of the possible withdrawal of the USA from Trans-Pacific Partnership and the renegotiation of North American Free Trade Agreement to get a lot better terms.

Keywords

Trans-Pacific Partnership, The North-Atlantic Treaty Organization (NATO), Transatlantic Trade and Investment Partnership, Danish Krone Currency(DKK) Fundamentals.

Objectives of Study

1. To analyze the impact of the U.S.A. elections on the economies of China, India, USA and European Union.
2. To interpret the effect of Trump coming to power on the incidences of terrorism and the major and active terror organizations like-ISIS, Hizbul Mujahideen, Taliban, Lashkar-e- Taiba, etc.
3. To analyze the extent of changes that will be brought about in the international trade relationships of India and the USA.
4. To compare the mental framework and policies of Obama and Trump Government.

Research Methodology

This study is chiefly established on secondary data accumulated from research analysis of Danske Bank (Copenhagen, Denmark) and is also incorporated from some produced and unproduced reports.

Review of Literature

Many Americans are expressing exasperation and disenchantment with the current political structure that is prevailing in the nation. According to many US citizens, Trump government is manipulating levers of power for their own betterment and that too at the cost of the ordinary citizens. Moreover, experts like –Marcia Greenberger, Co-President of the National Women Law Center and Ilyse Hogue, President, Naral Pro-Choice America believe firmly that Trump's vision for the USA and his policies and programmes are a clear-cut threat to women, their freedom, and bodies. While many experts strongly believe that the Trump Government coming to power will aid not only aid the US economy fight terrorism but also the world economy to combat the evil of terrorism to a very large extent. Moreover, many experts believe that Trump coming to power will prove to be fruitful for Indo-US relations as Trump has a soft-corner for India in his heart and this has been proved many-a-times, whether we talk of reacting against terrorism or we talk of the foreign trade relations and policies and so on.

Introduction

Mr. Donald Trump before being elected as the 45th US President was a businessman and a renowned television personality. But his coming to power has itself put many questions to what kind of impact his government is going to exercise on the global economy. For every single argument that Trump's government will have a positive impact on the world economy, there is an equally compelling argument that the global economy is going to head towards economic ruin. So an overall analysis of Trump government coming to power in the USA is as follows:

India

Donald Trump coming to power in the United States had exercised significant impacts on Indo-USA relationships wherein both positive and negative effects have been witnessed on the pattern of working of the Indian Economy. Talking about the negative impact of trump govt. in India, it can be indicated that Trump's hawkish policy to put America on the first preference and his policies to renegotiate all the international trade deals will exercise adverse impact on India too. Moreover, according to Trump, H1B visa programme stands to be unfair and his stated aim and motive are to end up the programme completely .In case if such a thing happens then Indian IT stocks and IT companies like-TCS and Infosys are likely to be the first victims of the policy. Moreover, Trump plays a game of dual-standard towards Indian economy as it can be pointed that on one hand, he regards India as a fast growing economy doing great work in every sphere be it social, political, economic or cultural, while on another hand Trump clearly informed and stated that he would snatch away all the American jobs from the Indian Economy which could imply harsher conditions for the entry of immigrants from India. Moreover, US policies to lower down the corporate tax from the slab of 35% to 15% is going to divert firms like – Ford, General Motors, and Microsoft rushing back to the USA which will impact Modi government's Make in India Campaign to a very large extent. However, it is to be stated that India, not only stands to lose by Trump coming to power in the USA but also stands to gain as well. It is although very clear that the Republican Party wants to enforce stricter immigration rules, but Trump also says that he wants to woo the Indian students and entrepreneurs to work in the US economy. Moreover, Trump considers China as a currency manipulator and warns China in this regard that if China did not re-write the trade agreements then it has to face heavy tariffs imposed from the US government which is a positive sign for India as far as its relations with the USA are concerned .At the same time, USA calls Pakistan as a semi-stable and a secured heaven for all the terrorists, terror organizations and terror activities which has again put the ball in India's court. In addition to this, his act of expanding the American gas exploration Programme will be instrumental in providing vivid opportunities to the Indian enterprises like – ONGC and OIL.

United States

Just as Donald Trump's government has exercised both positive and negative impacts on the overall pattern of Indian Economy, similarly these impacts with although a different intensity can be witnessed in the US economy as well. Indicating what are the positives of the Trump government coming to power, it can be stated that Mr. Trump believes in proposing a 'new modern regulatory Framework'. In simple words, the 45th elected President of the USA wants to remove and combat what all he sees as an unnecessary and wasteful that kill jobs and do nothing to strengthen public security. Moreover, while undertaking the election campaign in the USA, Trump promised to spend a major portion of funds on to the programs and initiatives which will lead to the creation and emergence of employment opportunities in the sectors of construction, manufacturing, etc. He during his election campaign clearly stated that if elected as the US president his main agenda and focus would be on transportation, water, telecom, and energy. In addition to this, he pledged to slash all those unnecessary regulations and procedures which are responsible for burdening businesses and are preventing job creation. However, if we look at the above picture most of us would be feeling quite satisfactory but the picture is quite different in all terms as far as analysis and in-depth study are concerned. According to some experts and economists, the US economy is going to witness the slowdown in the US in tech investment. This expectation is in accordance with the fact that Trump had been continuously striving to abolish the Consumer Finance Protection Bureau (CFPB) which is a fintech-friendly US agency. Moreover, Trump had been continuously striving to implement stricter immigration rules i.e. preventing immigration to the United States which might prove to be a setback for economy's start-up scene. And last but not the least the Republicans are opposed to the concept of net neutrality which implies using the internet as an unbiased utility that stops internet service providers from advocating access base factors like on pricing.

Republicans and Democrats Compared

1. Very firstly it can be clearly stated that the Democratic Party i.e. Obama and Clinton supported the policy of net neutrality which the Republicans were opposed to as clearly mention above.

2. The Democrats were lenient in their attitude towards illegal immigration while the Republicans want a hard line policy for preventing this.

3. The attitude of the Democrats was social welfare-oriented while the attitude of the Republicans is not welfare oriented.

4. Barack Obama had some government experience before being elected as the US president whereas Donald Trump has no such experience at all.

China

China is presently the second-largest economy globally after the U.S. Also, China is the U.S.'s second-largest trading partner and its third-largest export market. Donald Trump in 2016 presidential election campaign made numerous proposals that would precisely impinge trade relations with China. Among these comprise labeling China a currency manipulator to subject it to possible tariffs and taxes, acquainting the U.S. Trade Representative to bring trade cases against China within the U.S. and at the WTO to challenge China's alleged unfair subsidies to its industry, and apply tariffs to Chinese goods consistent with Section 201 and 301 of the Trade Act of 1974 and Section 232 of the Trade Expansion Act of 1962.

1. Label China as Currency Manipulator

As part of his campaign assurance, Donald Trump said that he would advise the U.S. Treasury to formally label China as a currency manipulator so that the U.S. may take retaliate. The mechanism would not necessarily lead to prompt trade costs—it might be considered an illegal action under world trade rules—but rather to a series of negotiations with the country in question to try to modify the currency policies in question.[9)] The trends of China's currency, meanwhile, may be under greater influence from the risk of a credit bubble and slowing hike that could put downward pressure on the value of the renminbi regardless of U.S. efforts at persuasion

2. Bring Trade Cases Against China

The U.S. has increases challenges to Chinese trade policies. These consist challenges to its farm support on grains, and its export duties on raw materials that intent to make manufacturing reasonable in China than abroad. The country has shown itself willing to go without fulfilling some of its own internal trade regulations and outright avoid some WTO rulings, concluding that due to the size and charisma of its economy its opponents will be inclined to impose trade sanctions even when empowered. Consequent rulings against China could determine to be a test for the nerve of the Trump administration in staring down a significant global trade player.

3. Apply Tariffs to Chinese Goods

Trump has proffered a 45% import tariff on Chinese goods coming into the U.S. Under the Trade Act of 1974 and the Trade Expansion Act of 1962, China, meanwhile is seen reciprocating to possible U.S. moves by cutting imports from manufacturers such as Boeing, Apple, GM, and Ford. However, upholders of uplifting tariffs note that China sells three times more to the U.S. than it buys. Trade with the U.S. accounts for about 18% of China's exports and about 4.5% of its GDP, while trade with China accounts for 7% of all U.S. exports, commensurate to about 1% of its GDP. Keeping this in mind, they note that China's economy could be affected much more by the policy change.

European Union

There is no love lost betwixt President Trump and the European Union. His disposition towards the EU appears to fluctuate between ironic and dismissive to openly unfriendly and, at times, pervasive. President Trump has called the EU a '*consortium*' that came together, '*so that it could compete with the United States*'.16 It is worth observing that his past business interests in Europe seem to have clashed with EU environmental regulations, creating his personal views on the Union:

1. Defence and Foreign Policy

US expostulation about European NATO member states relying too densely on US defense support isn't new, but never before have had they featured so precisely. Trump has warned that: "The countries we are defending must pay for the cost of this defense. And if not, the US must be prepared to let these countries defend themselves." Juncker has stated that the US "won't look after Europe's security forever… We need a new approach to building a European security union with the end goal of establishing a European army." Juncker conveniently ignores the real reason why there is no EU army. This has little to do with America providing resources for Europe's defense, and everything to do with the strong opposition within Europe itself against the idea.

2. Monetary and Fiscal Policy

The Eurozone should be well aware that its fate is strongly linked to how Trump intercedes in monetary policy because he's said he won't shy away from doing so. If the ongoing trend of increasing interest rates continues, cash-strained Eurozone governments may face a dilemma, ultimately having to appeal to Eurozone "solitary" again. We all know what that means: weeks and months of crisis meetings which ultimately terminate in bailout packages that mostly serve to kick the can down the road without fundamentally addressing the issue, while at the same time poisoning relations between European countries and mobilizing Trump– style anti-establishment parties to power.

3. Climate Change

Trump may just disdain international climate commitments. This would raise the negativism in Europe against respecting those, as it would put Europe's industry at a disadvantage, despite the fact that EU Climate and Energy Commissioner Miguel Arias Cañete has reverted to Trump's victory by promising that "the world can count on the European Union to sustain to lead on climate". Trump has also pledged to obliterate billions in payments to UN climate change programs, again likely to increase agnosticism in Europe about whether it should pay the rest of that bill. With Open Europe, we've made clear how many benefits from EU climate changes rules are closely dependent on what the rest of the world does, which would be acumen for EU climate policies to come under fire.

Conclusion

On the basis of the above study following conclusions can be drawn:

1. As far as the impact of Trump government on the Indian economy is concerned we can rightly point out that although there are both pros and cons reported but overall India

stands to gain as Trump is having a soft corner for India in his heart and many research analysts state that the Indo-US relations will go long way ahead in writing the future of the world economy.

2. Moreover, as far as the diplomatic relations between USA and China on global grounds are concerned it can be concluded that India stands to gain as the Trump government is on the side of the Indian economy and always takes a stand for India on every particular issue.
3. As far as the impact on US economy itself is concerned it can be concluded that USA is going to witness stricter rules and regulations as far as the subjects of immigration, H1B visa program, etc. are concerned.
4. In relation to its impact on European Union, it can be concluded that both the economies face the conflict of interest in relation to the subjects of climate change, monetary and fiscal policy, and climate change. Both these superpower economies continue to compete with each other in terms of global trade, and other such grounds.

References

1. Elliot, L. (2016). How America's new president will affect the global economy. Retrieved from
   https://www.theguardian.com/business/2016/nov/09/donald-trump-new-uspresi dent-america-global-economy-china-mexico
2. Briggs A.S. (2016). Positive and negative impacts of Donald Trump's Presidency on the USA Fintech Market. Retrieved from
   https://www.techbullion.com/positive-and-negative-impacts-of-donald-trumpspr esi dency-on-the-usa-fintech-market
3. Yerrow, J. (2016), Donald Trump can be very good for the US economy. Retrieved from
   https://www.cnbc.com/2016/11/09/donald-trumps-impact-on-the-economy.html
4. Stiglitz, J. (2016). Donald Trump is a very big risk for global economy. Retrieved from
   https://m.economictimes.com/news/international/business/donald-trump-is-a-very-big-risk-for-global-economy-economist-joseph-stiglitz/articleshow/ 53086759.cms

Foreign Policy Priorities of the Indian Government

Pranjal Dhamania

BA Eco II

Abstract

The next few decades of this century promises to be Asian Century, signalling the shift of the economic clout from the West to the East stimulating major regional economies. Foreign Policy Initiatives such as; Prioritizing an integrated neighbourhood, ensuring a stable and multipolar balance of power in the Indo-Pacific, Dissuading Pakistan from supporting terrorism, Neighbourhood Policy, Soft-Power Approach, Regional Approach, International partnerships to promote India's domestic development, Indian representation and leadership on matters of global governance are a few examples of the conspicuous priorities of the India Government.

Foreign policy formulations are increasingly being influenced by the economic and military might of countries and also the authority that they can exert in regions far and near. The only way to have a stable relationship at a global level is by having foreign policies.

Key Words

Foreign policy initiatives, sustainable development and growth, varied approaches towards neighbours

Objectives of Study

The study covers the theoretical knowledge regarding the initiatives required by the Indian Government to prioritize its foreign policies in relation to the world, specifically Asia.

Research Methodology

This study is mainly based on the secondary data collected from the reports of Government Records (Official Sites). Also included are economists' opinion and other published and unpublished reports.

Review of Literature

Jawaharlal Nehru is considered to be the architect of modern India. Nehru's major contribution lies in the field of foreign policies (1947 to 1964). Later, his predecessors greatly engaged in maintaining and developing foreign policies so that the nation could have an upper-hand on global issues and decision-making, as well as to have synergy for the prosperity and growth of the nation. Presently, Prime Minister Narendra Modi (Assumed office- 2014) has substantially focused on international policies. Through a number of international visits, he has been able to allure innovative inventions, technological upgradation and foreign investments. The paper mainly focuses on those approaches which shall be adopted and implemented in order to have a collective or united growth rather than individual growth.

Introduction

It is clear that the near future assures Asia to be the centre of major regional economies. The dawn of this shift of the economic clout from West to East can be acknowledged by tracing the growing economic strength of Japan followed by a pronounced performance of the economies of South Korea, Taiwan, followed by the SE Asian 'Tiger'. The most recent demonstration of the reallocation of economic and political powers has been seen by the rise of China who has been able to achieve uniform double-digit growth for three consecutive decades displacing Japan in order to seize the title of the second largest economy of the world. However, India has adjoined China with the rapid economic and political growth in the region.

In spite of this remarkable and exceptional economic growth and increase in trade and development, Asia is not yet a single political or economic body which in future ventures equal global treatment and influence like America and Europe.

Asian Consolidation

Studying deep into the history of growth and development, it is perhaps the first time when three simultaneously growing powers can be seen in Asia; China, Japan and India. But Asian consolidation and emergence of United Asia could have been viable if these three worked in harmony.

As a result, they and other budding powers of this continent are likely to be pitted against one another for jostling strategic space, influence and resources.

From this point of view, it would be interesting to study the way in which these major powers in Asia are trying to cooperate and enhance their relationship with one another in such a dynamic scenario.

Emerging Regional Economic Power

India, as an emerging economic power, having a vibrant democracy shares akin culture, ethnicity, history, language and heritage with its neighbour, is tranquil to assume political leadership to preserve peace and stability in the region.

This urge, however, has not fecundated due to India's serpentine and gelid and at times not so harmonious relationship with its neighbours because of which most of the countries tend to have a perception of India as a country emerging in terms of a hegemonic power who might try to usurp their socio-political-economic identity. While such an impression inclines to befuddle up the bilateral relations between India and its neighbours.

Foreign Policy Formulations

Promoting the universal values, ethics and the eternal culture ethos of India have been the crucial principles of our foreign policy initiatives. We have beheld the repercussion of divorcing pragmatism in the singular action of tailing morality and values in international affairs. Repeated belligerence and incursions into our nation and near isolation were the prices India was compelled to pay in order to adhere to the principles of 'Panchsheel' and values-based relations with its neighbours.

Foreign policy formulations are increasingly being influenced by the economic and military might of the respective nation and also the authority that it can exert in regions far and near. Formulation of foreign policy has become more intricate with the introduction of nuclear edge to weaponry, need for negotiating climate change and carbon credit restrictions and conditionality of international lending agencies, not to mention meandering through the confusing morass of bilateral and multilateral trade set ups.

The Foreign Policy Initiatives

The federal structure of India narrates its foreign policy to work without compromising with its territorial integrity and national sovereignty. The entanglement of national, regional and global issues has made the foreign policy making of India an amalgamate exercise involving not just the quality brains and indispensable inputs from think tanks, but also a great extent of solidarity and harmony on views between major political parties.

As against some politically volatile and economically frail neighbours, India presents a juxtaposed image in terms of economic prosperity, political stability and social integrity because it follows the deep meaning of sovereignty by non-interference in the internal affairs of countries until extreme periphery.

The emergence of new transnational complications such as terrorism, environmental degradation, economic migration and organised crime have ushered national governments to face them regionally. To counter these non-traditional security complications India needs to engage itself with its multiple neighbours at diversified levels.

A clear picture of India's priorities and strategic objectives are essentially the following facets:

- Prioritizing an integrated neighbourhood; “Neighbourhood First.”
- Leveraging international partnerships to promote India's domestic development
- Ensuring a stable and multipolar balance of power in the Indo-Pacific; “Act East.”
- Dissuading Pakistan from supporting terrorism
- Neighbourhood Policy
- The 'Soft Policy' Approach
- The Regional Approach
- Advancing Indian representation and leadership on matters of global governance

These are the objectives on which any government, specifically India should work. For the Indian government, they are extensively important in order to maintain healthy international relations.

1. Neighbourhood First: Improving Connectivity, Migrating Nationalism

A phrase adopted by the Indian government called 'Neighbourhood First' conveys us four significant thoughts. The first is to give political and diplomatic priority to India's immediate neighbours and the Indian Ocean island. The second is to provide neighbours with greater connectivity and integration so that we can work with the theory of laissez-faire in terms of trade, capital, information, people and energy. The third is to provide a back to other nations when needed in the form of resources, equipment, and training. The fourth is to promote a model of India-led regionalism which would bring India's neighbours in a comfortable zone.

Regular leadership meetings are being conducted in India in order to bring up the diplomatic priorities of the Indian government. Migrating nationalism by providing humanitarian support (in case of Sri Lanka and Nepal), providing assistance and support in capacity building (accomplishing the biggest defence sale to Mauritius) has been the focus of the Indian government. The completion of the Land Boundary Agreement, improvement in energy connectivity, and measures taken to access the port of Chittagong with Bangladesh have been some developments of great importance. India's focus on connectivity has also enlarged outwards, as we can say to Chabahar in Iran or Kaladan in Myanmar.

2. Bridging Diplomacy and Development

Increasing India's domestic development has been one of the most significant objectives. India's foreign relations plays a critical role in the respectable mission by leveraging international partnerships. Acquiring technological access, funding capital, adopting innovative and creative practices, gaining market ingress, and securing natural resources would help the Indian government to achieve such a dreamful objective. Some of the new international collaborative efforts have brought a recognizable change to the future for a good fortune of this country, such as Japan's extremely low-cost loan to create high-speed rail lines and, like high-profile Indian metro and airport projects. The recently amended tax treaty with Mauritius has benefited both investors and the government by increasing the potential of India's tax base. Such measures are a specimen of how diplomacy can be used to shine the growth and development of a nation.

However, the most challenging task is to bind international agreements to domestic representatives of change. But, to encourage developments in the nation is an altogether more challenging argument. The overall course for India's development is assuredly positive, and the diplomatic thrust has clearly increased.

3. Acting East as China Rises

As per the present government which rhetorically replaced two decades of 'Look East' policy with 'Act East', so that the reason could be displayed of greater expectation in perceiving what had been an urge for India for a long period of time i.e. of becoming an integral part of Asia. The serious importance of changing the terminology is to show India's concern regarding China's rise which has been causing a misbalance of power in Asia.

India's 'Act East' policy has three definite dimensions for elucidating the strategic thought for Asia: institutional, commercial, and security-related. We have been fortunate to accomplish the first dimension because it was mostly a by-product of two decades of India's economic growth and for the second one, bilateral and 'mini-lateral' security cooperation has brought a success to the aim to have improvements in terms of commercial networking. But the third one has been an issue of concern because we are still working on maintaining better and healthy relations in order to eliminate regional differences and caring about the military balance.

4. Pakistan: Engagement and Isolation

Possession of nuclear weaponry by both the nations has brought an uneasy peace. Pakistan has still been an introvert as by not opening up economically. By the means of terrorism, with the support of the country's military and intelligence agencies, Pakistan has been a serious blemish or we can even say it to me as a failed state which has caused problems and has brought hurdles to India and the countries adjoining its boundaries in growth and development. Accommodating Pakistan is not a possibility until and unless it follows the real meaning of democracy. With the support of Gulf, the United States, and China; Pakistan has got a backbone to present itself in the form of an aggressive neighbour who continuously tries to bring down the walls of the sovereignty of India.

Indian government's efforts with Pakistan has not yet fetch results because of which India's hope for both engaging and isolating Pakistan in terms of every aspect is going to be a long and frustrating process. Continuous bilateral engagement with Pakistan in order to isolate it internationally and offering viable alternative models for South Asian meetings remains the only way through which Pakistan's problem can be tackled.

5. Neighbourhood Policy

India, being a developing nation attracts a huge attention when it comes to foreign policy formulation. Leaving Bhutan, India has been facing a security tension from all the neighbouring countries because of traditional and non-traditional causes (Such as Environment issues). To safeguard the national interest, territorial integrity and economic prosperity, diversified planning is being done so that through coordination and cooperation India and its neighbours are able to prosper. Attaining these interests has always been the agenda for successive governments.

Nehruvian Neighbourhood Policy has been a very influential ideology given by the former Prime Minister Jawahar Lal Nehru which aimed at adopting socialistic values and the idea of “panchsheel”. Successive governments have tried to establish the roots of such an ideology so that the nation and its neighbours are able to embrace it with utmost good faith.

6. The 'Soft-Power' Approach

Inspired by Joseph Nye's idea of 'Soft-Power' where a nation could use an approach in which it is able to strike neighbour's common ligature such as religious, ethnicity, culture and on linguistic basis. Adhering to such an ideology a nation can form such foreign policies which may interlink a nation with another in every aspect. India and the nations surrounding it have such qualities, specifying Pakistan, Bhutan, Nepal, Bangladesh, Shri Lanka, Afghanistan and more or less China.

Soft-Power approach is the best way to substitute Hard-Power approach i.e. the use of military and economic means to influence the behaviour or interests of other political bodies. Comprehensive neighbourhood policy strategy would help us to have better international relationships.

7. The Regional Approach

The regional approach is one which works with mutual consensus among various nations by having a consistent dialogue with a genuine institutional structure so that it provides us with a workable solution where the possibility to show military might would get nil. Such approach can be used in foreign policy strategy so that more significance can be given to development efforts.

Indo-China policies shall embrace more focus on issues that may get solutions to political instability and mistrust. With both on the same page, Asia may become the global power instead of unsynchronised separate entities competing for each other.

Indo-Pakistan relations shall be improved by facing the dusk of political uncertainty and intolerant fundamentalism. Trade and migration under a stable environment would help both the nations to have an efficient economic growth.

Increasing our engagement with West Asia and working towards forging an independent energy security policy with an effective diplomatic and economic involvement would bring a great difference in the case of maintaining foreign relations with the respective region.

Africa and South-East Asia are two regions where India has immense goodwill and growth potential but in the recent decades our foreign policies have maintained a dull outlook in the respective region. Improving the relations would benefit us and them, at large. BRICS's spirit has given the essence to this thought because of which our focus on other nations has increased tremendously.

Maintaining and exceeding policies with the European Union in order to export democracy has been an objective but finding ways to introduce bilateral trades with EU is the main concern. Until and unless they aren't on their best way towards perfection, there would be a growth but not 'collective growth'.

The United States is one of the leading powers across the globe with which maintaining foreign policies will enable us to access innovative technology, better vaccines under pharmaceutical sector, minting migration and allocation of resources in the best manner.

8. India as a Leading Power: Raising Ambitions

India, a nation whose rise has always been appreciated by the world. A country following the principles of equality, fraternity, sovereignty, justice is the largest democracy across the globe. Though India is not in a position yet to lead or set the rules of international order by itself but is one of those whose voice shall be heard, when said. India is a member of G20, BRICS and the East Asia Summit. An aspirant for permanent membership on the UN Security Council, Nuclear Supply Group, Shanghai Cooperation Organisation and Missile Technology Control Regime. Such efforts of India to hold such integral positions in the world has brought this nation to a new era of light.

Conclusion

The future holds India as one of the superpowers of both Asia and the world. With proper planning and better utilization of capital, the nation would do wonders. Development of all is what India has always aspired in its policy formulation and planning as well as has engrossed it in its constitution. Adopting such foreign policies as the priorities of the Indian government, the nation would be able to achieve great unity amongst nations, especially its neighbouring countries; efficient ways to solve future challenges; better growth in terms of economic, political and sociological aspect; and of all, the most important i.e. to have a stable and a flourishing economy.

References

1. Manorama Yearbook.(2017). Rising Asia and India's Place- P: 826-832.
2. Jaishankar, D. (2016). India's Five Foreign Policy Goals: Great Strides, Steep Challenges, Retrieved from

   https://thewire.in/38708/indias-five-foreign-policy-goals-great-strides-steep-challenges/
3. India–European Trade relations. Retrieved from

   https://en.wikipedia.org/wiki/IndiaEuropean_Union_relations
4. India–European Union relations. Retrieved from

   https://en.wikipedia.org/wiki/IndiaEuropean_Union_relations
5. Chairman's statement of the 12th ASEAN-India Summit in Nay Pyi Taw, Myanmar: Ministry of External Affairs. Retrieved from

   http://mea.gov.in/bilateral-documents.htm?dtl/24243/Chairmans+statement+of+the+12th+ASEANIndia+Summit+in+Nay+Pyi+Taw+Myanmar
6. Soft Power. Retrieved from

   http://internationalrelations.org/soft-power/

7. Nye Jr, J.S. (2004). The benefits of Soft power, Harvard Business School. Retrieved from

   https://hbswk.hbs.edu/archive/the-benefits-of-soft-power

8. Nye, J. What is Soft Power?. Foreign Policy Association. Retrieved from

   https://www.youtube.com/watch?v=_58v19OtIIg

9. Regional approach and International Relations: does it matter?. Retrieved from

   http://www.economia.uniroma2.it/YICGG/default.asp?a=24

10. Regionalism (International Relations). Retrieved from

    https://en.wikipedia.org/wiki/Regionalism_(international_relations)

11. Happymon, J. (2016). Losing the neighbourhood. Retrieved from

    http://www.thehindu.com/opinion/lead/Losing-the-neighbourhood/article 14324718.ece

12. The next Indian government and foreign policy priorities.(2014). Retrieved from

    http://pragati.nationalinterest.in/2014/04/the-next-indian-government-and-foreign-policy-priorities/

13. Foreign Relations of India. Retrieved from

    https://en.wikipedia.org/wiki/Foreign_relations_of_India

14. Inside of making of India's foreign policy. Retrieved from

    https://www.brookings.edu/blog/order-from-chaos/2016/10/31/inside-the-making-of-indias-foreign-policy/

15 Raja Mohan, C. (2016). Making India a leading power. Retrieved from

   http://www.hindustantimes.com/analysis/pm-modi-s-foreign-policy-making-india-a-leading-power/story-SMXx2543j1uPgcHCb0QmJJ.html

UBIQUITOUS ECONOMICS

SECTION 4

Creative Destruction and the Necessity to Exit and Innovate

Aditi Dembla, Nidhi Taparia and Shubham Saxena

B.A. Eco III

Abstract

One of the greatest contributions of Schumpeter to economic thought and literature has been the catchy and paradoxical (also, paradoxical yet catchy) nomenclature of a process that neither nobody before him nor after him has been able to describe the way he has and that is crucial to the very sustenance of the classical capitalist model; the process of creative destruction. The Austrian economist does well in seeing the perennial gale of creative destruction as a process of industrial mutation and economic evolution. Indeed, dynamic and ever-evolving capitalist societies would be rendered utopian, if they do not revolutionize incessantly. Further, unceasing introduction of technological and entrepreneurial innovation and exiting of inefficient alias non-innovating firms are the necessary and sufficient conditions for progressing on the course of revolution. The paper aims to delve deep into the many facets of creative destruction and especially into the need (if not urgency) to exit and innovate and how India fares on these two counts. With that objective, the paper also investigates about two instances where creative destruction has been at work, and through that establishes the necessitation and sufficiency of the two conditions. The instances have been chosen such that they are both comprehensible and contemporary. The paper concludes with certain policy suggestions that may well help to step up the health of the Indian economy.

Keywords

Creative destruction, Innovation, Joseph A. Schumpeter, Development.

Objectives

The paper aims to delve deep into the need (if not urgency) to exit and innovate and how India fares as a process of industrial mutation and economic evolution. With that objective, the paper also investigates about two instances where creative destruction has been at work, and through that establishes the necessitation and sufficiency of the two conditions.

Research Methodology

The paper is mainly based on secondary data from government reports, research papers, articles and some recognized websites. Both quantitative and qualitative data have been used.

Review of Literature

In philosophical terms, the concept of "creative destruction" is close to Hegel's concept of sublation. In German economic discourse it was taken up from Marx's writings by WernerSombart, particularly in his 1913 text Krieg und Kapitalismus:

The expression "creative destruction" was popularized by and is most associated with Joseph Schumpeter, particularly in his book Capitalism, Socialism and Democracy, first published in 1942. Already in his 1939 book Business Cycles, he attempted to refine the innovative ideas of Nikolai Kondratiefff and his long-wave cycle which Schumpeter believed was driven by technological innovation. Three years later, in Capitalism, Socialism and Democracy, Schumpeter introduced the term "creative destruction", which he explicitly derived from Marxist thought (analysed extensively in Part I of the book) and used it to describe the disruptive process of transformation that accompanies such innovation.

Introduction

A. The Schumpeterian Idea

The idea of Creative Destruction was popularized the most by Austrian economist Joseph A. Schumpeter. In his famous book *From Capitalism, Socialism and Democracy*, Schumpeter borrows the concept from Marxian thought. It is best described in his words; creative destruction is the *process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one* (Schumpeter, 1942). Even though the concept originated in Marxian literature, the Schumpeterian perspective differs from it in approach, treatment and justification.

In simpler words, creative destruction a seemingly paradoxical term, is the unceasing innovation mechanism that facilitates replacement of outdated production units by new ones. Its progenitor Schumpeter defines it in splendid fashion; it is a *perennial gale* as also a process of *industrial mutation*. Advocates of laissez-fairism use it a shorthand description of the free market's disruptive way of bringing development. When profit seeking entrepreneurs innovate and make products or processes easier, they bring down prices and make markets more competitive. Those firms unwilling or unable to deal with this increased competition are severely punished and exit is the only alternative for them. It's easy to spot the Darwinian principle of *survival of the fittest* here. In essence, creative destruction is the dynamic element of classical capitalism that brings out its evolutionary character.

B. Sequence of Events

According to this scheme, the revolutionizing of the routine economy takes place through a stylized sequence of events.

1. Initial Equilibrium

   The starting point is a system that is based on solid routine behavior. Such an economy is assumed to have found an equilibrium that allows the economic agents year over year to operate in their accustomed self-styled ways.

2. Innovation and Economic Development

   The earlier equilibrium breaks down when a minority of innovators starts their enterprises. This leads to an economic upswing, but gradually the stream of innovations fades out because of the depletion of innovative skills and the difficulties of innovating under disequilibrium conditions.

3. Renewed Equilibrium

   Sooner or later the innovative impulse is insufficient to uphold the upswing. The downswing sharpens the competitive process of creative destruction, where many old firms are selected out of the economic system. At the end a renewed and well-established routine system emerges.

4. Evolution

   The economic evolution of the routine system consists in a series of routinized equilibria and innovative disturbances.

C. In Contrast to Marxian Theory

German philosopher Karl Marx explained voraciously why and how capitalism as projected by the classical economists, carries with itself and element of self destruction. It is this element that Schumpeter has reframed as creative destruction. Marx through his reasoning which is more abstract than objective, argues that as capitalist societies advance, exogenous turn of events (for instance labor dissatisfaction) will lead to the radical demise of capital and the establishment of socialism. The Austrian economist consequent to his practical approach (an inherent feature of the Austrian school) concluded that socialism does not come about the way Marx comprehends. In his analysis, the system breaks down and rebirths when the old ways of doing things are endogenously destroyed and replaced by new ones. Intellectuals will be fostered with hostility towards capitalism, bringing about a change in the social climate. There will not be a revolution but merely a trend in parliaments to elect social democratic governments. So in a way, liberal capitalism is in resonance with and gives way to democratic socialism. He reasons that one of the greatest advantages of capitalism is that it makes education, earlier a privilege of the elite, available to more and more people.

D. Innovation and Exit

Schumpeter in defining the industrial mutation process, lays emphasis on two things; one, that firms must continuously innovate and two, the non-innovating (or inefficient firms) must exit. Thus intactness of the mechanism of creative destruction is ensured by the pillars of technological innovation and timely exit.

Entrepreneurs introduce new technologies with the objective of making themselves better off. This innovation comes with risk and Schumpeter's innovation theory of profit seeks to reward the entrepreneur for the same. New technologies in the form of new goods and services and new production techniques compete in the marketplace, attracting consumers by offering lower prices.

But evolution is a trade off. Companies that no longer deliver what the consumer wants at competitive prices lose out in the race, eventually wither away and die. A society reaps the fruits of creative destruction only when there are some who are worse off. New industries cannot be created without sweeping away the existing order.

Understood this way, creative destruction also ascertains that individual self interest (of the producer) warrants society's better off position. Over time, societies that permeate evolution grow more productive and wealthier; their subjects buy better products at lower prices, do better jobs, work for shorter periods and higher living standards are ensured for everybody.

Schumpeter also states that attempts to soften such harsher aspects by trying to protect jobs and prevent change will lead to stagnation and decline, short-circuiting the developmental process. While the incessant flow of managerial talent is out of human control, transactional limitations of institutions that facilitate innovation and ill-conceiving of economic ideas and goals lie within manmade control. Caballero and Hammour in their research across years, have shown that failure along this dimension can have critical macroeconomic consequences.

E. Empirical Evidence

In 1996, Davis, Haltiwanger and Schuh in a study based on employment data from US manufacturing firms, concluded that over 10 per cent of existing jobs at any point of time did not exist a year before and will not exist a year hence. This implies that over 10 per cent jobs are created and destroyed every year. Following their work, other researchers derived similar conclusions from data pertaining to different countries and sectors. Although these findings have significant differences, one important fact that they highlight is that job creation and destruction flows are large and persistent. Also, most flows like these take place within rather than between sectors of the economy. This suggests that the major cause behind is not cyclical structural changes but continuous innovation or industrial mutation.

The Exit Problem and Chakravyuha Challenge

As discussed and explained already, destruction that is creative lies at the heart of a robust and dynamic economy. Up till now it has emerged that there are two major roadblocks that retard this evolutionary process. One, the problem of impeded exit and two, lack of entrepreneurial innovation leading to stagnancy. With regards to Indian economy, the first one has turned out to be a bigger impediment than expected.

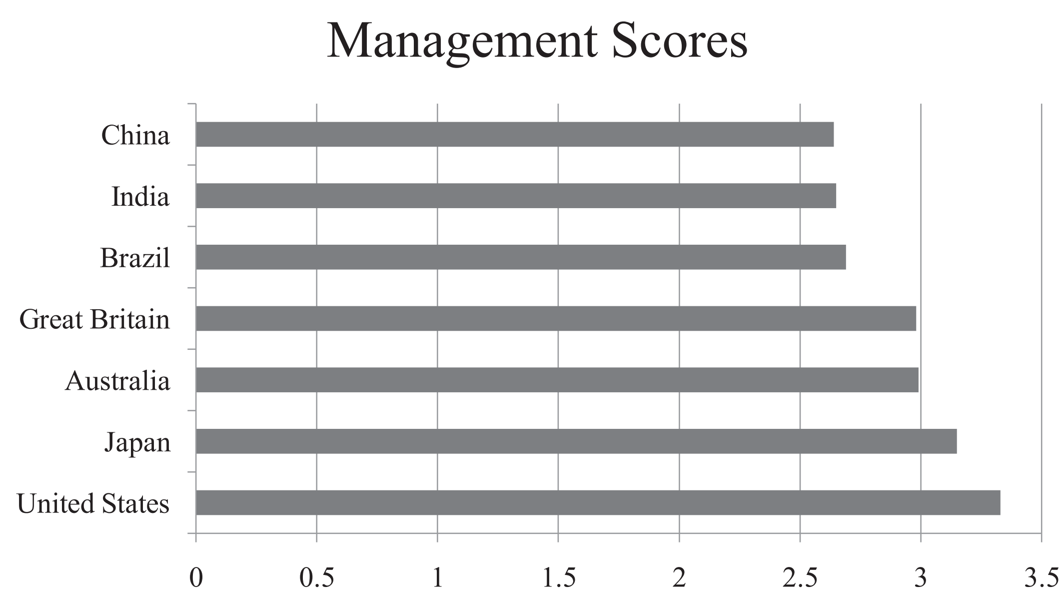
A. Barriers to Exit

Traditional microeconomic theory pertaining to profit-maximizing behavior of firms in competitive markets shows that firms always operate when they are making profits or in the least not making losses (or up till the breakeven point). But the situation is not that predictable when the costs of closure exceed the losses during operation, an entrepreneur may not choose to shut down. There may also be other vested interests in choosing not to stop production, like availing producer side subsidies sponsored by the government or deliberate attempts to show losses in balance sheets. Technical impediments of the first kind that prevent a company from exiting a market are termed as barriers to exit. Specialized manufacturing units which are difficult to sell or relocate, huge exit costs and existence of inter-related businesses (few or all of which may be profitable) are some typical examples of barriers to exit. While obsolete and corrupt institutions aggravate exit costs, absence of a comprehensive exit strategy from the very beginning makes specialized assets non-reusable.

B. The Case in India

The Economic Survey 2015-16 gives a detailed description of the transition of India from 'socialism with limited entry' to 'marketism without exit'. The rigid license-quota-permit raj regime in the early years after independence ensured that domestic markets have less competing firms because entry with such technical barriers in place was of course very limited.

In the 1980s started the remarkable progress of delimiting obstacles to entry, with the 1991 liberalization reforms being the grandest of all. Our markets have benefitted sharply as more and more entrepreneurs have crossed the threshold. Their numbers have been titanic, so much so that all of a sudden a new brand of hindrance that in relation to exit has cropped up.Bloom and van Reenen in a 2010 study have showed that India seems to have a disproportionately large number of inefficient firms with very low productivity.



Source: *Why do management practices differ across firms and countries?*, Bloom and van Reenen (2010)

They assign management practice scores from 1 (worst) to 5 (best) to roughly equal sized firms (having 100 to 5000 employees) across various countries and Indian firms fare worse than most other nations, their scores being averaged.

It must be noted that in a country as big as ours exit is bound to be delayed and in some cases it may not even be desirable. This is particularly true for Public Sector Undertakings (PSUs). Prima facie, BSNL and Air India must close down because of the losses they are accumulating annually. But on deeper analysis one realizes how important they are in their respective market sectors. If these firms exit, prices in telecom and air travel sectors will rise exorbitantly, making them out of reach for most public. But exit is the only viable solution when costs completely outweigh the benefits (direct or otherwise).

A majority of inefficient firms are those that are availing implicit advantages from government schemes designed to provide the economy the required impetus at the required level. The huge sums of money and its imbued fiscal burden that the government undertakes on subsidizing various sectors viz. fertilizer and exports, is no secret. Further certain ventures are provided credit at lower rates, especially by Public Sector Banks. When such firms continue to function at infeasible levels, they are causing greater harm than good to the economy. Most if not all, default on loans, a phenomenon strikingly associated with the recent Non-Performing Assets (NPAs) crises of banks. It can be argued that these firms are at least employing certain share of people, doing well by reducing the country's reserve army. But dwindling productivity levels reflect that the human capital which (even if disguisedly) employed is greatly underutilized. In terms of opportunity costs, this entails a mammoth misallocation of the country's scarce resources of all kinds; financial, human and others. Long story short, given the tendency of inefficient firms to not exit necessitates avoidable costs.

The Lack of Innovation in India

India has been the cradle of world's innovations; many present day structures rest on concepts that were developed by ancient Indians. But in modern times, even with one of the world's largest demographic dividends, the nation hasn't been able to correctly capitalize and make the most of human talent. Consider these.

1. As per the World Intellectual Property Organization or WIPO, India filed 1,428 international patent applications as against 57,385 by US, 25,548 by China and 13,117 by South Korea in 2014.

2. India registered high patent filings by Non-Residents at 78 percent, indicating rather bluntly that the domestic industries are unaware of the benefits of registering for intellectual property.

3. In Innovation Technology and Innovation Foundation (ITIF)'s recent study titled *Contributors and Detractors: Ranking Countries' Impact on Global Innovation*, India is ranked at a low 54th place out of a total of 56 countries.

4. In World Economic Forum (WEF)'s report on Innovation and Sophistication parameter India has slipped from Rank 26 in 2006-07 to Rank 46 in 2015-16.

It is easy to a draw a shady picture from the above. We are a culturally rich and analytically sound nation. So what exactly is going wrong and where?

One is the evergreen lack-of-awareness syndrome that has plagued the length and breadth of each and every sector and policy. In the financial year 2014-15, the government allocated a whopping 200-crore budget to the ASPIRE scheme. ASPIRE seeks to promote rural entrepreneurship and agro-based industry. As are StartUp India, SFURTI and MUDRA Bank, though with special focus on different sectors. It is imprudent to blame the government for not doing sufficiently enough. But how many of rural entrepreneurs are actually aware of such schemes that are in place for the sole purpose of their benefit?

Two, even with numerous plans and policies, there seems to be a lack of targeted planning. Policies are devised keeping the broader picture in mind and that's also why the really needy lose out in the battle of averages. For instance, as per the 4th census on MSME undertaken in 2006-07, micro enterprises are 99 percent of the total unorganized MSME universe. Rural enterprises are 60 percent of the total universe. So even when MSME has been created as a separate category of industrial structure, it is too wide and differentiated to accommodate the requirements of all constituting elements.

Another reason is the paucity of the curriculum to foster innovative acumen in the students. Of course, there are incubators in almost all major IITs and IIMs. But the encouragement to ideate and that to those ideas which carry with them the potential to become breakthrough has to begin from the very beginning.

If India doesn't start its march in the innovation marathon, which is all about addition of new economic value with breakthrough ideas that can be widely adopted, it stands to lose out on a big advantage it is inherently home to. Given the current international socio-economic and political scenario, where greater the innovation prowess greater is a nation's economic stronghold, India cannot afford losing out.

Case Study of Hindustan Machine Tools (HMT) Watches

The case of HMT is worthy of deep analysis and research with regards to creative destruction. It shows not without evidence, that a dearth of reinvention coupled with prolonged departure can only be afforded at a huge expense.

A. Moving Towards Progress

It was in 1960s that the Hindustan Machine Tools or HMT as it was famously known, was set up in Bengaluru and it launched the nation's first indigenously produced watch.

Figurative of the country's previous Make in India drive, the then Prime Minister Pt. Jawahar Lal Nehru dedicated the first HMT watch to the country. HMT began operations in collaboration with world leader in the watch segment, Citizen Watches from Japan. This was a time when under the pretext of the 2nd and 3rd Five Year Plans, it was envisaged that 'the commanding heights of the economy' will be controlled by the state and the state will lead the country on the growth trajectory by taking up heavy industrialization.

For more reasons than one, HMT Watches was applauded a warm welcome. And for more decades than one, it enjoyed a comfortable stay on the top too. As the first watchmaking company of a nation desperately wanting to keep track of its pace and time, HMT was rightly called the 'timekeepers to the nation'. The 1970s saw massive expansion both in terms of extending operations and enlarging number of plants. The Bengaluru factory was expanded and two others were set up in Srinagar (Jammu and Kashmir) and Tumkur (Karnataka). Late in this decade, HMT had established an enviable brand name and the enviable brand value that came with it, for which a multiplicity of reasons existed. One was the very obvious first-off advantage or beginner's luck. Two, due to its technical collaboration with Citizen it gained a reputation of high quality and reliability. Three, with assistance from the Japanese company, HMT watches acquired capabilities to produces the most difficult to make components and it was hence technologically excellent. Four, HMT began to diversify its product design, trying its hand at a variety of models in the 1980s. A new 92-acre factory in Ranibagh (Uttarakhand) was added in 1985. The high point came when in 1996-7, the company registered a turnover of 1055 crore. Sales were booming; HMT was manufacturing 2 million watches per year.

B. Things Going Downhill

But in the years that followed, it never met the same fate. In fact things only went downhill from there. Titan, a joint venture of TATA and TIDCO of Tamil Nadu, entered the market. The Tatas had no watch-making experience and therefore it was expected they will never be able to match HMT's sales and technical precision. But Tata teamed up extensive market studies and retired personnel from HMT. With that level of research and planning, Titan was slated to give a tough competition to the PSU. As it turned out to be, it indeed did.

While Titan's entry turned the tide of market competition against HMT, it also threw open the latter's weaknesses. Not that even with its technical excellence, HMT was abysmal in productivity and efficiency terms. It had horded of workers who were conditioned to working at the slowest pace possible. Vast acres of plants and high precision equipments were underutilized. The influence of Japanese way of curtailing costs was nowhere to be found. Further, HMT never really reformed even when Titan and other cheaper Chinese watches had invaded the market in plenty. It never shifted to newer designs, newer techniques of making watches faster and cheaper. With the coming of budget and better looking quartz analogue watches, customers were bound to prefer them over HMT's ancient design mechanicals.

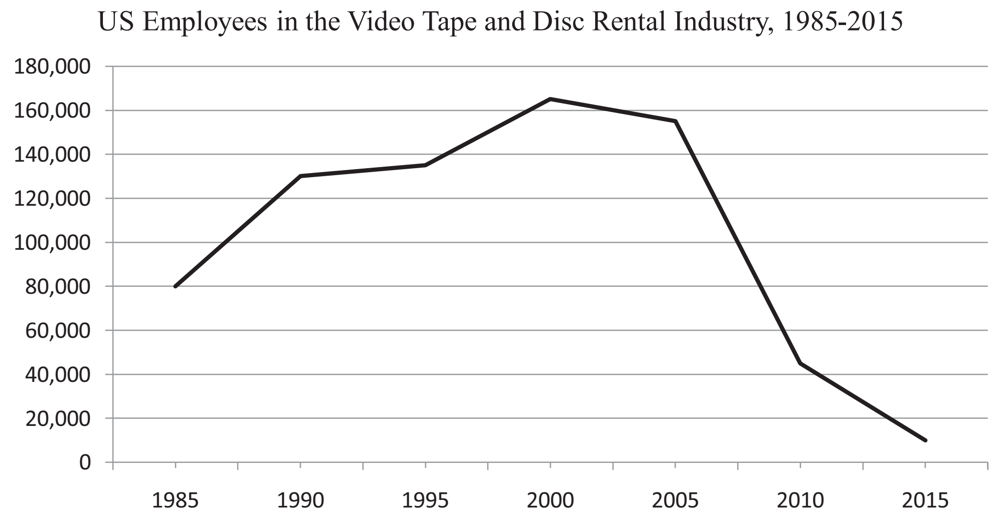
Consequently and expectedly so, sales started floundering and losses began to mount. The company in its bid to keep the losses in check, scaled down operations massively. But lack of innovation ensured its fortunes never rose. As on March 31, 2014, HMT watches had accumulated losses of 2252 crore out of which 223 crore came from the previous year itself (2013-14). It was on a budgetary support from the central government since 2003. The government finally decided to remove it from the life support system in 2014 and 3 HMT units – HMT Bearings, HMT Watches and HMT Chinar Watches – were given an in-principle nod to shut down on account of prolonged sickness.

Case Study of Netflix Inc.

If HMT was a case when a firm fell out of the competitive race because it could not keep pace with changing technology, Netflix is the most suitable example of a firm benefitting from creative destruction. Netflix Incorporated, an American multinational media company with over 86 million subscribers worldwide in 2016, started in 1997 in Scotts Valley, California with a meager staff of 30 employees. It started with specialization in providing online streaming media and videos on demand and DVDs by mail. Early into the second decade of the 21st century, Netflix also began to add film and television production and distribution. It is available over 190 countries, and is a household name in most of them. Today, Netflix is easily one of the most successful dot-com ventures. Its impact on the industry of its own and the related ones has been tremendous, with market experts calling it the Netflix effect.

A. Impact of the Netflix Effect

Among the various industries that have been Netflixed, the video tape and disc rental one is prime. The company has driven most firms of the said industry out of business, along with superstars like Blockbuster. Blockbuster, the video game and movie rental store, had over 9000 stores and 60000 employees at the peak of its heydays in 2004. With the coming of Netflix, the industry stumbled head over heels with its leader Blockbuster filing for bankruptcy in 2010.



Souce: Bureau of Labor Statistics, USA

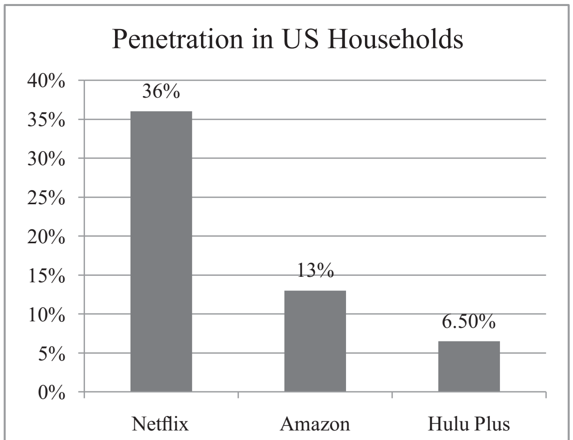
Traditional media companies like cable networks, network TV channels and pay-TV services are facing terrible challenge in the form of online viewing platforms like Netflix and Amazon Prime.

Media biggies like Disney, Time Warner and Fox are also feeling the heat as their shares tumble and Netflix's rise. Investor concerns about the changing nature of video viewing have morphed into a firmer belief that consumers are fast-ditching pay-TV for streaming content.

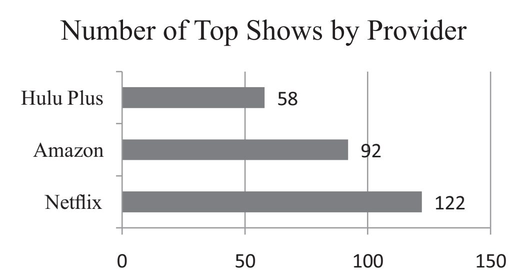
B. How Netflix Trumped its Rivals

As a matter of fact, history is testimony that only something that is exponentially cheap but comparable quality disrupts the market mechanism so much and in such a short span of time. Interestingly, the cost difference between the primary streaming video providers like Hulu and Amazon and other content creators like HBO and Netflix is marginal and for the most part the latter is priced at a premium to its rivals. Then what exactly has given Netflix this sort of a miraculous triumph?

A part of the answer is Netflix's ability of disruptive innovation. 1990s was a time when the mobile phone industry was booming and rapidly diversifying and internet was becoming available to more and more people at faster and faster speeds than ever before. Netflix capitalized on this information technology revolution, integrating the potential of the www e-commerce to provide entertainment services and making other retailers obsolete. The quality of its content at more or less the same price made it more popular among all age groups. When prices are similar, sales become a primary function of product selection. Netflix has close to 10,000 titles. Though that's not a grand number (even Amazon offers 17,000), Netflix shows what the viewers want to watch the most. This enhances its reach magnificently. Its original series like *House of Cards* and *Orange is the New Black* have provided it an identity unique to its brand, something which is not true for any of its closest competitors.



Source: Nielsen's Total Audience Report, Q4, 2014



Source: Lifehacker, TV Streaming Head to Head, 2014

But the chief reason for its whopping success remains its innovation process, those who could not match it were simply moved to extinction. Customers are reaping the benefits of intense, disruptive, cut-throat competition in the form of a constantly evolving, never-ending bonanza of innovative consumer products that get better, faster, and cheaper all the time.

Policy Suggestions and Remedies

A. For Acceleration of Exit

1. The latest Insolvency and Bankruptcy Code of 2016 comes with a lot of promise. It simplifies complicated procedures like identification of financial stress and the consequent liquidation. But ultimately it all boils down to how strict, timely and swift implementation can be.
2. To control the percolation of government schemes to firms damaged (inefficient) beyond repair, introduction of JAM can go a long way. Government benefits can be then made targets-based. These must not be accorded to those who are continuously facing unproductive levels for a long period.
3. The strongest opposition for the closure of a firm comes from its employee base. While compensation to the workers is provided in most cases, it does not act as an incentive for the workers who are otherwise receiving periodic regular incomes even if the firm is flunking on all competitiveness parameters. Provisions hence must be made to relocate the outgoing employees and assure them a job in place of a job.
4. Preparing an exit strategy should be accorded top most priority. In the beginning it may seem like planning for failure, but in a capricious economic world it is better to successfully depart than to arrive at departure unplanned. Specialized assets should be purchased keeping in mind what could be their resale value or relocated use.

B. For Promotion of Innovation

1. Curriculums must be enriched to provide early entrepreneurship. There's nothing wrong with young school students initiating StartUps of their own. What is required is that the syllabi be such that students' horizons are broadened. They should be told that innovation has got nothing to do with age. Also, the integration of study with practice is important. Why can we not integrate our IIT and IIM going students with rural innovators?
2. Grassroot innovation should be accorded equal importance. A significant innovation for the grassroot worker may look like rudimentary to those up the value chain. While the impact of high-end innovations would create multi-billion dollar corporations, the cumulative socio-economic impact of grassroot innovation is much higher.

3. Affirmative action can also go a long way in fostering the transition of *jugaad* into innovation. Innovation theory of profit establishes that profit is the reward for innovation. If public action can promote innovation as a means of more profit, talent will automatically be augmented.

Conclusion

It can hence be concluded that creative destruction is indispensable part of the capitalist economic system. As more and more nations are adopting their own versions of capitalism or neo-capitalism and the world is in general moving towards laissez-fairism, it is appropriate to say that creative destruction in the times to come will be a massive force. Those who embrace it with full vigor will sure be the leaders of the future.

References

1. Cox, W. and Alm, R. Creative Destruction. *The Concise Encyclopedia of Economics.*Retrieved from
   http://www.econlib.org/library/Enc/CreativeDestruction.html
2. Sharma, S. (August 09, 2015). Three HMT firms may be a test case for shuttering more loss-making, non-strategic PSUs. *The Economics Times*. Retrieved from
   http://economictimes.indiatimes.com/industry/indl-goods/svs/engineering /three-hmt-firms-may-be-a-test-case-for-shuttering-more-loss-making-non-strategic-psus/articleshow/48406531.cms?prtpage=1
3. Andersen, E. (2004). The process of Creative Destruction: From Vision to Measurement and Evolutionary Exploration. *DRUID Summer Conference*, 1-4.Retrieved from
   http://www.druid.dk/uploads/tx_picturedb/ds2004-1405.pdf
4. Perry, M. (August 06, 2015). 'The Netflix Effect': an excellent example of 'creative destruction'. *AEIdeas.*Retrieved from
   https://www.aei.org/publication/the-netflix-effect-is-an-excellent-example-of-creative-destruction/
5. Baskerville, P. (September 01, 2011). What is creative destruction? *The Huffington Post and Inc.*Retrieved from
   https://www.quora.com/What-is-creative-destruction

6. Srivastava, S. (September 11, 2014). HMT loses race against time, to be shut soon. *The Indian Express.* Retrieved from *http://indianexpress.com/article/india/india-others/hmt-loses-race-against-time-to-be-shut-soon/*
7. IANS. (August 10, 2015). HMT posts Rs. 25.22 Crore losses in Q1. *Business Standard*. Retrieved from *http://www.business-standard.com/article/news-ians/hmt-post-rs-25-22-crore-losses-in-q1-115081001556_1.html*
8. Walsh, M. (June 18, 2016). Netflix faces growing competition as new and old rivals step up their game. *The Guardian.*Retrieved from *https://www.theguardian.com/media/2016/jun/18/netflix-streaming-tv-competition-hbo-amazon-hulu*
9. Davis, S. and Haltiwanger, J. and Schuh S. (1996) Small business and job creation: Dissecting the myth and reassessing the facts. *Small Business Economics,* vol.8, issue 4, pp 297-315. Retrieved from *http://link.springer.com/article/10.1007/BF00393278*
10. Manchanda, A. (January 20, 2016). Why HMT Watches stopped ticking. *The Hindu Business Line.* Retrieved from *http://www.thehindubusinessline.com/opinion/why-hmt-watches-stoppedticking/article8130642.ece*
11. Bhagat, R. (October 24, 2013). Why Indian companies don't innovate. *The Hindu Business Line.* Retrieved from *http://www.thehindubusinessline.com/news/variety/why-indian-companies-dont-innovate/article5265576.ece*
12. Balooni, A. (May 5, 2016). Five reasons why Indian businesses lag in Innovation. *YourStory.* Retrieved from *https://yourstory.com/2016/05/indian-business-innovation-absent/*
13. Moskowitz, D. (May 12, 2015). Who are Netflix Main Competitors? (NFLX). *Investopedia.* Retrieved from *http://www.investopedia.com/articles/markets/051215/who-are-netflixs-main-competitors-nflx.asp*
14. HMT Annual Report 2014- 15. Retrieved from *http://www.hmtmachinetools.com/Annual_reports/Annual_Report_HMT_MTL_2014-15.pdf*

Business and Financial Journalism: Ethics and Responsibility

Avani Khandelwal

B.A. Economics III

Abstract

Journalistic privileges have been granted in recognition of the social function of ethical, responsible journalism and the paper examines the impact of current market and technological changes on the nature of those ethics and responsibilities. The world desperately needs good journalism and specially business and financial journalism. Journalists also enjoy a wide variety of professional privileges such as access to high security sources and financial reward and a range of formal and legal privileges. The responsibility of any journalist in the simplest terms is not to abuse their position, breach a contract of employment or break the rules enshrined in the various codes of conduct and laws they are subject to. Their roles and responsibilities have always been a subject of massive debate as each one of them has a different definition of their role and actions. Also, rogue journalists do benefit from manipulating prices. Now, this may be through omission of certain details including declarations of personal interest, by allowing oneself to be manipulated by others or deliberately as a part of the strategy to gain profit from price fluctuations. Financial journalism faces a number of challenges currently; including pressure of speed due to 24hour news cycle; increasing complexity; PR strategies; sustainability; and the challenges of globalization. Journalists have begun to respond, but the profession lacks a clear sense of purpose.

Keywords

Journalism, Ethics, Finance, Technology

Objectives

1. To examine the roles and responsibilities of a financial and business journalist.
2. To understand the privileges and powers of a financial journalist.
3. To learn about methods of protection of sources.
4. To reflect upon the misuse and abuse of media.
5. To understand the ethics in practice and the market sentiments.

Research Methodology

The descriptive research design is used in this study because it will ensure the minimization of bias and maximization of the reliability of data collected. The research has got very specific objectives and clear-cut data requirements. The required data and information for this research is secondary.

Review of Literature

According to JK Galbraith, journalists and others who speak out publicly against financial euphoria 'will be the exception to a very broad and binding rule. They will be required to resist two compelling forces: one, the powerful personal interest that develops in the euphoric belief, and the other, the pressure of public and seemingly superior financial opinion that is brought to bear on behalf of such belief' (Galbraith, 1990). Onora O'Neill argued that the press should do more to give readers the ability to assess the trustworthiness of what they are printing. Newspapers, according to O'Neill do not have a freedom to deceive and their freedom entails responsibilities. “A lot could be altered by procedural changes, such as requirements for owners, editors and journalists to declare financial and other interests and to distinguish comment from reporting, or by penalties for re-circulating rumors others publish without providing and therefore checking the evidence”... (Onora O'Neill; BBC Reith Lecture 5, 2002).

Introduction

This paper proposes that financial journalism, in particular, is based on a social compact of responsibilities and rights. Privileges and rights have been afforded to journalists in return for commitments to responsible journalism. The paper focuses on the process of re-examining those rights and responsibilities at a time of rapid change. Journalistic privileges have been granted in recognition of the social function of ethical, responsible journalism and the paper examines the impact of current market and technological changes on the nature of those ethics and responsibilities. The role of business and financial press has been the center of attraction of renewed debate as we enter a period of financial and economic instability: What responsibility do they have when their news and stories can have both implicit and explicit impacts on market behavior and sentiments? Should the ethical and professional standards of business and financial journalists be any different from those of others such as political journalists? Should journalists avoid 'panicking the markets' or would this constitute unacceptable self-censorship in business news? How can journalists deal with conflicting responsibilities in relation to overlapping constituencies - to readers, investors, to corporations, to governments, and to national economies?

This paper tries to understand and answer all these questions. Financial journalism provides a case study to understand in more depth and detail how debates about responsibilities are understood by journalists themselves, and by those who work with them.

Requirement of Ethical Journalism in Finance and Business

The world desperately needs good journalism and especially business and financial journalism. We need to understand the practical, ethical and editorial obstacles that will prevent it. The Big Bang of the 1980s coincided with the beginnings of cable and satellite TV and digitalized news gathering, creating a 24/7 live reporting environment. Today, economic and business stories move at a digitally driven speed that does not allow as much time for comprehension, let alone reflection, and much of the movement of financial data is automatic and unmediated by journalism. The financial data, system, and facts are themselves much more complex and it is partly a function of increasingly interconnected and globalized nature of markets and the pressures of commercial interest. Journalists who have access to information and an ability to either influence markets or gain personally have to face and go through various ethical challenges. I must say that financial journalism has not been immune from the pressure on resources; the key resource being TIME, and 'time' often leads them to compromise quality over quantity. We need ethical and justifies financial journalism as the behavior of the population depends on it which in turn affects the market sentiments and current economic situation.

The Privilege of Being a Financial Journalist

Financial journalists are not ordained into a protected guild or caste, but there are some advantages to being a part of the profession that has been hard won. Just as privileges will be contested, the same way features of responsible, socially beneficial journalism: both financial and mainstream will continue to be disputed. In the ongoing development of the legal and self-regulatory framework for business journalism, as for all kinds of journalism, many smaller decisions have been taken which institutionalize a set of rules for responsible conduct, and they apply to profession as a whole in ways that go beyond the relationship of market with consumers, media, brand attributes of individual companies and they do so only because editors, regulators, and journalists have witnessed and recognized the social benefits of responsible journalism. These are rules relating to the protection of sources, conflicts of interest and definitions of responsible, ethical journalism, within the broader framework of freedom of the press.

Journalists also enjoy a wide variety of professional privileges such as access to high-security sources and financial reward and a range of formal and legal privileges. To conclude, like all journalists, financial and business journalists enjoy certain privileges: access to sources, protection of sources, certain rights to immunities in relation to defamation, privacy law if what they are doing is deemed to be in public interest. But as we all know everything comes with its own set of privileges and threats and disadvantages. Following sections will examine the threats due to these privileges such as the constant review of protection of sources and defamation risk.

The Roles and Responsibility of a Financial Journalist

The responsibility of any journalist in the simplest terms is not to abuse their position, breach a contract of employment or break the rules enshrined in the various codes of conduct and laws they are subject to. Their roles and responsibilities have always been a subject of massive debate as each one of them has a different definition of their role and actions. Each has a different perception and we shall list a few of them :

1. If the rules applying to financial journalism dealing with market abuse, conflict of interest and the general journalistic virtues of accuracy, truthfulness, fairness, and respect for privacy are found to have been disobeyed or broken while conducting journalism, they must leave the profession. For example: In the United Kingdom and the United States of America, breach of ethical codes constitutes a breach of employment contract and includes grounds for dismissal and re-employment after such a breach is not so often.

2. Responsibility in terms of selling newspapers and a focus on the shareholders of the companies employing them.

3. Some specialist financial and business journalists witness their role entirely in terms of provision of information to investors and their primary focus being in terms of helping them reach successful investment decisions.
4. Journalists with an extremely developed sense of how they should serve investors, keep a mental tally of accomplished and verified calls and tips, and their implications for the investors' bottom line.
5. The ones who are less socialized see it as any other journalism with a very generalist view, seeing it as just another branch of journalism with the same aim and goal of broader public interest as a whole.
6. A professional duty of balancing both: ensuring that corporate malpractice comes to lights and providing what the readers want to read and should be reading.

The de-facto orientation of any journalist to these responsibilities will impact every aspect of her/his professional practice, in terms of what stories are sought, what news values are accorded to them and how they are to be presented. An interesting new challenge today is that many of those providing services in the new media irrespective of the branch of journalism reject the label of a journalist altogether, preferring to stay out of any ethical framework associated with it. In summary, there is some general agreement on a basic tier of responsibilities that most financial and business journalists agree to: to respect the codes of conduct and the law and to respect any particular guidelines that apply to the particular outlet in which they work.

All journalists enjoy privileges and have responsibilities. Access is a privilege granted to journalists in recognition of the public function of news, and responsibilities to truthfulness, accuracy are fundamental for all journalists. But in order to understand the particular professional ethics of financial and business journalism, it is necessary to delve a little deeper into the profession and, in particular, into the reflexive nature of its relationship to markets. Much of the framework of rules relates to the power that journalists hold - The power to move markets. These relate to the potential for illegal market abuse, the ethical mine eld around the potential to panic markets and the impact on broader consumer sentiment. Whilst there is also a more esoteric potential to be concerned with the overall efficiency of markets, particularly capital markets. In the next sections, we shall discuss in the power of journalism and market sentiments.

Misuse and Abuse of Power

Rogue journalists do benefit from manipulating prices. Now, this may be through omission od certain details including declarations of personal interest, by allowing oneself to be manipulated by others or deliberately as a part of the strategy to gain profit from price fluctuations. Here is a list of few practices that are outlawed by law and are a serious punishable offense :

1. Ramping: The technique used by the infamous City Slicker columnists at the Daily Mirror: at its simplest this involves buying up shares, boosting them with a news story or a comment and then selling the inflated shares at a profit. As they are artificially inflated they are likely to decline quickly in value which is why this is seen as direct exploitation of readers.
2. Short selling involves selling financial instruments that are not owned at the time of sale. In the expectation of declines in price, shares are borrowed and then sold. Later they are brought back at a lower price for the return to the lender, and the difference in value is the profit. By spreading false rumors, prices can be artificially deflated. Deliberate rumor mongering has been blamed for price declines, and blame has been directed at bloggers and journalists.
3. Insider Trading is trading on the basis of non-public information, usually gained through a formal relationship with the company in whose stocks one trades. The extent to which journalists are covered by insider trading regulation varies from jurisdiction to jurisdiction, but in the US and the UK, trading on the basis of information gained through ones' formal duties as a journalist could be considered to be insider trading.

All these forms of market abuse are illegal, usually because they constitute a fraud against the employer, and often because there are wider public interest considerations. When codes are found to be breached the sanction for the company is 'name and shame' but the individual journalist could lose his or her job. Many of the journalists interviewed were clearly well aware that the code was specifically mentioned in their contracts of employment.

There are other areas of practice that are not outlawed by law or professional codes, but do constitute bad practice:

1. Lazy credulity/inadequate skepticism: With the benefit of hindsight, it is clear that journalists, particularly when they have less time, skill and resource, are likely to find it difficult to apply sufficient skepticism to news items provided by interested corporations. This can lead to boosterism.

2. Lack of individualism. The social processes through which journalists informally agree what 'the story' is have long been commented upon by media researchers. There is a tendency to groupthink, and boosterism is often a self-fulfilling position. Journalists, like analysts, are likely to face criticism if they propose that markets are due for corrections.

Market abuse regulation assumes that news reporting can have a direct effect on the behavior of investors. In the case of news reports on individual companies, publication of a news story can have a measurable impact on share price. This, of course, could lead to a temptation for journalists to abuse their position for private financial gain, at the cost of disseminating false or misleading information to other investors.

Market Sentiment and Business Journalism

The causes of panics and corrections, like other forms of market behavior, ultimately lie in the economic fundamentals rather than media representations, reports by the media and by financial journalists do have a role, and they have come under increasing scrutiny during a succession of shocks to the financial system since 2006. The media are criticized, on the one hand, for 'boosterism' which exacerbates irrational exuberance and may lead to damaging 'bubbles' and painful market corrections. They are also criticized, on the other hand, for bursting such bubbles through excessive doom and gloom when reporting on those corrections.

Just how important is the news media in shifting markets and in terms of setting the overall mood in terms of public confidence? Might media reports lead to tipping points in markets? Do current trends in the provision of financial news intensify or undermine the market impact of news? Until further research is carried out in this field, it is possible to raise, but not to resolve, these questions. These days, institutional investors receive most of the directly investment-related information from professional analysts and subscription platforms in a process that is increasingly mediated by machines, we might expect that the public media are likely to have a strong impact on the more general level of public and consumer confidence, but this, in turn, may be altered by the rise of new news sources. Surprisingly little research has been carried out on the changing nature of that relationship. The stock market, for example, runs entirely on the sentiments of the people, and if they change, the stock market can either change for good or for worse, and the general public if not entirely but mostly depends on news and media platforms, therefore it should be the duty of journalists to disseminate correct and true information.

Ethics in Practice

Some of the challenges facing financial journalism are not new. The need for enhanced training and skills for financial journalists, conflicts of interest and potential for market abuse, and the unremitting daily struggle to avoid being instrumental and treating stories with appropriate skepticism are the enduring themes of the trade, dating back to the emergence of financial journalism in the mid-twentieth century.

At Forbes, its editor, William Baldwin, said the policy he wrote for the magazine's editorial staff 'explicitly prohibits" reporters from writing about any company whose shares they, their spouses or children own. Reporters are also prohibited from writing about companies that employ their spouses. But Rik Kirkland, managing editor of Fortune, said he did not consider all stock holdings, especially those held for more than six months, to present insurmountable conflicts.(New York Times July 28th, 2003).

Codes of conduct need to be understood in terms of the way they are interpreted in practice. How do editors and journalists deal with the ethical dilemmas that confront them in the newsroom? What about direct conflicts of interest? What happens when journalists themselves, or those close to them, hold shares in a company? According to one former editor of a national newspaper, codes serve more to communicate standards and raise awareness than as an effective tool for policing behavior. “Ethical safeguards are only as good as the people, in general, active trading is frowned upon, and you can ask people to disclose their interests. But this depends on them not trading with their relatives”.

The Press Complaints Commission Code:

1. Prohibits the use of financial information for the profit of journalists or their associates;

2. Imposes restrictions on journalists writing about shares in which they or their close families have a significant interest without internal disclosure;
3. stops journalists dealing in shares about which they have written recently or intend to write in the near future; and
4. Requires that financial journalists take care not to publish inaccurate material and to distinguish between comment, conjecture, and fact. This is particularly important for any journalists making investment recommendations to readers about whether to buy, sell or hold shares.

Panic and Rumour

The reflexive relationship between reporting and the market leads to other ethical and practical issues. One is the question of whether reporters should take particular care not to cause panics or sudden collapses in confidence. This comes into stark relief when a particular institution collapses following a news report, as was the case when Northern Rock collapsed following a BBC report in September 2007 and during the financial crisis of 2008. Whilst it is clear that the Rock had made fundamental mistakes and would have required assistance from the Bank of England whatever the news reporting; many argued that the consumer panic and the run on the bank was triggered, and perhaps worsened, by the nature of BBC reporting.

It appears to be the case that the public is and always have been exposed to many sources of rumors, some members of the public turn to the media as trusted sources of information in order to verify these rumors. Whilst the pressure to file stories must be great, many people agreed that financial journalists have to have a firm filter against being used. In the words of a former editor of a national newspaper "just peddling rumors simply fulfills the wishes of the rumor mongers"

The reporting of rumors is a particularly difficult territory from an ethical point of view. Market sensitive information is of value to readers and journalists see their role as getting it to them quickly. Traditionally, rumors have appeared in particular columns and in qualified forms. Increasingly, of course, rumors circulate more freely and have a market impact without reporting in the conventional press. In general, codes and professional practice underline clearly the need to verify rumors from authoritative sources, and readers and viewers.

Conclusion

Newspapers and broadcasters tend to rely on a few specialist financial journalists, these self-definitions of the role are crucial: If journalists see themselves mainly or merely as serving the market or investors, they may be less effective in their watchdog role. Codes of conduct for financial journalists tend to focus on the micro aspect of conflicts of interest relating to single companies and neglect broader issues such as the role of business reporting in relation to market sentiment in general. Research is inconclusive on the precise relationship between news and markets, and it is unlikely that any clarity will be achieved on this issue in the near future. It is clear however that financial news reporting could reinforce dysfunctional patterns of market behavior such as herding and momentum. Financial journalism faces a number of challenges currently; including the pressure of speed due to 24hour news cycle; increasing complexity; PR strategies; sustainability; and the challenges of globalization. Journalists have begun to respond, but the profession lacks a clear sense of purpose. In this context, financial journalists and other stakeholders should urgently seek to reassess their roles and responsibilities and seek a new regulatory settlement. Those who seek a more responsible financial journalism should open a dialogue about how best to support that, through promoting access to key financial information for journalists, clarifying source protection standards and defamation risk. Given the business constraints financial journalists face, they will not be able to develop a new role in the global corporate governance structure without a re-assessment of the privileges society affords them.

References

1. Barber, Brad M. and Terrance Odean (2006). All that Glitters: The Effect of Attention and News on the Buying Behavior of Individual and Institutional Investors, EFA 2005 Moscow Meetings.Retrieved from

   http://ssrn.com/abstract=460660.

2. Butterworth, Siobhain (2008). Open door - The readers' editor on leaky ships and journalistic privilege. The Guardian. Retrieved from

   http://www.guardian.co.uk/commentisfree/2008/sep/01/pressandpublishing.

3. Corporate Watch UK (2003). Public relations and lobbying industry: an overview, Davis, Aeron (2005). Media Effects and the Active Elite Audience: A Study of Media in Financial Markets. European Journal of Communication. Retrieved from

   http://www.corporatewatch.org.uk/?lid=1569.

Causes of Gambling May Not be morethan its Effects

Riddhi Baid, Anishka Badaya and Twinkle Karnawat

B.A. Eco I

Abstract

Gambling is the wagering of money or something of value (referred to as "the stakes") on an event with an uncertain outcome with the primary intent of winning money or material goods. Gambling thus requires three elements be present: consideration, chance and prize. The outcome of the wager is often immediate, such as a single roll of dice, a spin of a roulette wheel, a horse crossing the finish line, but longer time frames are also common, allowing wagers on the outcome of a future sports contest or even an entire sports season. Although gambling is an international commercial activity with its legal global market to be worth of around $335 billion but there are loads of bad things about gambling despite of its huge global market share.

In this research paper we have explained what is gambling, its types and its effect on individual as well as economy as a whole. We have also highlighted steps that should be taken to stop/control gambling.

Keywords

Legalization ofGambling,Gambling cycle, Fiscal effects, Gambling myths.

Objectives

- Tostudy the economic impacts of gambling
- Tostudy the social impacts of gambling
- Tostudy the legalization of gambling in India

Research Methodology

The study is mainly based on secondary data collectedfrom various sources.

Economic Times blog,Indrajit Hazra's blog,KevinHorridge's article, Rajat Sharma's article, Susan Sedlak's article and manyothers.

Review of Literature

- Kevin Horridge - He is the number guru. He calculatesodds in his head. He gets involved in all the news stories involving numbers,and he often help on financial news stories as he used to be in banking.However,he is a gambler himself as he says that being a gambler is a far morerespectable occupation these days.He has wrote an article on -Gambling And TheLaw: The Good, The Bad And The Ridiculous
- Indrajit Hazra-is an Indian journalist and novelist bestknown for his book The Bioscope Man which has been published in India andFrance. He has also been nominated by the Spain India Council Foundation in 2012 as 1 of 12 future Indian leaders.He has also given his views on gamblingin his article-Here's why betting needs to be leaglized in India.
- Rajat Sharma-born on18 February 1957 ,is the chairman andeditor in chief of an Indian Hindi news channel, India TV as well as the hostof the show "Aap Ki Adalat "and Aaj Ki Baat news bulletin.Being ajournalist he knows alot about economics and has shared his thought aboutgambling in India in the article -Gaming Industry in India.
- Susan Sedlak- is a writer based on San Diego, California.Being an avid player, and most importantly, an avid blog reader, Susan knowshow to deliver interesting, highly entertaining articles.She writes alot ofblogs related to gambling one of which is-Positive Effects of the GamblingIndustry.

Introduction

Gambling means placing something valuable at risk on theoutcome of an unsure event.Basically, it's a bet and the bet could be onanything from a coin toss to a horse race.Gambling can be divided as skilledand unskilled , in the game of skill everything depends upon the decision andaction of an individual while in unskilled gambling it's just a matter of luck.

In India ,gambling is restricted to a few categories andbeing a state subject ,the state government holds the power of forming laws forgambling activities in their respective states.

When most people talk about gambling, beneficial effects rarely come up in the conversation. Despite the fact that more than 1 billion people gamble each year (about 1/7 of the world's population). Indeed, the unmatched growth and expansion of thegambling industry have had many positive and negative economic and socialimpacts.

Economic Impacts

➢ Thepositive effects of gambling on economy are-

- Employment

Casino can provide more job opportunities for localemployees. Most of thejobs don't needskilled people , low-paying service type.So while most of those people may gohome losers, they will have injected new wealth into the local communities.
Other businesses such as restaurants, hotels and evenamusement parks near casinos get a chance to grow as well which leads to morejob opportunities. Entering the gambling industry can lead to immediate andsubstantial economic growth.

1 Contributes to Government Budget

Taxes on gambling revenue will help the government ingenerating more funds.It will also help the gambling industry to do some socialwork by improving schools and infrastructure while limiting personal incometax.
The lottery is a self-imposed tax. It doesn't generateenough money to replace the income tax but it certainly makes a big differencein state budgets.

- Creates new form of revenue

Believe it or not, there are people who make money off ofgambling without gambling. These are the gambling sites affiliates whoreview onlinegambling sites. People earn money by advertising these sites.Theyare allowed to take payment for advertising. It's not their responsibility tomake sure that players and gaming providers comply with the law.Theseadvertisers can be anyone selling anything from books to cars.The affiliateindustry is much larger than gambling.

➢ Thenegative effects of gambling on economy are-

- Bankruptcy

People go bankrupt because of gambling debt.It can bebecause of their addiction or when

they tried to win money to pay existingdebts.
Gamblers "borrow" from credir cards, retirementfunds, saving accounts etc. hoping to fund the one big bet that gets them backto even.

1. Frauds

Unfortunately criminals pretending to be legitimategambling businesses tries to stealidentity or money. They ask people to pay a fee before the prize money is released to which people should never respond to requests for advance payment.
Some fraudsters set out to steal identities. Therefore we shoul dnot release personal information such as your passport number, home address, telephone number or banking details to unknown organisations.

2. Job Risk

Gambling can also have an adverse effect on an individual's ability to perform well at work, college or school .
Gamblers often show up late for work. Some problem gamblers skip entire work days to gamble. They are more likely to take sickleave. Problem Gamblers usually experience decreased productivity, as they of ten day dream about gambling or use the Internet at work to gamble. They are more likely to ask employers for pay advances, borrow money from fellow employees and steal from work. There is a real risk of losingjob as a result of gambling behaviour due to high levels of sickness, absenteeism and misuse of company time.

Social Impact

1. Consumer Benefits (Entertainment)-

   As with other industries, one of the major benefits of the gambling sector is that it results in increased mutually beneficial transactions. That is, since both the buyer and seller of the product, in this case a lottery ticket or a casino game, receive benefits from their transaction, are the source of economic growth, since both generally there is an increase in the overall well-being in society. Such transactions parties are enriched by them.

   As with playing the lottery, casinos can be entertaining and fun. Gambling at a casino is also a more social experience than playing the lottery. The point here is many people enjoy the activity of gambling, and the benefits they receive from the activity (entertainment, excitement, etc.) apparently outweigh the price they pay (the house edge or the revenue from the lottery).

2. Complimentary Industry Benefits-

   A final potential benefit from legalized gambling is the effects that the industry may have on complementary industries. As with employment, this issue is probably most relevant for casinos. Most casinos have an attached hotel, and patrons often stay, gamble, and dine in the same hotel-casino. Everything a vacationer needs is in one place. Despite the fact that often casinos can be resorts unto themselves, casinos can often do more business by agglomerating, or situating themselves near each other.

How does gambling become a problem?

It has been rightly said by Owen Feltham:

By gaming we lose bothour time and treasure:
two things most preciousto the life of man.

Just as some individuals may develop addictions to alcohol or drugs, the same can happen with gambling. That is, some people may become so-called problem gamblers. This behavioural disorder is similar to alcoholism or drug addiction. It is characterized by gambling too much—to such an extent that careers, relationships, and families are significantly harmed by the behaviour or its effects. As a result, these individuals sometimes engage in socially costly behaviour. Some will commit crimes to get money for gambling. Others will default on debts, be less productive, or skip work.

Gambling can change and grow without you noticing it becoming bigger in your life and that's where it can become a problem.

Some of the ways people describe this happening are:

1. The Big Win

A big win can change gambling from entertainment to being about winning money.

The problem here is that all forms of gambling have a house advantage meaning, over time, the house always wins. Or more importantly, the gambler always loses. This means any gambling you do that is driven by a need to win money, including trying to win back money you've already lost, is not going to work

2.Gambling to cope with stress

Any entertainment can be a useful diversion from stress, grief or life's hassles but can turn negative when it stops being a diversion and starts being a way to cope. This is because ignoring a problem doesn't usually make it go away.

Using gambling to escape other problems can leave you with an even bigger problem, less money and less goodwill from family and friends

Why is it so hard to stop?

Even though there is no drug or substance involved in gambling, problem gambling is categorised as an addiction in the psychiatric literature in the same section as drug and alcohol addictions.

That problem gambling is an addiction and has some of the same features in terms of brain activity as substance addictions explains why just trying to stop sometimes isn't enough to make it happen.

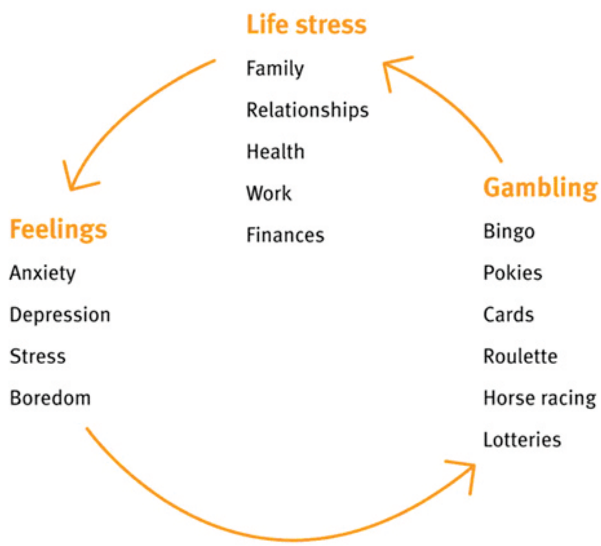
It also explains why despite wanting to stop, many people will struggle to control their gambling and have to try many times to stop before being successful. It also explains why, just like with other types of addiction, some people will remain vulnerable to problems with gambling returning in the future.

Like many addictive processes, gambling can seem in the short term to solve the problems it causes in the long term. For example, at the start gambling can help divert your attention from problems but can make them worse in the long term.

Because it seems to work in the short term, some people gamble more and more, setting up a vicious cycle where the affects get worse over time.

This cycle can look a bit like this

The gambling cycle:



The cost of gambling

Uncontrolled gambling costs much more than money. It can also lead to:

- losing self respect and that of family, friends and work colleagues
- relationships breaking down including marriages and losing friends
- damage to your health, for example not eating or sleeping properly, or existing health problems getting worse
- problems at work from missing work or not being able to concentrate
- losing interest in other social activities, shutting you off from the world
- flunking out of school, TAFE or university because you can't focus on your education

Uncontrolled gambling can also lead people to doing things they otherwise would never consider, like stealing money or breaking the law, to sustain their gambling habit.

Some of the myths associated with gambling include:

- If I continue gambling, I am bound to win
- I can win back what I have lost
- gambling is a solution to my financial problems
- gambling is the only way I can escape from stress
- the only way to stop the urge to gamble is to go ahead and gamble

Legalisation of Gambling in India

Gambling is legal all over the world but in India,thisregulations fails due to corruption.

In terms of output and employment, in United Kingdom (Britain) gambling industry contributes in the economy. In 2008, 3 billionpounds ($4.65) gross value -added transaction occured in gambling activitiesand it helped create 40,700 jobs.

In India too, Government can generate revenue throughgambling. This can be done by legalisinggambling in few tourist places; eg Goa. But since there is no developedsystem to check its proper functioning this implementation cannot be done.

People also earn through investing in share markets.Share market is legal which is also a type of gambling. Economy also benefitsfrom investment in stock markets. A rising stock market is indicative of aprogressive economy. Improving economy leads to larger consumer spending, moreequity investments and rising stock values.

This leads to a conclusion that legalization of gambling can actually help economy. It can add as an extra source of income for the government. This can lead to development in the economy. The only need for its proper implementation is that we need a proper developed support system. People need to be aware of this system too.

Conclusion

The economics of gambling is a wide-ranging subject, butmost of the interesting issues under this topic are related to lotteries, horseracing, share markets and casinos. In terms of their revenues and contributionsto state governments and the amount casinos, lotteries and share market are themost significant of the gambling sectors.

The literature onthe economics of gambling focuses mainly on economic development effects ofintroducing casinos, for example. These benefits must be viewed alongside thepotential social costs that may also come with gambling.

References

1. Hazra, I. (2016). Here's why betting needsto be leaglized in India. Retrieved from *https://blogs.economictimes.indiatimes.com/Undertheinfluence/heres-why-betting-needs-to-be-leaglized-in-india/*

2. Positive and Negative Economic Impacts of Casino Gaming Tourism Essay. (2015). UK Essays Retrieved from

https://www.ukessays.com/essays/tourism/positive-and-negative-economicimpacts-of-casino-gaming-tourism-essay.php

3. Ross, S. (2018). How does the price of oil affect the stockmarket?Retrieved from

https://www.investopedia.com/ask/answers/012815/how-does-bull-market-affect-economy.asp

4. What are the Benefits of Gambling? Retrieved from

https://www.benefitsof.org/what-are-the-benefits-of-gambling/

5. Horridge, Kevin. (2015). Gambling and The Law: The Good, The Bad And TheRidiculous. Retrieved from

https://www.google.co.in/amp/s/www.casino.org/blog/gambling-and-the-law-the good-the-bad-and-the-ridiculous/amp/#ampshare=https://www.casino.org /blog/gambling-and-the-law-the-good-the-bad-and-the-ridiculous/

6. Positive Effects of the Gambling Industry bySusan Sedlak. (2015). Retrieved from

https://www.slotsofvegas.com/industry-news/positive-effects-of-the-gambling-industry-10163.php

7. Sharma, R.(2014). Gaming Industry in India. Retrieved from

http://www.blog.sanasecurities.com/gaming-industry-in-india/

POLICY REVIEW

SECTION 5

Deen Dayal Upadhyay Gram Jyoti Yojana

Isha Koolwal

B.A Eco III

Introduction

Even decades after independence, there still exist many remote places in the Country which have little or no access to electricity. The absence of electricity is the unavailability of a very basic amenity of life. To improve the situation and provide electricity to the millions living in the dark, the Government of India launched the Deen Dayal Upadhyay Gram Jyoti Yojana in November 2014 with a budget of 756 billion. It is one of the key initiatives of Government of India and a flagship programme of Ministry of Power. The scheme replaced the Rajeev Gandhi Grameen Vidyutikaran Yojana which was launched in April 2005.The main aim of this scheme is to provide continuous power supply to every household in rural India by 2022. The focus area includes the "off-grid" villages aiming to cover close to 18,452 villages in 1000 days (from August 15, 2015 to May 1, 2018). The major components of the scheme include separation of agricultural and non-agricultural feeders to ensure better supply of electricity to the users, strengthening and augmentation of transmission and distribution infrastructure, micro and off grid distribution network and completion of the projects already taken under the Rajeev Gandhi Grameen Vidyutikaran Yojana.

Analysis

Cost

The cost of the project is estimated to be around ₹756 billion. To set up the entire infrastructure to not just generate electricity but also to store and transmit it in as many as 18,000 villages is a herculean task. The initial investment the project requires is indeed a huge one but the cost of investment is worth bearing given the benefits the communities will reap.

Social

The social impact of electrification can be seen in almost all aspects of life. Electrification has always and will in future too result in a wide array of activities coming to life in an area. With access to electricity, the agricultural yield can be increased as a result of use of mechanised motors and advanced methods of irrigation. Small and household industries will come up resulting in employment generation. An increased accessibility to mobile, internet, radio and television will in turn help in deeper penetration of banking, health and education services. All these factors will result in a better and a more comprehensive development of rural areas.

Political Acceptability

With the scheme replacing almost a decade old RGGVY, there is no question to the political acceptability of the scheme. No matter which government is ruling at the centre, rural electrification is an issue which every government handles with the same level of sensitivity and caution.

Efficiency

It is the efficiency of a scheme which determines its success or failure. By changing the definition of electrification of a village, the government made an attempt to bring electricity to not just 10% of the households in a village but to each and every household. By November 30, 2017 15,183 villages had been electrified and the remaining 2,217 villages are expected to be electrified by the deadline, i.e. May 1, 2018. While the aim electrification is approaching towards the path of completion, there are many other aspects which will help us in deciding how successful the scheme actually was.

Parameters	2013-14	2016-17	2017-18 Target
Electrification of un-electrified villages	1,197	6,015 **(5.02 times)**	Balance un-electrified villages to be electrified by May 2018
Intensive electrification of villages	14,956	63,330 **(4.2 times)**	85,000
Free Electricity Connections to BPL households*	9.62	22.42 **(2.3 times)**	40 Lakh
Government of India Grant released to States**	Rs. 2938.52 Crores	Rs. 7965.87 Crores **(2.7 times)**	Rs. 4814 Crores

*Free electricity connections to BPL Households provided to 256.81Lakh BPL families up to 30th April 2017

** Release of highest ever grant in any FY of Rs 7965.87 Crores to States

Saubhagya Scheme

The government had realized that only electrification of villages is not enough and the access to electricity is another severe problem. Taking this into account, the government had launched the Pradhan Mantri Sahaj Bijli Har Ghar Yojana (also known as the Saubhagya Scheme) on September 25, 2017. Under the scheme, free electricity supply will be provided to all households in rural areas and to the poor households in the urban areas. Around 4 crore un-electrified houses are targeted for providing electricity connections under the scheme by December 2018. The Saubhagya Scheme has enabled a better and a more effective working of the DDUGJY.

Future prospects and the road ahead

The government has indeed done exceedingly well in providing electricity to the target villages. But, what is of greater importance is the sustained and long term availability of electricity at reasonable and affordable rates. The availability of electricity in the villages is just the beginning. The availability of electricity must be accompanied by its continuous and economical supply. This is where the DICOMS come into picture. After the generation and transmission of electricity, the most important part is the distribution. The state has limited funds and cannot operate DISCOMS in all regions. For this purpose it must encourage and provide lucrative options to the private sector to enter the industry as DISCOMS. The UDAY scheme is a good step in this direction.

Hooking, the most common type of electricity theft is a major threat. Activities like hooking result in unidentified flow of electricity which result in a huge gap in electricity transmission and electricity distribution. The government should take steps and make policies to control hooking and punish the offenders.

Another good option the government should look at is providing self-sustainability to the villages in terms of electricity. Villages/towns which are endowed with natural resources like excessive sunlight and wind can use renewable sources of energy to meet their electricity requirements. By dividing these places into small blocks with self-sustainability, the problem of loss of energy during transmission and hooking related issues may be solved.

Major steps are being taken for complete electrification of the nation. With the scheme in place, we can soon see light in every household of the country. What is required is the timely and effective implementation of the policies meant to bring the poor and remote areas of the country out from the dark.

REPORT

SECTION 6

Report On Swachch Bharat Abhiyan in Rajasthan

Divya Sharma

B.A Eco II

1. Rajasthan's sanitation coverage has increased to 86.39% from 30.55% in 2014.
2. 11 out of 33 cities in Rajasthan are open defecation free.
3. Allegations for forcing to build toilets to meet targets have emerged.

With the above data, it is clear that Rajasthan has implemented the Swachch Bharat Abhiyan in a goodmanner by applying its multi-pronged strategy, divided in:

- Rural areas
- Urban areas

And, in both the areas three identities which playeda very important role were:

- Schools
- Organisations
- Govt.Authorities

The report focuses on the role of schools in "Swachch Bharat Abhiyan" for both , the rural and urban areas. As thefuture of India lies in schools, it is very important to teach the students about major issues in their country, one amongst it being "cleanliness".Oneofthe school in Udaipur named itself GUPSS (Government Upper Primary Sanskrit School), they not only teach them about the cleanliness but also teach them how to keep them selves clean by introducing three main programsi.e.

Bal Sansad: Bal Sansad or Student Parliament that has Safai Mantri, Jal Mantri and Paryawaran Mantri who're responsible for maintaining proper sanitation in and around the school premises, this is a school where every child takes pride in their class which they've created out of love and enthusiasm.

SwachchtaClasses : The unique journey of this school traces back to theyear 2004, when the present headmistress Sheela Sharma joined the reasateacher. Since 90% students enrolled in the school came from nearby tribal areas, their parents were less aware about hygiene practices. However, Ms. Sharma was determined to change this attitude. She made it mandatory for students to take aba that the hand pump situated on school ground. Those who didn't, were not allowed to enter the classrooms. This is how the idea of "Swachchta Classes" came into existence.

Swachchta Period: In this period, students with the materials like colors, brushes and sheets given by the headmistress, kids prepare informative paintings and drawings to generate awareness regarding a clean environment. They also take keen interest in floral arrangement and wall painting.

Not only this school,even colleges too conduct the "cleanliness drive" every month in order to inculcate the slogan *"cleanliness is next to godliness"*.

Not only schools, government is also taking steps to implement the mission in a best possible manner, here are some steps:

The Rajasthan assembly has passed the amendment that any person willing to contest Panchayat elections, must have a functional sanitary toilet in their house, and that any of their family members do not defecate in the open. This was a progressive step for Rajasthan, as many candidates contest Panchayat elections. The contestants are usually role modelsat the local level and have the power to influence their community. The use of toilets by them and their family member scan lead to a positive impact on the village community to ensure access to sanitation facilities.

With the alliance of private company BVG, Rajasthan has started door to door collection of garbage from homes and they collect waste from homes three times a day. Some coercion methods are also used like denial of subsidised rations and denial of work

under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). Though no direct orders have come from the state government, villagers have alleged that local administrations have themselves decided to impose such restrictions to force villagers intobuilding toilets*2*"Local administrations and NGOs went from door-to-door to explain people about theimportance of having toilets and people caught on soon enough", said Dr Ayushi Ajey Malik, Director, Swachh Bharat (Gramin), Rajasthan. Inspired by them millions of rural women joined hands in the district Dungarpur of Rajasthan to build 75000 toilets in 100 days, ending the woes of open defecation permanently

NRIs can also contribute to this mission, by bringing the idea of cleanliness from abroad as how they keep their place clean, they can also help financially by donating money in multi-dimensional projects. Providing some good incentives can also help rural built toilets , one of it could be like "if they build toilets in their house, their children get chance to study in abroad.

NRI investment in projects like building of dams for regular water supply is also something of great help.

The combined effort of all three organisation are listed below:

Rajasthan's rural sanitation coverage stands at over 85 percent and 11 out of its 33 cities are open defecation free, but allegations of coercion in rural areas to build toilets and non-maintenance of public toilets in urban spaces take away some of the shine from the states' sanitation achievements

The state has built over 60 lakh (64,50,063) individual house hold toilets (IHHLs) in its rural area sin three years, averaging nearly 20 lakh toilets peryear, the highest among any Indian state.

The state government has taken a special interest in sanitation and improved its rural sanitation coverage to 86.39 percent from alow 30.55 percent in 2014.

The state's interest in improving its sanitation was visible from the fact that for the financial year 2016-17, Rajasthan spent 99 percent of its allocated budget of 634 crore sinc on struction of IHHLs in rural areas.

But does this mean that Rajasthan is all clean? No, according to the swachch sarvekshan, in Rajasthan, 18 of 29 cities are ranked beyond 300 with 13 in the bottom 100. Bundi, at 171, is the best ranked city in the state while Kishangarh in Ajmer, ranked 419, is the dirtiest. Five town sin the stateal so figure in the bottom 50.

By making toilets or spreading awareness, their duty is not finished. There are some amenities which should be provided with them like regular supply of water in toilets, only then the purpose can be fulfilled. They had made toilets in both urban and rural, but face some problems.

In Rural	Irregular water supply.
In Urban	Maintenance of public toilets.

KEEPING INDIA CLEAN

States which have spent the least as a percentage of total funds available sent by Centre

State	Total available funds (₹cr)	Total exp (₹cr)	Expenditure as a %age of total funds	Balance (₹cr)
GOA	1.49	0	0	1.49
MIZORAM	10.31	0.52	5.07	9.78
JAMMU & KASHMIR	120.91	12.31	10.18	108.59
BIHAR	404.47	73.79	18.24	331.43
TELANGANA	215.58	50.43	23.39	165.21
TOTAL	**5,810.52**	**4,241.12**	**72.99**	**1,572.44**

Top spenders (In relation to Centre's allocation)

State	Total available funds (₹cr)	Total exp (₹cr)	Expenditure as a %age of total funds	Balance (₹cr)
RAJASTHAN	471.2	693.12	147	-221.85
WEST BENGAL	667.92	584.32	87.48	83.64
ODISHA	262.75	451.86	171.97	-189.03
MADHYA PRADESH	491.34	402	81.82	89.51
UTTAR PRADESH	808.73	305.64	37.79	503.1

Note: In few states, balance will not be equal to difference between funds available and expenditure because of the interest earnings by the states on the funds
Source: Ministry of drinking water and sanitation

The budget available with Rajasthan for the implementation of mission is 471.2 (incrores), but the total expenditure is 693.12 (in crores). That means behind the unsatisfactory performance in 2017 is one, poor budget allocation; and two, improper maintenance and irregular water supply.

To conclusion, it can be rightly said that Rajasthan is half way to the completion of Swachch Bharat Mission. With a better allocation of funds, they can achieve the target of ODF (Open Defecation Free). They should eliminate coercive methods because this may trouble the rural people as they are already poor and if they don't getration or food to eat then they may suffer from starvation. Rajasthan is reached to it shalf way because of the contribution of schools, NGOs, govt. authorities and obviously people.

References

1. Pant, B. and Moghe, S. (2015). Swach Bharat Mission: Lessons from Rajasthan, Retrieved from *https://blogs.timesofindia.indiatimes.com/voices/swachh-bharat-mission-lessons-from-rajasthan/*

2. Talented Young Hands Keep the Spirit of Swacch Bharat Abhiyan Alive in Udaipur. Retrieved from

http://www.newsofrajasthan.com/udaipur-school-students-swachhta-class-balsansad/

3. Rajasthan performs poorly in Swachh survey. Retrieved from

https://www.hindustantimes.com/jaipur/rajasthan-performs-poorly-in-swachh-survey/story-cCYqWsjsaNHxNmJ1hb3RNP.html

4. Sharma, R. (2017).Swachh Survekshan 2017 Full list: State-wise rankings of cleanest cities in India. Retrieved from

http://www.india.com/news/india/swachh-survekshan-2017-full-list-state-wiseran kings-of-cleanest-cities-in-india-2097116/

5. Sethuraman, S. (2011). Here is the reason behind Rajasthan's sanitation revolution.Retrieved from

https://thewire.in/2011/heres-the-secret-behind-rajasthans-sanitation-revolution/

Survey Report- Union Budget 2018

Vedika Bihani and Sakshi Bansal

Introduction

With the 2018-19 Union Budget being NDA government's last full budgetprior to the 2019 general elections, it has been put under the scanner by many for populism. At the outset, the budget seems to have done right by the critically challenged and highly vulnerable farming community, as well as addressed the holy trinity of the common citizen's woes- health, education and employment. To quote Mr. Jaitley, the budget focuses on “strengthening agriculture and rural economy, provision of good health care to economically less privileged, taking care of senior citizens, infrastructure creation and working with the States to provide more resources for improving the quality of education in the country”.

However, there is still skepticism regarding the performance of this plethora of schemes in light of the resource constraints and the too-frequent divergence of benefits from the intended groups. The government's credibility on the fiscal discipline front too has come under question as the fiscal deficit target of 3.2% of GDP in FY18 was breached to land up at 3.5% and the FRBM Act's aim of reducing the fiscal deficit to 3% has been moved to FY21. More importantly, the revenue deficit projected as 1.9% as per 2017-18 BE, was revised to 2.6%, while capital spending was short of the budgeted estimate, despite bigger borrowings.

The blows all appear to have been aimed at the affluent- the 10% LTCG tax, raised custom duties and a 1% increase in cess on income tax and corporation tax. But these steps certainly do not create a burden which might warrant an outcry by the corporates and investors. Besides, theentire MSME sector will benefit from the lowered corporate tax rate of 25% for companies with annual turnover of up to 250 crore.

This survey has attempted to find the youth's views on all this and more- the transformative decisions that have been taken as well as those that could have been. It is also an endeavor to gauge the students' awareness and outlook towards an event that holds the power to most significantly impact the lives of all groups collectively, and tangibly.

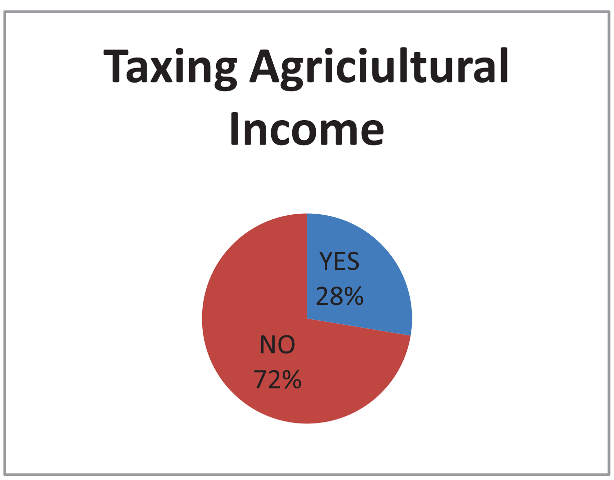
Methodology

An online survey comprised of optional questions was conducted. There were a total of111 respondents, consisting of undergraduate students from diverse backgrounds.

Keyfindings

1. Agriculture

The allocation for the Ministry of Agriculture and Farmers Welfare is Rs. 57,600 crore for 2018-19 BE, up from Rs. 44,500 crore in 2017-18 BE.The budget has focused on addressing the main cause of farmers' distress- extremely unremunerative prices. The budget assures the farmers, rather ambitiously, MSP equivalent to at least 1.5 times the cost for major kharif and rabicrops. However, how these input costs will be calculated has not been clarified. Procurement under MSP is another problem as the small and marginal farmers, who constitute 86% of the farming community, do not produce enough marketable surplus to avail benefits of MSP. The Finance Minister himself acknowledged that increasing MSP is no panacea and that a mechanism will be worked out by the NITI Aayogfor securing farmers' income. Accordingly, the survey sought opinions as to whether this assured MSP will help in the much critiqued goal of doubling farmers' income by 2020. While almost half of the thought it was a step in the right direction, less than 30% disagreed.



While agricultural income is exempt from income tax in India, some believe that it is benefiting the rich farmers who form just 4% of the total agricultural households but hold over 20% of agricultural income. Thus the respondents were asked whether agricultural income should be brought under the tax net as per the normal income tax slabs. A huge 72% of the respondents did not recommend such a measure, while only 28% were in favour.

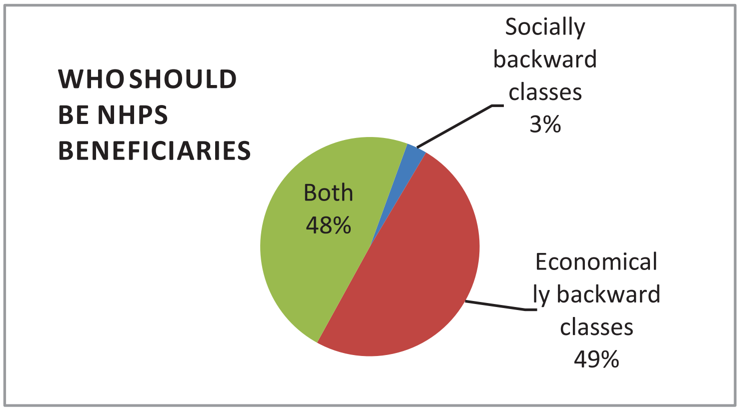
Another issue plaguing agriculture is that of intermediaries and getting a larger portion of what the consumers pay to the farmers. For this, Mr. Jaitley has proposed the rollout of “Operation Greens” with an allocation of Rs 500 croreto promote Farmer Producers Organisations (FPOs), agri-logistics, processing facilities and professional management, on the lines of the historic “Operation Flood”. The project is aimed at streamlining the supply chain and stabilizing prices for fruits and vegetables with tomatoes, onion and potato(TOP) as the priority, as the past year saw distress sale and even roadside dumping of these perishable commodities by many farmers.

2. Health and Education

The eye-catcher of the entire budget was the unprecedented National Health Protection Scheme- a one-of-its-kind Universal Healthcare initiative that will providemedical coverage of uptoRs 5 lakh per family per year, to 10 crorefamilies (about 50 crore people). Dubbed as Modicare, it will be the largest health insurance scheme in the world if successfully implemented. There has been much speculation as to how the government plans to fund this scheme as no outlay has been set aside for it.

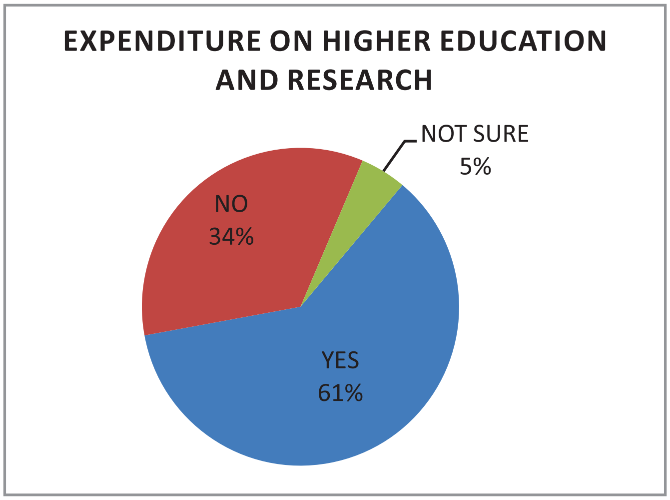
The beneficiary families eligible for the same will be identified on the basis of “deprivation and occupational criteria as per Socio Economic and Cast Census (SECC) data. The proposed target population is (a) families that belong to any of the 7 deprivation criteria (b) automatically included families as per SECC database for rural areas and (c) defined occupational criteria for urban areas”, Health Secretary Preeti Sudan wrote in a letter to all state Chief Secretaries. One of the 7 deprivation criteria in the SECC is 'SC/ST household'.

The respondents were asked what according to them should be the basis for qualifying as beneficiaries to the NHPS. The views were divided almost equally between those in favour of economic status being the only criterion and those who thought both social and economic status must be considered.



India's increasingly young population will prove to be a demographic 'dividend' only when it is skilled to be engaged in gainful employment. The MHRD has been allocated Rs. 85,010 crore in 2018-19 (BE), a seven percent increase from the previous year's allocation.The Union government is working to integrate the school education sector—from pre-school to Class XII—implying the merger of Sarva Shiksha Abhiyanand Rashtriya Madhyamik Shiksha Abhiyan for better planning and execution of important education policies. An Ekalavya Model Residential School will be set up in every block with more than 50% Schedule Tribe (ST) population and at least 20,000 tribal persons by 2022 to provide quality education to tribal children. The government is also launching PrimeMinister's Research Fellows (PMRF) scheme covering the 1,000 best B.Tech students each year from premier institutions and providing them facilities to pursue Ph.D in IITs and IISc with a "handsome fellowship". The budget also announced the government's plan to launch a major initiative named "Revitalising Infrastructure and Systems in Education (RISE) by 2022" with a total investment of Rs.100,000 crore in the next four years to step up investments in research and related infrastructure in premier educational institutions. The budget for Rastriya Uchhatar Shiksha Abhiyan (RUSA) was Rs 1400 crore, an increase of Rs 100 crore from the last fiscal.

The respondents were asked whether huge outlays on higher education and research were justified when the goal of providing quality elementary education to all is far from accomplished. More than 60% of the respondents believed that such expenditure is necessary and justified, while 35% disagreed. However, in 2016-17, the Gross Enrolment Ratio (GER) for higher education in the 18-24 age group was as low as 25 percent.

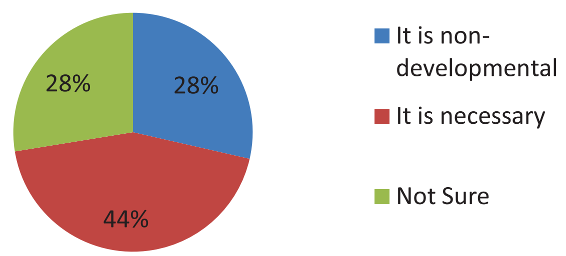


3. Employment

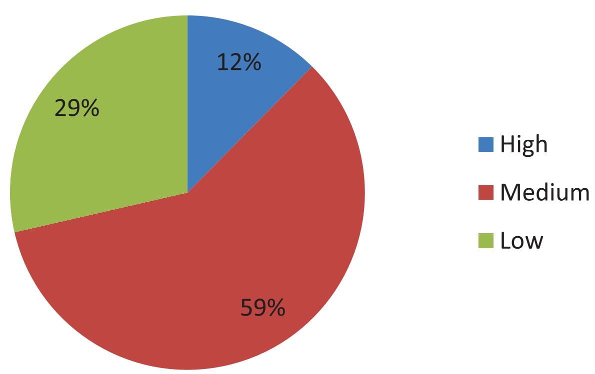
Reiterating that creating job opportunities is one of the three core policies of the government, other two being education and agriculture, the Finance Minister cited an independent study as showing that 70 lakh formal jobs will be created this year. The budget has also given big thrust to Medium, Small and Micro enterprises (MSMEs) to boost employment and economic growth. Rs. 3794 crore have been allocated for credit support, capital and interest subsidy and for innovation.

A decade after coming into force, the Mahatma Gandhi National Rural Employment Guarantee Act is suffering from a decline in employment, budget caps, delays in wage payments and rampant violations of workers' entitlements. The allocation of funds in real terms to the scheme has also seen a decline over the years. However, some initiatives taken by the state government and civil society in the recent past have opened up new possibilities for improving the programme.

About 43% of the respondents thought MGNREGA is necessary for job security, while 30% believed it to be a non-developmental expenditure that deviates funds from actual productive job creating avenues.



Views about expenditure on MGNREGA



Chances of meeting the target of creating 70 lakh jobs

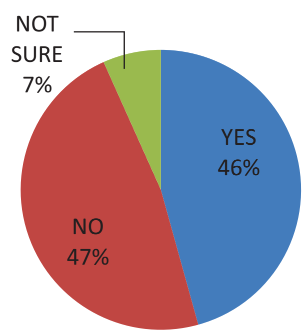
4. Inflation and Prices

The budget Revised Estimates for expenditure in 2017-18 are Rs. 21.57 lakh crores as against the Budget Estimates of Rs. 21.47 lakh crores. In order to continue the Government's path of fiscal reduction and consolidation, the Finance Minister projected a Fiscal Deficit of 3.3% of GDP for the year 2018-19. The revised fiscal deficit estimates for the year 2017-18 were put at 3.5%, despite the target being set at 3.2%. The primary cause of the breach of the target was Government's Debt to GDP ratio. India's trade deficit, which had registered continuous decline between 2014-15 and 2016-17, widened to US $ 74.5 billion in H1 of 2017-18 from US $ 43.4 billion in H1 of 2016-17. In 2017-18 trade deficit shot up to US $ 114.9 billion.

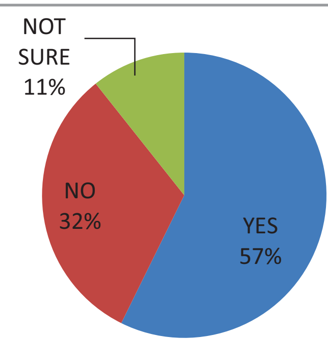
The surge in imports owed to sharp rise in imports of gold and increase in oil prices in the international markets. The Economic Survey said that the oil price is expected to grow by an average rate of 12% in FY19. The Economic Survey estimated that every $10 per barrel increase in the price of oil reduces growth by 0.2-0.3 percentage points, increases

WPI inflation by about 1.7 percentage points and worsens the CAD by about $9-10 billion dollars.

About half of the respondents believed that the retail prices of petrol and diesel should not be increased to keep deficits under control and around the equal number believed vice versa. Meanwhile, more than half of the respondents thought that rising fiscal deficit has inflationary effect on the Indian Economy. Therefore it can be observed that while some respondents agreed that the rising deficit would be inflationary, yet they did not deem removing subsidies on fuel as an appropriate measure for controlling the said deficit.



Oil Prices should be increased

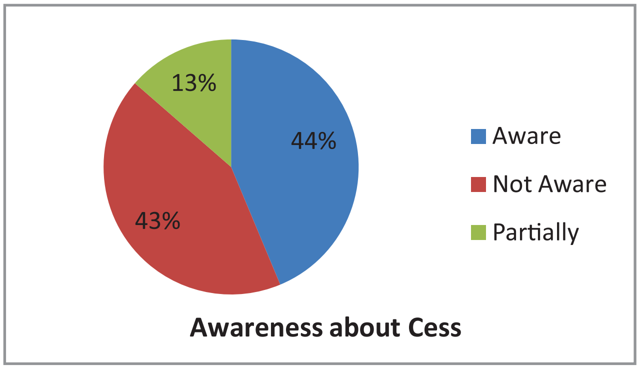


Is Fiscal Deficit Inflationary?

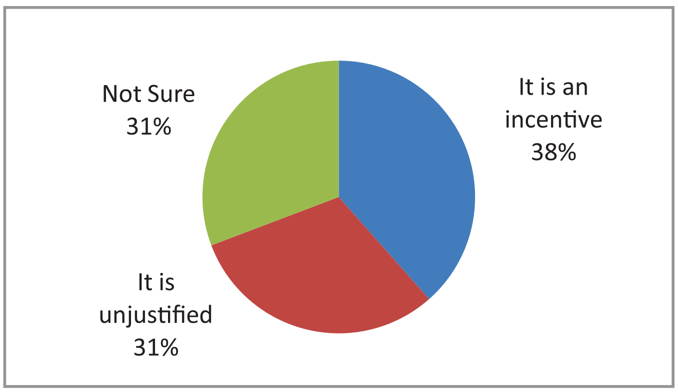
5. Tax and Cesses

The corporate tax is reduced to the rate of 25% for companies with a turnover of up to Rs. 250 crores. It is envisioned that this would benefit the MSME sector and further leave such companies with higher invertible surplus, hence boosting employment generation. The estimated revenue forgone for the same during financial year 2018-19 will be Rs. 7000 crore. The reduction of corporate tax is accompanied by the application of LTCG tax for capital gains on equity exceeding RS. 1 lakh. This step is taken to rationalise LTCG, as buoyancy is noted in the equity market. This will negate the effect of bias against manufacturing sector, which has lead to investment of more business surplus in financial assets.

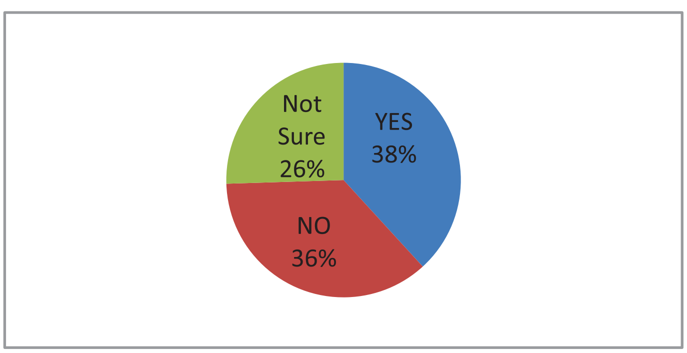
Cesses are imposed by the central government, it is a tax on tax, levied by the government for a specific purpose. Centre need not share cess with the states. About 43% of the respondents were aware of such charges others either had a rough idea or weren't aware about the same



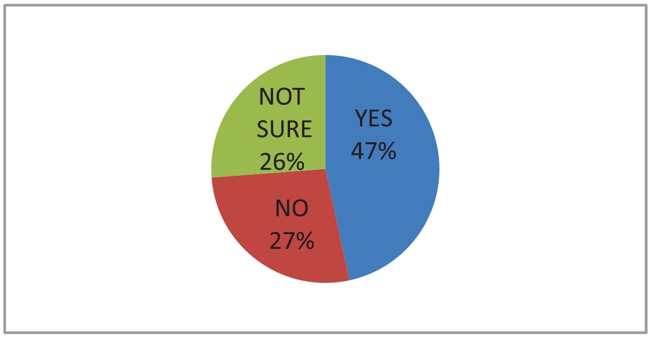
The survey also found the following results to questions on taxes:



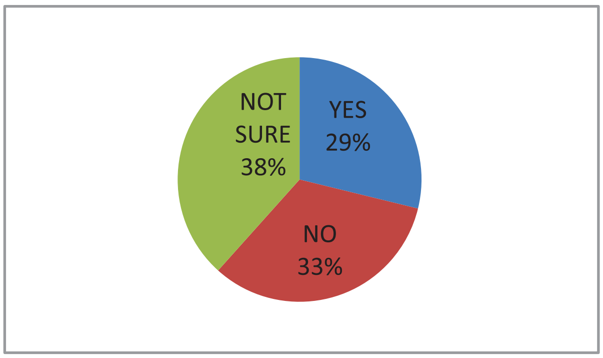
a) Will reduction in corporate tax prove to be an incentive for larger turnovers or is it unjustified to reduce taxation on large corporates, especially in light of the various schemes launched requiring huge outlay?



b) Should the govt. resort to charging cesses for funding its schemes?



c) With a relentlessly rising income gap, should inheritance tax be reintroduced?



d) Is the application of 10% LTCG tax justified?