

ISSUE-04
EDITION
2019

ECO-INSIGHT

Annual e-magazine

UNIVERSAL BASIC INCOME



GSP Blows us away
Crony Capitalism
China slows down
Agrarian Distress

Department of Economics
Jamia Millia Islamia

MESSAGE FROM THE HEAD



I am pleased to note that the Department is publishing an E-Magazine, which is a very positive and encouraging increment of the Department, especially to provide a platform to our Post Graduate Students and Research Scholars in advanced research and latest trends in Economics and allied Subjects.

The organizing team deserves appreciation; therefore, I congratulate them for their innovative venture.

However, I expect that the quality of the publications, in terms of their content, learning and references must be retained to an appropriate standard, which is a serious challenge in the present digital era.

I hope the publication of the said E-Magazine will continue, for which my very best wishes will always be there.

Dr. Halima Sadia Rizvi
Professor and Head
Department of Economics
Jamia Millia Islamia

MESSAGE FROM THE EDITORIAL ADVISOR



Welcome back readers to the Fourth Issue of Eco-Insight!

This is my fourth year in continuation to guide the student editors of Eco-Insight. Each year we select a new Editorial team to bring the new issue of this magazine. The greatest glory of this venture is the contributions that comes from our students and alumni in the form of articles/ reports/ interviews and commentaries. I thank all those who have contributed their articles to this magazine.

Our magazine provides a platform to the original and constructive ideas of the young minds of our department. It focuses on the burning and thought provoking issues in the field of economics. Our purpose is to motivate the expression of the thought and ideas and present it creatively.

I congratulate the team of editors for reviewing the articles, illustrating and designing the magazine to the best of their potential.

I hope that the magazine will continue to provide the “ECO-INSIGHTS” every year with new fervour and zeal. It’s a pleasure to be associated with ECO-INSIGHT.

DR. SABA ISMAIL
(Editorial Advisor & Assistant
Professor)
Department of Economics
Jamia Millia Islamia

MESSAGE FROM THE EDITORIAL TEAM



Following in the footsteps of the journal published by the department every year, we take immense pride in taking it forward to even greater heights.

Similar to every previous issue of the academic journal, this year too the editors aimed to reflect the quality of research endeavours undertaken by students of the department with as many innovative means and initiatives possible.

A journal's value is determined by two critical elements, one is the quality of research papers and second is the precision of editing. We hope, this edition fulfills both the parameters.

Lastly, we hope Eco-insight serves as a spring board for young students to pursue research further in their career.

We are proud to be the part of such nurturing tradition. Professor Halima and Dr. Saba Ismail assuaged our efforts by their kind words and astute guidance kept us on right tracks towards achieving our goals.

Editors:
Mahima
Jyotsna Chhikara
Ayushi Gupta
Arya Bhat



IN THIS ISSUE

Everyday Economics

Crony Capitalism in India
Disposition Effect in Stock Markets
The Economics behind Electric Vehicles- Mundane yet Exhilarating!
Joker and Microeconomics

Women and Economics

Is Equal Pay for Equal Work Still a Dream for Women?

Around the Globe

Connecting with Central Asia
China's Slowdown and its Impact on India
The Great Firewall of China

Political Society

Ayushman Bharat Yojana - For A New India
Agrarian distress and Budget 2019
Agricultural Distress and Increasing Unemployment
Food Stamps- A revamped approach
Farm Loan Waiver : A Politico-Economic Conflict

'Cause there is Cash Crunch

Universal Basic Income: Is the entire buzz worth creating?
Universal Basic Income: Required But Affordable?
Poverty, Inequality and the Unemployment Paradox
Poverty: A Poem

In Conversation with

Alain de Crombrugghe



EVERYDAY ECONOMICS

CRONY CAPITALISM IN INDIA

By:
Nikhat Khalid, Research Scholar



Crony Capitalism refers to an economic system in which certain businesses flourish as a result of the nexus between the business class and the political class. Crony Capitalism manifests itself in the form of favours to these business houses by the use of state power in the form of giving permits, tax concessions, grants, waving off loans, contracts for public works, exclusive rights over extraction of certain natural resources and other favouristic policies for the cronies. Crony Capitalism has huge spill over effects and leads to distortion of the economy and corruption as well as erosion of social and political ideals.

The famous Greek Philosopher, Plato in his *Republic* recommended that the economic and political power should not be in the same hands. He said, "Those who exercise political power should have no economic motives and those who are engaged in economic activities should have no

share in political power". However, Crony Capitalism leads to synthesis of both, political and economic powers and has emerged as one of the most significant issues in the economic context and has huge social, economic and political implications. While Capitalism advocates for a free and a competitive market wherein innovation is encouraged, and the innovator and risk taker progresses --a process which Joseph Schumpeter remarked as "creative destruction" in his iconic book *Capitalism, Socialism, Democracy* (1942)-- Crony Capitalism does exactly the opposite, it prevents competition, hinders innovation and annihilates opportunities. Cronies indulge in rent-seeking activities in the market and utterly violate the Capitalistic ethics. The Crony Capitalism Index (2016), was designed by *The Economist* to measure the number of rent seekers and Hong Kong was put at first spot, followed by Russia, Malaysia, Ukraine, Singapore, and, and the Philippines. The People's Republic of China too witnessed the rise of extremely wealthy individuals who worked in close proximity with important functionaries of the Communist Party of China. China's Premier Xi Jinping, at the beginning of his second term, had to disgrace and discredit a number of corrupt industrialists and important government officials who had illegally amassed huge fortunes.

In India, businessmen and politicians have been closely connected since the colonial era. The entrepreneurs have financed politicians who in turn favoured them through policies and bureaucrats. This nexus has remained intact after independence

increasing political corruption. The economic liberalization of the 1990s actually escalated politician-business nexus when large investors invested in the Indian market. In many cases, political leaders themselves became businessmen and forced public banks to extend loans to their enterprises and to industrialists close to them. Many businessmen were elected to state assemblies and country's Parliament, increasing insider trading. It remains an apt example of rising businessmen-politician nexus that Vijay Mallya, a businessman, without being a member of a political party bought or charmed his way to get elected to Rajya Sabha.

India was ranked 9th in the world as per Crony Capitalism Index 2016, which shows its extent in the country. Reason for rampant Crony Capitalism in India has different reasons. For instance, Raghuram Rajan, the former RBI Governor, while opining on this phenomenon said: "The crooked politician needs the businessman to provide the funds that allow him to supply patronage to the poor and fight elections. The corrupt businessman needs the crooked politician to get public resources and contracts cheaply. And the politician needs the votes of the poor and the underprivileged. Every constituency is tied to the other in a cycle of dependence, which ensures that the status quo prevails." Similarly, Michael Gove, a noted British politician of the Conservative Party who held important positions in the government, described that capitalism has failed in today's world as "Economic power has been concentrated in the hands of a few and crony capitalists have rigged the system in their favour and against the rest of us". Political funding by the crony capitalists and its pay back of favourable policies by the political class is one of the prominent factors encouraging this nexus. The Association for Democratic Reforms has estimated that "unknown sources" made up for 73% of the donations of major political parties (Gowda and Sharalaya, 2006: 135)

The adverse consequences of promotion of Crony Capitalism include: resource wastage due to rent

seeking activities; economic inefficiency as government actions are aimed at benefitting individuals, and not the society leading to inefficient outcome for the economy as a whole; anti-competitive deal making; creation of inequalities; and endangering the growth especially in the developing countries pushing them in the middle income trap. It can be said that it is due to the lopsided policies of the governments that stark inequalities become ingrained in the economies. For example, according to Oxfam Report on Inequality in India, the richest 1% population amassed 73% of the wealth generated in the previous year, while the poorest 50% of the population had a rise of merely 1% in their wealth.

As most of the societies remain highly unequal, it certainly needs to be pondered upon that what the source of the inequalities arise? Are the wealthy rich because of looting everyone else, as was witnessed in case of feudal, pre-commercial societies, or is the reason of their prosperity the profit from serving the needs of others in a competitive market? Should the society be open to new talent and ideas, or should it be controlled by a small economic and political class that will never allow anybody else to develop and become prosperous. Whether crushing genuine competition and creating monopoly houses is in the larger economic well being of the country or a genuine level playing field in which each individual gets an opportunity to be an entrepreneur and contribute in nation building. It is very difficult to weed out Crony Capitalism in the system as it is so well entrenched. The two most powerful classes – businessman and politician—will not allow it to happen. At the same time, future economic development and an inclusive business atmosphere calls for ending this phenomenon at the earliest in order to create a great economy.

References:

Dumitriu, S. (2018, June 11). *Crony Capitalism?*. Retrieved from <https://www.adamsmith.org>

Gowda, M.V. and Sharalaya, N. (2016). *Crony Capitalism and India's Political System*. In Crony Capitalism in India: Establishing Robust Counteractive Institutional Frameworks (pp. 131-158). London: Palgrave Macmillan

Guha, P. (2018, August 15). *India's gilded age of crony capitalism*. Retrieved from <https://www.newsclick.in>

Heath, A. (2014, January 21). *It's time to reject crony capitalism and embrace the real thing.* Retrieved from <https://www.telegraph.co.uk>

OXFAM India Inequality Report (2018). Retrieved from <http://www.oxfamindia.org>

Palmer, T.G. (2011). *The morality of capitalism*. New Delhi: Centre for Civil Society .

Sen, C. (2017). *Curbing Crony Capitalism in India*. Azim Premji University (Working Paper No. 5).

Swamy, R. (2018, September 14). *How Vijay Mallya 'charmed' his way into Rajya Sabha*. Retrieved from <https://theprint.in>

Varma, A., Hu, B. and Bloomquist, L. (2016). *Family Oligarchies and Crony Capitalism in India*. In Crony Capitalism in India: Establishing Robust Counteractive Institutional Frameworks (pp. 159-176). London: Palgrave Macmillan

TO HOLD ON OR LET GO: DISPOSITION EFFECT IN STOCK MARKETS



By:

Zoya Khan, MA Economics, I year

With losers far outweighing the winners, the stock market is perhaps one of the greatest spectacles of regret. An excruciatingly common mistake is sticking to a falling stock, even if it means seeing it through to its delisting. In stark contrast, investors tend to sell well-performing stocks too early in a hasty bid to cement their gain and often end up losing out on their continual upward trajectory. The “general disposition to sell winners too early and ride losers for too long”, which is widely observed in stock markets despite yielding negative outcomes for overall investor wealth, was termed as ‘disposition effect’ by Shefrin and Statman (1985). The behavior is at odds with rationality - the cornerstone of most economic theory, and a defining characteristic of the Econos. It also violates the key conclusion of the Expected Utility theory that individuals seek to maximize their expected utility.

Explanations:

I. Prospect theory

Consider the following choices: A gamble that yields either 100 rupees or nothing with equal probability, or a sure payment of 50 rupees. It is likely that the sure payment would be chosen over the gamble. Now if the choice was between a gamble with equal probabilities of receiving nothing and having to pay 100, and paying 50 for sure, one may be tempted to take the gamble.

While the choice of a sure outcome in the first case reflects risk-averseness, picking the gamble in the second case reveals risk-taking behavior. This inconsistency in risk preference was explained by Daniel Kahneman and Amos Tversky, two pioneering behavioral economists, by proposing an alternative to the Expected Utility theory to explain decision-making under risk, called Prospect Theory. The former proposes that individuals act to maximize their expected utility, i.e., the weighted average of utilities under different outcomes using the probabilities of each outcome as weights. Here, risk preferences of individuals are consistent and are reflected by their utility function. However, prospect theory proposes that individuals are “risk averse under choices involving sure gains and risk seeking in choices involving sure losses.” The theory rests upon three key principles. One, outcomes are judged with respect to a reference point. Two, there is diminishing sensitivity to changes in outcomes in either direction, i.e, if one has already suffered losses before, the negative impact of subsequent incremental losses will keep declining. Three, loss aversion, which means, a loss causes a greater psychological impact than an equivalent gain. While Expected Utility theory remains undisputed in its popularity and appeal as a theory of rational decision-making, prospect theory seems to do a better job of capturing the inherent irrationality of human behavior in the real world.

Investors, who take the purchase price of a stock as their reference point, can hence be expected to display high risk-averseness when holding a rising stock, driving them to sell it early and pocket a

sure gain, but demonstrate greater risk-appetite while suffering losses, causing them to hope against hope for the recovery of a sliding stock.

II. Endowment Effect

Another possible explanation behind this anomaly is what Richard Thaler identified as ‘endowment effect’- the hypothesis that people attribute a higher value to things simply because they own them. In a famous experiment conducted by Kahneman, Knetsch & Thaler (1990), coffee mugs were distributed to half the participants who were designated as owners and sellers of the mugs, while the rest were designated as buyers. When both groups were asked the price at which they would be willing to sell and buy the mugs, respectively, the sellers asked for an amount more than twice that offered by buyers. They interpret this wedge as an experimental evidence for endowment effect. (See Plott and Zeiler, 2007 for a critique of the evidence.) They further propound that since selling involves “loss” of the good being sold, while buying involves a “gain” of the same, loss aversion implies that sellers should demand a higher price as compensation for their loss as compared to buyers.

In the stock market, the endowment effect may motivate investors to hold onto a stock because they value it more than what the market is willing to pay for it. Further, it may manifest as a mismatch between asking prices and bid prices of stocks. (Furche and Johnstone, 2006 provide evidence from the Australian Stock Exchange.)

III. Psychological reasons

The relevance of both prospect theory and endowment effect as the best explanation of disposition effect is debated. A significant volume of literature advocates alternate psychological explanations of the phenomenon. In particular, Zuchel (2001) argues that “research on entrapment, escalation of commitment, and sunk cost” does a better job of justifying disposition effect since it is characterized by repeated decision making under uncertainty, which resembles sequential decision-making involved in choosing to hold a stock in successive periods despite bad prior performance. In psychology, entrapment occurs when people escalate their commitment to a prior adverse course of action, in order to justify their initial decision. According to Zuchel, investors fail to realize losses on falling stocks due to an unwilling-

ness to admit that the decision to buy the stock was a mistake in the first place. These justifications are relatable, and present an appealing description of the human psyche. Manifestations of the said entrapment are also experienced in other domains of life such as relationships and jobs.

Given the multitude factors influencing human behaviour in the real world, It is quite possible that disposition effect is a consequence of a combination of these theories, rather than any one of them.



Can the disposition effect be overcome?

It is observed that greater sophistication and higher trading experience is associated with a smaller disposition effect. Dhar and Zhu (2006) provide empirical evidence using socio-economic proxies for sophistication that individuals who are wealthier and are occupied in professional occupations exhibit lower disposition effect. This suggests an optimistic view of investor education as a potential solution to the problem. There is also some evidence of lower observed disposition effect among institutional investors as compared to retail investors, although such evidence is far from conclusive.

Aspara and Hoffman (2015) propose restatement of investor goals as maximizing overall wealth rather than return on individual stocks motivates a reversal of the disposition effect.

In general, the case for combating a cognitive bias by greater awareness of it seems convincing. To this effect, increasing investors’ awareness about

using a rule-based investment strategy, and making informed decisions may be a good way out to reduce the role of emotions in stock markets.

References:

Kahneman, D., & Tversky, A. (1979). Prospect Theory: An Analysis of Decision under Risk. *Econometrica*, 47(2), 263-291. doi:10.2307/1914185

Kahneman, D. (2011). Thinking, fast and slow. New York, NY, US: Farrar, Straus and Giroux.

Daniel Kahneman; Jack Knetsch & Richard Thaler, (1990), Experimental Tests of the Endowment Effect and the Coase Theorem, *Journal of Political Economy*, 98, (6), 1325-48

Daniel Kahneman & Jack L. Knetsch & Richard H. Thaler, 1991. "Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias," *Journal of Economic Perspectives*, American Economic Association, vol. 5(1), pages 193-206, Winter.

Andreas Furche & David Johnstone (2006) Evidence of the Endowment Effect in Stock Market Order Placement, *Journal of Behavioral Finance*, 7:3, 145-154, DOI: 10.1207/s15427579jpfm0703_3

Shefrin, H., & Statman, M. (1985). The Disposition to Sell Winners Too Early and Ride Losers Too Long: Theory and Evidence. *The Journal of Finance*, 40(3), 777-790. doi:10.2307/2327802

Aspara, J. & Hoffmann, A.O.I. Mark Lett (2015) 26: 201. <https://doi.org/10.1007/s11002-013-9275-9>

Heiko Zuchel, (2001), What Drives the Disposition Effect?, No 01-39, Sonderforschungsbereich 504 Publications, Sonderforschungsbereich 504, Universität Mannheim

Dhar, Ravi & Zhu, Ning, Up Close and Personal: An Individual Level Analysis of the Disposition Effect (August 2002). Yale ICF Working Paper No. 02-20. Available at SSRN: <https://ssrn.com/abstract=302245> or <http://dx.doi.org/10.2139/ssrn.302245>

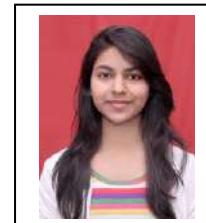
Plott, Charles, R., & Kathryn Zeiler. 2007. "Exchange Asymmetries Incorrectly Interpreted as Evidence of Endowment Effect Theory and Prospect Theory?" *American Economic Review*, 97 (4): 1449-1466.DOI: 10.1257/aer.97.4.1449

Weber, Martin & Camerer, Colin F. (1991):The disposition effect in securities trading: An experimental analysis, Manuskripte aus den Instituten für Betriebswirtschaftslehre der Universität Kiel, No. 276, Universität Kiel, Institut für Betriebswirtschaftslehre, Kiel

THE ECONOMICS BEHIND ELECTRIC VEHICLES- MUN- DANE YET EXHILARATING!

By:

Kanica Goel, MA Economics, I year



The popularity and certainly the mind space regarding Electric Vehicles (EVs) is amplifying. They are cleaner, more efficient and have the potential of greatly impacting the economy.

India, home to one of the world's largest automobile industries, represents enormous opportunities for EVs. In India, the automobile industry is one of the key sectors driving economic growth. Public transport continues to be the primary mode of transport in tier II, tier III cities and rural regions.

However, it is also one of the biggest contributors to pollution, which incidentally keeps the country's capital shrouded in smog. Given that over 1.2 Mn deaths occur in the country every year as a result of air pollution, according to a report by Greenpeace, the transition to more eco-friendly and renewable sources of energy is the need of the hour for India.

While the environmental impact of electric vehicles is known, there are other advantages to electric mobility solutions:

Cheaper To Maintain

It has been often argued that the initial cost of electric cars is significantly higher than that of conventional vehicles. But when we see the long run costs and benefits, it is actually cheaper to own and maintain EVs.

- As the electric vehicles are powered by electricity and not gasoline, it staggeringly reduces the monthly spending of passenger vehicle owners.
- The electricity needed to charge an EV is, on an average, around a third of the price of petrol per kilometre, especially in developed countries.
- Also, a battery electric vehicle (BEV) contains fewer components than a conventional petrol/diesel car, making servicing and maintenance a lot cheaper than petrol and diesel-powered vehicles.

Lower Carbon Footprint

As mentioned earlier the number of air pollution-related deaths have been on a rise, switching to EVs, especially when it comes to public transport, could possibly reduce carbon emissions, thus slowing down climate change and global warming.

- EVs are 100% emission free and do not emit any toxic gases or smoke that could adversely affect the environment. In this regard, EVs – particularly the ones powered by renewable energy – are much better than hybrid motors.

- In the same vein, it should be noted that the source of electricity is the key here. If the electricity is produced through environment-unfriendly means like coal power plants, which is often the case in developing countries, the environmental benefits of EVs ultimately get negated.

Less Noise Pollution and Smoother Ride

- As EVs lack internal combustion engines and have less number of components, they tend to be more silent than conventional vehicles. This helps in curbing noise pollution.
- Over and above electric motors are lighter and thus, offer a smoother drive with higher acceleration over longer distances than cars running on fossil fuels.

Along with these advantages, some of the stumbling blocks of EVs are:

Lack of Charging Infrastructure

- EV charging infrastructure, despite the massive technological progress, remains inadequate in most parts of the world. In the absence of charging points, especially during low-distance drives, there is the risk of being stranded, which albeit can be avoided through battery swapping.
- However, for widespread adoption of EVs, governments around the world need to be more proactive in building a robust and well-connected charging infrastructure.

Long Charging Times

The charging process of EVs can take anywhere from 30 minutes (in case of fast charging) to 24 hours, depending on the capacity of the battery and motors. Most take around four to six hours to be fully charged, which is several times longer than the time it takes to refuel a petrol/diesel car.

Lower Battery Life and High Battery Costs

The batteries currently used in electric vehicles have a lifespan of only around three to 10 years,

depending on the make and model. The lower battery life often serves as a hindrance that affects the performance of electric cars. The higher costs of batteries, which are caused by the insufficient supply of raw materials, add to this problem.



Scanned with
CamScanner

EV POLICY

In the view of the ongoing issues of pollution in the country, the Government of India has embarked on quite an ambitious mission to create a revolution in renewable energy in the country by setting a target of electric vehicles making up 30% of new sales of cars and two-wheelers by 2030 from less than 1% today.

The target seems too sudden and formidable as there are no clear policies to incentivise local manufacturing and sales, lack of public charging infrastructure and a high cost of batteries.

India is now working on new policies which aim to incentivise investments in electric vehicle manufacturing, batteries, and smart charging, instead of only giving benefits on sales.

The government is also actively pushing the use of electric vehicles for public use, a revolution already led by three-wheeled auto rickshaws. Sales of these vehicles, ubiquitous on Indian city roads, are expected to double to 935,000 units a year by 2023, according to consulting firm P&S Market Research.

The Atal Mission for Rejuvenation and Urban Transformation (AMRUT) has also given the EV sector an indirect push. Out of the Rs 1 trillion allocated for AMRUT, a significant amount will be spent on modernising the transport sector, targeting mass-scale EV penetration in the future.

Despite these measures, the adoption of electric vehicles remains low. Because of the following reasons,

- Absence of proper EV charging infrastructure. India has only 222 public charging stations. This is low compared to the 22,000 EV sales in 2015-16.
- The cost of ownership of EVs is much more than the cars we use today. The battery pack of a pure EV run by lithium-ion battery constitutes 40% of a vehicle's cost. The cost of the battery pack, however, is declining gradually.
- According to McKinsey, the price of lithium-ion battery pack has come down from \$1,000 per kWh in 2010 to about \$227 per kWh. Apart from the reduction in the global price of battery packs, in-house manufacturing of key vehicle parts in India will reduce the cost of EVs.
- Most electric vehicles sold today are utilitarian and not as powerful as models that run on petrol that can go faster and climb gradients easily. The supply chain is not robust which means manufacturers need to rely on imported components.
- Importantly, electricity supply in smaller towns and cities, where demand is picking up, is irregular although frequent power shortages in India are a thing of the past.

However, it has been observed that the road-blocks for scooters are fewer than the cars. Compared with cars, scooters are lighter, which means they can use less powerful batteries that are cheaper. The scooters can also be charged quickly and more easily, often using existing plug points in homes and their price is similar to petrol-

powered models.

The potential is huge. India is the world's biggest market for scooters and motorcycles with annual domestic sales exceeding 19 million in the fiscal year ended March 31, 2018 - six times that of car sales over the same period.

By 2030, sales of electric scooters are expected to cross 2 million a year, even as most carmakers resist bringing electric cars to India.

It would also open up a new market for global companies like Japan's Yamaha Motor and Suzuki Motor that are drawing up initial plans to launch electric scooters and motorcycles in the country.

If successful, the shift to electric vehicles could potentially help India save up to \$300 Bn (INR 20 Lakh Cr) in oil imports and nearly 1 gigatonne of carbon dioxide emissions by 2030, as per a recent report by FICCI and Rocky Mountain Institute. Furthermore, EVs will be a stepping stone towards designing an intelligent, futuristic transport infrastructure in India that is capable of catering to the mobility needs of the country's huge population.

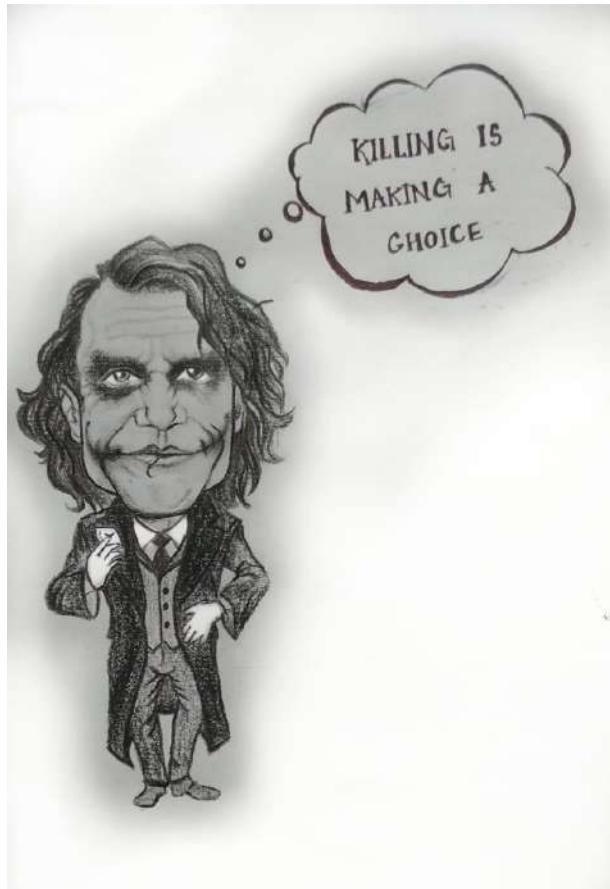
References:

- Airpocalypse II, October 2018
<https://www.greenpeace.org/india/en/issues/2154/one-in-10-deaths-in-children-under-five-years-of-age-due-to-air-pollution-who/>
- The Future is electric, February 2018
<https://www.downtoearth.org.in/coverage/energy/the-future-is-electric-59653>
- P&S Intelligence, January 2019
<https://www.psmarketresearch.com/press-release/india-electric-rickshaw-market>
- Atal Mission for Rejuvenation and Urban Transportation,
<http://amrut.gov.in/>
- Battery technology charges ahead, July 2012
<https://www.mckinsey.com/business-functions/sustainability/our-insights/battery-technology-charges-ahead>
- Enabling the transition to Electronic Mobility in India, November 2017
<http://ficci.in/spdocument/20975/RMI-Report-20-Nov.pdf>

THE JOKER AND MICROECONOMICS

By:

Vinayak Krishnatri, MA Economics, I year



It isn't an overstatement to call 'The Dark Knight' the best superhero movie ever made. Christopher Nolan's adaptation of Gotham's masked vigilante, Batman's story is dark, violent, and complex and one of the finest films ever made in the history of cinema. I am sure that all the people who have watched it would have nothing but praise for this artfully imagined universe. It is because of the cumulative effort of a brilliantly focused team with Christian Bale and Heath Ledger pitching in with their monumental performances as Batman and Batman's arch-rival, Joker respectively that this movie has cemented its place in Hollywood as one of the biggest blockbusters of all time.



In my opinion, what makes this movie so relevant for a student of Economics is that the script of the movie is essentially a thesis on Game Theory. Game Theory is a branch of economics which deals with the decision-making process of an individual when the outcomes also depend on what other individuals decide. This is what a game is, where a player plays a strategy and payoffs are determined by what every other player chooses.

My claim is Heath Ledger's iconic Joker is essentially a Microeconomist, more specifically a Game theorist. The nature of the Joker's madness is something that makes me certain that he is far from an average supervillain. He is an 'agent of chaos', an anarchist and has a very specific way of terrorizing the people of Gotham, through games. The Joker knows how individuals make decisions and moreover he understands that this gets even more complicated when there is more than one individual making decisions and the payoffs of every individual is dependent on the decision others make.

The Joker understands problems of Adverse Selection and uses this knowledge to create a situation of complete disorder and confusion in Gotham. Joker knows how incentives and information impact the decision-making process of an individual. He successfully manages to bring the greatest detective and one of the sharpest minds in the world, Batman himself down to his knees. Joker's philosophy is different. His ultimate goal in the movie is to create havoc and mayhem in Gotham. His aim, as Michael Caine's Alfred puts it in the best way possible, 'was just to watch the world burn.' Through the entire course of the movie, with his evil plans and wicked games, he

tries to prove that good people can be corrupted. He is a sadist who believes ‘When the chips are down the civilized people, they will eat each other.’ Which is what will be a stable equilibrium, with everyone working in their self-interest, as Nobel Laureate John Nash argued.

It is probably the abundant knowledge of economics that the Joker has makes him think that ‘He is not a monster. He is just ahead of the curve.’ There are several examples of Joker’s behavior in the movie that apply to the basics of game theory. I further provide evidence from the movie which will support my above claims.

The movie opens with a memorable bank robbery scene. Six people disguised as clowns try to rob a bank. Every one of them gets an equal share in the money they loot. These six are divided into three groups. In the first round of this game, each person kills the other person in his group after his job was done. This increases his share in the loot. In the next round of the game, two of the remaining three are also killed in the same fashion in an interesting turn of events. In the last only one guy who was the mastermind of this plan is alive, who later the viewers come to know, is the Joker himself.

Joker used incentives and asymmetric information to achieve the result he wanted to achieve. The incentive here was the share in the loot, which increases with every time a member dies as now it had to be distributed in less number of people. Joker couldn’t have executed the plan alone. Joker wanted other members to work together and also kill each other at the same time so he can take all the money. To achieve this he makes use of asymmetric information. Joker didn’t inform all the players that the plan was to eventually kill them after they successfully execute their task. Joker made the others believe that they would live and get their share. The incentives of the members clash and incomplete information leads to an equilibrium in which Joker alone run away with all the money.

One of the very important concepts in economics is credible and non-credible threats and how they lead to different equilibria. Joker established his image as the ultimate supervillain by giving credible threats to the residents of Gotham. He threatens Batman that he must take off his mask and reveal his identity or he will kill people every day until the Batman doesn’t turn himself in. Joker did execute the threat and killed civilians every day. Thus Joker establishes a terrifying reputation. Since he plays his repeated games with the same participants, the citizens of Gotham, all his threats had credibility.

Fulfilling his threats aided him in playing his final game in the movie, a classic game of Prisoner’s Dilemma. Joker forces the people of Gotham to leave the city in two ferries. One of them carries civilians and the other criminals. Later people find out that both the ferries are connected to a bomb and they each have the other boat’s detonator. Joker offers the players of this game a choice to either blow up the other boat and survive or he will blow up both the boats at midnight. The Joker recreates the Prisoner’s Dilemma as the boats cannot communicate. It can be easily seen that the strictly dominant strategy is to blow up the other boat. The participants decide to act morally and no one detonates the other boat. Just when the Joker is about to blow them all up, Batman catches him. Joker makes an assumption that people act rationally which is not always the case thus he fails this time and is intercepted by the caped crusader.

Thus one can conclude that Joker was a great economist who actually applied the principles of Game Theory to real-life situations. The Joker beautifully designs the first game and reaches his desired outcome. On the contrary, he makes an assumption of rationality like the majority of economists and when people act ‘irrationally’, his plan fails. What I learn from the movie is for the Batman learning the concepts of Microeconomics was vital because if he was a good economist or Game Theorist as the Joker, he would have been able to solve this menace a lot earlier.

References:

The Dark Knight, The Joker and game theory by Ryan Lambie

The Dark Knight and Game Theory by Michael A. Allen

The Dark Knight- IMDB page



WOMEN AND ECONOMICS

IS EQUAL PAY FOR EQUAL WORK STILL A DREAM FOR WOMEN?

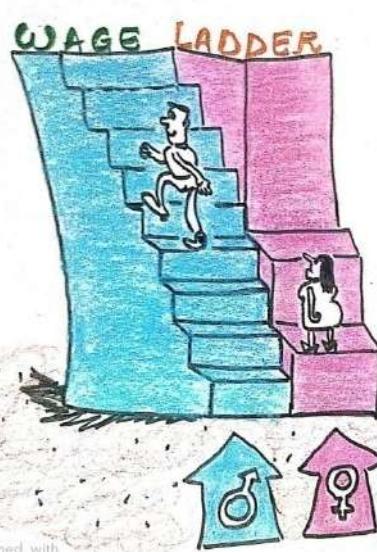
By:

Arzoo Kalra, MA Economics, I year



For more than a century, March 8 marked as International Women's Day – a day for celebrating the achievements of women and promoting gender equality worldwide. But as we pause to celebrate our main advances we must also acknowledge what remains to be done. One among of the harsh realities of the 21st century is the existence of a persistence gap between the wages of men and women around the world. Wage difference on gender bias has been a great global concern for over a century now. Even advanced industrialized countries like United States are struggling to achieve a fair wage balance between men and women workers.

But, when it comes to case of developing countries like India, the wage disparities on the basis of gender is far more striking. According to SEWA (Self Employed Women's Association 2000) the wages of women workers in India were below minimum wages in some cases and at the same time the average monthly income of women workers was Rs1815 compared to 3842 for male workers. It is said that there are various reasons due to which the wages of women labor is less than male labor. Some of the main reasons are: Women mostly work in light industries as they are unsuitable for work in heavy industries, women work in unorganized sector where the wages tends to be low. Discrimination arises on part of physical ability to work, believing that women are weaker than male and thus are unable to work for longer hours. Finally, since women have to look after household chores they are unable to improve their productivity by undergoing long job training whereas male are in better position to undergo such process.



Equal remuneration law was passed in 1976 with the aim of providing equal remuneration to men and women workers and to prevent discrimination on the basis of gender in matters relating to employment and employment opportunities the Equal Remuneration Act was passed in 1976. This law aims to prevent gender discrimination of wages, hiring, promotion, or training, and can be circum-

vented through wage reclassification of skilled and unskilled workers. Often, regardless of the type or skill level of a job, women are placed in the unskilled, lower paid wage category, while men are placed in the skilled, higher wage category. The Act includes, equal pay to men and women workers for same or similar work performed. There should not be any discrimination in recruitment and service conditions, except where employment of women is restricted by the law, such as night hours or industry specific constraints.

A research done by Labor Bureau, RLE Reports on wages and Earnings of Rural Labor Households, 2009-10, Simla found that gender disparity plays a very significant role in Indian labor market , it gives a clear picture regarding the wage rate across India. When a comparison of both rural and urban areas is done it is concluded that in urban areas the discrimination among women is more pronounced. The main reason for this is the lack of knowledge, awareness and illiteracy among the rural women. In urban areas women have access to education and are more aware of their rights and in a better position to use them, thus we see in urban areas the disparity has somehow shown a declining trend but the rural women are still illiterate and they have no knowledge regarding the schemes launched by government for their welfare. Further being illiterate and thus unskilled, they are not able to get skillful jobs and are confined to low skilled jobs, which further increase disparity in rural areas.

The World Bank's women, business and the law 2019 report, measured gender discrimination in 187 countries. It found that, a decade ago, no country gave women and men equal legal rights. The index assessed eight indicators that influence economic decisions women make during their working lives – from freedom of movement to getting a pension – tracking legal blocks to either employment or entrepreneurship. Each country was scored and ranked, with a score of 100 indicating the most equal. Only six were given full

score: Belgium, Denmark, France, Latvia, Luxembourg or Sweden. A report by Livemint using the Monster Salary Index on gender for 2016, shows that the gender pay gap ranged from a relatively low 14.7% in the education and research sector to 21.5% in the banking, financial services and insurance sector and 25.8% in the information technology sector. Whereas, in informal jobs sector, these gaps have declined slowly and erratically.

Two interconnected issues that have emerged as priorities over the past two years are sexual harassment at the workplace and obstacles to women participation at all levels of the workforce. But the question that still arises is how can organizations improve their internal cultures surrounding sexual harassment, gender parity and gender equity? This issue has generated considerable debate in India, under the application of the rules laid by Sexual harassment of women at workplace Act, 2013 Indian political parties ask whether broader structures could help the role of office to investigate allegations of sexual harassment.

This women's day let's hope that companies worldwide pledge to follow examples in US and other institutions, whether universities or political parties, follow such examples. Gender reforms begin at home, not only in family but also in the workplace.

References

<https://www.livemint.com/industry/human-resource/gender-pay-gap-still-high-women-in-india-earn-19-less-than-men-report-1551948081615.html>

https://www.theguardian.com/global-development/2019/mar/01/only-six-countries-in-the-world-give-women-and-men-equal-legal-rights?utm_campaign=fullarticle&utm_medium=referral&utm_source=inshorts

Women's Earnings and the Wage Gap Highlights - US Department of Labor
PDF<https://www.dol.gov/resources>.



AROUND THE GLOBE

CONNECTING WITH CENTRAL ASIA

By:

Arshad Ayuub, BA (hons.), II year



now seems sincere with its “Connect Central Asia Policy”. A policy as the name suggests, aimed at re-connecting with the region which has long shared history with India. Uzbekistan President Shavkat Mirziyoyev was hosted by Prime Minister Narendra Modi during his state visit in the Vibrant Gujarat Business Summit in January this year. Mirziyoyev is taking several steps to open up his economy to the outside world since taking over as President in 2016.

India is facing difficulties of physical connectivity with these five land locked countries and has no direct road or water access to the region. Afghanistan’s instability and Pakistan’s hostility is a major cause of concern for India as these countries are an entryway for India into Central Asia. These concerns are valid but not determinative as countries like South Korea and Japan are doing enough business with the region.

India and the five Central Asian nations of Uzbekistan, Kazakhstan, Kyrgyzstan, Tajikistan, and Turkmenistan furthered a comprehensive ‘Afghan-owned and Afghan-led’ peace process following with the first India-Central Asia Dialogue in January 2019. India proposed a dialogue of Air-corridor with these Central Asian countries in an attempt to boost trade and partnership. During the dialogue, the ministers talked about the issues of economic growth and development and emphasized on realizing the importance of projects



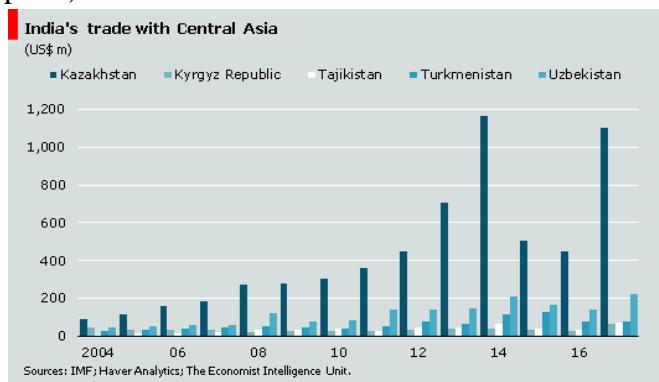
In December 1991 the Soviet Union - the eastern bloc of the Cold War disintegrated into fifteen different countries. During the Cold War era, India had a strong strategic, military, economic and diplomatic tie with the Soviet Union. The disintegration left India’s trade with the region in shambles and India was faced with a toilsome task of revamping external affairs and forging new ties with the fifteen Soviet Union successor states. The trade and diplomatic ties with the new Republic of Russia gained momentum in the following years however, the other countries of the region remained far away from India’s reach supremely the Central Asian countries.

For almost two and a half decades of isolation and detachment and with a combined bilateral trade languishing below the USD 2 million mark, India

which provide an optimum solution to their problems. India proposed framing up of India-Central Asia Development group to carry forward this association.

China is building multimillion dollar projects in the region for infrastructural development which has now expanded to Belt and Road Initiative (BRI), whereas India's reach to the region is very much limited. India needs to use its economic capabilities more efficiently and regularly to build new ties with Central Asia. There is a need to engage in new goals of achievement moving beyond from conferences that meet no policy goals.

India's combined trade with Central Asia is below USD 2 million, accounting for less than 0.11 percent of India's overall trade, out of which around 1.5 million is with Kazakhstan alone. According to a report by 'The Diplomat' if exploited to its full potential it is estimated that with the operationalization of Chabahar port and International North-South transport corridor (INSTC), India's trade with Eurasia could touch \$170 billion (\$60.6 billion in exports and \$107.4 billion in imports).

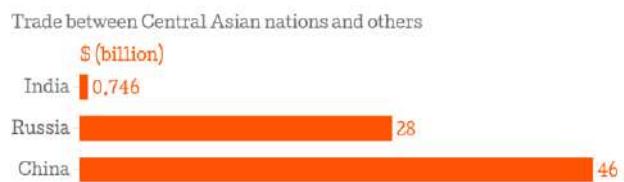


India has taken over operations at Iran's Shaheed Behesti port in Chabahar and has reached an important arrangement in realizing its economic and strategic importance in Central Asia. Development and operation of Chabahar port will bolster India's relationship with Iran which is the third largest oil supplier to India. The port is also an entrance for India into Afghanistan by an overland trade corridor passing through Iran. It will enable India to play a larger role in reconstruction of Afghanistan.

Afghanistan's dependence on Pakistan for access to sea will also be countered by Chabahar port. For other Central Asian countries that rely on ports of Turkey, Russia and other Baltic states for their maritime trade, Chabahar port will provide them with another option with shortest overland route.

India had its historical silk route ties with Central Asia which can be utilized to make an entry into the untapped energy resources in the region. In fact, to break connectivity India has sufficiently invested in INSTC and Chabahar project. With the completed first phase of Chabahar port, it has become nearest sea port for Uzbekistan. For India to use Chabahar as a cardinal force for entering into Eurasian markets, Central Asia's involvement as a direct stakeholder is very much imperative. The odds of Uzbekistan joining the Chabahar port project through Afghanistan would bring colossal development in regional transport connectivity.

Energy-rich Central Asia could also satisfy India's demands not just through oil and gas but also through electricity. India has inked a memorandum of understanding with both Kazakhstan and Uzbekistan to import uranium for its nuclear plants. These Central Asian countries have plenteous of resources such as petroleum, natural gas, antimony, aluminum, gold, silver, coal, uranium which are yet to be utilized. Uzbekistan for instance is the world's 17th largest producer of natural gas and sixth largest producer of cotton. It has also has potential to emerge as a sizeable consumer market with average annual GDP growth of around 6 percent in the last decade. Uzbekistan's energy sector is playing a major role in luring foreign investment, and upgrading value-added food processing and the textile sector can provide Indian industries with an opportunity to provide these services.



On connectivity, one direct flight from Mumbai to Tashkent was started last year. Flights to all these Central Asian countries are already operating from Delhi. India has been put in the list with simplified online visa processing. India has joined Ashgabat Agreement in February 2018 and earlier in 2017 India joined the TIR convention. With the expansion of investment opportunities, and a boom in the construction industry, these countries are becoming attractive for business activities. Indian companies dealing with these activities should immediately capture the opportunity.

In addition to this, the growing prominence of India in the geopolitical forum is favorable to these countries that have consistently supported and voted for India to become a permanent member of UN Security Council. The next step could be finalizing the desired Free Trade Agreement (FTA) between India and Eurasian Economic Union (EAEU). This could spur the unhindered two-way flow of goods and services with Eurasia.

With China looking for opportunities to seize the continent with its mega-developmental projects under BRI and Shanghai Summit, India needed to make sure to keep its friends close and approaching. In the last decade, India finally envisioned the new opportunities in the immediate neighborhood and promulgated its ‘Connect Central Asia’ policy.

References:

<https://idsa.in/policybrief/indias-economic-opportunities-in-central-asia-pstobdan-170918>

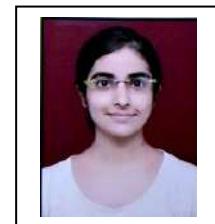
<https://www.google.com/amp/s/amp.indiatimes.com/news/india/india-finally-appears-serious-about-central-asia-making-uzbekistan-its-gateway-to-the-region-360556.html>

<https://thediplomat.com/2018/08/indias-soft-power-at-play-in-central-asia/>

CHINA'S SLOWDOWN AND ITS IMPACT ON INDIA

By:

Mahima, MA Economics, I year



A stone thrown in a lake, no matter how large the lake is, creates ripples. And lately world's second largest economy, which has accounted for about one-third of global growth in the past decade, is acting as a rock thrown in a huge sea creating a ripple effect on the world economy. China has reported a growth rate of 6.5% annually and has its growth target as 6-6.5% this year. This rate though lightning fast compared to the developed world is way too slow for a country which reported a double digit growth for a long period of 8 years from 2008 to 2016.

ucts (as compared to the previous year exports) and its imports too saw a 7.6 percent decline - largest decline since 2016. Manufacturing activity reduced for the first time ever and capacity utilization is at a meagre 40-50% for some firms. Its increasing debt pile and bad loan risk are again issues of concern. The debt of corporations, governments and households is found to be three times its GDP for the country.

Much expected slowdown:

Many economists consider this slowdown as a result of the economy becoming mature and believe that this slowdown was very much expected. This is because most of its low hanging fruits, in the form of utilization of demographic dividend, heavy investment in infrastructure (which has a limit of expansion) had already been plucked. And, it was already suffering from severe internal debt problems. It has an internal debt of about 250% of its GDP, only 1% of Chinese actually pay income tax honestly, and it has made several ambitious external investments like 'One Belt One Road' and 'Maritime silk route', which are unlikely to contribute to future domestic growth.

Why does the slowdown matter?

Slowdown of this highly integrated economy indicates a drag to the world economy. This is simply because the Chinese economy in the past decade has grown to an extent that it accounts for about 19% of global economic activity and hence global



Numbers defining the slowdown:

The Chinese economy saw a huge decline of 4% in its December exports and demand for its prod

price for most products. Most of the world steel, coal, cement and copper goes there while most of the world's pork output and rice comes from there. So if Chinese stop buying, prices are bound to plummet.

Chinese steps taken:

Big Daddy Xi, who vehemently inscribed his name in Chinese constitution a year before this, sees this slowdown and trade war as two strong challenges before him. The way stimulus has been brought and the way its people are being prepared for a period of slower growth is laudable. Tax cut has been introduced. Construction projects have been accelerated. Import duties have been reduced to boost demand. And, banks have been asked to reduce the amount to be kept as reserves so as to increase lending, especially to small firms and also to keep the borrowing costs low.

What it means for India?

China accounts as the largest source for imports for India, having 16% share in India's imports. Whereas, 4.39% of India's exports go to China, making China India's fourth largest export market. This means, this slowdown is unlikely to have much impact on India. However, if the Yuan weakens, imports from China will become cheap and will enter India in huge quantities because of excess capacities in Chinese industries. Dumping will also take place and hence harming the Indian companies.

However, opportunity for India lies in the fact that the population of China is ageing, there is going to be vacation in labour intensive industries of China Like textile and garments. This will increase India's export competitiveness of labour intensive products. This can also increase Chinese investment in India as it is sensible for China to shift its manufacturing base of goods exported to India into India. Hence, India could also reap benefits from Chinese support in infrastructure.

<https://economictimes.indiatimes.com/news/economy/indicators/decoded-the-chinese-economic-slowdown/articleshow/67633558.cms>

<https://youtu.be/7R2ZdquB6U4>

<https://www.bbc.com/news/business-46755158>

⋮

References

THE GREAT FIREWALL OF CHINA



By:

Tiasha Chakraborty, MA Economics, I year

One of the fastest growing economies of the world, China, is known for its Great Wall. But another wall that is less known to the world is the Great Firewall of China.

The Great Firewall refers to a number of legislative actions implemented by the ruling party in an attempt to regulate the internet within its borders. It blocks several well-known online media platforms such as Google, WhatsApp, Facebook, Twitter, YouTube, etc.

One would not expect the fastest growing economy of the world to exercise a mass blockage of online content, but according to the ruling party, such regulations are necessary to keep the people of China away from Western ideologies.



The origins of this strategy can be traced back to the early 2000s which saw the implementation of

the Golden Shield Project. This essentially allowed the Communist Party to monitor online activity of every citizen and delete any content that it found offensive. In simple words, it violated the very definition of freedom of speech.

Another way through which the Chinese government exercises censorship is by conveniently modifying its history. One example of this is an incident that took place nearly 30 years ago on June, 1989. This is the infamous Tiananmen Square Massacre, where millions of pro-democracy demonstrators had gathered in the Tiananmen Square to protest against the excessive control exercised by the Communist Party and were thus, ruthlessly murdered by armed soldiers. This information will be readily available on the internet to any one reading this article, as long as they are not in China.

Not surprisingly, this event has been erased from Chinese history in order to prevent similar protests in the future. When asked about the Massacre, a Chinese student replied that "it is not mentioned anywhere in their history books". For a country that values its culture, tradition and *history*, the omission of such an important event seems rather peculiar.

After the current president, Xi Jinping came into power in 2012, the censorship policies in China have increased significantly. From banning of important historical events to be printed or circulated online to continuous monitoring of online activity of all of its citizens, the Chinese government is essentially controlling what its citizens can or

cannot do which virtually opposes the basic meaning and structure of a socialist state that China claims to be. After the advent of president Jinping, the Firewall regulations have been upgraded substantially.

The Chinese government recently approved a plan to abolish the limit on presidential terms allowing the current president, Xi Jinping, to rule the country indefinitely.

In order to prevent any form of dissent against this legislation, the president went forward and banned words like “emperor”, “two term limit”, “control”, “disagree”, etc. The citizens of a *socialist* economy now no longer have a voice to express their opinions.



In 2016, Liu Yanli spent eight months in jail for forwarding a message criticizing Chinese leaders on a group chat via WeChat. This indicates that the government not only reads private messages but can also charge anyone with defamation and put them behind bars. However, these laws are vague in nature as they do not clearly indicate the exact content that has been banned. This leaves the people with very little choice as to what they can post on social media platforms as well as on personal chats.

These unjust regulations have been justified by the ruling party by claiming that “restrictions are mostly about maintaining social order and safeguarding national security.” In other

words, these restrictions are meant to prevent any kind of opposition to the ‘one-party rule’ in China.

Finally, one question that now comes to mind is: Will China be the next North Korea or will its citizens enjoy the benefits of a socialist economy once again?

References:

<https://medium.com/@chewweichun/how-it-works-great-firewall-of-china-c0ef16454475>

<https://www.theguardian.com/news/2018/jun/29/the-great-firewall-of-china-xi-jinpings-internet-shutdown>

https://en.wikipedia.org/wiki/1989_Tiananmen_Square_protests

<https://www.businessinsider.in/24-photos-from-the-Tiananmen-Square-protests-that-China-has-tried-to-erase-from-history/articleshow/47543198.cms>

POLITICAL SOCIETY



AYUSHMAAN BHARAT YOJANA - FOR A NEW INDIA



By: Tanya Nautiyal, Research Scholar



Good health is essential for well-being, but a large number of people are fighting against dangerous diseases every day. Financially stable people get rid of their diseases easily by visiting top class hospitals but the poor have to struggle a lot due to sky high prices of medicines and treatment. Overall, it can be said that condition of poor people in respect of good health is very poor in our country therefore the need was felt for such a policy which could help the poor.

The Union Budget 2018-19 witnessed the mentioning of a new scheme called **Ayushman Arogya Bharat Yojana**, also called **Pradhan Mantri Jan**

Yojana, as a health sector initiative. The two other central sponsored schemes, **Rashtriya Swasthya Bima Yojana** and **Senior Citizen Health Insurance Scheme**, will be subsumed under this scheme. The scheme supports those who do not get easy access to healthcare facilities or who are the deprived sections of society. This deprived section of society is mainly poor who cannot afford to go to hospital or bear the expensive treatment of any disease they are suffering from. Various researches show that millions of people in India are in poverty because of rising treatment costs. This is very alarming figure and the Ayushman project targets the issue of affordability of advanced treatments as far as poor people are concerned. This flagship scheme gives individual an insurance cover of 5 Lakh rupees, with a premium of Rs.2000 per family per year. However, in the long run it may exceed to Rs 5000 per family. This insurance aims at covering all diseases. The scheme also aims at setting up health centres at nearer places for early access of health facilities and jobalso Job generation can also be considered as one of its objectives which will help many women in the country.

The Government of India has launched various government programs related to health called schemes from time to time with focus on curative and preventive health care and also family planning. Some of them are **Swasthya Raksha Program** - which helps to access health status and extend health care services and also provide incidental support and medical aid in adopted villages, **Pradhan Mantri Suraksha Bima Yojana** and

Pradhan Mantri Jyoti Bima Yojana - which aims at providing accidental insurance with a premium of Rs.12 per year and Life insurance of Rs. 2 Lakh with a premium of Rs 330 per year. But recently, India has launched world's biggest healthcare program, Ayushman Bharat Yojana, which not only focuses on setting up healthcare centres and giving medical benefit to people but also aims at other activities which will run parallel with this scheme,, such as construction of 24 government medical colleges across the nation. This scheme, if monitored and implemented properly, will transform India into a new India where the weaker section will get easy access to medical treatments.

References:

PM-JAY in News. (n.d.). Retrieved from
<https://www.pmjay.gov.in/>

National Portal of India. (n.d.). Retrieved from
<https://www.india.gov.in/>

Union Budget of India 2019-2020

Moneycontrol.com, V. P. (2019, February 1). Budget-2019-Spend on PM'S pet scheme Ayushman Bharat jumps 167%. Retrieved from <https://www.moneycontrol.com/>

Ayushman Bharat- Who all it covers, How to apply? (2018, December 31). Retrieved from
<https://economictimes.indiatimes.com/>

National Rural Health Mission. (2018, March 22). Retrieved from
https://en.wikipedia.org/wiki/National_Rural_Health_Mission

AGRARIAN DISTRESS AND BUDGET 2019

By:
Kriti Sharma, MA Economics, I year



Measures to strengthen the distressed agriculture sector often tend to be a top priority in the annual budgets for the union government because 68% of India's workforce is dependent on agriculture (directly or indirectly) even today and because of the sensitivity of Indian agriculture in the political economy.

Budget 2018 offered a series of initiatives to boost the Indian agriculture sector. A Minimum Support Price (MSP) of 50% higher than the cost of cultivation was promised. However, it failed to bear the desired fruit due to its poor implementation. Measures like the Gram - Grameen Agriculture Markets and Operation Greens also failed to deliver as per expectations.

Going by the political sentiments and the needs of troubled farmers, a much 'populist' measure, the Pradhan Mantri Kisan Samman Nidhi Scheme was announced in the 2019 Interim Union Budget of India. Under this scheme, around 12 crore small and marginal farmers who have less than 2 hectares of land holding will get an assured income support of ₹6000 every year. Even though, the effectiveness of such an 'income support' scheme is debatable, Budget 2019 does sound like a 'pro-farmer' budget. With the sum of money being transferred directly into the bank accounts of the farmers, much of the leakages are expected to be eliminated. However, huge challenges lie ahead of its implementation that can pose serious questions on the effectiveness and potential of such a scheme. The complicated procedure of identification of beneficiaries and non-beneficiaries without a credible data base of farm land holdings, is probably going to cost the government more than the estimated outlay of ₹75000 crores. Moreover, the eligibility criteria may or may not ensure fairness and identifying the eligible individuals will itself be a daunting task.



The recently concluded elections in states like Madhya Pradesh and Rajasthan have brought to our attention that 'farm loan waivers' have been a crucial factor in deciding the results of elections. However, enough evidence suggests that such 'populist' measures never provide permanent solutions to the farm distress in India.

Also, there are a few cost related issues. ₹6000 is being seen as an amount 'too little' to cover even the cost of pesticides, let alone cover the overall cost of cultivation.

In a nutshell, the scheme might be similar to one of the inevitable sops that every union government presents in the interim Union Budgets to woo the farming population, however, whether or not it overcomes the underlying obstacles and assists in the revitalization of the stressed farm sector is yet to be seen.

References:

Budget and farm distress: Budget 2019 should be a balancing act By **Arabinda K Padhee** (financialexpress.com)

https://en.m.wikipedia.org/wiki/Pradhan_Mantri_Kisan_Samman_Nidhi(Wikipedia.org)

For farm distress, India needs more effective solutions than loan waivers by **Shamika Ravi** (Business-standard.com)

Why the Pradhan Mantri Kisan Samman Nidhi scheme will be hard to implement by **Priscilla Jebaraj** (theHindu.com)

AGRICULTURAL DISTRESS AND INCREASING UNEMPLOYMENT

By:

Mohammad Kafil, B.A. (H) Economics, 3rd year

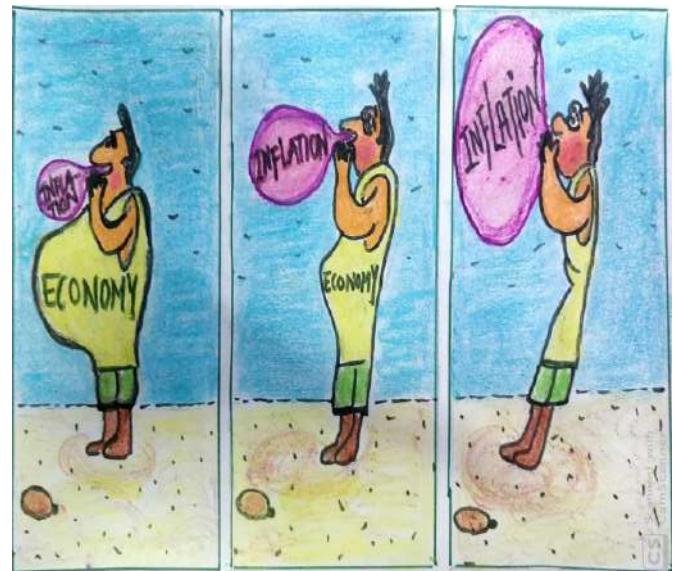


Government of India through Ministry of Agriculture & Farmers Welfare looks over the growth and prosperity of the agricultural sector and the people involved in it. In India, Agricultural Sector continues to be the primary sector of the economy as it provides employment to more than 55 percent of the entire working population. Despite this huge involvement of the agricultural sector in creating employment it merely contributes around 14 percent of the entire Gross Domestic Product of the economy. This growing imbalance between production and total productivity has created a distress in the agricultural sector, thereby leading to increased farmer suicide and growing unemployment. Some of the reasons behind the low productivity of the agricultural sector are small land holdings, over dependency on Monsoon, insufficient irrigation facilities and less availability of cheap credit & insurance facilities.

A report by NCRB on Farmers Suicides shows the level of distress prevailing in this sector.

With the ever-increasing Farmers Suicide, the National Crime Records Bureau with Ministry of Agriculture & Farmers Welfare and Ministry of Home Affairs started collecting data exclusively on farmer suicides since 2014. This data collected on suicides in the farming sector, include suicides committed by farmers/cultivators as well as the agricultural laborer.

“Farmers / Cultivators include persons whose profession is farming and who either cultivates his/her own land or who cultivate lease land with or without the assistance of agricultural laborer. ‘Agricultural Laborer’ are those persons who primarily work in farming sector (agriculture/horticulture) and whose main source of income is from agricultural labour activities. A total of 12,602 persons involved in farming sector (consisting of 8,007 farmers/cultivators and 4,595 agricultural laborer) have committed suicides during 2015, accounting for 9.4% of total suicides victims (1,33,623) in the country.” – NCRB.



Failing to pay back debt and other land issues are the major cause for farmers suicide, accounting for 38.7% (3,097 out of 8,007 suicides) and 19.5% (1,562 out of 8,007 suicides) respectively of the total suicide reports in 2015. Family Problems is reported as the major cause of suicides among agricultural laborer, accounting for 40.1% (1,843 out of 4,595 suicides) of the total figure in 2015.

These statistics clearly show the deteriorating living standards of those engaged in the farming sector, low income and ever-increasing population creates income imbalance which forces farmers to meet their consumption requirement via loans. Since the disposable income is low very few children attain formal education and thus the career options for them remain restricted. The huge army of labor and low demand is creating a wedge between those employed and further pushing down wages.

Plethora of public policies is at work but ground implementation remains poor. Minimum Support Price was one of the policies introduced to give security to the farmers for getting the right price when the market rates are down but the involvement intermediaries and the restriction of crops under this scheme makes it very difficult to serve the purpose. MGNREGA is again another program aims at creating hundred days manual unskilled employment for every adult member of the household but its success remains limited and very less of it is happening on the grounds. These policies have failed on the grounds due to the ignorance of the government on the agricultural sector and this has thus affected other sectors simultaneously. Just as in the third five year plan the focus was on interlinked growth of agricultural and industrial sector, we need similar backward linkages.

One would not say that the government has completely abandoned the farming sector as for even today the administration provides subsidies and loan waivers to the farmers but the investment is not research oriented. Of the entire subsidy which

government provide the subsidy on fertilizers is the highest, this results in excessive and unjustified use of the fertilizers which leads to soil degradation in future. The farmers educational qualification is minimal and the expenditure on their training is very low which is a one-time investment and could increase the productivity of any labour. Again, investing on a land which is less productive is sure to give less returns and so proper soil checkups should be done to ascertain the productivity of any land, since farmers see it as an extra investment and ignore to do so the policy should be made where soil check up is a compulsion to get the benefits like cheap credit facilities and other subsidies by the government.

Problem of unavailability of proper irrigation facilities and unpredicted monsoons cause a lot of damage to the farming sector in India thus production of water intensive crops can be discouraged in areas where the scarcity of water is prevalent. Whereas at other places irrigation techniques such as drip irrigation or vertical farming techniques can be practiced for better results. Also, Private investment to develop field channels to ensure water supply for the farming activities at a basic fees depending on the land size.

The main problem of the Economy today is the surplus labor force and limited employment opportunities. Growth in the agricultural sector will accommodate this excess labor and stop excessive labor force migration to cities in search for better jobs. If agriculture is given the primary importance the productivity can increase and it can contribute a lot more to the GDP than what it does now. Moreover, it would bring prosperity in the houses of those who ensure our food security.

References:

Supporting Indian Farms the Smart Way

ASHOK GULATI, MARCO FERRONI AND YUAN ZHOU

Accidental Deaths and Suicides in India 2015, Ch 1, 2, 2A

FOOD STAMPS- A REVAMPED APPROACH

By:

Ujjwala Mittal, MA Economics, I year



India in spite of being one of the largest exporters of rice is also the home for estimated 250 million people who do not get enough to eat. Such a paradox is plenty in India's food system. The current system of public distribution system (PDS) which distributes food and non-food items to below poverty line (BPL) families through a network of fair price shops has been criticized for providing inferior quality produce and lack of accountability. The Federation of India Chambers of Commerce and Industry (FICCI) said PDS should be dismantled as it was plagued by leakages at different levels. It said that it had failed to serve BPL families due to the problem of urban bias and corruption. It is not a transparent method and its coverage has proved to be negligible in areas with extreme rural poverty. It also has extremely high procurement cost which made this scheme even more inefficient.

There's an urgent need to restructure PDS and one way by which the government can do it is by issuing food stamps or giving cash transfers directly to families living below poverty line, instead of subsidized food, to ensure food security of the poor.

In the Budget 2019, the interim Finance Minister Piyush Goyal announced an assured income scheme for farmers wherein all the vulnerable farmers having less than two hectare of land will

be given direct cash benefit of Rs.6, 000 per annum. Around 12 crore farmer families will be benefited from this direct cash transfer payment for which the central government has allocated heavy funds (around Rs.95,000 crore) which can take a toll on the remaining budget allocations. In countries like Latin America and Mexico, such direct cash transfer schemes have been used to alleviate people from poverty. It has these advantages: a) dignifies the poor, b) lets the poor engage in productive activities, c) increases choice and gives purchasing power to the poor. But what if this money is not used for subsistence? In a developing country like India, to minimize the risk of these transfers being disproportionately spent on things like liquor and gamble, conditional cash transfer has to complement direct transfers. Conditional transfers will take care of specific policy objectives, say, of poverty reduction, developing markets, removing social and economic discrimination, for example, paying Rs.500 to all the poor and conditional transfer of another Rs.200 for children regularly attending school.

Owing to the fact that poverty has been continuously decreasing in India, the practice of targeting benefits to only those considered as poor and needy will be successful only if cash transfer actually goes to the intended beneficiaries. In situations of volatile and rising prices, the real value of cash transfers can get quickly eroded that would render such goods unaffordable for the lower in-

come segments. So, in spite of being successful in other countries, this programme may not be perfect substitute for already existing distribution system. Moreover, there will be no accountability whether the cash transfers will be used for consumption purposes. Hence, it will be more reasonable if we are able to cut down their food expenses from the income earned so that they save whatever they earn just for production activities.

The Finance Minister P Chidambaram had proposed to experiment with food stamps in a cluster of districts of a few states to judge the viability of the scheme. Food stamps are used in many countries all over the world. They are proven to be the most cost effective means to assure right quantity and quality of food for all. The food stamp scheme which was proposed in Tenth Plan (2002-2007) document of the planning commission had some loopholes because of which it was criticized then.

Each food stamp specifies a money value that can be used to purchase the short list of specified items at discounted prices from any regular shops which can be collected every month from nearby post office or banks. The shopkeeper can present the food stamp collected from the holder and take the equivalent amount of money from the government. To make food stamps successful, there will be an immense need for market infrastructure and institutions that could deal with agricultural goods trading. Also the burden faced by the families to specially go and collect the food stamps is something that can be dealt with as at the end it will be them who'll benefit from it. Following are some of the ways in which the previous shortcomings can be revised.

- With maximum quantity to be purchased given, the holder will have more freedom on choice of quantity of each food grain under fixed value specified. Food stamps should also be dated in terms of redemption, which stops circulation for long peri-

ods which reduces the risk of stamps getting encashed readily.

- Unlike PDS with special ration shops for distribution of food grains, the food stamps are applicable on any retail shop which increases the savings for the government as the shipping cost of distributing the produce to ration shops will be reduced. With no ration shops, black marketing will be curbed to some extent.
- It will reduce India's dependence on buffer stock for price stabilization and limit the wastage and hoarding of government godowns.
- With digitalization, the paper stamp can be substituted by using smart cards in better off areas. For a distinct possibility of food stamps being counterfeited, the appearance-related features of food stamps should be "technologically smart and secure" that would make fraudulent practices difficult or impossible.
- Social benefits or some conditionality could be attached like families with children enrolled in schools can be given extra stamps. Also it could give the privilege of free health checkups to families with food stamps.
- In remote areas where banks or post offices are not available, monthly camps could be set up to distribute the basic food stamps to the registered families.

The role of middleman will be removed which will solve the primary problem of bad quality grains. There could also be stamps that specify the kind of commodity, the quantity and the maximum price per unit permissible. Thus it is possible to device a food stamp system specifying only money values, money and quantity values, and combinations of these parameters. Categorical food stamps can be issued for food grains and

kerosene. Also stamps issued under the name of female members of the family will put the apprehensions that men would trade them for liquor or tobacco, depriving their families of enough to eat, aside.

The major problem with our system is that the subsidy never reaches the poor. It is diverted on the way and vested for own interest. For any scheme to work, we first need to build a strong institution and increase the efficiency which in the long run would result in lot of savings for the government. If we are able to cut costs along with achieving food security and granting more power to the poor, then aren't we well off than before?

References:

<https://www.forbes.com/sites/timworstall/2015/01/28/indias-basic-income-or-lets-abolish-food-stamps-and-make-everyone-richer/#2a51155e687e>

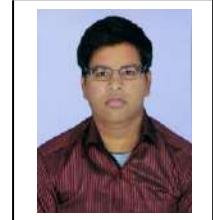
https://www.isid.ac.in/~bharat/akbaar/Food%20Stamps_faqs.pdf

<https://www.nytimes.com/2012/06/08/business/global/a-failed-food-system-in-india-prompts-an-intense-review.html>

FARM LOAN WAIVER: A POLITICO-ECONOMIC CONFLICT

By:

Saquib Jawed Ansari, MA Economics, I year



Politics has a history of entralling the curiosity of Economists. Politics and Economics have had a vast and an age old relationship and are often termed as alternate sides of the same coin. From good old days, a common saying that "**Good Politics makes a bad Economics**" has been widely accepted with its own share of exceptions and objections. There have been various examples of Politico-Economic issues like Demonetization, Food Security Bill, Fuel prices to name a few which have created their own debates.

Ahead of the biggest conundrum of Indian Politics - the 17th Indian Lok Sabha Elections, various political narratives & manifestos of both the ruling and opposition parties are in a bid to imply a populist approach to please its citizens. One such measure is to directly address the stakeholders of the primary sector which employs more than 50% of the total workforce in India through the assurance of "Farm loan waiver scheme".

Indian agriculture has always been the sufferer of truancy in monsoon and is characterised by low scale and low productivity. About 85% of the operational landholdings in the country are below 5 acres and 67% farm households survive on an average landholding of one acre. More than half of the area under cultivation does not have access to irrigation. Agriculture income generated at average size of landholding is not adequate to meet

farmers' needs. The problem is exacerbated by Indian market risks. According to the latest National Sample Survey on Situation Assessment Survey of Agricultural Households (NSS-SAS), 13.9% farm households experienced negative return from crop production during 2012-13. Non-farm income comprised 40% of the income of farm households, but access to non-farm sources of income is highly skewed as about 40% of farm households reported zero income from such sources. Hence amidst such bad returns farmers are under the immense pressure of repayment of loans and are often left with suicides as an only option.



In the recent past, various states like Maharashtra, Punjab, Uttar Pradesh, Karnataka, Madhya Pradesh, Rajasthan, and Chhattisgarh etc. have together waived out or proposed to waive off around 1.84 Lakh crore rupees. As estimated by NSS-SAS if every state started to waive the off loan, then GDP will adversely be affected by 2%. On the surface, this is a significant chunk of change. For instance, it easily dwarfs what the Congress has alleged is the value of the supposed Rafale scam (Rs. 58,000 crore). But the real question lies in -Whether this amount is able to reach to needy, marginalised and landless tillers of the soil? What is the fault of those farmers who did not take loans? What is the fault of those who paid back the loans? Why should those who can pay the loans not pay back the bank money? And, are the loans sanctioned to an individual or the entire sector?"

<u>Size of Land</u>	<u>Co-op Society</u>	<u>Bank</u>	<u>Informal Sources</u>
Marginal	10%	27%	63%
Small	15%	48%	37%
Medium	18%	50%	32%
Large	14%	64%	22%

Agriculture Credit (As per report on Medium Term Financial Inclusion by RBI)

According to various findings, it has been estimated that only around 15-20% of the farmers are benefitted from this scheme. Most of the loans are borrowed from informal sources, the farmers investing from their own savings or those borrowing from non-institutional sources are equally vulnerable, but are outside the purview of loan waiver.

Loan waiving excludes agricultural labourers who are weaker than cultivators in bearing the economic distress. As a result only the rich educated farmers who usually obtain loans from formal credit institutions are waived off, thereby creating a much wider gap of inequality. Moreover, it affects the credit culture amongst the farmers and also leads to a moral hazard problem, where even the farmers who are capable of repayment will refrain themselves from doing so.

Besides that as per the 2008 CAG report, around 13.5% of the accounts, eligible for the benefits under the scheme were not considered by the lending institutes while preparing the list of eligible farmers. Contrarily in 8.5% of the cases, the beneficiaries were not eligible for either debt waiver or debt relief but were granted the benefits. In many cases, one household has multiple loans either from different sources or in the name of different family members, which entitles it to multiple loan waiving. It is simply put forward as a "Temporary necessity" but with serious multiplier effects on the development of other sectors.

. It is noteworthy that though the government and bureaucrats do not condemn the piling NPAs by the corporate defaulters which are very large (more than 5 times of agricultural debt) in comparison, they mind agrarian defaults even when farmers have been found to be more disciplined in their repayment behaviour. In September 2018, agricultural NPAs (about 8%) were far lower than in industry (about 21%). Furthermore, agricultural NPAs were on a continuous decline between 2001 and 2008. In addition there is no evidence to argue that the 2008 waiver led to a rise in default rates among farmers. The lowest of all NPAs after 2001 was recorded in March 2009 (2.1%), which was just after the implementation of the 2008 scheme. So the claim is that due to successive droughts in FY 2015 and FY 2016 has led to a burden on farmers and is in a strong need of a waiver.

Loan waiver: Atonement or an Appeasement??

Based on the above issues regarding the distress in the primary sector the loan waiver to the farmers may appear as an atonement, but there are une-

quivocally, many other ways through which these issues could have been better addressed like providing better easy and simpler formal agricultural credit, applying micro irrigation more intensively than traditional methods to combat bad rains and promoting non-farm activities and rural development.

The problem is that the Minimum Support Price (MSP) is not being provided as promised due to the poor monitoring and hence the real beneficiaries are the big traders. Also the Swaminathan committee recommendations to tackle the farmer suicides are not being followed. There is a huge lack of efficient agriculture export policy and there is need to empower Farmer Producer Organisations (FPO's) as then the real issues of small farmers could then be better addressed. Loan Waiver is again like a politically driven move to gain votes by appeasing people which can lead to Fiscal deficit and adversely affect the Economy.

It is easy to understand whether the eyes of politicians are filled with mercy for farmers or greed for votes. Therefore, it is easy to conclude that Indian agriculture needs a long-term structural fix. Loan waiver might be a good idea and a necessity too right now but then the question is what's next?

References:

<https://www.thehindubusinessline.com/opinion/columns/slate/all-you-wanted-to-know-about-farm-loan-waivers/article21957423.ece1>

<https://economictimes.indiatimes.com/news/economy/policy/farm-loan-waivers-why-they-dont-make-sense/articleshow/67121007.cms>

<https://www.thehindu.com/opinion/op-ed/think-beyond-loan-waivers/article19309519.ece>

<https://thewire.in/economy/farm-loan-waivers-and-corporate-defaulters-are-two-sides-of-the-same-coin>



'CAUSE THERE IS CASH CRUNCH

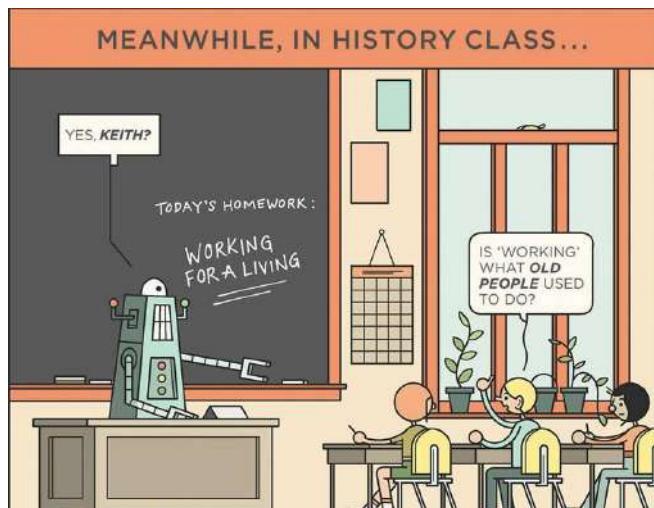
Clicking Credits: Mahima, MA Eco, I year

UNIVERSAL BASIC INCOME: IS THE ENTIRE BUZZ WORTH CREATING?

By:
Mahima, MA Economics, I year



When Elon Musk and Mark Zuckerberg speak up favouring Universal Basic Income for their country, it comes as a piece of music to ears because they anticipate a country with artificial intelligence and hence jobs getting taken over. But, when India hits the news with UBI, it comes as nothing more than a noise. I say this considering the recent election scenario wherein one of the political parties tried really hard to replace the other and the other in response released a populist interim budget.



Source: <https://www.wired.co.uk/article/universal-basic-income-y-combinator-andrew-keen>

For its supporters, UBI is a way to help the poor out of their adversity by reducing poverty and income inequalities. No doubt, two of the income support attempts in India have shown a positive impact. KALIA in Odisha and Rythu Bandhu of Telangana are two such forms of support. Sikkim too is about to join the race and could become the first state to implement a universal basic income scheme. This is definitely not in vain as there is evidence of increasing school enrolment ratio, increased attendance, and improved health among the highly impoverished households when given some income support. But, unfortunately, both the aforementioned schemes are not UBIs but only basic income support and that too highly regressive.

So considering only the partial success of the basic income policy, is its 'Universal version' a good idea right now? While economists like Amartya Sen and Jean Dreze oppose it on irreversibility grounds of such a large scale populist policy. Even rural homemakers have shown their inclination towards PDS over UBI fearing their husbands misusing it for buying alcohol and we cannot also deny the fact that Indians who are already pro-procrastinators and shirkers might end up relying on the periodic transfers and lose willingness to

work. Furthermore, removing the successful subsidy schemes and schemes like MGNREGA which have considerably improved the economic activity, female labour force participation and number of working hours is not a good idea.

But agrarian distress is real so tackling it right now and the right way is a must. Hence the adoption of an alternative- QUBRI- Quasi Universal Basic Rural Income (suggested by Arvind Subramanian, Josh Felman, and Boban Paul and MR Sharan) is worth a shot. The alternative is about broader rural focus covering 75% of its households (close to universal) and covering all except those clearly well off households based on Socio-Economic Caste Census. This is an improvement over KALIA and Rythu Bandhu as it is based on the exclusion of non- beneficiaries rather than targeting the beneficiaries.

The idea is to keep the current interventions like loan waivers, fertilizer, power and interest rate subsidy, maternity benefits and old age pensions etc. intact as their benefit to cost ratios have been incredulous, while also maintaining that QUBRI requires monitoring because of its potential disincentivizing effect on rural-urban migration, agricultural land consolidation, and urbanization. At the same time, the potential power of improving state institutions of health, education, and social justice cannot be ignored too.

References:

Business standard articles by:

1. Josh Felman, Boban Paul, MR Sharan and Arvind Subramanian, dated 28 January 2019
2. Atanu Biswas & Abhinandan Sinha – Why a Universal Basic Income may not be a great idea for India, dated 24 February, 2019.
3. Vijay Joshi, Travesty of Basic Income, dated 12th February 2019.

The Hindu article by:

1. Arun Maira, Think Universal Basic Capital, dated 30 Jan 2019

UNIVERSAL BASIC INCOME: REQUIRED BUT AFFORDABLE?

By:
Akash Srivastava, MA Economics, I year



In a country like India with nearly 22% of its population surviving below poverty line the idea of Universal Basic Income sounds pleasant the moment it strikes common person's eardrum. It's quite appealing the thought of providing every individual a certain sum of money to help in making his/ her ends meet. But does it really need to be Universal? As targeting hitherto unattended and needy segment can also be a concrete solution. The idea is not new in world context but has gained importance recently in India after Sikkim Democratic Front (political party in Sikkim) has decided to include it in their election manifesto for the upcoming Lok Sabha and assembly elections.



The economic survey 2016-17 has also advocated UBI as to be an alternative to all other social welfare schemes.

First let's get to know what UBI essentially means in its very basic sense-

"It's a concept which makes everybody residing in a nation or particular geographical part of it (if UBI is region specific) entitled to a certain amount of income transfer to that person irrespective of his employment as well as social status."

UBI is universal in the sense that it reaches each and every individual of the country & by basic it implies it's sufficient to meet a person's basic needs. The genesis of the idea of UBI dates way back in 16th century, when Sir Thomas More argued in Utopia that every person should receive a guaranteed income. A number of countries has experimented this idea like in US in the end of 1960s. In Finland a nationwide, three year pilot scheme was launched on 1 Jan 2017 with basic motive of testing whether the implementation of basic universal income could help resolve issues like long term unemployment. The results of the experiments were fairly mixed as in US a moder-

ate reduction in work effort was observed but there has also been an increase in school attendance. Finland government decided not to continue with the project.

Talking about India, a basic income project was conducted in MADHYA PRADESH in 2010 involving 20 villages out of which 8 got basic income support and others served as control groups. Results were found to be positive. Villages spent more on food and healthcare, children's school performance improved, household savings were nearly tripled. Point here is can these results be replicated on a nationwide scale? UBI entitles every person a certain sum of money leaving it to the individual how he is going to spend it. Although results in MP shows there were no frivolous spending but the project was carried out when all other social welfare schemes were in place.

First and the fundamental problem that arises with the extension of the project is of "funding". A much talked about idea is of scrapping some of the 950 schemes (especially those with which resource misallocation had been an issue) and use the remaining resources to finance UBI. For now let's just assume this idea has been adopted. So first we need to list out those poor performing schemes. Now what should be the ideal amount that should be provided against those scrapped schemes. Let's consider that amount to be an equivalent to the poverty line(or poverty threshold, minimum level of income deemed adequate in a particular country) which is Rs. 1181 per month for each individual (2017-18 prices). The amount would be Rs 19 trillion or 11.4% of GDP. Current expenditure on all social welfare schemes as percentage of GDP is 5.2%. This implies that even if we scrap all the existing schemes funding will still remain an issue. Let's just for now assume funding required is exactly equal to the cost of running all schemes. Then the amount that each individual would be getting is Rs.650 per month which is nearly Rs.22 per day. Can it be anyhow equivalent to scrapping all those 950 schemes!

Consider yourself to be a farmer what would be your reaction when you'll get to know that the benefits you hitherto enjoyed as of getting subsidised electricity, water, loans at very low interest rates are now being replaced by an insufficient amount of money.

Certainly UBI is not directly linked with productivity of the individual. Whether the sum he'll spend on sharpening his skills he already possess or in acquiring new skills or it be wasted somewhere else will not be known and so its impact on the economy. Since government will be the controller there's an imminent threat of it being used as a move by parties for their political gain. Like one party declares UBI to be Rs.500 per person and opposition promises to increase it to the tune of Rs.1000 just to lure voters which can easily be observed will be a dangerous phenomenon.

India's record of targeting welfare programmes to the poor has been in suspect. Reasons underlying data manipulation and corruption with the crowding out of the card ownership and leakages to the rich. First we need a system rehab in order to identify what our target segment would be. Then we can call for a targeted scheme with instruments like AADHAR & DBT as a means to ensure the benefits reaches to the right person. Within the target beneficiaries we need to separate out those which are categorised under dependent population and should be given a certain sum for their livelihood and those under working age should get employment opportunities which is the need of the hour. This can be done through MGNREGA. Even in Sikkim, the UBI idea was preceded by a employment scheme which assured that one able bodied person in each family will get a job. Then they came to the conclusion that there's still a segment of the society that needs to be taken care of and from here idea of UBI kicked in. Better monitoring framework like PFMS should be in place to ensure schemes are working properly. It doesn't sound logical to introduce a universal scheme when most of the existing targeted schemes still have got untapped potential. I think

all the poverty alleviation schemes should be given an immediate attention and make all those impenetrable to nullify the effect of factors (such as leakages, corruption etc.) That are preventing these schemes from realising their full potential. Support of the state for people who can't be otherwise gainfully employed is called for in form of cash transfer (like unemployment benefits)scheme to such people rather than a UBI in a seamless manner.

“My ahimsa would not tolerate the idea of giving a free meal to a healthy person who has not worked for it in some honest way, and if I had the power I would stop every Sadavarta where free meals are given. It has degraded the nation and it has encouraged laziness, idleness, hypocrisy and even crime. Such misplaced charity adds nothing to the wealth of the country, whether material or spiritual, and gives a false sense of meritoriousness to the donor. How nice and wise it would be if the donor were to open institutions where they would give meals under healthy, clean surroundings to men and women who would work for them...only the rule should be: no labour, no meal.”

- Mahatma Gandhi

References-

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

https://en.m.wikipedia.org/wiki/Basic_income_pilots

Universal Basic Income: A Conversation with and within the Mahatma, Chapter-9

Economic Survey 2017

POVERTY, INEQUALITY AND THE UNEMPLOY- MENT PARADOX!

By:

Mridani Krishna MA Economics, 2nd year



The classical economists assumed that full employment prevailed in the economy, but the actual scenario is quite different considering different economic, social, political and ideological factors which have led to the higher rate of poverty, inequality and unemployment in different countries, especially the developing countries.

India is one of the fastest growing economies in the world, but there is a huge divergence between the growth rate of GDP and the rate of employment generation. The economy is growing at a rate of around 7%, but the unemployment poses a big and significant rate of 7.2% in India. So, the point of debate is, why is there a huge unemployment rate accompanied by a high growth rate in a country like India?

Population of our nation is increasing manifold, leading to a pressure on land and other resources. There is a perpetual rise in need to earn a livelihood but there is a scarcity of jobs. It reminds me of the **Malthusian trap of unemployment** in which he describes that the population expansion of a nation takes place at a geometric rate whereas the food production takes place at an arithmetic rate. I think in our case, population expansion is taking place geometrically whereas employment generation or job creation is taking place arithmetically. And this a severe matter of concern.

What can be the probable reasons behind the rapidly increasing unemployment? Two most important factors can be:

- a) Highly qualified people getting opportunities which are far below their qualifications which if accepted makes them employed but at a very low pay and meagre satisfaction.
- b) The job requires certain set of skills but the people remain unemployed as they lack those skills.

If we try to look at the intricacies in the employability and unemployment criteria, we end up with the following basic reasons:-

- 1) The government is not focusing on the quality of education availed by the students. The schools and universities lack proper infrastructure and work ethics. The quality of teachers and professors are not apt enough to give proper education to the children. Teachers fail at delivering a good lecture which makes a blank space in the mind of children. As a result they lack seriousness in studies.
- 2) The students are not skilled enough. They have the mugged up knowledge but they aren't given any practical exposure due to which they are unable to relate their subject to the real world.

3) Lack of desired employability skills makes them jobless in a way.

4) Students are not taught those set of skills at schools and colleges which are required to increase their employability chances.

5) Patriarchal nature of society confines women from entering into the market search for employment. This is also a major contributor to jobless growth.

6) More and more focus is given on theoretical aspect of learning which doesn't go with the market demands.

If we look after the economic causes of unemployment, to be more precise, we can categorise them as follows:

1) India is no longer an agricultural based economy. The share of tertiary sector i.e. Service sector is the greatest in India's GDP (around 60%) but the saddest part is that inspite of contributing only 28% to the GDP, the agriculture sector employs around half of the youth population looking for job.

2) Manufacturing should take greater responsibility of job creation as agriculture already employs over half of India's workforce, and services can't absorb the million youth who are joining it every month. Government is also trying to give a boost to the manufacturing sector through Make In India but unfortunately it is not able to achieve as much as it should be when it comes to job creation.

3) Also the imports are deterring job creation. The cheap imports are creating hurdles in the way of domestic manufacturers by dampening the demand for domestic goods which further leads to unemployment and lack of job creation.

We can also give the technological reason for jobless growth: With the advancement in science and technology, capital intensive machinery and modern equipments are replacing manpower which is adding to the unemployment.

The rising unemployment is also creating income gaps which is aggravating poverty and inequality in our nation.

The famous inverted U hypothesis of Kuznet concluded that,

- The income share of the lowest income level group in a developed nation is significantly higher than the income share of the same group in developing nation.

- The income share of the highest income level group in a developed nation is significantly lower than the same group in developing nation.

Hence, it clearly displays the intensity of poverty and inequality in a developing nation. Also, along with unemployment, another reason could be that in developing countries the top 1% of the population holds around 10% of the income share. This adds to the poverty, inequality and unemployment.

Hence, we may conclude that it's high time that the government should focuses on high economic growth consistent with high employment rate, curbing the jobless growth of our economy. More employed workers even at lower wages is a better option than less employed workers at higher wages because the former will add to employability rather than the latter, which will aggravate the jobless growth. The major focus of the government should be the introduction and upgradation of productivity-enhancing skills and measures rather than fixing minimum wages. Also, the formulation of prudent macroeconomic policies and their proper execution will bring in FDI which will aid job creation if the further concerns of demand and supply are addressed.

POVERTY

By:

Shafeen Muskan

I see it as harsh!!
People having scars,
Of the wounds they never had,
But Inherent...
And all its shades,
Aren't pretty,
But brave,
To live in it...
Is living in an age!
Where immortality is cage!
And mortality is sage!
I know it,
As I have seen,
But can't describe,
As I have never been,
But ask the ones who live with it,
Who fight with it...?
And some even die with it...
But we all just acknowledge;
That people are poor,
Yes it's in my knowledge...
Do things that you can,
Don't let the lives go in vain,
Understand not just acknowledge,
Do something to abolish...





IN CONVERSATION WITH

DR. ALAIN DE
CROMBRUGGHE

IN CONVERSATION WITH: ALAIN DE CROMBRUGGHE

By:

Sheen Zutshi, Rahul Kumar & Vinayak Krishnatri



Alain de Crombrugghe is a professor of International monetary economics at the University of Namur, with research activities around European macroeconomic policy, monetary policy coordination, debt crises, and interactions between the financial market and the labor market in recessions. He is currently Dean of Faculty of Economics, Social science and management at Namur. Last semester, we had an opportunity to interact with him and discuss various economic issues related to EU and India.

- 1. You have been following the economic issues related to the European Union**

closely. Greece is facing economic crisis since 2009 and its chances of its leaving the European Union has increased since 2015, what are your views on it?

I think Greece's economy is slowly recovering. There will be continuous transfers from the European Union to Greece and at some point the debts of Greece one way or other would fade away. Nevertheless, it's still a country at risk because the country still has to find sources of economic growth.

In the short run agriculture could be the driver of growth. I think in the long run some industrial activity should take over. The geographical location

of Greece is both an advantage as well as a disadvantage. Central position in the Mediterranean Sea is an advantage. Being at the frontier of the European Union may be an disadvantage.

2. What do you think about the European Union becoming a two speed entity? Consisting of a group of strongly integrated core economies and a group of relatively weaker peripheral economies.

Well, it's a very long debate, this two speed Europe. As long as its freely chosen by the countries it may make sense. If the rich countries try to exclude the poorer countries then this may be another issue.

I don't think it's a rich poor divide. The best example is some Scandinavian countries like Sweden and Denmark who were also asking for some exceptions because they were not ready to enter into some agreements and these are not poor countries, these are actually very rich and very well organised countries.

As long it's a choice and not exclusion, I don't see too many problems. The recent experience is that new entrance should be very careful, especially if the countries are relatively large. A very small country can always enter. A very small country mostly uses a foreign currency or links its currency to a foreign currency, but a large country tends to have a floating exchange rate and a independent banking system so they should consider the risks of monetary union.

3. According to the World Bank, India is home to more than one-third of the world's poor, keeping this in mind, how important is microfinance to India?

I remember that when I wrote a paper on microfinance in India, it was a hot topic and there was a lot of development but then there have been some bad experiences with microfinance. There have been situations where people were taking more loans to finance their microfinance loans. That's the danger of microfinance.

Nevertheless, microfinance can play a useful role by enlarging the opportunities of people. Giving

them access to credit, not just for the sake of credit but also giving them freedom to choose their suppliers or to choose their clients because earlier the credit used to come from the suppliers or the buyers. Small credit is also useful for people with small shops and small businesses.

So it has some contribution but its not the only one. You mentioned the World Bank's statistics about poverty; actually the two places in the world which have contributed the most in reduction of world poverty are China and India. That's not only through microfinance of course. That's through education, that's through jobs, that's through free movement of people in India to the places that have more job opportunities. Microfinance is a part of it but only a part of it.

4. A lot of Not-for-profit companies which provide microfinance in India are funded by the government. Since these funds are not adequate these companies have to take loans from the bank which increases the debt to equity ratio. So how these problems may be addressed?

One way of solving this problem is to collect deposits from the population and it should be regulated and people should have a guarantee that their money is going to be well used. Microfinance institutes should probably have to get a license to collect deposits from the public. That may increase the sources of their funds that may be a productive use of local savings. Remember incentives are important in economics so this may also provide incentive to repay the money since people know that the money that they are using belongs to their neighbours or people they may know. Since they know that this money is not coming from far away or it is not a grant. This money is the savings of someone close by so they will put it to a good use.

5. Recently IL&FS crisis happened in India. It's been speculated that in present scenario state owned LIC will be asked to increase its stake in the company to enable the firm with Rs 91000 crore liabilities to stay afloat. Does this likely stake increase using policy holder's money make sense for LIC ?

Well, they have to choose there. One is the refinancing. Not by just government stakeholders but corporate as well. LIC has a choice between losing money or losing its stake. It cannot get free lunch or benefits of possible recovery of company without investing in it, that's general principle.

As far as ability to run IL&FS, I cannot judge but in the long run it would be useful to find competent shareholders who are willing to put money into it and the old shareholders taking loss for the management or just for the risk Because that's the purpose of shares .You get great capital gains if things go well and you lose everything if something goes wrong .

6. LIC has become India's favourite bailout company. Although they don't have any expertise at it yet they are using public's money in risky businesses, be it IDBI Bank or IL&FS . It seems we are not learning from past mistakes. How can they finance so many debts in the long run?

Absolutely, it's quite tough. At some point this ritual needs to be changed, but I don't know how. All countries use world class infrastructure funds which are partly state owned for eg European investment bank is very safe. World bank is very safe. These banks are run according to highest standards and they lend to world markets .They issue bonds which have higher rating and lowest risks , which works as they have a clear understanding of what they should do and when they lend they always lend with privileges because they have collateral , first ranked and so on . This is not because they run these projects well but because they have priority for debt.

In the long run , we should distinguish between the projects that must be government financed and privately financed . Probably for education, social welfare reasons must be government's priority and then infrastructure that is privately financed or financed under some agreements . Like some partnerships for investors which helps them get some money back like paying for tariff on communication etc. This kind of infrastructure is need for the call to keep it sufficiently fast. There is no 100 % solution.

There is probably history in India and many other countries of state funded institutions which kind of understand that State will always put its bill but they don't disagree with themselves and that has to be changed . It can be changed. I was told like metro in New Delhi was a huge success, people who were in charge made sure it's a success. Hence if government put its right people on right place to serve this country then you will get same results.

7. Why the governments, like The U.S.A. in 2008, are bailing the banks out with the public money when the banks are responsible for these financial crises and bringing the economy down? Essentially we are creating a problem of moral hazard. Why are we compelled to do it again and again?

The main reason is contingent. If contingent is bad which can be in two ways, asset depreciation in the market where assets are sold off in fire sales, or there is contingent from the depositors who fear that not just one but all banks could be bad, so everybody goes to the bank and tries to run on the bank and get the money back.

In this way lots of assets are depreciated, a lot of people are pushed into bankruptcy on the one side. On the other side some depositors may not get their money back. This is something that the governments want to avoid and that is why they intervene. There are various ways of intervening.

You may even protect the owners and extend their repayment period. Like Obama did in The U.S.A with General Motors. General Motors went bankrupt and the government took over General Motors, gave it time to restructure and eventually returned it to the stock market. So in this way you help the banks indirectly.

You can also help the bank by repurchasing some of the bad assets of the banks so the bank gets safer government bonds instead of risky assets. Assets should be bought by the government at a depreciated price so the government can make some money on these assets later on. The government mostly intervenes in an emergency so it can stop things from getting worse but its actually rescuing

some things and making money out of the things it has rescued. On the other side of the balance sheet of the bank the assets are depreciated the shareholders of the bank lose some money. Bank doesn't lose the value of the deposits its just the value of the shares that is lost.

Government can also lend money at a high interest rate, nevertheless, lower than the interest rate the bank has to pay otherwise if it had borrowed from the market. Government can also transform this loan into equity and become the boss of the bank and run it on its own or sell it to another bank when the market is quitter.

Lastly, government can also merge the bank with another bank. In this case the government doesn't have to put a lot of money it just finds a partner and the partner puts some of money. It also makes the people believe that the good bank will improve the management.

There is some of the tax money that goes into all these operations. There are ways in which you can reduce this tax money used in these operations. While doing the computing you shouldn't be myopic about it, you should think what will happen in say five years. It is possible within five years the government may recover more than what it has put in.

8. Are there any books, journals which you will like to recommend to economic students ?

Oh! Books. Yes, of course. I was reading "Creating a World without Poverty " by Muhammad Yunus. He was awarded noble peace prize for his work related to Microfinance.

Events 2018-19



CREDITS

Head of the Department: Dr. Halima Sadia Rizvi

Editorial Advisor: Dr. Saba Ismail

Editors:
Mahima
Ayushi Gupta
Jyotsna Chikkara
Arya Bhat

Illustrators:
Akansha Gupta
Anamika Verma
Rachita
Kriti Sharma

**Cover page and magazine
design:** Mahima

Back cover: Ayushi Gupta

Photo Credits: Ishan Chowdhary

We highly acknowledge the contribution of all the
authors of the articles in the magazine.

DEPARTMENT OF

ECONOMICS

JAMIA MILLIA

ISLAMIA

JAMIA NAGAR, NEW

DELHI-110025

www.jmi.ac.in