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ECO-INSIGHT

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Annual E-magazine
Department of Economics
Jamia Millia Islamia

Celebrating Centenary Year of Jamia

MESSAGE FROM THE HEAD

I am very glad to note that the Department is publishing an E-Magazine, Eco-Insights . This volume is dedicated to Centenary Celebration of Jamia Millia Islamia. Such magazine provide an opportunity to our budding scholars in Post- Graduation and PhD research as well as our alumni. I appreciate the sincere effort of the magazine organising team for their tireless effort in bring the volume despite difficulties of Covid 19. I am sure that such innovative ideas will continue and wish the magazine reaches largest number of audience.

Dr Asheref Illiyan
(Head of the Department)

MESSAGE FROM THE EDITORIAL ADVISOR

Dear Readers,

After going through the hardships of the COVID 19 pandemic, we are releasing a much-awaited yet special edition of the Eco-Insight. This issue is a part of the centenary celebrations of Jamia Millia Islamia for the year 2020, but its release has been delayed due to the outbreak of the pandemic. Even though we all have been restricted in our homes, learning never stopped. The constraints caused due to the pandemic haven't stopped our students from showcasing their talents in various forms.

Our e-magazine- ECOINSIGHT, provides a platform for the students of the Dept of Economics and our alumni to put forward their knowledge and ideas in a creative manner. It focuses on the latest, relevant, and thought-provoking issues in the field of economics expressed in the form of articles, reports, interviews, commentaries, etc.

I congratulate all the contributors for their timely submission of the articles and my team of Editors for their devotion and hard work in bringing out this magazine.

I hope this and all the upcoming issues keep providing the "ECONOMIC-INSIGHTS" and prove to be a huge success. It has been a pleasure for me to guide the students as an advisor and be part of the team ECOINSIGHT.

Best wishes,

Dr. Saba Ismail

Editorial Advisor & Associate Professor,
Dept. of Economics,
Jamia Millia Islamia

MESSAGE FROM THE EDITORIAL TEAM

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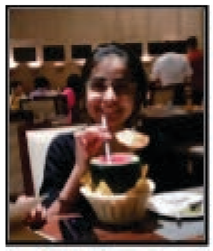
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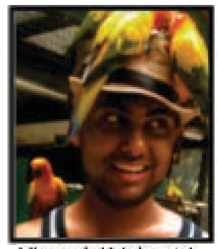
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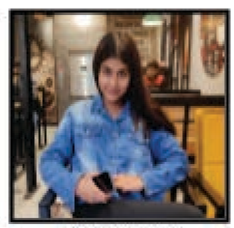
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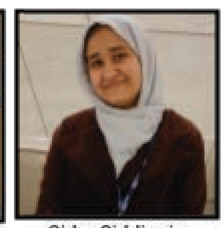

Sidra Siddiquie

Dear Readers

"Truth is the most valuable thing we have. Let us economize it." -Mark Twain

The Fifth Edition of the Eco-Insight is incredibly special in more ways than one. The issue celebrates the 100 glorious years of Jamia Millia Islamia - a truly transformative institution in the life of our nation.
The editors had the fortuity of having a one-on-one conversation with an eminent economist and one of the most vocal critics of neoliberalism- Prof. Jayati Ghosh.
This peculiar edition also happens to be the longest ever publication of Eco-Insight, for which we humbly convey our regards to all the students, research scholars, and alumni for their invaluable and extraordinary contribution. We are incredibly grateful for the incessant support and guidance that Dr. Halima Sadia Rizvi and Dr. Saba Ismail have bestowed upon us.

The issue has witnessed a plethora of happenings - one of the greatest student-led protests, the global pandemic, the shagging economy, the catastrophic natural calamities, the country's worst locust attacks, and whatnot. Yet, this extra-special edition remains as the symbol of not only the immense power wielded by the pen at all times but also of how hedges in a journey lead us to a beautiful destination.
Shining in its full glory, it is apprising us that 'Together, we can confront anything!'
We would be obliged if we can deliver on our objectives and would like to thank you all for being a part of this mesmerizing journey.

Have a good read!

Editors
Eco-Insight

In This Issue

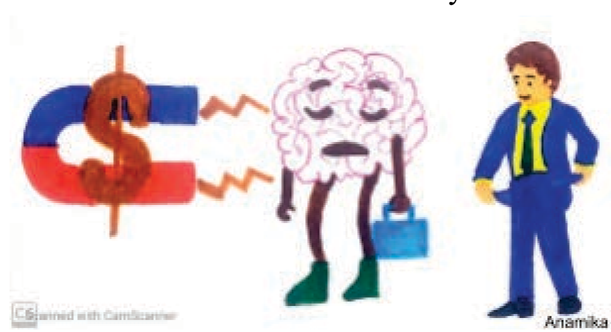
ARTHASHASTRA

Fall in Gross Domestic Expenditure on R&D (GERD): A Form of Wastage of Education

Sheen Zutshi, MA Economics, Second Year

INTRODUCTION

It has been argued over the years that the Benefit of education surpasses the cost of education. In this light, Increased public expenditure on education provides a framework to understand wastage of education ie If the public expenditure on education has increased then it must reflect in the form of; Increased Capital formation, increased expenditure on research and development, increased share in number of cited publications as compared to non-cited publications, improvement of social indicators, decreased dependence on import of other economy's indigenous technology. If this hypothesis holds true, then an increase in Gross domestic expenditure on R&D (GERD) must reflect in the lower emigration rate of high skilled workers. The migration of individuals with high 'embodied human capital' introduces a complication in the human capital-regional development relationship because the increase in human capital due to education can easily leak out of an area even when produced there (brain drain). Hence this paper argues that Brain drain (ie Emigration of High skilled workers) and wastage of education reinforce each other. It limits its analysis of the migration behavior of Highly skilled workers. The highly skilled individuals bring human capital into a region/country and are remarkably mobile. To understand the wastage of education, we must focus on the forms in which it may occur.



I have limited my analysis to Gross domestic expenditure on R&D (GERD) – a country's principal R&D indicator. GERD is the total intramural expenditure on R&D performed in the national territory during a specific reference period. It is the main aggregate statistic used to describe a country's R&D activities and covers all expenditures for R&D performed in the economy. Thus, GERD is the primary indicator for international comparisons of R&D activity. (OECD, pp. 1-41)

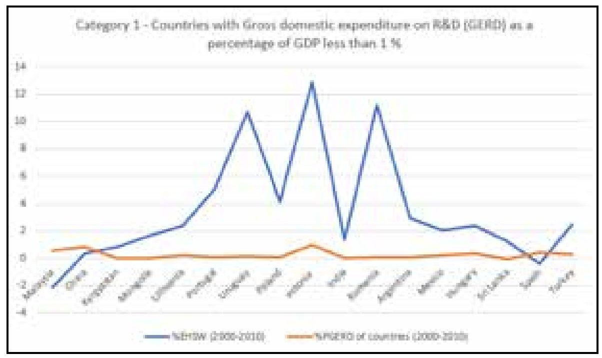
When the GERD as a percentage of GDP decreases in a country, then the ability to retain its own human capital falls, as an incentive to stay in the country of origin is gradually reduced. This may lead to leakage of the ‘’ Best of the brains ’’ which a country produces as it spends resources over the schooling and graduating years. As the best brains leave, countries fail to achieve their educational objectives. It must be noted that primary and secondary levels of schooling education are the starting point but if this phenomena of Brain drain continues to grow, then country loses the absorptive capacity of individuals (Human capital) This, in turn, reduces competitive edge of a country as the return of education isn’t reflected in their growth and creates a vicious circle in the economy. Hence, brain drain causes wastage of education and further slows down economic growth and development.

Methodology adopted

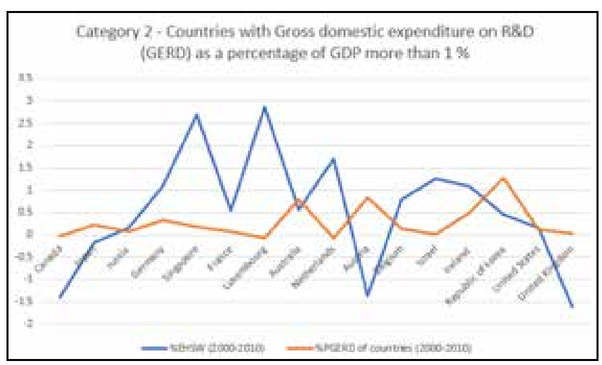
This paper categorizes countries based on their comparable level of Gross domestic expenditure on R&D (GERD) as a percentage of GDP in the year 2000. The first category has 16 countries with GERD less than 1% in 2000 and the other category shows the other 16 countries with GERD more than 1% in 2000.

To obtain the most precise and accurate analysis, the panel dataset between 2000 and 2010 has been taken and percentage point estimate change has been calculated for both the variables. Percentage point change of GERD (2000-2010) and Percentage point change of emigration rate of high skilled workers - men and women (2000-2010) are the only indicators estimated. The percentage point change in GERD (2000-2010) is used as the proxy factor (dependent variable) to measure the wastage of education. The percentage point change in the emigration rate of men and women is used as an independent variable

ANALYSIS OF COUNTRIES



Source : UNESCO institute for statistics (UIS) data base for GERD and
UN Population division , International Migration data base for emigration rate of High skilled workers



Source: UNESCO Institute for Statistics (UIS) database for GERD and
UN Population Division, International Migration database for emigration rate of High skilled workers

Category 1:

It can be observed that Malaysia and Spain have experienced a negative change in the emigration rate of highly skilled workers between 10 years. In 2000, GERD for Malaysia was less than 0.5 % of GDP, whereas in 2010 it was 1.036 % of GDP which is greater than 1 %. At the same time, India has shown an increasing trend in percentage point change in the emigration rate of highly skilled workers but it still remains less than 1% of GDP, therefore the emigration rate of high skilled workers is high.

According to the Economic survey 2017, India's spending on R&D in terms of percentage of GDP has been stagnant at 0.6 to 0.7 percent in the last two decades which is much lower than the US, China, South Korea, and Israel. This clearly explains the reason for the brain drain crisis faced by India. The only exception in the analysis is exhibited by Estonia because here with an increase in GERD, the Emigration of High skilled workers also increased, which implies the role of other factors too. This is possible only when the country leaves the vicious trap which we discussed earlier.

Estonia has left the vicious trap that other countries in this category face i.e. low literacy rate, Less GERD, brain drain, etc. Estonia's results have a historical aspect. It is one of the least populated countries in Europe. In 2000, Estonia's GERD was as low as 0.60 % of GDP, whereas in 2010 it has increased to 1.58 % of GDP. But its emigration rate of highly skilled workers has also increased. Although the impact of emigration is not adverse. Estonia has the Highest adult literacy rate in the world (99.8%) and is also experiencing reverse migration at a higher pace, hence even though emigration rates have increased, it has not led to a deficiency in the human capital of their country of origin.

Category 2

Most of the countries in this category have experienced a negative change in percentage change in the emigration of high skilled workers between 10 years. The interesting trend, however, can be observed in the case of the Republic of Korea. It has exponentially increased by 1.285710% of GDP. This is the highest point percentage increase in GERD since 2000 for any country. The increase in GERD is clearly reflected **in Korea as** it has reduced the emigration rate of highly skilled workers over 10 years as well. Research and development have long been a priority for South Korea as a driver of economic growth. More emphasis has been placed on basic research. South Korea is a world leader in patent applications, in part thanks to industry leaders. It also has one of the world's highest proportions of researchers. It is also clear that France, Germany, Russia, Belgium have experienced a relatively high point percentage change in the emigration of highly skilled workers.

CONCLUSION

It's quite obvious from the analysis that If GERD of category 1 continues to be less than 1 % and doesn't increase over time then emigration rate of high skilled workers will only increase as the highly skilled people will not have incentive to stay, which in turn creates a vicious cycle of brain drain for the emigrant country. There are other reasons for the emigration rate to rise for a particular country and they may differ from one country to another. But the article seeks to only capture the GERD as a factor. The reason is quite obvious. If a country continues to not innovate and spend on these high skilled/educated individuals, their human capital will turn to other countries. No individual wants to stay in a country, where you have to measure overeducation in terms of employment levels. Hence these people will leave the country and turn into a human capital resource for the immigration country which will leave emigrants country deficient and inter and intra regional inequalities will only grow for these countries. They will be trapped in a vicious circle of brain drain as their expenditure on education is wasted.

SUGGESTIONS

There is a policy concern for all those countries which continue to spend GERD less than 1 % as they are losing out their ' best of talents ' as a consequence of the migration of highly skilled workers. If they don't retain their human capital , they will remain behind . There are some ways to stop this trend :

- An obvious answer is - **Increase GERD by at least more than 1 % of GDP in the coming years**. The increase in GERD is important as it will not only attract young and highly educated people of country of origin but also increase immigration of high skilled from other countries which will further translate into development of a country .
- It's quite clear that a rise in public expenditure, if any, isn't reflected in their GERD , which implies there is a need to **increase public expenditure on education.** A starting point can be just primary, secondary and tertiary levels of schooling. The increase in public expenditure must reflect on the quality of education students receive from these schools.
- The development of higher institutions for education is certainly one of the best ways to offset the brain drain. In the short run, when the country is developing it increases its domestic supply and counts on many of its added educated staying in the country. Over the long run, Education and training strengthen the stock of human capital and create opportunities that help retain would-be emigrants.
- In various studies, it has been observed that an increase in the emigration rate of women pursuing higher education and employment in many countries has increased with time, which implies the inequalities within their own country might have increased.
- Smaller the country, higher is the emigration rate which implies these countries are remittances dependent. According to data from KNOMAD (the Global Knowledge Partnership on Migration and Development), Indian migrant workers sent home almost $79bn in 2018. China was the second-largest recipient of remittances, with $67bn. In itself, the $79bn Indians sent home in remittances is a huge sum of money, but it is equal to just 2.7% of India's GDP. For smaller countries, remittances make up a much higher percentage of GDP. They are most dependent on remittances. Kyrgyzstan received $2.5bn in remittances in 2017, but that relatively small figure amounted to more than a third of the nation's GDP. Hence Remittances must be only treated as a macroeconomic

stabilizer, dependency on it will only increase dangers for any country.

● It has been also observed from the UIS portal that GERD by the government is not available for African countries, India and Pakistan after 2015, which reflects a lack of accountability and policy measures by them.

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Was 2019 actually Gloomy for the Economy?

Ashi Shukla, MA Economics, Second Year

With the trend of a declining economy, it becomes difficult to remain optimistic about the future prospects. India is slowly following the path of capitalist countries and the first step towards capitalism is accepting failures rather than looking at them as social shame. Insolvency and bankruptcy code has been a great success in 2019. It has changed how promoters treat their liabilities and banks are able to recover their money and a level playing field is being managed. Ruias losing Essar Steel because of bankruptcy should be considered good news for the country like India, where more than 5000 PSU's are laid defunct because of bankruptcy and are still working. Another example is of Subhash Chandra, the owner of zee entertainment, who borrowed a huge amount of money and invested in mutual funds which were lost, so he sold his company and paid his creditors. He is also a member of the parliament and as the owner of the Zee news, he could have used media but he didn't and showed true entrepreneurship spirit. The culture of bailouts seems to fade, which would be beneficial for the Indian economy. Jet airways owned by Naresh Goyal was a big brand in the transport industry and even with two civil aviation secretaries it wasn't bailed out like other big companies in the past. It shows how the era of bailouts now seems to be over. BPCL, one of the eight 'Maharatna' companies with 53.29 percent of shares owned by the central government is a perennially profit making company with a very marginal probability of failure. Government has decided to fully sell the company and cites the present economic crises as the reason for the sale, which came out as a huge shock. Privatization does not always have a positive impact on an economy. Government always states a phrase while taking such privatization decisions which is, "Government has no business to remain in business".

In the start of the year the statistics on consumption, employment and many other economic parameters were presented and the government repudiated the data and statistics and wanted it to be done again altogether. Finally, the government has made peace with the data by setting up a committee headed by Pronab Sen to look upon the data collection method and presentation. In a country like India where there are n number of economists without an economics degree who complement the government about spending more to revive the economy. But, it is not always the right path to revive the economy because such methods not just force the government to print new money but also leads to high level of inflation, which ends up into a greater bad than declining economy.

GST (Goods and Services tax) had its second year in 2019. The number of businesses registered under GST has increased from 76 lakhs last year to 1.03 crores. Many businesses used to abate the taxes but now under the GST umbrella they are compelled to come under the umbrella otherwise be sued. With the introduction of a system of e-assessment for assessing the income tax payers the chances of corruption due to the presence of the middleman reduces up to a great extent. India is moving towards a market based economy which is not bad but for it to be upheld it needs leaders who would understand the market prospects. Thus, India needs optimistic minds at work at times of economic distress.

What's there in the Shadow?

Akash Srivastava , MA Economics, Second Year

An economy is similar to a coin at rest. It has a visible face and the other face which we do know exists simultaneously but can't be seen. Here I shall be talking about that hidden part of the coin economy – the Shadow Economy.

No country in the world has remained unaffected with this malaise, India is no exception. Shadow economy has no rules but is still running efficiently in almost every part of the country. Its growing presence is because of its shadowy nature- no data/no records. In a country where even the official statistics of core indicators are questionable, why would anybody bother to take a look at the data available on this part, even if there is any? Things get further complicated when one finds several definitions from several perspectives and no widely accepted measure. In India, the informal sector constitutes almost 90% part of the economy which also boosts the growth of the shadow economy since the reliability of the data starts lapsing as soon as it switches from formal highways to informal streets. Few definitions of the shadow economy have been given as follows-

Acharya (1985) in the Indian context refers to the black economy as "the aggregate of incomes which are taxable but are not reported to the tax authorities."

Feige (1994) defines it as "all activities that contribute to the official or observed calculation of the GDP but are not properly registered".

Tanzi (1999), who worked on the U.S. hidden economy in the early '80s, said that the shadow economy crops up because of the occurrence of activities that are difficult to measure and tax, such as household work and criminal and illegal activities.

In general, tendencies to evade taxes, underreporting of income, engaging in illegal activities give rise to the shadow economy. This might be because of the failure of regulatory norms, manipulation of laws, etc. According to estimates, the shadow economy in India didn't grow much from 1997 to 2007 averaging around 22.4 %. But this again is a large number when compared with the level prevailing in China-12.8%. Now the presence of this can impact the economy in several ways:

● by giving impetus to evade taxes to those who are in the tax base.
● by increasing individual income level, a lucrative feature which brings attitudinal changes amongst the honest taxpayers.
● by leading to a shortfall of revenue for the government, hence halting the developmental projects.
● by crushing competition in the market as those evading taxes can sustain with high costs
● by increasing crime rate.

The root cause of the unavailability of the data could be a transaction being done in cash. With this, there's no trace where money has come from. Cash is still a preferred mode of transaction over digital transactions in India.

The government is working towards making India a cashless economy by its flagship 'Digital India' program. As per the bank of international settlements (BIS), digital transactions in India increased by 55% compared with 48% in China and 23% in Indonesia, which is a good sign. The bigger the difference between the total cost of labour in the official economy and the after-tax earnings from work, the greater the incentive for employers and employees to avoid this difference and participate in the shadow economy.

Hence, measures should be taken to avoid this migration to shadow economy which can be in the form of a reduction in tax rate or social security contributions, tightening of the existing laws in place, relaxations over tax if declared willingly, etc. since this part of the economy drags down the growth of the economy. Well established rule of law will be a disincentive for people to indulge in illegal activities. Also, the links of those highly active in this part of the economy with the bureaucracy should be shattered so that those people don't get prior/inside information and chance to guard themselves against preemptive actions about to be taken. Bringing it to the formal part won't be easy but if done will bring a huge amount of revenue to the government which can be invested in developmental works to further flourish the economy.

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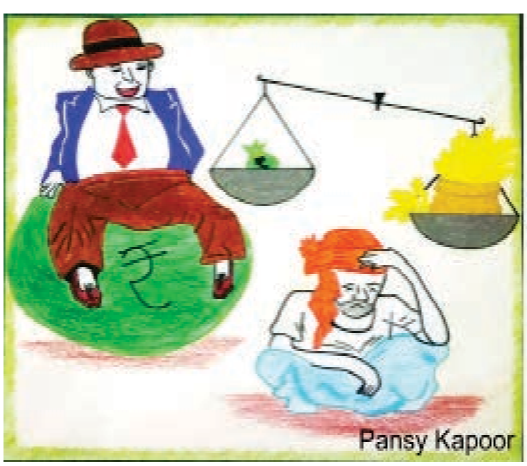
Agronomy

Ensuring Remunerative Prices (MSP) to Farmers: Challenges and Strategies

Azharuddin Ansari, Research Scholar

MSP: A BRIEF HISTORY

The minimum support price was first announced by the government of India in 1966-67 for wheat at the beginning of the Green Revolution. The main objective is to protect the farmers from depleting prices because of bumper crops. 60 percent more of C2 cost of cultivation has been the demand of farmers for a long time. A basic question is whether an increase in MSP in recent times will lead to a shift in terms of trade in favour of agriculture that has benefited the farmers. Farmers in India are heterogeneous on the basis of landholding cultivation i.e. 92 percent of farmers are both small and marginal farmers have only a little or no marketable surplus. Despite this, they are net buyers of some of the agricultural commodities. From 2003-04 to 2013-14, despite an increase in MSP, income from many kinds of cereal and pulses has decreased. Even for paddy out of 18 major growing states, only a few states are able to gain income marginally. Table 3 shows the minimum support prices of wheat and paddy in the last decade.



NEW MSP

In his budget 2018-19 speech the finance minister said that in the ongoing Rabi crop season, MSPs were fixed at 50% of costs for most crops.

"Government has decided to keep MSP for all the unannounced crops of Kharif at least at one and half times of their production cost," said Jaitley. Not only this, he went on to add that this decision will prove to be a 'historic' step towards doubling the income of farmers. However, if we look at a comparison of A2+FL and C2 costs with announced MSPs shows that for major winter crops like Wheat, Mustard, and Chana, net return to farmers were lower than 50% when C2 costs are used, while return was significantly higher than 50%-from 79% to 112%-when A2+FL costs are used. Other than this, last five years MSP margin over different costs for wheat and paddy show that the promise of 50% more over costs of A2+FL will not mean anything shown in table 4.

Table 3 MSP for Wheat and Paddy

YEAR	PADDY (RS/QUINTAL)	WHEAT (RS/QUINTAL)
2008-09	850	1080
2009-10	950	1100
2010-11	1000	1120
2011-12	1080	1285
2012-13	1250	1350
2013-14	1310	1400
2014-15	1360	1450
2015-16	1410	1525
2016-17	1470	1625
2017-18	1550	1735

Source: Commission for Agriculture Costs and Prices Reports, various years

Table 4 MSP Margins over Different Costs for Paddy and Wheat

YEAR	PADDY	%	WHEAT	%
	A2+FL	C2	A2+FL	C2
2013-14	36	6	106	26
2014-15	39	7	95	22
2015-16	38	6	94	31
2016-17	41	7	104	35
2017-18	39	4	112	38

SOURCE: Commission for Agricultural Costs and Price Reports

CHALLENGES

Firstly, according to NSS data, over 40% of farmers depend on the non-institutional credits, i.e. rely on money lenders cum traders and input dealers. Even share of non-institutional credit is low now, terms of interest remain high as shown in table 5. Price increase alone won't help farmers. Access to institutional credit systems should be improved. Sometimes MSP prices increase but farmers sell their crops to local and input dealers at a lower price than MSP due to prior agreements because they have taken a loan from them and most importantly local traders and input dealers have better transport and storage facilities that link them easily with markets.

Table 5 Distribution of Cash with respect to terms of Interest

Terms of interest	% distribution of cash dues in							
	Rural				Urban			
	1981	1991	2002	2012	1981	1991	2002	2012
Interest free	12	9	8	5	19	17	10	8
Simple	69	66	69	52	68	60	69	61
Compound	11	22	21	43	6	17	17	28
Concessional	12	4	2	1	3	5	3	3

SOURCE: NSSO DATA

Secondly, 1.5 times MSP will lead to a situation of reverse migration. And ultimately it will lead to a situation of overcrowding because there will be more people to share the pie of benefits. So apart from MSP hike, there should be the development of other like livestock, non-farm business, and job opportunities.

Case study 1.1

One of the farmers of the Kushinagar district of Uttar Pradesh, Sameem dropped an opportunity of a job in gulf countries because of the hope of a huge increase in MSP with the arrival of New Government at the Centre and more opportunities of work in MNREGA in his village. In 2015-16, he managed to grow rice on maximum cultivable land. To earn more and more money after harvesting, he was able to sell more through government procurement agencies. In the end, his family had to purchase from the open market when the rate was high and from PDS not able to get rice of that same quality. Ultimately reduce the expenditure on non-food items like health and education for his family.

Thirdly, the issue of farmers' suicide has become a cause of greater concern worldwide. However, for India, the scenario of 1997-2005 represented Indian farmers to be taking their lives every 32 minutes. One of the reasons behind these suicides is the process of boosting up crop yields that have continued to deteriorate the farmers' condition. More alarming is the case of small farmers who hardly meet their basic requirements that are facing fierce competition from around the world. With every reduction in the crop prices, often lower than the production cost, there is a subsequent increase in the prices of inputs such as fertilizers, seeds, and pesticides respectively. This shooting up of input prices induces farmers (especially the small farmers) to borrow money for the transaction of seeds, fertilizers and pesticides and other necessary inputs. Between 1991-92 and 2013-14, there was a marginal increase in farmers' income while the price of urea increased by 69% and of potash and DAP (diammonium phosphate) increased by 600% and 300%.

This process gives rise to financial pressure and paves the way to a financial crisis. To make_the situation even worse, drought and floods that are so prevalent in India then intensify the economic problems faced by the farmers in India respectively. However, there are a whole lot of other sets of issues for which Indian farmers have got control. These issues include epidemics, weather, government policy, etc. These problems are out of control of the farmer, but the debts are to be tackled by the farmers independently. A UN report has mentioned some of the perilous issues that compel farmers to take their own lives, such as crop failure, a sudden health issue, also the marriage of a daughter. The report also asserts that the matter of suicide amongst the farmers is getting viral like an epidemic.

Fourthly, this agricultural distress epidemic aggravated the demand for loan waivers from many states, especially in the last year. The response of the state government has been to deal with the issue on an urgent basis while ignoring the structural factors for a long time. In recent times loan waiver fulfilment and others have led to the decline of agriculture investment rate i.e. 10% in real terms in 2004-05 to 2012 and now its 2.3% from 2013-14 to 2016-17. Agricultural credit also had the same story that was increasing at the rate of 21% per annum in nominal terms between 2004-05 and 2014-15 and between 2014-15 and 2016-17 declined to 12.3%. Recent estimates of RBI show that this has fallen to less than 5%.

Fifthly, when MSP is not fixed based on demand-side factors then the need for government intervention to implement MSP would be merely reduced to the situation where the market is not competitive or where private traders turn exploitative and also discourage them to trade. It also leads to a situation where the government is not able to manage a huge quantity of unwanted stock.

SUGGESTIONS / POLICY RECOMMENDATIONS

Pachgoan in Chandrapur district of Maharashtra, there is evidence that 65 households in the village earned Rs 91 lakh during 2013-17 as wages by harvesting bamboo in the community forest. Therefore, the proper arrangement should be done to guide the villagers all over the country to empower them under Forest right act. The FRA can contribute to their livelihood and curb agrarian distress where it is possible.

Secondly, promotion and investment in livestock should be done. It will act as a protective shield during the time of agrarian distress.

Thirdly, from the data of the wage rate in India (labor bureau), real wages of agricultural laborers have declined at 0.3% per annum between 2013 and 2017.MSP can aggregate the agricultural income inequality in this scenario whereas small and marginal farmers solely depend on the wages. So there is an urgent need of providing cheap credit to small and marginal farmers to increase their profitability from crop production.

Fourthly, MSP should be extended to more than paddy and wheat formally and also other than the surplus state.

According to International Food Policy Research Institute (IFPRI), ‘every dollar we spend on agricultural research, there is a return of 10 dollars,’ however, India spends only less than 0.5 percent of its agricultural GDP on research and development (R&D), which doesn’t seem to be enough. Since India has a large amount of population occupied in the agriculture sector; therefore, there is a need for further investment in the area of agricultural research and development. Greater is the promotion of R&D, the higher will be the chances of producing climate-resistant crops. This will be largely helpful in improving the working of the agriculture sector as well as instrumental in addressing its associated problems.

Lastly, there is also a need to spread more awareness and information amongst the farmer communities regarding the financing of agricultural credit, so that there can be a smooth flow of the transaction process by the farmers. This higher is the awareness the lower will be the farmers' distress respectively.

CONCLUSION

The budget 2018-19 has proposed to hike the MSP 1.5 times over the production cost, which is aimed at solving the issue of farmers' suicide. However, the above study explains a number of other diverse problems that are associated with the farmers' distress, which has lately contributed to an increase in the number of farmers' suicide rates.

The study concludes that only hiking MSP over the production cost is not going to suffice. There is a need for closely analysing the intertwined nature of these diverse problems that Indian farmers are going through. For this purpose, the study has provided some policy recommendations and suggestions.

The issue of the MSP hike has become a contestable topic, as there are issues within regarding the type of cost that is to be considered. If at all C2 is taken into consideration then only farmers' plight can be improved, yet again just hiking MSP will not solve the issue of farmers' distress, and for which the policymakers are required to invest in other areas like, farmers education, efficient implementation of existing programs and schemes.

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What the Indian Agriculture Sector does NOT Need Right Now – Farm Loan Waivers

Tiasha Chakraborty, MA Economics, Second Year

The Indian agriculture sector is currently suffering from rising input costs as well as declining profitability and is in dire need of investment in irrigation and research. But one thing it does not need right now are farm loan waivers. The history of loan waivers goes back to 1990 when the VP Singh government first implemented a nation-wide waiver costing around ₹10,000 crores. Since then, irrespective of whichever government comes to power, they have not shied away from this impromptu solution of providing relief to the farmers.

It has been found by several studies that these waivers do not benefit the farmers in the long run and one of the direct consequences of this is on the farmers' future borrowing ability. Waiving off a farmer's loan makes him a risky borrower for the banks and thereby reduces his ability to get a loan from the same bank. Unable to obtain financial assistance from the formal sector, the farmers usually turn to the informal lenders which further adds to their plight. In addition to this, waivers distort the functioning of the credit markets. Repeated loan waivers give the farmers incentive to default with immunity. This increases default so significantly that it takes years for the financial institutions to recover. A working paper by ICRIER stated that "that the loan waiver scheme of VP Singh proved a costly affair for the banks as well as the economy and the banks witnessed a decline in their recovery rates. A study has found concrete evidence that the loan recovery of PACS in Karnataka fell from 74.9 per cent in 1987-88 to 41.1 per cent in 1991-92."

In 2017, Uttar Pradesh, Punjab and Maharashtra announced a debt relief amounting to ₹77,000 crores, equivalent to 0.5% of India's GDP in 2016-17. It was found, however, that out of the promised ₹10,000 crores, less than ₹2,000 crores was actually waived off in Punjab. This was due to the state's poor fiscal situation. Similar to this, in 2018, Uttar Pradesh, Maharashtra, Karnataka, Punjab, Rajasthan, Chhattisgarh and Madhya Pradesh announced farm loan waivers worth ₹1.9 trillion, equivalent to 1.3% of India's GDP. Such huge amounts of waivers lead to financial drainage for both state and central governments, which adversely affects public investment in agriculture and irrigation and adds to the ever increasing fiscal burden of the state governments.

Another important fact that many politicians miss to spell out in their electoral mandate is that these loan waivers are subject to a number of conditions. In some cases the waivers are given only to small and marginal farmers, who own less than 5 acres. Governments usually set a cut-off date when they implement a waiver. For example, if a cut-off date of March is set then farmers who availed crop loans during June or July for the kharif season will not benefit from this waiver. Farm loan waivers only benefit a small proportion of the farming community, those who have taken loans from the institutional sources. The NSSO survey of 2013 stated that out of the 52% indebted farming households, only 60% had availed loans from institutional sources. This means that only 31% would actually benefit from the loan waivers. The landless households, the poorest of the poor, form 56.41% of total rural households or 101 million households as per the Socio Economic and Caste Census, 2011. This is an alarming proportion which receives no benefit at all from the farm loan waivers.

It is widely agreed upon that the farmers need to be free of debt for the agriculture sector to fully flourish. However, freeing them from debt by granting loan waivers has in no way led to the development of the agriculture sector. In fact, it has only worsened the situation due to a rise in moral hazard with the farmers expecting a loan waiver before the elections. The indebted borrowers gain only in the short run and there is very little positive impact on the future productivity of the sector.

Therefore, the agriculture sector which is the backbone of our economy needs an economically rational and efficient solution to address the agrarian distress, one that does not follow a myopic strategy.

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Global Proliferation

Protecting Indian Markets in China's Context

Tanya Bhatia, MA Economics, First Year

In today's scenario there is a great need to protect Indian markets from Chinese products. Be it anything from needles, electronics, toys, diwali crackers, everything is easily available in Chinese version at a comparatively cheaper price. One can easily judge that the prices of Chinese products are 10-70% less than Indian products. Due to this Indian markets are very badly affected. Cheaper prices, easy availability and huge variety of products are the major reasons due to which Chinese products are being flooded in Indian markets. 'Made in China' label has captured not only the Indian market but also the export market.

Chinese products are not only cheaper in terms of quantity but also in terms of quality. Every year one can notice that Indian markets are flooded by Chinese crackers that contain Sulphur, which is more dangerous for health than Nitrate used by the Indian cracker industry. Another industry which is badly affected is toys. According to a report, it was noticed that in the last 4 years, 40 % of the Indian toy companies have shut down and the remaining 20% are on the verge of shutting down. The Chinese toys companies shares 45% of the world market whereas Indian toys companies share only 0.51% world market. This has badly affected Small, Micro and Medium Enterprises (SME's).

The main strategy of the Chinese companies is mass production, easy availability and inferior quality. The Government of China has adopted low capital investment and export friendly policies. China is the second largest exporter in the world after Germany. And it is expected at the WTO that after some time China will cross Germany in terms of exports.

It is widely acceptable that the Chinese products are cheaper, easily available and provide huge margins to dealers but they are of inferior quality and don't provide guarantee despite this everyone still prefers Chinese products over domestically produced goods.

As per the standing committee on commerce, a report has been submitted on 'Impact of Chinese goods on Indian markets' on July 26,2018. According to the report, bilateral trade between India and China increased from USD 38 billion in 2007-08 to USD 89.6 billion in 2017-18. While imports from China increased by USD 50 billion, exports increased by USD 2.5 billion during the same period. It has expanded India's trade deficit. Trade with China constitutes more than 40% of India's total trade deficit . With reference to an article in The Times Of India, the government has agreed to reduce import duty, and ultimately eliminate it, on 80-86% of the goods imported from China, Australia and New Zealand, while the coverage will be 90-92% for countries with which India already has a free-trade agreement, including, Japan, South Korea and the 10 ASEAN members. The economies of India and China have grown rapidly over the past couple of decades, and it is widely accepted that these two emerging giants will transform the global economy in numerous ways over the coming decades. Despite the importance of these countries, their strengths and weaknesses, the sources of their growth, and the missing ingredients to sustain high growth rates—are not widely known.

We know that the Indian economy is an agrarian, slow economy. We are not a developed country but on the path of development. So there is a huge need to protect our domestic markets. The administration needs to improve the policies so that small manufacturers are not affected. Government should promote people to purchase goods produced in India only. The Indian handicrafts industry should be promoted. India has a huge amount of labor in the country, so the government should encourage people to set up industries in remote areas so that more and more goods are produced in domestic markets only. The quality of the domestically produced goods should also be improved so that it can compete with Chinese products in the international markets.

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Tourism And Economy

Phalguni Sachdeva, MA Economics, First Year

"Life is a journey". How often have we heard that phrase or used it ourselves? It has emerged as mankind's most appropriate metaphor. In ancient times travel was motivated by the desire for exploration, discovery and enrichment and times have not changed much. A longing to explore, to discover, and become enriched still drives people to travel today. This desire to travel has transformed Travel and Tourism into one of the fastest-growing economic sectors in the world today driven by the socio-economic progress within our society and the interconnectedness of the world we live in.

Priyanshi Sharma

Tourism is defined by the World Tourism Organisation (UNWTO) as comprising the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business, and other purposes. The UNWTO promotes

Tourism as a sector that has the potential to significantly augment economic growth, inclusive development, and environmental sustainability; and offers leadership and support to the sector in advancing knowledge and tourism policies worldwide. The sector, comprising a wide array of industries ranging from accommodation and transportation to food and beverage, retail and culture and sports and recreation, targets to serve and support domestic, international, business and leisure visitors. The Tourism sector experienced a growth of 3.9% outpacing that of the global economy (3.2%) for the eight consecutive years owing to the continued rise in the number of middle-class households and the consequent growth spurts in global consumer spending. The USA, China, Japan, Germany, and the UK were the top 5 markets in 2018, collectively representing

47% of the global Travel and Tourism GDP. In 2018, there were a record 1.4 billion international tourist arrivals, according to the UNWTO, a rise of 6% over 2017. In 2018 the Travel and Tourism industry directly contributed about 3.2% of the World's GDP and indirectly contributed about 10.4% to it. Tourism industry is one of the biggest global GDP contributors, not only that, it employed about 10% of total world employment in 2018.

The tourism industry is expected to generate approximately $5 trillion in worldwide economic activity. Across regions, Asia-Pacific remained a strong performer, growing by 6.4% but North Africa's performance with 8.6% year on year growth was particularly notable. Given the rapid pace of growth, the UNWTO's prediction that international arrivals will reach 1.8 billion by 2030 may be a conservative estimate. Tourism can be a pathway to prosperity for countries as it allows them to use their comparative advantages in natural and cultural resources and is a key driver of economic growth via export and tax revenues, infrastructure development and job creation. Experts and policymakers in "development circles" have long believed in the potential that the tourism sector showcases in reducing poverty. The contribution of the tourism sector to GDP is the most common but blunt measure to assess tourism's impact on poverty. Outdoor tourism is being increasingly used worldwide as a mechanism of maintenance of biological diversity and natural and cultural heritage.

Despite the positive impacts of tourism, the sector also faces numerous challenges that the countries have had to grapple with. Successful tourism relies on establishing basic infrastructures such as roads, visitor centers, and hotels. The cost of this is usually borne by the government who sources it out of tax revenues. Jobs created by this sector often pay poorly and are seasonal. Tourist destinations can get adversely affected by events such as economic recession, terrorism and natural disasters. It is worth highlighting the fact (which is often ignored) that tourism and its impacts are not evenly distributed over time and space. Even with the availability of adequate macro-economic data, it is still very difficult to gauge the true extent of the socio-economic impact of tourism at regional, national and community levels.

For the Travel and Tourism sector to truly thrive and develop sustainably, governments need to provide a supportive physical, regulatory, fiscal and social environment - one which is also conducive to business development. This means adequate infrastructure, incentives for private sector investment, easy access - including good transport connectivity and visa facilitation - and intelligent taxation - as well as appropriate policies to encourage growth in demand. Although Travel and Tourism's economic importance is now widely recognized by governments around the world, the sector often suffers from a lack of coordination between different ministries/departments and agencies which can result in conflicting policy decisions. No matter what factors such as destination's attractiveness and strength of currency will continue to influence worldwide movement of travellers and their behavior in upcoming years. New developments will also crop up alongside the already existing ones. Moving forward, Travel and Tourism becomes even more critical as an engine of economic development and as a vehicle for sharing cultures and building mutual understanding.

Potential for India

The tourism industry is one of the fastest-growing sectors in India and is making a significant contribution to GDP. India has moved from 52nd to 34th position in the World Economic Forum's Travel and Tourism Competitiveness Rankings. According to WTTC, India's travel and tourism sector rank 7th among 184 countries in terms of its total contribution to the country's GDP (2017) corresponding to 9.6% of India's GDP. India ranks 2nd in terms of total employment opportunities generated, employing 41.6 million people which corresponds to 9.3% of the country's total jobs. In India, the sector's direct contribution to the GDP is expected to grow by 7.1% per annum during 2018-2028 and its contribution to capital investment is projected to grow by 6.7% during the same period. India's foreign exchange earnings (FEEs) from tourism have now increased to US$27.693 billion, making it the 3rd largest foreign exchange earner for the country. International tourist arrivals are expected to reach 30.5 million by 2028.

According to the Ministry of Tourism, among the States and Union Territories, Delhi attracted the highest percentage of foreign tourists visiting India in September 2017 (28.69%), followed by Tamil Nadu (20.1%), Uttar Pradesh (13.9%) and Maharashtra (6.9%). India has the potential to significantly transform its tourism industry and its growth prospects by focusing on enhancing niche segments that offer good opportunities namely:

Medical Tourism: Indian medical tourism is expected to reach US $9 billion. This impending success can be attributed to the World-class hospitals and the skilled medical professionals.

Cruise Tourism: India is looking to take advantage of its 7,500 km coastline to tap the growth potential of this dynamic and one of the fastest growing segments of the global leisure industry. We are expecting to receive 950 cruise liners annually by 2022.

Ecotourism: India being the hotspot of a vast variety of flora and fauna and biodiversity is extremely popular as a tourist destination. The first planned ecotourism destination is located in Kerala, called Thenmala.

Rural Tourism: The potential for the development of rural tourism is very high in India as most of its population resides in rural areas. Rural tourism can expand economic, and social opportunities for local communities as well as act as a medium of interaction between the tourists and locals creating an enriching experience for both the groups.

Pilgrimage Tourism: This segment is one of the biggest contributors to the tourism industry in India. India, being a religious hub for different cultures attracts a large number of tourists.

Recognizing the potential and importance of the tourism industry, the government has initiated policy initiatives that help in aiding the process of the overall development. A proposal to develop 10 prominent sites into iconic tourist destinations has been put up in the Union Budget 2018-19. 100% FDI has been allowed under the automatic route in the hospitality and tourism sector, subject to regulations and laws that are applicable. The government of India has launched schemes like Swadesh Darshan and campaigns like Incredible India and Atithi Devo Bhava have been in place for a long time to harness the tourism industry's potential. A sum of 1,250 crores (US$193.08million) has been allocated for integrated development of tourist circuits under Swadesh Darshan and Pilgrimage Rejuvenation and Spiritual Augmentation Drive (PRASAD) under the budget 2018-19. The National Mission on Pilgrimage Rejuvenation and Spiritual Augmentation were implemented by the Ministry for enhancing the facilities provided and infrastructure at pilgrimage centers of all cities. The Ministry has also launched a Social Media Awareness Campaign in the spirit of 'Atithi Devo Bhava' to develop the importance of good conduct and behavior towards tourists. The Ministry has also launched 'Project Mausam' wherein the government of India has proposed to establish cross-cultural linkages and to revive historic maritime cultural and economic ties with 39 Indian Ocean countries.

The tourism industry offers immense scope for turning over a new leaf by augmenting the process of overall development which is inclusive of all and sustainable over a long period

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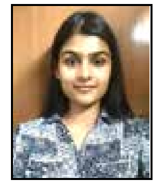
Topical

Government Bites the Bullet: Corporate Tax Rate Cut



Kriti Sharma, MA Economics, Second Year

The Indian economy has been going through a serious slowdown as a result of declining demand. Former RBI Governor Raghuram Rajan has cited a lack of sufficient investment since 2008-09 as a major cause of the current slowdown. Such slowdowns often force the government to become bold in its approach and take urgent steps for the economy's revival. With the Finance Minister announcing a cut in the tax rate from 30% to 22% on all corporations in September 2019, it seemed that the government finally decided to cross the Rubicon.

Shweta Goel

The tax rate for manufacturing companies incorporated after 1 Oct 2019 was lowered to 15% from 25%. Further, the MAT rate was also reduced from 18.5% to 15% for the companies who continue to avail of exemptions. Though costing the government foregone revenue worth Rs1.45 lakh crore, it was welcomed not only by corporates but by economists as well. A rise of over 5% in both Sensex and Nifty was seen after the announcement of the government's decision, which was the biggest one day rise in a decade.

The rate cut was aimed at increasing the profitability of firms, boosting fresh investment in manufacturing, improving the competitiveness of India Inc. (vis-a-vis foreign firms) from the perspective of foreign investors and encouraging startups. Such results would induce more business activity into the economy, thereby bringing optimism and pushing up economic growth. The corporate tax rate cut is, therefore, a step in the right direction.

However, such results require a little more than just tax rate cuts. One of the most important concerns of this step was forgoing Rs1.45 lakh crore worth of government's revenue. Even though GOI was hopeful that the increased economic activity due to the rate cut would ultimately compensate for the revenue foregone, Moody's stated that this step greatly raised the government's fiscal risks. According to Moody's, it was a little too much to expect growth revival followed by revenue compensation, especially, when we know that economic activities take place with a lag.

Another concern was the ambiguity about whether the corporate tax cut was enough to improve the competitiveness of Indian firms.

The step was very well-timed, considering the US-China trade tensions that were forcing many business firms to shift their operations from China to other Asian economies. India's corporate tax rate was now among the lowest in Asia, while still being higher than others like Singapore(17%) and Taiwan(20%). As it turns out, India needs additional measures to take full advantage of this rate cut.

While India's corporate tax rate is now comparable to many of its competitors, the prices of other inputs like land, labor, railway freight rates and electricity also need to be brought down to make India an ideal business destination for thriving global businesses. Furthermore, reforming land and labor laws, ensuring quick paperwork and upgrading the existing infrastructure would ensure a more investor-friendly regime.

Such measures will bring about an improvement, not just in business activity, but in market activity as a whole, and the rate cut will yield the desired results.

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Is the Indian Economy Heading towards a Recession?

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"It is true that no economy can grow forever, but some nations are better positioned than others to continue to expand even in the face of global uncertainty". As we all know, India is currently facing an economic slowdown. The most recent annual report of the RBI for the financial year 2018-19 confirmed that the Indian economy has indeed hit a rough patch. The crisis brewing within the Indian economy has gained unanimous acceptance by low. The GDP growth rate of the economy has slipped to 5% in the first quarter of FY20, the lowest in over six years. This is an indicator of the toughest time ahead. But is it a recession or a slowdown? Union Finance Minister Nirmala Sitharaman has insisted that despite the unabated slowdown Indian economy is not in recession, which is a stage when contraction in GDP occurs for two consecutive quarters. In simple words, recession is a period of negative economic growth- a decline in the size of the economy. It exacerbates problems of inequality and unemployment. The real issue that comes up with a recession is that it can create a negative spiral. The last time it was witnessed was in 1979 – when almost half of them were not yet born. Economists all over the world call the continued slowdown quarter after quarter a growth recession. Note that this is as damaging as recession because as the economy continues to grow people continue to lose employment, and hence income leading to declining consumption spiralling into a reduction in investment which further triggers loss of employment and the economy is trapped in a vicious cycle. Notice that the current growth recession seems to have put India in a similar situation where despite desperate attempts by the Modi government, the slowdown continues.

Consumption:

When we talk about consumption, note that the data points out that the economic slowdown did not begin in 2019 but had been building up over time. Declining growth in consumption has been held as the primary factor for the current economic downturn and it should not come up as a surprise that it's all about the money in the pocket. Looking at the past data, we can conclude that the wages have been falling since January 2018 both in agriculture and non-agriculture work. Consumption had begun its slide from a high of almost 10 percent in the September 2018 quarter and continued to decline till it reached an 18-quarter low of 3 percent in the April-June quarter 2019. The positive point is that private consumption has improved to 5 percent in the September quarter. The trend

over the last five years has been such that the total consumption expenditure by Indian households has accelerated with an average growth rate of 7.8 percent compared to an average of 6.1 percent in 2011-14. But the recent sharp fall in PFCE in the June quarter to 3.1 percent compared to 7.2 percent in the March quarter is one of the primary factors that significantly led to the recent slowdown. We
must understand that any fall in consumption expenditure, as and when it would happen, would escalate the crisis even more and if at all the consumption spending falls, then output and employment levels also fall. This is because the consumption expenditure directly impacts the other two. As a consequence, there will be a stagnation in the economy and the prices will deflate. Lower prices, if unable to recover the costs, would halt the operations of any firm and would initiate the layoff process which in turn will reduce the earnings further. As a result, this vicious cycle keeps on repeating itself until the economy slips into a deeper state of shock.

Priyanshi Sharma

Investment:

Apart from consumption, another major component of India's GDP is investment, induced by both private and government sectors. Since the liberalization of 1991, it has been a key driver of growth. Though gross fixed capital formation (GFCF), the main constituent of investment in the economy, increased, yet its contribution to growth fell by 6.2 percentage points in 2014-19 than in 2011-14. It is the slackening of investment that lowers the level of infrastructure development, causes hesitation in creating small businesses, stops entrepreneurs from investing in research and development, and thus stagnates technological development. Looking at the data we see that the investment has gone from about 12 percent growth to 1 percent in the quarter ending September 2019. It was 4 percent in the April-June period.

Unemployment:

In India Unemployment the current percentage is one of the highest in many decades. Many sectors have started laying off employees thus many jobs have already been lost. Losing a job comes as a big loss for the economy as this changes mentality forever and a person moves towards a reduction of expenditure which might also lead to loan defaults. Thus, job loss reduces the chances of revival of the economy.

Reasons:

A leading dampener is the US-China trade war, which has intensified over time and has contracted world trade which eventually led to the contraction of Indian exports. Also, high rates of GST, liquidity crisis in NBFCs, and a shift in the behavioural pattern of the workforce due to the entry of young people has discouraged savings in the economy. We know that when people save less in the economy, it leaves less money for investments. Recently Index of Eight Core Industries was issued by the Government which was merely 0.2 percent higher as compared to the index of June 2018. The Automobile Sector is in negative growth and July sales of vehicles fell the most in 19 years across all the categories, at 18.7% on-year, as per data released by the Society of Indian Automobile Manufacturers. In the passenger vehicle segment, the fall was almost 31 percent. For instance, at Mahindra entry-level campus hiring will be reduced to about half. "As against around 400 we used to hire, we will take just about 200 this year," said chief people officer Rajeshwar Tripathi. Around 3,000 temporary workers have lost jobs with Maruti Suzuki as admitted by Chairman RC Bhargava and these were temporary workers whose contract was not renewed due to the slowdown. This data is for Tier I companies and if we add numbers of Tier II and III companies then the number would be much larger. After the entry of Reliance Jio, the telecom sector has shaken up the entire Indian Telecom market. With its offering of almost free data, every telecom company is bleeding, where we can see how private Sector players already have huge debts and losses and might be in a situation where they are unable to service their interest or repay their loan in the long term. Not only the private sector but the government sector players like BSNL & MTNL are also suffering. The Real estate sector has been in negative territory since the 2008 debacle of the US Prime loans crisis so when RERA was introduced, it was thought that it would help in re-writing fortunes of the sector. Alas, what we see is that it was not sufficient to revive the sector per se. Banks and Financial Institutions are the ones that suffer the most during a slowdown. If this continues further their NPA will increase, doubling their problems. Their profitability is already under stress and with such increased chances are that they might face a crisis like never before. The Cement Sector has already shown a negative growth of 2% - 6% for the Apr-Jun'19 quarter as compared to Apr-Jun'18. A further slowdown in the Real Estate sector will break this sector that is already under pressure for performance & profitability. Thus, any slowdown in the Real Estate or Automobile sector will lead to problems for the Steel sector, where there is an absence of any kind of buffer to handle the negative impact of the slowdown in both the Real Estate and Automobile sector. The public sector banks are in heavy debt and they have become too risk-averse. They're not in a mood to fund any risky business at the moment. Look at the case of Mudra loan and how it has come as a big dampener. Recent reports say, proving the sceptics right, only 20 percent of total loans disbursed under the Mudra scheme turned into a new business.

Initiatives:

Amidst the news of slowdown, rise in FDI inflows from \$12.7bn (FY19) to \$16.3 bn (Q1 FY20) brought respite for the government but on the other hand, the government revised GST for the automobile sector. It also opened up FDI in the contract manufacturing sector and even announced the recapitalization of the banking sector. Together with these, it should also focus on optimum utilization of funds granted by RBI and direct these funds to boost investment in the economy, that is, both infrastructural and research investment. Moreover, structural shifts over the long run can be achieved through tapping into the health and education sectors that long for quality improvements. Now, this is because only such long-lasting structural changes can improve the growth potential of the Indian economy. Such changes have the potential to deter the possibility of many slowdowns within the short span of a decade. The Modi government announced a Rs 70,000 crore recapitalization of banks. The announcement was also made for another Rs 20,000 for Non-Banking Financial Companies (NBFCs) through liquidity support to Housing Finance Corporations (HFCs). Also, a Rs 1 lakh crore credit guarantee scheme was announced for the purchase of pooled assets of NBFCs and HFCs which in simpler words means that the government (or, the taxpayers' pool) was to bear the risk of these financially imprudent lenders.

Incentives were announced for almost every sector of the economy including waiver of super-rich tax but the economic malaise is deeper. We must note that it has a lot to do with agricultural distress and sinking of real estate ship. Agriculture has been under stress now for about two decades and the past 10 years have been particularly bad for those dependent on agriculture. Marginal farmers have been hit the worst due to all this. The government has tried to turn the economy around by increasing its expenditure which implies risking a breach of its fiscal deficit target. But not too much can be expected from the government spending as it is not an everlasting solution. India's GDP is too large to be funded from the revenue that the government collects. Thus, it has to ride the storm out hoping damage is restricted to the minimum. Although it can be concluded that there is Economic Slowdown in India, whether it will lead to economic recession or not depends on the response of the RBI and the Central Government. If they accept the fact that there is a slowdown and act accordingly, we might be in a position to control the situation. So, the ball is in the court of the Government.

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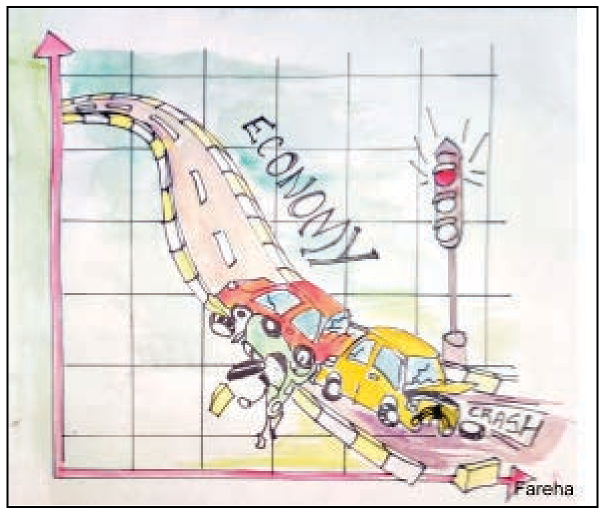
Restructuring the Auto Industry of India

Ahab Rizvi, Research Scholar

The Automobile sector of India is one of the most important sectors as it directly reflects the overall growth of the economy. Over the years the automobile industry of India has attracted many 4 wheeler and 2 wheeler companies which has resulted in the expansion of the total production. Currently India is the 4th largest producer of passenger vehicles in the world with a total production of 4.06 million cars in 2018-19 and at present there are around 30 million cars in India. The majority of India's car manufacturing industry is divided between three places i.e. Chennai, Mumbai and National Capital Region (Noida, Manesar, Gurugram) which accounts for about 35%, 33% and 32% revenue respectively. In the year 2015, India exported $14.5 billion worth of automobiles.

Current Situation

The automobile industry of India contributes to 49% of India's manufacturing GDP and it also employs around 37 million workers directly or indirectly through the other related industries. Presently the automobile sector of India is contributing to 7.2% of the total GDP. In September 2018, the monthly sale of two-wheelers was 21,26,445 units which fell down to 16,56,774 units the same month in 2019 showing a fall of 22.09% whereas Medium and Heavy Commercial Vehicles (M&HCV) registered a sale of 39,210 units in September 2018 which fell down to 14,855 units in the same month in 2019.



According to a report by Society of Indian Automobile Manufacturers (SIAM), the year 2019 for the automobile sector of India has shown no signs of growth rather it has collapsed as around 3.5 lakh people involved in this sector directly or indirectly have lost their jobs and around 1.5 million are at a huge risk of losing their jobs in the near future if the current situation prevails. During the 2nd quarter of FY 19-20 the GDP growth rate of India was recorded at a six year low of 5% whereas in the 3rd quarter it further went down to 4.5%. The economic slowdown in the country has been regarded as the major factor for the current crises in the automobile sector.

Reasons for Slowdown

The unemployment rate was 8.5% in august2019 which led to a fall in demand for luxury items which has ultimately resulted in a sharp decline in the production of the cars and bikes. During the festive season as well the manufacturers could not see a rise in demand for the goods. The introduction to Bharat Stage-VI vehicles and the confusion regarding the extension of the registration date for the Bharat Stage-IV vehicles has led to a postponement in the consumption of these goods in order to avail the benefits of the future reduction in the prices.

The transition to Electric Vehicles (EVs) and expectations of reduction in GST have played a spoilsport in the festive season. Heavy discounts are offered by various companies but there is not much increase in the sales as people are in a hope of further reduction in prices. The Indian automobile industry saw its worst ever half-yearly performance i.e. from April - September 2019 as during this period the sales dived 17.08% and also during the same period the passenger vehicle segment showed an overall decline of 23.56%. The two-wheeler segment also registered a huge dip of 22.09% and in this segment particularly motorcycles registered a decline of 23.29% witnessing a worst ever fall in the past two decades.

The goal of reaching the 5 million domestic sales mark by 2020 is highly impossible as it is set to shrink to around 3 million units in fiscal year 2019-20 as compared to 3.4 million in the FY 2018-19. The target of 5 million sales might not be achieved before FY 2024-25 with the industry growing at a Compounded Annual Growth Rate (CAGR) of around 10% per annum which has very rare chances as currently the manufacturing sector is growing at a rate of only 0.6%. The introduction of Bharat Stage-VI norms has also become a hurdle in achieving this target because it will further increase the prices of petrol cars by 15,000-20,000 rs whereas 50,000-70,000 rs for the diesel variants. The companies will try to sell out their inventories of BS-IV vehicles till March 2020 which will cut down the production of BS-VI vehicles upto 20%.

The liquidity crunch in the market and bankruptcy of the dealers has been the major reason for the loss of jobs of the people involved with this industry. With the decline in the sales of the cars and bikes the other related industries like tyres, parts and components, steel, retailing and others have also suffered. Higher GST, lack of investment and demand, high unemployment has hit hard, the interest of the industry collectively. The continuous increase in the toll charges, increase in the registration charges of the vehicles by the state government and the continuous increase in the oil prices over time are collectively making the ownership difficult for the people as correctly highlighted by “Maruti chairman Mr. R.C. Bhargava”. In July 2019, the Maruti Suzuki India Limited (MSIL) reduced its production by 25% in order to sell out the inventory.

With the implementation of Demonetization there has been a liquidity crunch in the agricultural commodity market which has resulted in the fall of the prices of most of the agricultural commodities. Even the farmers are not able to procure the Minimum Support Price (MSP) for their produce and this has adversely affected the rural economy with a sharp decline in the demand for two-wheelers and tractors.

Adding more, the insurance premiums have gone up, the expansion of public transport specially the buses and metro of Delhi-NCR and that too of a very good quality and at cheaper rates, the rising popularity of the Ola and Uber, the ever increasing traffic on the roads and lastly the implementation the Motor Vehicle Act 2019 which charges exorbitant fines on breaking a traffic rule marginally, have collectively reduced the desire of being an owner of a vehicle.

The central government has reduced the GST on the EVs to 5% while it is untouched for the other types which will further reduce the demand for petrol and diesel vehicles which will add to the misery of their manufacturers. The reduction in the corporate tax as announced by the Finance Minister Mrs. Nirmala Sitharaman has resulted in no / very little change in the car sales because there is a fear in the mind of the investors that this corporate tax could increase anytime therefore, they are saving it to meet out any future unforeseen circumstances.

Measures

The crisis in the automobile sector has a direct and positive relation with the economic slowdown of the country. This problem cannot be solved unless and until the economic condition of the country revives. No doubt, the transformation of petrol and diesel vehicles to electric vehicles is highly required for the environment but this needs to be done in a proper way so that it does not directly impact the manufacturers of the diesel and petrol vehicles. All the segments of the auto sector including 2, 3 & 4 wheelers are under the highest GST slab i.e. 28% rather it should be placed either to 12% or 18% slab. This might be responsible for reduction in the tax collection of the government but will definitely help in increasing the demand for the vehicles.

The government needs to come up and make huge investments so that the situation of liquidity crunch in the market which was caused with the implementation of GST and Demonetization can be vanished. Easy availability of the bank loans and lowering of interest rates is required for encouraging the private investments. There should be reduction in the registration charges of the vehicles and also the government should provide subsidised insurance premiums.

Lastly, there is an urgent need to revive the rural economy. People are unemployed, farmers are unable to get the MSP for their produce which has resulted in lowering the demand of the consumer goods and to some extent the demand for two-wheelers and tractors as well. This can be corrected by providing employment to the rural people mainly through the rural construction (roads) and also by providing farmers with adequate facilities and higher MSP in order to increase productivity.

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Finance

Non-Banking Finance in India- Regulatory Challenges and Concerns

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MA Economics, Second Year

  

Non-banking finance has a vital role in sustaining consumption demand as well as capital formation in the small and medium industrial segment. Even as commercial banks try to expand their ambit of operations to the unbanked, financial services- particularly credit, remain beyond the reach of a large section of the population owing to prohibitive documentation and collateral requirements. By deploying innovative lending models and leveraging technology, non-banking finance has effectively served to fill this gap and brought affordable credit to small borrowers hitherto excluded from the financial system. This has strengthened the economy by catalysing demand in sectors like consumer durables and housing, besides contributing to investment through capital formation by small industries. In addition to promoting financial inclusion by delivering financial services to the last mile, non-banking finance has emboldened the entrepreneurial spirit of those at the bottom of the economic pyramid, a category that is significant in driving demand in the economy.

An effort to regulate India's non-banking space was undertaken by the Reserve Bank for the first time in 1964. The inclusion of Chapter III-B in the RBI Act, 1934 empowered the central bank to regulate deposit-taking activities of non-banking institutions. This was followed by the establishment of the Department of Non-Banking Companies in 1966. The Act defines an NBFC as *a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business* and the like. Besides, more than 50% of the company's assets should be financial assets while income from financial assets should constitute more than 50% of its gross income.

Srishti Upadhyay

As of March 2019, the sector had 9,659 players which account for 20% of the total credit. As NBFCs have grown in reach and complexity, the need for greater regulation has been felt. The regulatory framework has evolved in line with these developments- from the introduction of entry point norms, to more comprehensive regulation of deposit-taking entities, mandatory registration of all NBFCs, increase in net owned funds requirement from Rs. 25 lakhs to Rs. 200 lakhs, to the recent release of a draft liquidity management framework. Although sound regulation has enabled the sector to contain risks while growing at a considerable pace, the history of non-banking finance is littered with failures and defaults, the most significant of which in the recent past is that of Infrastructure Leasing and Financial Services (IL&FS).

Even as the situation spiralled out of hand into a full-blown crisis, the RBI promptly initiated remedial measures to reign it in. However the problem was largely unexpected. RBI’s Financial Stability Report, which reports the developments in the financial sector with emphasis on sectoral asset quality and risks, couldn’t anticipate a crisis of this magnitude. Repayment delays uncovered the non-compliance of risk management rules, non-disclosure of bad loans, unrated borrowers and NPAs mounting to 70% of total assets (as per RBI Report dated 22nd March ‘19).

A segment of the NBFC space has been resilient and in fact grown stronger during the crisis. NBFCs offering gold loans, such as Muthoot Finance, Manappuram Finance etc. have seen an increase in disbursement as cash-strapped borrowers resorted to mortgaging gold to meet their requirements. Gold is a highly liquid collateral, which is valued by Indians for cultural reasons as well, prompting high repayment rates as well as shielding the NBFCs in this sector from the liquidity crunch. What also differentiates them from the rest of the sector is a favourable asset-liability position, as the loan tenure cycle is of 4-5 months.

1. Asset-liability mismatch

Asset liability mismatch plaguing the non-banking sector is one of the major issue that deserves utmost attention. Other than issuing debentures and borrowing from banks, NBFCs issue commercial papers (CPs) as a dominant source of funding and roll them over every 3-4 months. There has been a consistent increase in dependence on CPs from 5.4% of all funding sources in 2011-12 to 7.3% in 2017-17 (RBI, Oct 2017). According to Nomura India, CPs account for 25-30% of incremental funding in the last two years. Even though CPs are a convenient and cheaper source of funds and are preferred with a view to increase net interest margin, over-dependence on them is not a sustainable strategy. Lending for the long term while borrowing short-term often lands NBFCs into default during troubled times. This is a result of wavering investor confidence which makes it difficult to roll over their borrowings. The cash crunch chokes off operational funds for ongoing projects, which may eventually lead to a series of defaults which compound into a liquidity crisis in the market.

It is important to enable asset financing using long-term debt instruments through a robust bond market. In order to shift the liability from banks to the market, banks can float long term bonds as a co-issuer with NBFCs. Additionally, incentivizing more NBFCs to get themselves listed on the stock exchange and to raise money through the equity route will also help them avoid a sudden asset-liability mismatch in case of a liquidity shock in the system. Listing on over-the-counter markets is another convenient alternative to listing on stock exchange which may serve as a stepping stone to the latter.

2. Role of statutory auditors

The role of statutory auditors in corroborating erroneous financial statements which misreported the NPA and cash flow status of IL&FS brought them under fire. Deloitte Haskin and Sells, BSR associates and EY India Ltd are accused of concealing fraudulent activities within IL&FS subsidiaries. Auditors have previously invited trouble over their questionable role in the cases of Altico and Deewan Housing Finance Ltd. (DHFL). This renders the neutrality of so-called 'independent' auditors questionable.

Financial statements are a source of information that guides the investment decisions of institutional investors as well as the general public. To the extent that fraudulent financials conceal the true financial status and possible irregularities in the activities of an entity, the role of statutory auditors is crucial, particularly in detecting breach of regulations regarding asset-liability status.

One reason for bias to creep into audit reports is that auditors are selected and paid directly by the company. Independent assignment of statutory auditors to NBFCs on a random basis could be a possible solution. Auditors must be periodically rotated to further eliminate the chances of unscrupulous collusion with client companies. This can be further reinforced by establishing a centralized pool of audit fees maintained by a suitable regulatory body or the RBI itself, which mediates the transfer of the fee amount from companies to the auditor.

3. Role of credit ratings

Another important aspect that has come to light in several instances is the reliability, or the lack thereof, of credit-ratings. As defaults are uncovered, credit ratings plummet from investment grade to junk in a flash. ICRA downgraded ILFS's non-convertible debentures and long-term loans from AAA in March'18 to BB in September, 18. Similarly, Cox and Kings Financial Services Ltd. had a AA- long term rating which was changed to C after repayment default of 30Cr. Ratings have a huge influence on investors' choice of investment. In fact, certain unsecured instruments such as CPs are issued solely on the back of high credit ratings. However, they have proven to be a poor guide for risk assessment and gauging the probability of default.

This points to either an incentive problem wherein rating agencies have little motivation to present a true picture of the reliability of the financial instruments in question, or a weak methodology that fails to account for important variables. The latter must be dealt with by the rating agencies themselves, by making their assessment more robust and exhaustively accounting for all variables affecting probability of default.

SEBI has taken steps to restore faith in rating agencies by requiring that all factors to which ratings are sensitive be disclosed, and standardized liquidity indicators be used. While this effort is commendable, more can be done. At the least, a caveat must accompany credit ratings specifying their backward-looking nature, and investors must be directed to take a holistic view of a company's financials, quality of board of directors and new developments while making investment decisions.

The fact that the issuers choose and pay their rating agency leads to a principal-agent problem, wherein rating agencies, as agents of the regulator may go against its interests. An arrangement in which SEBI independently assigns rating agencies to issuers, from among the list of eligible agencies can be put in place. Further, penalizing rating agencies for grossly inaccurate risk assessment of instruments can also correct this problem.

4. Thrust on supervision

Regulatory concerns arise in large part from over-reliance on regulation to solve problems, with little attention to ensuring compliance. There have been a few instances over the last couple of years that highlight a perceptible inadequacy in the central bank's supervisory ability. Besides IL&FS- the most glaring example in this context, other real estate entities have come under the radar for non-compliance of rules, after Altico defaulted on its credit payments. Indiabulls Housing Finance Limited, Industrial Finance Corporation of India Limited and PNB Housing Finance Limited, are facing criminal cases by Haryana Real Estate Regulatory Authority (HRERA) for embezzlement of crores of rupees deposited by the allottees. One kind of unscrupulous practice often found is multiple loans for the same project in the name of land cost, construction etc. which are used for the setting up of another project, keeping the previous ones unattended. This calls for a watch on the destination of the loans granted by lenders and tracking of the loan utilization.

Ensuring compliance calls for employing greater resources to build a strong supervisory structure, besides levying suitable penalties on offenders. To this end, RBI's announcement in May this year to recruit a supervisory cadre is a welcome move. Currently, the Department of Non Banking Supervision is responsible for "prudential regulation of various categories of NBFC, issue of directions on acceptance of deposits by NBFCs and surveillance of the sector through off-site and on-site supervision." Equipping the department with greater manpower is essential to enable the RBI to strengthen its regulatory oversight over a vast sector. This will ensure that non-compliance and fraudulent activities are timely detected before they snowball into a failure, besides enabling RBI to eliminate violators by cancelling licenses if deemed necessary. Further, assignment of clear chains of accountability within the department are crucial to minimize supervision lapses.

One of the focus areas of the department is "to ensure that only serious players occupy the NBFC space". Adopting stricter capital adequacy norms is a good way to achieve this. It will not only streamline the sector but also strengthen the financial position of the existing players. Financial institutions must be allowed to sink and swim as per their sustainability.

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Pay For Them, They Pay For You

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People in other regions (cities, states, or even countries) bear the cost of someone's well-being, or at least their health insurance premiums. Say, a person jogging in the US, would bear a part of the cost of insurance premiums of workers in the rubber processing industry. It is true the other way as well, that owners of polluting industries would bear the premium for everyone who breathes that polluted air, who eats the fish from that polluted river, and who drinks the water from that contaminated groundwater.

It is important to understand that wages given to workers, and other citizens do not completely account for pollution. The wages given are primarily related to their manual labour, their intellect, their daily consumption, and their normal health issues, like cold and cough. But serious health concerns like cancer and tumours may not be completely due to the person's negligence. What is his fault if his income can only afford contaminated vegetables that are grown from some polluted river's water? The inflation indices do not seem to incur the prices of 'niche', organic vegetables.

Probably one feeble instance where it is seen that externality costs are being taken into account is that of air pollution. BS VI norms for car engines display cost to producers. Refineries would pass some cost to consumers for BS VI compliant fuels. Even the Chinese government is forcibly incentivising its citizens to switch to EVs by charging expensive fees for petrol-car driving licences and free and quickly delivered license plates for EVs. Governments (to some extent) are installing massive air purifiers as well as distributing free pollution masks to its citizens. One might also argue that the city parks or other facilities of the sort are also state sponsored and help in cleaning the air. But then there should also be a cost-benefit analysis of how much a state-owned industry is polluting (per unit of area), and how much air would those trees be able to purify (per unit area).

Talking of government owned parks, one should not forget that it has been built from taxpayers' money. Which brings the next point of giving tax rebates to citizens who live in areas of high pollution, and increase the tax rates of those owning factories, multiple cars, their commuting preferences, and so on.

The principles of EU environmental law also state that many times, the user of a polluting product can also be held liable. As the consumer does pay for the pollution damage when the producer includes pollution control costs in the prices. But again, this raises some questions. Are there enough competitive substitutes in the market which pollute less? And what kind of pollution is it that the product causes? Because, if it is primarily related to human health, then the rise in prices is contradictory, by reducing his purchasing power even more for a better health care service.

In India, the environment protection rules of 1986 are implemented for the case of water pollution. The polluter pays a cess for per unit amount of pollutants released into water bodies, which is used by state pollution boards. Despite this, there has been an increasing rate of water contamination. This reflects the complex problem of calculating costs of pollution and costs of bringing the environment to an acceptable state. Also, it is still a matter of time when we would see results of the government campaigns about cleaning rivers like Ganga, Yamuna, etc.

We all know that all of the above points are very complicated to account for, but that should not be an excuse for policy makers, both public and private, to not work towards it. If we can encourage ourselves towards complicated methods where money can be made, why not incentivise ourselves towards research and development of better health-economics?

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Regime Politique

An Economic Legislation in the Right Direction

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Insolvency as a term is used for individuals or organizations which fail to meet their financial obligations to bankers as loans become outstanding. It is basically an episode of financial stress in which someone is unable to pay their debt to the creditor. In 2016, Indian Parliament passed **Insolvency and Bankruptcy Code 2016** aimed at strengthening the framework for insolvency resolution in India. It caters to the need of proper mechanism for the insolvency resolution in a time bound manner. Earlier, the insolvency regime in the country was fragmented, filled with delays and poor recoveries for creditors. The act was enacted following innumerable proposals suggesting necessary improvements in the existing arrangement.

The code resolves claims involving insolvent companies, intended to fight bad loans problems and prevents corporations from defaulting. It introduces a creditor-in-control system with attention given to financial creditors. Institutions such as the Insolvency and Bankruptcy Board of India (IBBI), National Company Law Tribunal (NCLT) and Debt Recovery Tribunals (DRT) were established to reduce the scope of judicial intervention. It consolidated exiting acts including Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and the Sick Industrial Companies (Special Provisions) Act, 1985.

The purpose behind consolidating different insolvency laws is to lessen the contingency that emerges from the application of various laws administered by different authorities which cause constant delay in the process of resolution, and result in the reduction in value of credit. In 2015, after the Asset Quality Review was done by Reserve Bank of India it was found that Non Performing Assets (NPAs) in the financial sector were very high arising out of defaults in loan payments. The Insolvency and Bankruptcy Code 2016 is applicable on companies, limited liability entities, firms and individuals. All firms other than the financial service provider fall under IBC's scope.

A well-functioning market economy requires well defined institutions which serve as bedrock for future growth. These institutions outline freedom, take care of rights, enforce obligations and impose penalty on deviant behavior. A well-functioning market economy also requires predictability of actions and certainty of outcomes so as to induce entities to perform at their best and enjoy the fruits of their efforts. An economy flourishes on competition and innovation. However, higher the prevalence of competition and innovation, higher will be the chances of failure and companies running out of business. These failures consequently result in default and insolvency. A system which provides a smooth process for resolution and safeguards the interests of both creditors and borrowers was required and IBC rightly envisages this system.

According to a report by Business Today ***"Before IBC, the recovery (of debt) rate was around 26% and time taken for closure of the case was over four years. IBC has changed this. Now the average recovery rate is 43% in case of financial creditors and 49% in case of operational creditors. The average time taken under is 1.6 years compared to 4.3 years earlier. In the earlier resolution regime, the cost of resolution was 9%, which has come down to 1% post IBC"***

Free entry, free competition and free exit are three stages that make a market economy efficient. The reforms in the 1990s focused on freedom of entry by dismantling the Licence Raj and Quota Requirements. Further, the reforms in the 2000s focused on contriving a free and fair marketplace. The Monopoly and Restrictive Trade Practice Act (MRTP) 1969 was replaced by the progressive Competition Act of 2002. Wherein a firm has freedom to do business in a competitive market; it may however fail to deliver its planned goals. A failure usually results in default in payments and obligations. The instances of failure and consequent insolvency need to be prevented and where prevention is not achievable, it needs to be resolved.

The resolution should be done at the earliest possible, preferably at the very first default in order to prevent it from multiplying into irresolvable conditions. It should be done in a time bound manner so as to avoid any undue reduction in the organisational capital of the firm which makes resolution difficult. Where resolution is neither achievable nor desirable the firm needs to exit, releasing resources for new dispensation.

Figure 1: Time to resolve insolvency (years)

Source: "Time to resolve insolvency", World Bank, 2015.

The Insolvency and Bankruptcy Code, 2016 addresses all the attempts of preventing insolvency, provides a time bound and market driven mechanism for insolvency resolution, and advances ease of exit. It ensures that resources which are unutilised and underutilized can be put to more efficient uses through the closure of the firm. It enables the optimum utilisation of resources. Thus, the code addresses a basic economic problem; optimum utilization of limited resources.

The code also enhances ***ease of doing business*** by efficiently reducing the number of cases taken to resolve insolvency**,** supports entrepreneurship and promotes the corporate debt market. Therefore, the code eases many economic and legal challenges and builds the third pillar of economic freedom i.e. freedom to exit.

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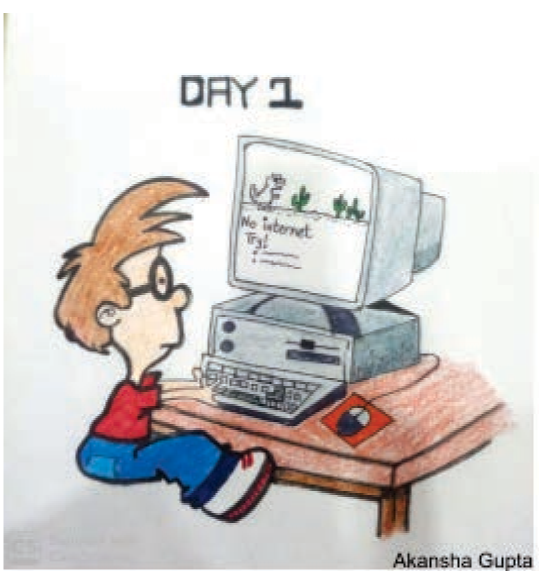
Internet Shutdown: Economic Loss and Violation of Freedom of Expression

Sidra Siddiquie, MA Economics, Second Year

The internet is a tremendous undisputed force for economic growth and social change. Disruption in internet services brings the entire economy to a standstill. India leads the world with 67% of total internet shutdown which accounted for a loss of more than $1.3 billion in 2019. Shutdown in India is mostly ordered under section 144 of the Criminal Procedure Code, 1973 or section 5 of the Indian Telegraph Act, 1885. Increasing instances of internet abuse and its anticipated role in sparkling and fueling law and order situation results in internet shutdown and its frequency depends on the overall socio-political climate of the region.

Reduced internet connectivity and shutdowns have made internet dependent business models extremely unreliable. E-commerce businesses which operate out of small towns are completely dependent on a functioning Internet and they are the most affected by Internet shutdown. Rajan Matthews, director general at telecom industry body Cellular Operators Association of India, COAI termed internet shutdown a blunt instrument which should not be used frequently, reported that each telecom company is currently making a loss of at least INR 1.5 Cr daily per state.



Tourism related business gets affected as many tourists are forced to cancel or modify bookings due to unstable situations. In the aftermath of demonetization even small businesses started accepting online payments, thus disruption in net banking facilities affects payment of bills and usage of credit and debit cards. Software companies became paralyzed with cyber lockdown. Educational institutions are also dependent on the internet to provide study materials, registration for exams and conducting online entrances for various competitive exams. Doctors often rely on the Internet to consult colleagues on certain issues, and patients also share records with doctors online, particularly while seeking a second opinion. Therefore, ubiquity of the Internet has made it indispensable for personal communication and an efficacy enhancing tool for businesses.

Firstly need to identify the source and thereafter restrict or eliminate the circulation of inflammatory messages. For this, require proper maintenance of a public record of Internet shutdowns that is aimed at improving accountability of the state apparatus that is ordering it. Infrastructure availability must be aligned to the needs of a region, such that shutdowns do not handicap businesses. Investments in fixed line connectivity could be considered in case of mobile network shutdown. Promoting educational campaigns on curbing hate speech, and inflammatory messages would reduce spread of fake information. Citizen driven fact checking initiatives have had some success in controlling the proliferation of fake news. If needed restrict usage of certain websites and services because almost all of the fake news and propaganda is spread on a selected few platforms only but freedom to express thoughts should not be violated. Another alternative is to invest in better cyber forensics capabilities and Empowering Police through Police Reforms so that they can handle situations without shutting down the internet. A good example is France where the internet was not shut down even when a terrorist attack took place and they also used the internet to help people. There should be an increased focus on improving cyber forensics capacity of law enforcement agencies to discourage abuse of the Internet, instead use internet technology in an efficient way for economic growth.

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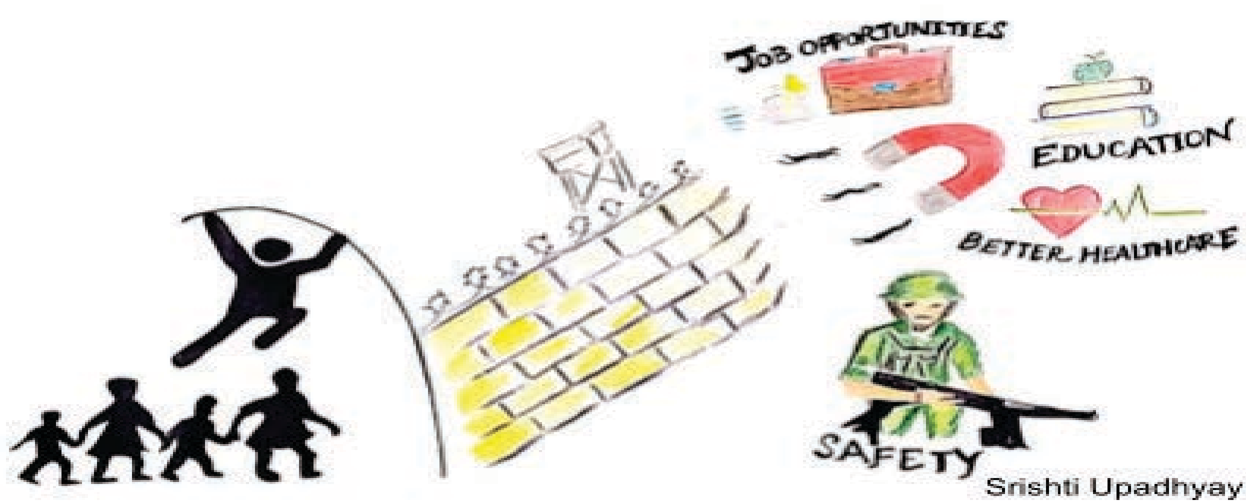
The Political Economy Of Migrant Remittances

Richa Singh, BA (Hons) Economics, First Year

The number of migrants has increased significantly in the past several years due to a host of factors, namely job opportunities, shortage of labour due to declining birth rates, internal conflict and war, natural disasters, climate change, and improved access to information. Remittance flows to low-income and middle-income countries were estimated to be approximately $500 billion in 2018. Remittances also constitute the flow of capital and goods from migrant workers to their country of origin and have become a major source of capital and development finance to the developing regions in the world.

At the micro level, remittances have contributed to increased investments in healthcare and education and also increased consumption of durables. Remittances have also contributed significantly to a reduction in poverty and enhanced the level of welfare in developing countries. Moreover, remittances have provided employment opportunities through entrepreneurship and the establishment of small businesses.

However, some potential negative effects at the micro level include breeding dependency and distorting labour supply decisions of the household. At the macro level, remittances have provided a boost to the development of the financial system, the accumulation of



foreign exchange reserves and its positive impact on the balance of payments and economic growth in general in developing countries. However, there have also been concerns about some of the potentially undesirable consequences of remittances through the reallocation of resources towards less productive activities and the impact on domestic prices and the real exchange rate, characteristic of the Dutch disease.

Still, remittances have proven to be critical to the growth and development of many developing countries, and there remains significant interest in understanding the drivers and patterns of flows as well as the different dimensions of the development impact of remittances.

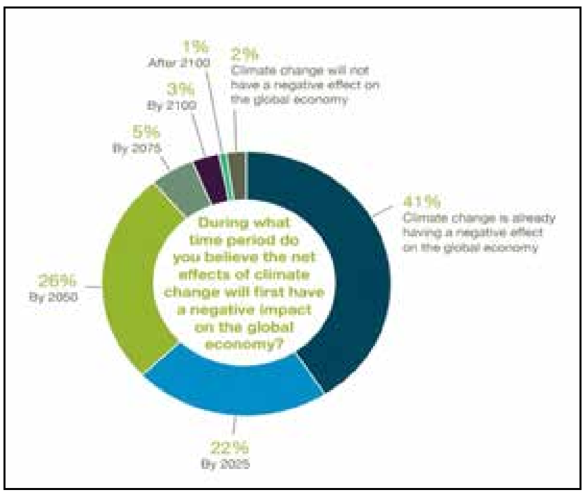
Greening The Blues

Climate Change and the Economy

Zoya Iliyas, BA (Hons) Economics, First Year

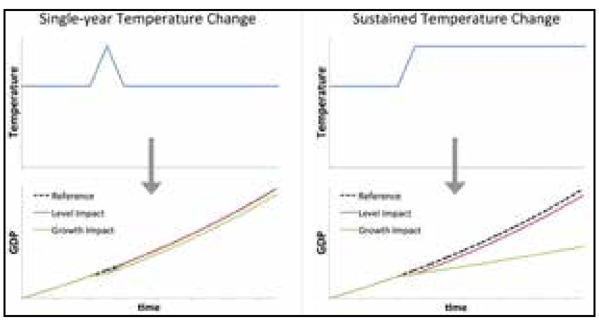
"I don't want your hope. I don't want you to be hopeful. I want you to panic and act as if the house is on fire"

-Greta Thunberg



What exactly is climate change? It is the disruption in the long-term seasonal weather patterns. The average temperature has risen by one-degree Celsius. Temperatures aren't rising uniformly. The temperatures in the Arctic and Antarctic are rising faster than those in temperate and tropical areas. Climate change should be called climate destabilization. The Fourth National Climate Assessment warned that if we do not curb greenhouse gas emissions and start to adapt, climate change could seriously disrupt the economy. Warmer temperatures, sea-level rise and extreme weather will lead to repercussions like damage of property and critical infrastructure, negative impact on human health and productivity, and deterioration of sectors such as agriculture, forestry, fisheries, and tourism. According to Morgan Stanley, climate disasters have cost North America $415 billion in the last three years, much of that due to wildfires and hurricanes.

Let's have a look at how various sectors will be impacted by this global crisis. The sector most vulnerable to climate risk is agriculture. Climate change leads to flooding which affects the food supply. Not only this, the lost yield could cause the prices of animal feed and ethanol to rise. Due to the increasing temperature, the productivity of the crops like wheat, soya bean, rice, and cotton is already getting affected due to lesser availability of water and lack of stability in the temperature required for the growth. Prices will likely increase and be passed along to consumers. The next thing on the list is the infrastructural damage it will cause. Sea level rise potentially causes a loss of value of assets in the trillions of dollars. It may cause damage to railways, airports, houses, and docks. Extreme weather will necessitate more maintenance and repair for runways and roads. Our communication gets affected as fiber optic cables and signal towers may not respond properly.



Not only these two sectors, a significant amount of threat is there for financial markets around the world. Climate change and its impact across the globe will threaten the bottom line of businesses. Extreme weather conditions affect factories, supply chain operations and disrupt transport facilities. Drought makes water expensive which will affect the cost of raw materials. This might lead to a financial loss for a large number of companies. For example, the Alphabet will likely have to deal with rising cooling costs for its data centers. Hitachi Ltd.'s suppliers in Southeast Asia were disrupted by the increased rainfall and flooding.

Individuals need to consider the implications of climate change when making decisions regarding where, when and how to spend and invest their money. We'll have to purchase flood and fire insurance and diversify our investments as a safety measure. The government must take into consideration the risks various communities might face and how their livelihood will be affected by this climate change into their policy making process before any disaster strikes on a large scale. We'll have to be more responsible citizens, as the future lies in our hands. It is our responsibility to take small steps each day to leave behind sufficient resources and a cleaner planet for our future generations. One must keep in mind that there is no replacement we have for this planet. It is a gift we have and taking small steps each day, starting from our homes to our workplaces, together we can aspire to bring a change and achieve the targets we have under the sustainable development goals.

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Green Policies and Job Creation

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As we all know, this year marks the 50th anniversary of Earth Day. With global warming, pollution and water crisis, and biodiversity loss at its pinnacle, I believe this is not only the beginning of a critical decade in the fight for the well-being of our planet but also time for us to sit back, introspect and have a look at our accomplishments and learn from what we couldn't achieve in the past years, only to prepare ourselves for the challenges and the problems that are yet to be solved for us and our future generations.

"Future generations will judge us harshly if we fail to uphold our moral and historical responsibilities." -Ban Ki-Moon

If we just have a look at the data for air pollution, it has been noted that air pollution's economic cost is about $2.9 trillion, equating to 3.3 percent of the world's GDP. Not only this, high rates of chronic respiratory diseases lead to a reduction in the ability to work and lower participation rates in the labour force. Children susceptible to asthma attacks also miss school days which impacts their learning. Further, the healthcare requirements lead to their guardians taking extra time off work. To tackle these problems, the evidence is gradually emerging that well implemented and ambitious green policies can not only improve the quality of the environment but can also help us in maintaining economic growth and reducing unemployment. Issues arise with environmental policies that operate by either restricting current output or by changing the cost structure of firms and this is detrimental to the rate of economic growth as it may distort firms' capital investment and hiring decisions. While constructing any model to overcome this problem in the economy, one must focus on internalizing all the externalities present in their model economy. Also, understanding the nature of the interaction between the environmental policies and the business cycle is important because these cyclical fluctuations can have important real effects on the demand for environmental quality, the costs of reducing emissions, and the development of productive resources.

Shweta Goel

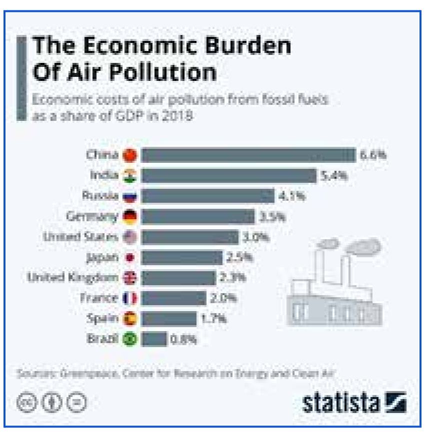
Let us have a look at the case of Sweden. In 2001, their government implemented an environmental tax reform program. The program aimed to reallocate taxes from labour to environmentally harmful activities. It was primarily focused on carbon dioxide taxation but included other environmental taxes on vehicles, waste landfills, and pesticides. Between 2001 and 2006, the government raised around 1.6 billion euros in additional environmental related taxes and reduced personal income taxes and social contributions. In this way, they could focus on low-income households. Energy intensity and carbon dioxide intensity of the economy declined during that period, which can in part be attributed to the environmental tax reform.

Sweden has shown that environmental taxes can make the overall tax system more growth-friendly while being revenue-neutral if the tax revenue is used to reduce distortionary taxes, for example, taxes on labour. The tax reform led to an increase in disposable incomes for almost all income groups. This is because potentially regressive effects were neutralized through redistribution or reduction in labour taxation. This tax reform played a major role in promoting the adoption of cleaner technologies and the provision of a large number of other incentives. Sweden responded to the 2008-09 economic crisis by introducing several green fiscal stimuli. This was done to support the development of biofuels, batteries, electric cars, biogas, and solar cells, and other energy efficiency measures. While it is difficult to attribute economic recovery or employment gains directly to these policies, nevertheless, they led to a substantial increase in investment in these sectors and thereby stabilized the industries during an economic crisis. This played a crucial role not only in the prevention of job loss in these industries but also to expand the use of renewables for electricity, heating, and transport. Such measures were not only exclusively implemented in Sweden but other countries, too, adopted similar policies to provide a fiscal stimulus during the economic crisis. (OECD, 2014). Thus, renewable energy production is a key source of growth for new jobs. Such jobs can be temporary or permanent. If you look at the existing literature, you'll notice that there exists a tendency to combine temporary and permanent employment into one aggregate job creation number.

In 2016, around 8.1 million people were employed in the renewable energy sector worldwide (excluding hydropower). Across all these studies, one must bear in mind that the duration of jobs is crucial when assessing the economic and societal impacts of green policies. When you replace permanent mining jobs by temporary wind farm construction jobs, it results in an overall loss of long-term employment. Hence, future analysis should focus on assessing more carefully the duration of job creations and destructions, as well as the quality of the newly created jobs. Now this implies that as a result of clean energy expansion, the restructuring of the energy sector towards a cleaner energy-mix entails job destruction in the polluting sectors like fossil-fuel extractions and fossil- powered electricity sectors. The renewable energy sector tends to require more workers per megawatt of energy generated than fossil fuel-based energy sectors. However, green policies may lead to a reduction in overall energy production.

Therefore, as a result, we may have a smaller, more labour-intensive energy production sector, with an unknown effect on total sectoral employment levels. Another argument is that energy efficiency can also create jobs but more empirical evidence is needed on the numbers and characteristics of the jobs that are created and destroyed. A lot of questions arise: how many workers will switch from one sector to another? Will the workers have the skills required for the newly created jobs? What about the quality and durability of these new jobs? One can think of suggesting a way of designing policies in a way that addresses these questions, for example, through flanking policies that anticipate potential bottlenecks and take proactive action.

“The more clearly we can focus our attention on the wonders and realities of the universe about us, the less taste we shall have for destruction.” - Rachel Carson



Rebalancing of firms within specific sectors can be a crucial source for job turnover. If the more productive firms are also the ones that generate relatively few jobs, then this tentatively suggests that green policies might lead to a reduction in within-sector employment levels. More analysis has to be done to robustly investigate the firm-level implications of green growth for employment.

Green policies interact with several megatrends that in turn will affect labour markets in the coming decades. If the net impact of these megatrends goes in the direction of increased demand for high-skilled workers, then a general policy to raise educational levels should go some way towards meeting needs that arise for up-gradation of skills for both the green growth transition and these other megatrends. But note that population aging will make it relatively more difficult to raise the skill level of the workforce via ever-higher educational attainment for new cohorts of labour market entrants implying that adult education and training will need to play a larger role. A more detailed understanding of future skills’ demand and supply will be beneficial in the process of identifying areas where bottlenecks may arise, therefore, making it all the more essential to create finely grained projections of how the green growth transition and other megatrends will interact in shaping future skills’ supply and demand. To accomplish this, dynamic economic system models, such as dynamic general equilibrium models, detailed projections of future economic activity, fragmented labour markets and green policies are needed for sure. Finally, the evidence is severely lacking on the policy instruments that work best in making the green growth transition as beneficial as possible in terms of labour and so we can conclude that new analysis can focus on, for instance, how fiscal initiatives can best be designed to combine environmental, economic and labour objectives. Such analysis can be built by comparison of best practices across countries, as well as rigorous econometric analysis leading to better policy formulations for the developing economies.

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PM2.5 v/s PM2.0: Waning the Indian Economy

Ilma Rizvi, Research Scholar

The Indian Economy being agrarian in nature has been facing many hardships since independence and there is no limit to it as for now. These hardships, though, came to us in varied forms. Different states have different weather conditions leading to varying demand patterns. For instance, in 2019, at the time when Chennai was praying for rains, Mumbai on the other hand was reeling under a deluge. Humans played a vital role in this ongoing climate change. Human activities like emissions caused by industries, increasing numbers of firecrackers, etc. are making the world warmer. Apart from the warm weather it is also disrupting rainfall patterns and is also causing an increase in the frequency of extreme weather events. All this has made terrestrial as well as aquatic life difficult. No country in the world is immune to these forces but India in particular, is vulnerable to it with around 2400 Indians losing their lives, farmers suffering largely due to affected crop yields and also laborers losing their productivity due to increasing heat stress. Hence, no class in the society is left untouched from this disruption. However as per the reports of IPCC it is stated that, Indian states that are more likely to be hit by climate change have little capacity either to

Priyanshi Sharma

cope or to resist. The situation is rather more worse as air pollution is now an addition to it. The air quality has been deteriorating not only within the nation but across the globe. Despite knowing that India is a country with the highest level of air pollution in the world, over 99% of the population is exposed to polluted air whose concentration level of PM2.5 exceeds the guidelines of 10micrograms/cubic meter, as set by the WHO. In Delhi, annual average of PM2.5 is 113.5micrograms/cubic meter (2018), whereas in the peak pollution season of winters, its level shoots up to 250-300+ over several days; which is an alarming phase where concern of everyone should be drawn to it. Factually, there won't be anything available to us in a society if we destroy the environment. In order to curb the air pollution, policies like Ujjawala Yojana and Rural Electrification have been introduced by the ruling government in 2019.Environment being a fundamental tool to our continued existence transcends politics and became a central value to all the members of the society. It is thus fair to say that climate change and economic growth go hand in hand.

Despite the rule, since last 6years, no new picture came into frame other than rebranding. The schemes such as demonetization, GST, mann ki baat, corruption free India, ram raj and ache din are some of the political moves taken so far. All these steps were unable to uplift the economic conditions of the poor. The Prime Minister has, however, claimed his rule to be a "phenomenal reform momentum" for the nation. An in-depth analysis is required to clearly understand the current stand of the Indian economy in GDP growth rate, prevailing unemployment rate, privatization of the core public sector units and the deterioration of infrastructural development and many other ground realities on which 98% of the Indians depend.

Thus Far the present situation of the Indian economy, more focus needs to be shifted towards the increment of potential sectors in the economy where more people could engage themselves and that too in a sustainable manner. Then only a balance can be brought about in both the economy as well as the environment. Tenure of negligence may cause the Indian economy a huge loss and this may land us in a phase from where the road to recovery would be distant. The need of the hour is a round table conference, by all the leading nations' leaders,marking an end to the emerging problems at global level and also choosing a path leading to sustainable development.

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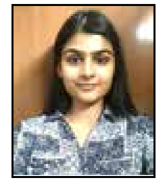
Beyond The Horizon

Influencer Marketing : Rise and Fall



Kriti Sharma, MA Economics, Second Year

Marketing is one field, which keeps on evolving constantly. From print media to digital media, marketers take into account every possible channel to target their potential consumers. However, it was digital media, in the form of social media, that witnessed a rapid rise in popularity. Not only did social media provide a platform for people to exchange their ideas, but it also connected them to the whole world. The world of likes, comments, and hashtags catered to the interests of all age groups and helped build communities online. Marketers were quick to jump on the bandwagon to benefit from the growing appeal of social media. A strong online presence promised increased brand awareness, SEO improvement, lead generation, content reach, and a massive boost in sales.

Not very long ago, a new phenomenon called Influencer Marketing came up. Celebrities having huge follower counts were roped in to endorse brands and products. The idea was to target millions of people who liked or even idolized these celebrities. Kylie Jenner, for instance, had become the Forbes' Youngest Billionaire at the age of 21, by marketing her make-up products on Instagram. Not to forget her infamous tweet regarding Snapchat, that cost the latter a whopping $1.3 billion in stocks. With this kind of influence, the marketing world could see a revolution coming. At the same time, social platforms saw the rise of micro-influencers. These were passionate individuals who actively posted about fashion, food, fitness and much more. Owing to a relatively small follower count, micro-influencers readily responded to the comments and queries of their fans. Naturally, they built up a highly engaged and loyal fanbase in no time. Social network features such as stories, microblogs and hashtags provided an easy means of conveying the brands' ideas, from influencers to their fans. The phenomenon of influencer marketing thus went on to become the marketers' sweetheart.

Marketing agencies found it profitable to shift to micro-influencers for brand promotion, while the latter got a chance to make easy money. The perception of earning quick bucks lured many youngsters into the industry of influencers. While the early adopters were pretty successful in gaining a decent number of followers, the newbies became desperate for the same. Needless to say, this desperation for followers led many established and wannabe influencers to resort to unfair means of increasing their follower counts. These include buying fake followers and using hashtags like ' LikeforLike', ' FollowforFollow' and many more. This essentially destroyed the genuineness and authenticity of micro-influencers. The cracks in the system were now as plain as a pikestaff, and Influencer Marketing gradually started to lose its charm.

Kriti Sharma

Today, a large number of followers does not translate into greater engagement and reach of posts. According to the Global Web Index, the number of social media users worldwide in 2019 was 4.484 billion, 15% of which were bots. Fake accounts don't interact with posts, resulting in lower rankings in the news feeds, thereby weakening the company's online presence. How many 'views' on an Instagram story turn into 'swipe ups', how many mass brands or premium brands do an influencer endorse, what's the geography and demography of followers? All these questions have now received significant attention from marketers. Marketing agencies have resorted to the use of audit mechanisms for examining the authenticity of followers' engagement. Apps like 'Fakers' and 'Cleaner for IG' have been developed to classify the followers of 'good', 'inactive' and 'fake'. Facebook and Instagram have been actively using tools and techniques that remove fake likes, comments and follows. Similarly, Twitter has been removing as many as 7.5 million fake accounts per week to fight 'platform manipulation'.

The marketing experts, however, are viewing the whole scenario in a positive light. The influencers' credibility has been at stake and they have now been pushed to create quality content- to ensure quality engagement. Consequently, this has discouraged any kind of fraudulent behaviour. A huge part of the responsibility lies on the influencers. The trust and loyalty that their fans put in them, must be respected. Consumers will view the company as a trustworthy partner only if they receive relevant and high-quality content. Therefore, to keep the credibility intact, influencers must promote only those brands that are genuinely worthy of it. Marketers, therefore, have sensed the need to be extra careful and selective in their approach. Required mechanisms to detect fake participation have been put in place and consumer insights are being analysed regularly. Consistent monitoring is essential to work through an infallible strategy. One, that would be able to see the reality in this world of filters.

LGBT Inclusion and Economic Development

Kanica Goel, MA Economics, Second Year

In many countries, being lesbian, gay, bisexual, or transgender (LGBT) means living with daily discrimination. This discrimination could be based on people's sexual orientation, gender identity, gender expression, or sex characteristics.

When LGBT people are denied full participation in society because of their identities and their human rights are violated, it is likely to impact the country's level of growth negatively. Discrimination in employment and education, violence and harassment, stigma and rejection, criminalization and non-recognition in law, the range of unequal treatment faced is extensive and damaging, and all translate into a lack of freedom for LGBT individuals to make choices about what they can do and be. Hence, their inclusion is crucial for human well-being and economic development.

Since data on LGBT people in India is not readily available to estimate the costs of discrimination and big health disparities for LGBT, Professor M.V. Lee Badgett (University of Massachusetts Amherst) used back-of-the-envelope calculations and found the estimated losses to the Indian economy range from 0.1 percent to 1.4 percent of national output, implying that India could be throwing away more than $26 billion a year by stigmatizing LGBT people.

Scholarly theories from economics, political science, sociology, psychology, public health, and other social sciences support the idea that full rights and inclusion of LGBT people are associated with higher levels of economic development and well-being for countries.

According to the Human Capital Approach, inclusion of LGBT people expands the economy's stock of human capital and generates a more efficient utilization of the existing population, which increases productivity and economic output. While their exclusion might crowd them into jobs where they are less productive or might be unemployed; in either case their human capital is not being efficiently used and results in a situation that reduces economic output from its potential.

While 'The Business Case for LGBT Diversity' proposes that the equal treatment of LGBT people in the workplace can have a positive impact on employer's outcomes. Reduced discrimination would lead to better psychological health and increased job satisfaction among LGBT employees. Supportive work climates are also associated with greater workplace engagement, contributions, commitment and improved relationships between LGBT employees and their co-workers and supervisors. Higher employer profits as a result of greater inclusion could lead to expansion of the business or new investments, thus increasing the level of economic development.

It has also been observed that as part of a Development Strategy, countries might adopt policies of equality for LGBT citizens to demonstrate modernization and openness. Such efforts enhance the country's attractiveness to global LGBT and non-LGBT tourists, foreign investors, or other trading partners. So development and inclusion are enhanced at the same time but are not necessarily directly causally related.In the same spirit, tolerance and the presence of openly LGBT people does not directly cause greater economic output but is an indicator of an underlying culture that's open and conducive to creativity.

All this suggests that development programs should incorporate the links between LGBT human rights and economic development into development policies. As it is very likely that LGBT inclusion and economic development mutually reinforce each other.

One would not be wrong in stating that Trans people are one of the most discriminated groups in India and there aren't any consolidated, large-scale efforts to reach them, still 92% of India's trans population is unable to participate in any economic activity.

Some of the existing efforts made by state governments across the country, for the community, that can be seen as big steps towards trans inclusion -that emerged out of the NALSA Judgment (UNDP, 2017) are:

Tamil Nadu: Tamil Nadu was the first state in India to implement a transgender welfare board in 2008 called Aravani Welfare boards. However, it does not recognise trans men and a physical examination is required for the issue of ID cards. Other work done by the state for LGBT community includes free registration of lands and ration cards**,** Provision of soft loans to incentivize the establishment of businesses, vocational training institutes and free health insurance.

Kerala: By 2017, both Cochin and Trivandrum had Trans welfare boards that also included trans men, but their schemes are still in the initial phases. The state also formed a Transgender Cell for skilling and training and Issues ID cards by a committee headed by the District Collector. This committee includes members from the community, The District Health Officer, the Joint/Assistant Director Social Welfare, a representative from an NGO and a psychiatrist.

To provide opportunities for education the State offers scholarships for school and higher education. The University of Kerala has a trans policy which prohibits and safeguards against ragging and discrimination. It also offers special facilities, awareness programs and barrier-free access to education. Teachers have been trained and sensitized in 2467 schools.

In addition Kochi Metro Rail Limited (KMRL) authorities came forward offering jobs to transgender persons in housekeeping, customer care and crowd management sections.

Karnataka: Offers a pension scheme for trans individuals between 18 to 64 years of age.

Odisha: The efforts for inclusion by the state include, Issue of BPL cards and free housing schemes; Provision of 100 days of paid work annually; Pensions and loans to start up businesses. Trans community is also entitled to 5kg of food grains under India's National Food Security Act.

Chhattisgarh: Eleven departments i.e. Health, Higher Education, Women & Child Development, Social Welfare, Technical Education, School Education, Home, Panchayat and Rural Development, Urban Development, Public Relations and General Administration have announced schemes or activities specifically for the community.

Schools from class 8-10 have introduced chapters on what it means to be transgender in their curriculum, so as to sensitize students, parents as well as teachers. Special provisions for healthcare have been provided through Thursday OPD that is reserved for trans people in medical colleges and hospitals.

A 2% reservation of the community for housing schemes through Indira AwasYojana is also provided by the state. Such exemplary work by these states issues a call to action for other states to learn from their progressive counterparts.

Each of these pathways of rights and inclusion for LGBT people would either increase their own human capital or would allow them to fully exercise their productive capacity. These individual effects are the inputs into other economic processes, so increasing LGBT human capital and making them more productive will create gains at the larger economic level.

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POTPOURRI

Declining Indian Happiness

Mahima Khurana, MA Economics, Second Year

When Will Smith in his 'The Pursuit of Happiness' asks his son- 'Are you happy?', even we youngsters could have taken a moment to think about our happiness status while that little kid living with his dad struggling every day to earn enough to pay his bills, answered non-hesitantly 'Yes'. That was the moment I realized that something goes wrong as we grow up. Then on coming across a research which proves that 'actively religious people tend to be happier', I felt that the solution for our miseries is right here- have faith. But, the happiness index report of the fourth most religious nation in the world tells an entirely different story.

The UN released its 'World Happiness Report' in March of 2019. This report ranks nations on how the citizens perceive their happiness living in the country, done using a Gallop poll. In this report we stood at 140 among 156 and had only Afghanistan below us in the entire South Asia. What is further disheartening is our deteriorating rank. We stood at 117 in 2015, 118 in 2016, 122 in 2017, and 133 in 2018 and now we are at 140. If our age old nemesis Pakistan can be as high as 67 in its position, then we need to introspect what is stopping us from being happy?

Income Position: So far as the data we know about is concerned it seems that our income has doubled over the past decade. But, despite the doubled income our happiness rank has been on a decline. This weak correlation between happiness and income which is in fact displayed by as many as 43 countries out of 125 countries for which good data exists, is indicating that the 'acche din' promised by our Modi Sarkaar six years ago have not been achieved in our case.

What it also indicates is a dilemma that the happiest nations, which in 2019 is Finland followed by other Nordic countries like Denmark on the second, are also rich but we, despite being South Asia's growth engine in

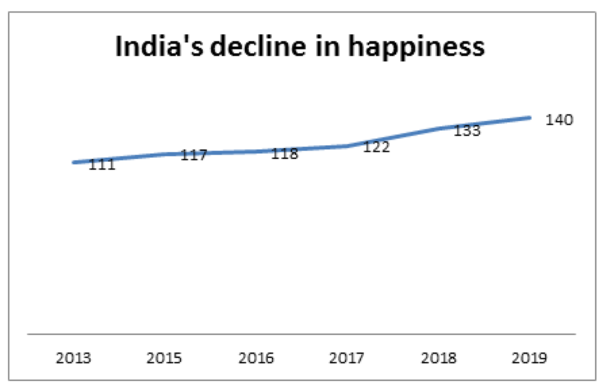
2018 ($2.7 trillion GDP) are not. This means our income is not getting translated to what constitutes happiness for people.

Poverty and Inequality: It is well known that inequality will always be there, what has to reduce is poverty so that everybody at least gets an improved living standard in comparison to their own past selves if not others. But, we are missing this point as well. Oxfam report 2019 indicates the rise in inequality. Rich got richer by 39% while poor rose only by 3% and the poorest 10% are still in debt. Top nine billionaires hold 50% wealth equivalent to that of 50% of population. And from happiness context inequality matters even if it has to persist. No matter how much we call ourselves the pioneer of yoga and meditation, looking at a set of people having destination weddings in abroad, throwing lavish parties everyday makes the common people unhappy.

Though poverty levels have seen much decline but still there are many below the poverty line and until they are moved out of their vicious circle of poverty, happiness for all will remain a pipe dream.

While some might argue the increased pace of life in metropolitan cities like Delhi and Mumbai is causing worry, sadness, hassles and reducing the ‘me time’ but this is a simple consequence of development in today’s world and is everywhere. The real issue is that we are unequipped. There is a constant worry about bringing up children in cities, bearing the expenses, there are law and order and safety concerns for women, health is an issue because of the accompanying overwhelming costs in case of a mishap. Major disappointment is the lack of fulfilment of public functions and management in sectors such as education and health and law and order and there is another add-on in the worry list i.e. filing income tax returns after the new GST.

Public services are underperforming with only about 3% of GDP being allotted to the social sector for a long time now. In terms of health, UN data indicates that India has the largest no. of under-five child mortality rates in entire South Asia at 1.3 million no. of annual deaths and most of the health expenditure comes from private spending while public spending accounts only 30% of the health spending. Though education shows an improvement in the higher education sector but still ails in the primary- the base sector. Even in higher education there are only a few good quality institutions requiring entrance through really tough competition. Enrolment ratio in the rural areas is on a decline and stood at 2.8% in 2018 falling from 3% level the previous year. Amidst this,



Source: UN World Happiness Report

how can mental health not get affected? And how can we expect even the youngsters to remain joyful.

There is dissatisfaction among people in every sector. Farmers' income is low because of the low and unremunerative prices. Corporate sector, though received a tax cut, looks for enough incentive and stability in a nation before increasing investment which is nowhere to be found hence the profits and investment are low. Unemployment and inflation are on a rise killing the common man as well as the economy as nobody is there to spend. Legal system is clogged.

This is entirely in contrast in the happy Scandinavian countries. They have all the necessary services 100% covered by the government- health, education, employment and even retirement. And since the government takes accountability and provides all the amenities they are happy to pay taxes. Danes pay 55.8% of their income as tax- the largest percentage in the world. Crime rates are low and happiness high as the society is egalitarian. And this is missing even in the most egalitarian state of ours Kerala which is clear from the number of farmer suicides in the state.

Not that we can aim for Scandinavian success story, but we can definitely learn from it to understand that happiness is not the attainment of joy; it is simply a reduction in stress. The reduction in stress is possible only if the government becomes accountable and manages the finances appropriately. Because this accountability will ultimately get translated to the people if they feel that their money is going in the right hands.

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Mal-Thanos, The Mad Titan

Vinayak Krishnatri, MA Economics, II year

After a decade-long storytelling through 21 visually spectacular sci-fi movies, the Infinity Saga of the Marvel Cinematic Universe finally came to an end in 2019 with the monumental film Avengers Endgame. The finale of the Avengers series gave the epic journeys of our favourite superheroes that we grew up watching to, a satisfying and emotionally engaging conclusion. The movie was highly anticipated and hyped by comic book fans all over the world. It is because of the hard work of everyone associated in integrating this exquisitely imagined universe the movie is the most precious gem of Hollywood's treasured pop culture and the biggest blockbuster of all time.

After a cliff-hanger ending to the previous Avengers film, where the main antagonist Thanos, a war lord from the planet Titan wipes out half of the population of the universe by using the magical infinity stones with a mere snap of his fingers, earth's mightiest heroes reunite to fight the mad titan to bring everyone who lost their lives in the mass murder back to existence. Thanos thinks that overpopulation and overexploitation of resources will eventually wreck the universe. He argues, "It's simple calculus, the universe is finite, its resources finite. If left unchecked, life will cease to exist. It needs controlling." There are people who agree with his logic and reasons but after watching the movie the budding economist in me could not help noticing not only Thanos's interest in scarce resources as an economic policymaker for his planet but also similarities between him and the classical economist Robert Malthus.

Priyanshi Sharma

Robert Malthus, in 1798 argued that the population in England was rising in the 1700s and it would eventually lead to a situation where feeding the entire population would become impossible. He believed that the population is necessarily dependent on food, and the population increases faster than food production which would trigger widespread poverty and famines. This is essentially called the Malthusian trap. As a policy action, Malthus suggested that people should delay their marriages to keep population growth under control. Thanos's logic was similar; In fact, the core of the conflict between him and the Avengers is based on basic economic principles. He thinks that at some point the universe will reach population levels that will deplete the finite resources and eventually lead to mass extinction. Unlike Malthus who advocated population control with much simpler methods, Thanos who was said to be a madman came up with a horrible solution of saving lives and preventing catastrophe by killing half of it, which he wished to implement on a cosmic scale.

He is caught in a dilemma created by his ignorant myopic logic, he thinks that he has to either watch all life forms die or become the self-proclaimed saviour of the cosmos by reducing the population of the universe to half, which in his opinion will restore the balance. He even tells his daughter that he knows that, though his solution is cruel, it is necessary and only he has the will to act on it. He is so caught up with this idea that he even sacrifices her for what he believes to be the greater good.

Just like Malthus who could not foresee the industrial revolution in Europe, Thanos too lacked imagination. He could not see the infinite possibilities of economic growth he could achieve with the infinity stones. For instance, one of the stones was a source of unlimited power that could practically provide for all the energy requirements of the world and reduce carbon footprint. He ignored the possibilities of intergalactic trade in this fictional universe. Though such magical stones exist only in the fictional Marvel universe, the possibilities of innovation in the real-world are immense. Thanos was defeated by the Avengers in the final battle of the movie, his arguments, logic, and ideas are critiqued in reality by economists like Julian Simon, who do not look at a human being as yet another mouth to feed, rather a mind that has a potential to generate new ideas and resources.

He is blinded by an orthodox idea that population growth will lead to a fall in per capita income of people, inevitably stopping economic growth fails to acknowledge that the world population growth rate is approaching zero and people are capable of inventing and innovating. It is evident that the pessimistic prediction of Malthus didn't come true. When he first made his claims, the world population was 1 billion, today it is more than & billion. Since the 18th century, Africa and South Asia have become a breadbasket, power generation techniques range from solar panels to nuclear power plants. Further, the population didn't increase as rapidly as he predicted and the living standards have risen. Malthus's conclusions were based on his assumption that food production has diminishing returns, but countries like India have postponed this stage of diminishing returns, thanks to the green revolution. Moreover, a reduced population can hamper growth in a world that is heavily dependent on technology. His idea of raising welfare in society can reduce the number of scientists, academicians, teachers, technicians, engineers, and intellectuals that can derail advancement and progress. It can also lead to a fall in demand in some sectors which can reduce prices and lead to deflation in the economy.

In conclusion, one can say that his remedy will only turn the clocks back, and thus making it an unsustainable option because the population will again start rising. The tragic story of Thanos' planet Titan at best provides us reasons to be cautious of the way we exploit our natural resources and further emphasizes the need to reduce our dependence on them which can only happen through raising the productivity of our human resource by increasing the scientific knowledge base, that is growth such a manner that breaks away from the Malthusian Trap.

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Mindfulo-nomics

Mahima Khurana, MA Economics, Second Year

Traditional economics as we know it, is all about efficient utilization of scarce productive resources, their growth overtime and their least-cost allocation so as to produce a variety of goods and services. A very strong word in our definition is 'efficient' because we economists assume rational individuals i.e. those who are purely materialistic, individualistic and possess a self-interested orientation towards economic decision making who make choices that yield optimal outcomes- production as well as distribution. However, this is neither a Robinson Crusoe economy nor it is a 2 individual world in which the choice is between only two goods. There are so many interactions taking place and so many decisions being taken every day in which our brain might simply discard being this ideal.

The increasingly need to evolve, innovate and beat Jeff Bezos, to become the richest requires thinking like a billionaire which cannot come when we are pondering every minute about what we said to someone an hour ago. That is how business thoughts work, where small pieces of information gathered from our surroundings or the all-pervasive social media snowball are being repeatedly played in our head. We have 48.6 thoughts per minute which accounts to 70000 thoughts a day. With these ruminations about someone having a vacation in Goa this moment and conjectures about your favorite actor's wedding the next moment, where is your room to innovate and create a business plan that could beat facebook? Well, that's probably why Zuckerberg himself doesn't use facebook and has about 12 people who write his posts for him and keep his facebook profile updated.

Now, this increasing distraction is a modern form of constraint with whose respect our individual utility needs to be maximized. However, the good part is that, this is not a hard constraint as using forms of meditation as simple as mindfulness, individual satisfaction level can be multiplied, receptivity increased and this would prevent the dependence of current generation on sedatives for a peaceful sleep. One who is uninitiated might feel that meditation will increase altruism, moving the population towards irrational behavior. However, on the contrary since it has been found to be stress relieving the chance of repeating previous mistakes might get reduced. Further there must be a serious reason for the world's greatest entrepreneurs advising the new tech-gen to take out time to simply sit in the nature or be mindful for some part of the day.

For a nation as a whole, an efficient population, more productive labor force, if accompanied by a right leader, who can encourage an environment for kids to learn and practice this skill right from childhood along with a good basic education, the growth trajectory of the nation might change significantly as both illiteracy and stress- the two problems crippling the current world will get solved in no time.

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In Conversation With: *Professor Jayati Ghosh*

On 29 January, 2020, our team got the golden opportunity to interview Professor Jayati Ghosh and have a discussion with her at Jawaharlal Nehru University, New Delhi. The agenda of the discussion was 'Gender Pay Gap in India'. Professor Ghosh is an Indian development economist and is the Chairperson of the Centre for Economic Studies and Planning at the Jawaharlal Nehru University, New Delhi. Her core areas of study include international economics, employment patterns in developing countries, macroeconomic policy, and issues related to gender and development.

What are your views about the current situation, regarding gender pay gap, in India?

India's case is really unusual, because we have not just the gender pay gap but we have one of the highest proportions of unpaid work. So, it is a gap in the sense that there is zero pay. People normally think of the gender pay gap in terms of, you know, the kind of pay you get in terms of similar work. But in India, we have a very high occupational segmentation. There's a whole bunch of things that only women do. And that, typically, is much lower paid. Therefore, when they are working on similar things, there's a very wide gap. So, we have both. In India, you can't really understand the gender pay gap without looking at this occupational segmentation and the fact that there is an unpaid to paid continuum, on which more and more women are on the unpaid part of the continuum. This is something which is showing up in our labor force data as very few women in the workforce. So, it is, in that sense, not just unusual, but we're actually unique in the world. What this really means is that more and more women have gone from any kind of recognized work, including unpaid work in the family enterprise to unpaid work or not just care activities like looking after old, sick, young, etc. but all of the work that would otherwise come into SNA work (System of National Accounts work). So, it's not just cooking, cleaning, etc. but it's fetching water, fetching fuelwood and all of these things.

Do we see a trend that as women get educated, they move away from these traditional tasks which they have to perform in their day-to-day lives?

No. We see the women doing both. Unfortunately. Educating women is a part of the problem. But educating men is another very large part of the problem. So, you know when you say about violence against women, the problem is not with the women. The problem is with the men. It's not the women who're doing the violence. So similarly, when women are doing unpaid work, it's not because women are uneducated. It's because men are not properly educated. It's in social psychology. It's in the mindset. Or broadly speaking, it's in patriarchy. And the thing is that patriarchy is a way of thinking that is not confined to men. Women also think it's our job, we are the ones who are supposed to do it. There are surveys that tell us that the majority of women in the country think it's okay if your husband beats you if the food has not been cooked well. So, patriarchy is a mindset that extends from men and women. And women think it's their job to look after everybody else. Our hope is with you all. Let me put it this way: it takes a long time and it doesn't go away but I have much bigger faith in the younger generation, I think.

As we move towards developed countries, like Northern Europe and America, do we get to observe the same pattern of patriarchy there as well?

For other countries, well, different patriarchy exists. Let's put it this way. Because, patriarchy, like capitalism, takes on the characteristics of every society that it's in. So, certainly in the Nordic countries, you know, in Scandinavian countries, it's very different. Very different. There is no assumption, for example, that women have to do the dishes, for instance, or any of the housework. Look at the surveys on this, you'll see the difference. Latin America, on the other hand, is more like us. South-east Asia is much better than us. So, it varies. It's not all identical everywhere.

Recently Smriti Mandhana, Captain of Indian Women's Cricket Team, said that it is unfair to ask for equal pay. What are your views about that?

It's very sad that she has to say that. So, you know the great thing is that at least you people are understanding this. I do see a change already; I don't want you all to feel completely depressed about the situation. I see this generation differently already. And the young men are also different. So, I think that's a huge and a necessary requirement. A lot will happen when everybody fights for it.

What can you say about the current female labor force participation rate in rural areas and the agenda of land rights for women? Why is there a significant gap between the rights that women should have and the actual ownership rights that they get, in agricultural activities?

So, there are two things: one, you know, again in India, we don't find women's labor force participation rate increasing. It has been falling, especially in agriculture. Now, why is that happening? There are a whole bunch of reasons why. One is that there is more mechanization in agriculture. And this, I don't know if you've noticed, whenever jobs become less physically demanding, less arduous, the men get them. Fascinating, right? There's a whole notion that women can't do tough work, but look at construction. When it was entirely manual, difficult, it was women doing that. Now, you have machines, you have hard hats, you have gloves, and it's very safe and all that, men get to do that. When it is mechanized, men get to do it. Again, it's all patriarchy. But there's a notion, women cannot drive tractors. When it was other work, more physically demanding, more arduous work, then women could do it. Even now, you know, transplanting rice, very physically arduous, gives you real pain in the back. I mean, I've tried doing it, and I couldn't do it for more than forty minutes. It's really difficult. But women get to do that. When you have other machines, men get to drive those.

These are the social things that are very, very hard to change. So, we have actually fought for and got inheritance laws that allow women to inherit. We had to fight; it wasn't easy. The laws now allow it. But nonetheless, society keeps finding ways, you know. And it's true in the poorest of rural households but it's also true among the rich. So that is a very deep patriarchy that takes a long time. It has to come with a generation that says 'why?'.

We see that these problems are prevalent in both rural and urban areas. This must be having some impact on the economy, right? What are your views on this?

Absolutely, massive impact. So, you see, it works in two ways. One is that because women are working at much lower wages and often for free, it's like subsidizing the formal economy. There's a massive subsidy that is given to the formal economy by all these women working effectively for either very, very low wages or no wages. And that allows you to claim that you are cheaper. So, one very large part of it is the fact that we have a huge subsidy to the formal economy coming from all this unpaid labor of women and of course the lower paid labor, the lower caste people and informal workers. The other part is that by forcing women to do all of this, you are actually denying the possibility of a lot of economic activities. So, first of all, you are preventing women from being able to go out and work, even when they are fully educated and skilled, they can't because they have to do this other stuff, including fetching water, etc. Because without that, families will not survive, right? So, you are preventing women from engaging in the workforce.

So, if I hire a care worker to look after the old at home, that's economic activity, that's adding to the GDP. So, there's a huge loss of GDP. However, I would not like to say that there's only a loss of GDP. GDP, to my mind, is not the best indicator of anything. Quality of life wise, you are actually not just denying the quality of life to people who are doing the work, but you're also giving the poor a worse quality of life. This is the notion of time poverty. The most time poor are the income poor, i.e, the people who are already poor are the ones that have the most time poverty. It's that they have to spend so much time doing a whole range of things that the rich can outsource. So, rich people have that extra time, poor people don't.

The quality of that unpaid work that these care workers do in their homes cannot be as good because they don't have that extra time. So, what you're getting is a worse quality of life for those poor people. So, in addition to material poverty, they have time poverty. And then that time poverty is again adding to that material poverty because they're not getting the equivalent quality. The time poverty of a woman is terrible for her, but it's also terrible for her whole family.

Pandemic Pandemonium

Game of Corona

Akansha Gupta & Rahul Kumar, MA Economics, Second Year

"When you play the game of Corona, you win or you die."

Coronavirus pandemic has made the world come to a halt. SARS- CoV-2 is analogous to the Night King that started the "Great War" by spreading the white walkers (COVID-19) across the seven kingdoms. SARS-CoV-2 and the Night King are alike in a way that they both are Targaryens since they could not be killed by heat (fire). Just like the wights, the infected person becomes a part of the "Army of the Dead". Hence, the risk of getting infected by the virus can be treated as a common property "resource" since it possess the following properties:

- Non - excludable: We cannot exclude a person from the benefits (costs) of decline (rise) in the risk of getting infected as it will depend on his actions as well as the actions of other people surrounding him.
- Rival: If a person takes precautions, then he is "consuming or depleting" the common resource as it will reduce the risk of infection spread for the entire society. Hence the risk for other players also declines and they have less supply of the resource. Since the good under consideration is technically an economic bad, hence its reduction and rivalry nature is beneficial for the entire society.

We have formulated a game based on the current scenario since the actions of one economic agent (player) affects the utility (payoffs) of other agents. Consider a strategic form game in which there are two players, namely Starks & Lannisters and they are assumed to be rational.

Sanitiser and face masks act as Valyrian steel against the virus. Both the players have to decide whether to take these precautionary measures or not. Game has to be played simultaneously.

Possible actions:

- If both Starks & Lannisters take precautionary measures like wearing a mask and using a sanitiser on a regular basis, then they both are less prone to get infected. Hence the probability of getting infected is almost 0.
- If both players are ignorant towards taking precautionary measures, the risk of getting infected is very high. We have taken this probability to be equal to 0.9.
- If Starks take necessary precautions but Lannisters do not, then Stark's risk is increased due to Lannister's carelessness and the probability of getting infected is greater than 0 for Starks. On the other hand, Lannister's risk is somewhat decreased due to the enlightened attitude of Starks. Hence the probability of getting infected is greater than 0 but less than 0.9 for Lannisters.

On the basis of these strategies and their respective probabilities (payoffs), we can construct the following payoff matrix:

PLAYERS		Lannisters	
	STRATEGIES	Take	Does not

		precaution s	take precautio ns
Starks	Take precautions	(0 , 0)	(0.2 , 0.8)
	Does not take precautions	(0.8 , 0.2)	(0.9 , 0.9)

When Lannisters take precautions, Starks will also take precautions because the probability of getting infected is low in that case (0 < 0.8). Similarly, when Lannisters do not take precautions, Starks will still take precautions to minimise their risk of getting infected (0.2 < 0.9). Similarly Lannisters will take precautions irrespective of the action taken by Starks. Hence, taking precautions is the dominant strategy for both the players.

(Takes precautions, Takes precautions) = (0,0) is the dominant strategy Nash equilibrium.

It is also the Pareto- efficient outcome as neither of the players can be more well- off by changing their decision.

INTERPRETATION

A player's risk is minimised only if all other players in the economy also take precautions. In other words, an individual's well-being is related to other individuals' well-being. Therefore, for a dominant strategy nash equilibrium to exist, every player will ensure that others also take precautions given that they are rational. One should be VOCAL FOR SOCIAL, i.e., create awareness among masses about the gravity of the game of Corona just like John Snow united everyone against the White Walker army. Paradoxically, everyone has to practice social distancing while being social! The existence of dominant strategy Nash equilibrium is dependent on the assumption of rationality. However, there is a difference between willingness to be rational and ability to be rational. For example- (1) Migrant workers are going back to their native places even though they are aware of the fact that it is in their best interest to stay wherever they are. They don't possess the ability to be rational due to lack of basic amenities, being away from their families,loss of employment, etc. (2) It is nearly impossible to practice social distancing in the crowded slum areas even if they want to. Again, there is a gap between the willingness and ability to be rational. The major problem in this pandemic is the movement of people from one place to another. Most of the internal migration is due to inability to be rational. Willingness to be rational is a subjective concept, however ability to be rational can be altered by taking goal-directed policy measures.

POLICY SUGGESTION

There is a dire need to adopt Sen's Capability Approach of development. Sen describes poverty as deprivation in the capability to live a good life and development as capability expansion. An individual should have economic, social and political freedom. We cannot leave poor people behind in the process of development because they are the building blocks of our economy. They are inevitable in all of our lives as it is the farmers who feed us, labourers who build our homes and the slum dwellers who provide us household services. It is in the best interest of the upper class to take care of underprivileged sections of the society because ultimately, their assistance is needed in daily activities. There should be cohesive development of all the sections of an economy. So it becomes necessary to fill the gap between willingness and ability to be rational along with moving both of them in an upward direction for these people.

Without Jaqen H'ghar, Arya could not become Faceless; without Samwell Tarly, Jon Snow could not know his real identity; without Hodor, Bran could not be saved from White Walkers and had Jorah Mormont not been there, Daenerys could not claim her kingdom back! All these instances indicate that 'even a small man can cast a big shadow'.

Voices Unheard, Issues Unaddressed

Akash Srivastava, MA Economics, Second Year

The origin was a market of a city and now almost every country in the world is sitting on the lap of the pandemic. In these hard times, a deluge of measures is out there on the internet with what to do to keep, at least, the economy's head above water.

The solution is simple: get a vaccine for it and you're through. Several countries have even claimed the breakthrough but the testing and mass production is still in the pipeline. The policy infrastructure, framed by the government, is still lacking a firm base. The government had two models to implement then:

1. Mass testing as was done by South Korea
2. Impose a lockdown and then rise the ladder.

There was further debate as to whether lockdown should be imposed in one go or gradually putting sectors to halt. The government gave a go-ahead to the former.

In the present day, the situation seems gloomy.

On the one side government officials, doctors, paramedic staff, health workers, police are trying to ascertain medicare, basic needs, and what not to prevent the population from falling prey to the pandemic. Despite their efforts in response to the unprecedented situation we're in, there's panic, chaos, distrust & widespread hunger. Medical personnel are taking the head to head with pestilence but instances of stone-pelting and physical abuse towards them are shameful and culprits are worthy of legal actions. Social distancing is armor against this virus bullet but I think the people(with a choice) have placed life lower down the order in their priority list. Even after so many deaths accounted for by the virus around the globe and rising cases in the motherland, there’s a handful number in our society flouting the rules and regulations put in place just because they can’t abstain from going out. War is being fought on several fronts- economic, health, livelihood are few of them. Doctors, with the well-deserved designation of COVID warriors, are facing acute shortage of PPE kits to eliminate direct contact with patients as there is a very high probability of themselves being infected during treatment and this demand has been there from day one. Lack of kits turned out fatal for few. They too are concerned for their families which again is impeding their focus. Given this, if society boycotts and accuses them of being a carrier it deteriorates their mental strength and acts as a demotivating factor. When it comes to quarantine facilities there are video releases where people can be seen thanking the government for all the arrangements but on the other side, some leaked videos are indicating tepid efforts by the same. The RBI has given a moratorium of 3 months on term loans is a welcome measure but recovery after 31st May is next to impossible given the streak of lockdown extensions and market-moving at snail's pace. Slashed CRR has freed a sum of 1.37 lakh crores available with the financial institutions but as can be seen, they're parking the sum at the RBI treasure citing no demand for loans. Firms would refrain from seeking further lending until and unless they can construct a solid roadmap of prospects of demand for their products. Even if they borrow how they are going to use it - in paying salary to their employees or further investing in the firm.

MSMEs are the worst hit with manufacturing PMI falling from 51 to around 27 in the current month. Firms have no other options but to lay off workers as they're running out of capital and the payments are still due from previous months. Farmers are hit due to falling prices caused by demand slump and as per cobweb phenomena supply in this period is because of the prices and demand in the previous period when crops were sown, hence the market is having a glut situation. Mumbai's textile hub and ironically, Asia's biggest slum has come under the radar of the Covid-19. For people in Dharavi with 5-6 persons breathing in single room space and revenue blockage due to no work and incomplete orders, practicing social distancing and sanitizer usage is still a distant dream. Not only the manufacturers but the sex workers, rickshaw pullers, hawkers, and many more are facing the same crisis. With manufacturing units, restaurants, bars, construction sites, etc. being shut the laborers employed in the respective places are experiencing a severe cash crunch as they have already exhausted their savings by the third extension of the lockdown period. Carrying little cash in hand, feeding children out of the cash saved from their meal, not enough money to pay landlords walking back home is the only option they're left with. So it is the foremost responsibility of the government to facilitate their journey back home. Arrangements are made in collaboration with railways and shramik specials have started running on the tracks. However, few cameras clicked a grim picture. Migrant workers were seen heading to their destinations carrying baggage on one shoulder and responsibility on the other. From kids to handicapped and pregnant women were walking along with their families carrying a shattered hope of reaching their home someday alive. Workers are paying a thousand Rs to book a space merely to stand in trucks. Distributing grains to people falling under the domain of NFSA (national food security act) is still not filling every empty stomach. Population, that the act covers, is in accordance with the 2011 population census. Now with less than a year for India to conduct another survey allocating benefits after taking into account the earlier population base in general and share of poor specifically will be serving injustice. Not only the central government but also state governments are responsible for the dreaded condition of the poor in these hard times. As governments said they won't charge anything for the travel and will split the fare 85:15 between the center and states respectively, media coverage shows workers holding tickets in their hands that amounts to around 600 or 800 Rs. if there were no ticket issuing counters at railway stations how did they end up with one? The amount paid is falling in whose pockets? Since when the fare of general class tickets was raised to 600 or 800 Rs? These are a few questions that have remained unanswered and require immediate attention and clarification. It is also the responsibility of society to help culminate the spread just by staying back at home. If they find themselves with the listed traits, it's better to self-isolate and self-quarantine for 14 days and if health deteriorates, call at once for medical attention. The virus out there will not look into the personal profile to decide whether to infect the person or not, it's not communal but a merciless assassin.

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The Economic Cost of a Virus: Lessons from 1918-1923 USA

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Almost exactly a century ago, another respiratory virus wrecked havoc across the world. In 1918 and 1919, the “Spanish Flu” (there is no consensus regarding where the virus originated), caused by H1N1 virus with genes of avian origin, killed almost 50 million people worldwide. That included 675,000 deaths in the U.S., where it was first identified in military personnel in spring 1918.

The 1918 pandemic, though brief, had a catastrophic impact on people’s lives. Numerous predictions being made today on the economic and social costs of the COVID-19 pandemic are based on the impact of the influenza pandemic of 1918, hence it is worthwhile to study it.

The years 1918 and 1919 also marked the peak of U.S. involvement in World War I, which exacerbated the spread and magnitude of the pandemic. It is estimated that WW-I resulted in deaths of roughly 10 million civilians and 9 million troops. The movement of troops across the world exacerbated the spread of the disease.

Influenza typically tends to be the greatest threat for children and the elderly. However, the distinctive feature of the 1918 influenza was that mortality rates were highest for the segment of the population aged between 18 to 40, and more so for males than females of this age group. A study by Cambridge University reports that out of 272,500 male influenza deaths in 1918 (from a sample of 30 states), nearly 49 percent were aged 20-39, whereas only 18 percent were under age 5 and 13 percent were over age 50. This significant loss of the prime working-age population had serious economic consequences for businesses.

Also, a high degree of positive correlation was found between population density and 1918 mortality rates in the US, which substantiates the claim that influenza deaths were, on average, greater in a state’s cities than in the rural areas of the state.

Economic Impact of the 1918 Pandemic

The World Economic Forum research yields that areas that were more severely affected by the 1918 Flu Pandemic saw a sharp and persistent decline in real economic activity. More importantly, the cities that implemented early and extensive Non-Pharmaceutical Interventions (NPIs, such as social distancing) suffered no adverse economic effects over the medium term. On the contrary, cities that intervened earlier and more aggressively experienced a relative increase in real economic activity after the pandemic subsided.

More severely affected areas experienced a relative decline in manufacturing employment, manufacturing output, bank assets, and durable goods consumption. The manufacturing output showed an 18% decline for a state at the mean level of exposure. Exposed areas also saw a rise in bank charge-offs, reflecting an increase in business and household defaults, which implies that pandemics depress economic activity through reductions in both supply and demand. The decline was persistent in all outcomes and more affected areas remained depressed relative to less exposed areas from early 1919 to throughout 1923.

Empirical evidence indicates that influenza mortalities had a direct impact on the short-run real wage rates in the manufacturing sector. Cities and states having greater influenza mortalities experienced a greater increase in manufacturing wage growth over the period 1914 to 1919. A decrease in the supply of manufacturing workers (labor) that resulted from influenza mortalities would have increased the marginal product of labor and capital per worker thus increasing real wages. In the short term, labor immobility across cities and states is also likely to have prevented wage equalization across the states, and a substitution away from relatively more expensive labor to capital is unlikely to have occurred.

The local economic impact of public NPIs during the influenza is a highly debated issue. One school of thought believes that NPIs constrain social interactions and thus dampen any economic activity that relies on such interactions. Many economists remark that economic activity is also reduced in the absence of such measures, as households reduce consumption and supply less labor in order to reduce their risk of becoming infected. Thus, while NPIs lowered economic activity, they solved the coordination problems associated with fighting disease transmission and mitigated pandemic-related economic disruption.

Studies show that reacting ten days earlier to the arrival of the pandemic in a given city increased manufacturing employment by around 5 percent in the post-pandemic period. Similarly, implementing NPIs for an additional fifty days increased manufacturing employment by 6.5 percent after the pandemic.

Lessons for a More Globalized World

Various studies indicate that the economic effects of the 1918 influenza pandemic were short-term. Many businesses, especially those in the service and entertainment industries, suffered double-digit losses in revenue, while businesses that specialized in health care products experienced an increase in revenues. Manufacturing and agriculture were less vulnerable to the pandemic than retail and other businesses that relied on customer traffic. It was the apprehension of contracting the virus that restricted economic activities rather than the government-imposed lockdowns. A similar state of affairs can be observed a century later today.

Research also suggests that the 1918 influenza pandemic caused a reduction in human capital and a shortage of labor that resulted in higher wages (temporarily) for workers, though no reasonable argument can be made whether this benefit outweighed the cost of loss of life and overall economic activity.

Substantially it is the pandemic and the associated spike in mortality that constitute the shock to the economy. And since NPIs (social distancing, wearing a cloth mask, etc.) are a means to attack the root of the problem, spread of disease, they can also save the economy.

These general effects in 1918 can be used to extrapolate the potential economic impact of the COVID-19 pandemic. The current economy is more sensitive to the pandemic than the 1918 economy due to global supply chains, most of which originate in China. The pandemic has caused companies to move towards a 'self-sufficient' economic model with localized supply chains. Transitioning to a new sturdier supply chain would be a costly affair. Another thing to note is that both consumers and businesses are more leveraged than they were a century ago, and that debt may combine with the economic shock of the pandemic to magnify the economic cost.

A new global economic structure is on the charts in the post-COVID-19 era, with the expectations of the 'Survival of the Fittest'.

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Corona Currency Situation 2020

The COVID-19 pandemic is a global crisis of historic proportions. Multiple Economies around the world are taking hit and risk-off returns as the market crash intensifies on the back of the startling rate of the spread of Coronavirus. Past cries of similar, rather less alarming magnitude have shown that even as things recover, each crisis leaves behind permanent structural changes. The Black Death of the 14th century rewrote the human genome in ways that are visible to this day. The 1918 Global Flu Pandemic helped topple empires. The Global Recession of 2008–09 precipitated changes, from workplace automation to travel policies, that remained in place even as the economy recovered.

This section of Eco-Insight observes how the economy has changed as the impact of the virus intensified across the globe, the lessons one can learn from the past pandemics and how the major currencies have reacted to the virus. The insights given and conclusions drawn in this section are subject to the data available till April, 2020.

The Case of Thailand

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Thailand is one the fastest emerging economies of the world. It has a per capita GDP of $7,273 in 2018. The World Bank calls Thailand "one of the great development success stories" seeing its performance on several social indicators. Thailand had a GDP of US$505 billion making it the 32nd largest economy in the world. Its economy is heavily dependent on exports and it accounts for 66% of the total GDP. Thailand is an active member of ASEAN and is very open to international trade, which represents 123.3% of the GDP (World Bank, 2018). Main export commodities are vehicles (11.1% of total exports), data processing machines (7.3% of total exports), jewellery (6.5%), and rubber products (4.5%). Thailand mainly imports crude oil (8.9% of total imports), machinery (8.8%), electric equipment (7.4%), and chemicals (6.5%).

In November 2019, the country's main export partners were China (12% of total exports), United States(11.1%), Japan (9.8%), Vietnam (5%), and Hong Kong (4.9%) (Ministry of Commerce data). The main import partners were China (20% of total imports), Japan (14%), United States (6.1%) and Malaysia (5.3%). According to WTO data, in 2018, Thailand shipped USD 252.9 billion worth of products and USD 83.7 billion worth of services, while imports of goods amounted to USD 248.2 billion and those of of services stood at USD 54.9 billion, giving a trade balance surplus, including services, of USD 48.5 billion. Although the country does not abound with oil and ores, its abundance in other natural resources, such as timber and agricultural products, helped start its growth. Seventy years ago, Thailand was still a primitive economy whose main output was agricultural products, particularly rice. In 1960, agriculture accounted for 32% of the total GDP of the country. Currently the Industrial sector accounts for around 40% of the total GDP.

Tourism is a major economic contributor to the GDP of Thailand. The World Travel and Tourism Council (2014) calculated that tourism generated THB 2,401.1 bn in 2013 (20.2% of GDP) and is expected to grow by 0.1% to THB2,404.4bn (19.6% of GDP) in 2014. In 2019 there were 38,178,194 international arrivals in Thailand and 1,876,136.90 million Baht worth of receipts from international tourism. Thai Baht is the 10th most used currency in the world. The abandonment of the fixed exchange regime in 1997 also changed the demand structure from abroad. Prior to 1997, the exchange rate for the baht, the Thai currency, was fixed at an overvalued level. After the baht was floated, net exports of the country have experienced continuous surpluses for the first time. Clearly Thailand's economy is well connected to the rest of the world and thus exposed to any kind of shock to its main trading partners.

Once such a shock to the Thai economy came in the form of at the start of this year in the form of the global pandemic caused by the Coronavirus that spread like fire initially in China, Europe and now in the United States(Thailand's major trading partners). Thailand reported its first case of Covid-19 on 13th January 2020 and was the first country to report a case of the Coronavirus outside China. The cases did not see a rise and remained low until mid march. Cases began to rise after that by more than a hundred per day and Thailand imposed a state of emergency on 26th March 2020 followed by a curfew on 3rd April 2020. On April 12th 2020 Thailand reported 2251 confirmed cases and 38 total deaths.

Figure 1. US Dollar to Thai Baht (Exchange Rate)

The Thai Baht, after performing strongly in 2019, has depreciated 6.3% from 8th February 2019 to 10th April 2020. (from THB30.74/$ to THB32.59/$). The exchange rate was as low as THB29.69/$ on 31st December 2019, the lowest since mid-April 2013. One of the good performing currencies in the last 5 years has been depreciating since the outbreak of the coronavirus in China. The spread of the pandemic has hit the Thai economy and knocked down its growth prospects. Thailand's National Economic and Social Development Council sees the growth rate between 1.5% to 2.5% in 2020, lowering it from its earlier projection of 2.7% to 3.7%. It should also be noted that the GDP of Thailand grew only 2.4% in 2019, the slowest growth rate in the last 5 years. Further I try to analyse what could have caused this depreciation in the exchange rate of Thailand by looking carefully at the impact of the virus on the external sector of Thailand's economy.

A relatively recent development is the ever increasing number of Chinese mainland visitors. They surpassed 10.5 million visitors in 2018, making up 27.5 % of the total tourists in Thailand. Their number increased further to 10.99 million in 2019, and the increased number of Chinese visitors is quite obvious on Bangkok's streets and in its shopping malls. Coronavirus spreading to Thailand from China illustrates the extent to which the two countries are tied together in the field of tourism. Even before the Coronavirus, In the first six months of 2019, the number of Chinese tourists sank by 5 percent after an accident in the Thai resort town of Phuket resulted in 47 Chinese deaths. When Thai currency was appreciating in terms of the Chinese counterpart, Thailand became a costly destination for the Chinese who were already affected by the US-China trade war. In light of recent estimates that tourism from China composes 2.7 percent of Thailand's economy, the absence of Chinese visitors has caused a decline in the value of the Baht. Given the fact Chinese tourists were staying at their homes only even before the pandemic, the coronavirus is just going to magnify its impact on Thailand's economy therefore the Thai Baht is only expected to depreciate further with respect to the US Dollar. A report by RHB Bank predicts that Thailand will lose $3.51 billion because of coronavirus and the resultant drop in tourism from China.

Similar to the tourism industry, Thailand exports have also taken a hit. Even in 2019, when Baht was going strong Thailand's Exports started losing competitiveness. Given Thailand exports agricultural produce, rising agricultural prices last year must also be responsible for the sluggish export growth. Another factor that contracted exports from Thailand was global tensions regarding trade tensions, mainly due to the US-China Trade war. China, Thailand's biggest export market closed its borders after the outbreak, which would again impact Thailand shipments to the country. Thailand's exports were also impacted by rattling of supply chains of the auto Industry as China's factories of both finished vehicles and auto parts are shut down temporarily due to the lockdown.

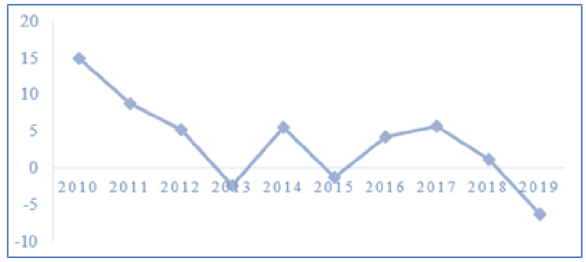

Figure 2 Thailand's Falling Export Growth Rate.(Source: World Bank)

Another point worth noting here is Thailand's export basket comprises of exotic fruits. One would expect that import demand for these expensive fruits would fall, because in extraordinary times like these, China would look to stock up necessary commodities rather than importing expensive food products. Exports are expected to fall this year as well, there may be some improvement towards the second half of 2020 causing the deteriorating foreign exchange rate and terms of trade for Thailand.

Though coronavirus adds to the worries of the policymakers of Thailand's economy which now appears to be entering into a recession, the Rice exports from the country provides an opportunity that Thailand would like to make the most of. Rice, as we all know, is an essential commodity and Thailand is its 2nd largest exporter after India. India and Vietnam have cut its rice exports to other countries to provide for their own residents. As the competitors battle the outbreak, Rice exporters can expect an increase in sales due to growing global food security concerns providing some strength to the Thai currency.

The Stock Exchange of Thailand, measured by the SET Index, soared in 2019, as several investors, especially from the Japanese Automobile sector saw an opportunity to set up manufacturing units in Thailand on account of high tariff rates due to the US-China Trade war, thus Thai Baht gained strength. Towards the end of 2019, tensions between the two economic giants eased up, with the US rejecting higher tariffs for China and China promising to buy farm products from the US. As the global foreign trade markets cooled down, Political tensions in Thailand increased and the budget got delayed at a time when The Coronavirus was rippling through Southeast Asia and threatening growth. As shown above, growth prospects of Thailand’s external demand dependent economy do not present a positive picture. Moreover The fall in oil prices that impacted the stocks of energy sector companies also contributed to fall in investor confidence in SET and Thai equities plummeting. Foreign Investors have started selling their shares and withdrawing their investment from Thailand's stock exchange owing to increased uncertainty due to the pandemic. Mid-March Thai stocks recorded their steepest slide since 2006, as SET fell as much as 12%.

Figure 3 Thailand's SET Index.

From the above analysis it appears that the Thai Economy after a good run in 2019 was entering a period of sluggish growth even before Covid-19 started spreading and the Coronavirus has only dragged the economy further down. The Kingdom of Thailand is now facing a dual problem of worsening health of the economy as well as its Citizens. Counter-measures seem to be the need of the hour. The Bank of Thailand cut its key interest rate by 25 bps to a record low of 0.75% on 20th February 2020 to mitigate the impact of the virus on the economy and reduce interest burden on the borrowers. The reduction in the rate can lead to fall in interest rates in the country and fall in the value of interest yielding bonds, which in turn can reduce the real value of the investments by foreign investors, if they decide to sell their investment then the Thai Baht is expected to depreciate further. Thailand's dependence on foreign demand for economic growth has only amplified the shock caused by the virus. Government of Thailand has to look for measures like a fiscal stimulus to boost domestic demand in the economy and reduce its reliance on the rest of the world. Thailand’s cabinet approved a package of THB1.9 trillion

($82.5 billion) on 7th April 2020. The package involves a law to borrow THB1 trillion out of which 600 billion baht will be spent on public health works and the rest on job creation. The remaining THB900 billion will be used to support corporate bonds. If a fiscal stimulus like these raise domestic demand and thus increase price level in the economy, making exports expensive relative to imports; one could expect that Thai baht will keep on falling, making foreign currency more expensive for the people of Thailand and the depreciating trend to continue.

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The Case of United States

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It won't be over estimating to say that this might be the first time after World War II that almost the entire population on the face of the earth is facing a multi-level crisis situation with severe and long-term consequences as those of the coronavirus pandemic. It was already very much apparent even at the beginning of this spread that the present world might be prepared for the dangers of nuclear, chemical or even a biological war, but it is far from being even minimally equipped to muster international or regional cooperation to overpower a natural disaster like this pandemic.

Even if a cure or even prevention for eradicating the corona virus is soon found, speedy recovery from this deep and complex crisis that the outbreak has caused will be very difficult to achieve. The worst part that the world is facing today is that not all of the consequences of the crisis can be predicted at present, nor is the world able to completely understand the depth and the breadth of those consequences that are actually known.

Of course, human life is the first thing that is in danger, but the next thing in line is the world economy. At best, recession, if not a depression is at our doorsteps and nothing seems to be working against such a multi-level disaster. Fear has spread across the globe, especially amongst the investors that coronavirus is set to destroy economic growth and the actions taken by the governments around the world may not be enough to stop this declining trend. China, which makes up one third of global manufacturing, has seen a massive decline in their industrial production, sales and investment in the first two months of this year alone. Sudden and huge shifts in the stock markets, where shares of companies are being bought and sold rapidly, is likely to affect many investments in pensions or individual saving accounts. Speculations that the coronavirus pandemic will run the market down had started in the beginning of this year and now that this prediction is actualizing, fear has manifested deep roots in the market internationally. Shelves in the supermarkets had been emptied in a matter of days, even before the announcement of lockdown globally. Such behavior seems extremely unnecessary as supplies are open and regular. Thus, with the advent of coronavirus, the world saw fear percolating through the markets. Fear has always been a major driving force for the market price to action. It's very much evident that this global fear also drives masses in the Forex market to take the same action in their trading strategies as did the customers of these supermarkets world-wide. This fear has shown a certain pattern. During a slowdown in the economy, investors prefer to be risk averse. We have already seen UK short term gilts drive into negative yields. This happens as investors dump risky assets such as stocks to buy low-risk government bonds. Thus, as the international market players head towards the exit door, certain markets fall harder than the others. Trading strategies seem to align in times of crisis and that majorly includes the Foreign Exchange Market. This is mainly because players in the Forex market know where the danger lies and where the safe haven lies.

Global currencies hustle for the top position every year, although last year was a race to the bottom. This is because 2019 saw comparatively slow economies around the world and thus more than 30 central banks were seen cutting their interest rates in an attempt to survive the probable upcoming recession. Lower interest rate weakens the currency and hence starting 2020, major currencies around the globe were already weak to begin with. FED cut interest rates 3 times in the previous year, British Pound saw a bumpy 2019, Chinese Yuan weakened and we of course know India’s deteriorating economic position in the year 2019. If the coronavirus pandemic hadn’t hit the world like it did, any short-term loss associated with lower interest rates could have been mitigated once the economy would have been back on track. But, no one could have predicted such a pandemic before-hand.

Now, if the market would have been healthy and strong at the advent of this crisis, the central banks around the world would simply reduce the interest rates as needed to pump liquidity into the market. In addition to that, the government would provide necessary fiscal help. All these measures may as well bring some currency fluctuations, but that would have been just a little compromise for the survival of the entire global economic health. Unfortunately, the world was already suffering when the pandemic arrived. In the rich parts of the world, like the Eurozone and Japan, interest rates are below zero and the use of alternative tools such as asset purchases has reached its limits. In the US, when COVID-19 began, their interest rate was already in a lower range of 1.5% to 1.75%. This shows that there isn’t enough room for major economies to maneuver their interest rate levels to mitigate this unprecedented crisis.

Now the interesting feature of the global market is that even though COVID-19 has hit the US the most, so much so that the country is essentially in lockdown mode, the value of the US dollar continues to surge. Even though the Federal Reserve is cutting their interest rates, which the European Central Bank (ECB) and Bank of Japan cannot possibly follow because of their already zero interest rate, still USD isn’t losing much value against these currencies and is emerging out to be the strongest in the list of world currencies. The US dollar index reached a three-year high. It is up by more than 7% against a basket of currencies like Euro, British Pound and Swiss Franc, since hitting its lowest point of 2020 on March

9th. According to me, the reason for USD to survive these difficult times when most of the currencies are drowning is the fact that the American economy is relatively less dependent on international trade and exports when compared to its counterparts in the world. This implies that the slowing down of China's manufacturing and exporting units (which comprises the majority of the world's production), couldn't hit the US economy as hard as those countries which heavily rely on the imports from China. Another major reason for the USD to stand still in this crisis is the fact that the American economy has been doing well for years now and has been earning its reputation in the global financial market because of the same reason. This enhances the trust of Investors and Central Banks around the globe in the American currency and thus, at an unprecedented time like this, being risk averse automatically translates to having more US dollars in one's hand. USD which has been used for a long time to fund a great part of the global circuit of capital, but now the circuit of capital is in reverse now, i.e., the funding currency is being bought back. An increased demand for USD naturally has strengthened it as against other currencies. For example, the Australian dollar hit a 17-year low of $0.59215, and the Kiwi hit an 11 year low at $0.5850 cents vis-à-vis USD.

If we look at how USD has been doing as against Euro, EURUSD touched a low of 1.07955 on

20th of Feb, but this quickly reversed over the following 12 days when EURUSD reached as high as 1.1495 on 9th March. This 6.2% increase in the value of Euro was in response to the FED's interest rate cut on the 3rd of March. But USD quickly regained its value against the Euro, even after reducing its interest rates to such low levels, to the extent that EURUSD touched a record low of 1.0656 on 20th March. This clearly points out to the fact that USD has been perceived as the safety net around the globe.

Looking at the trend of Mexican Peso as against US dollar also makes it apparent how the USD is standing the test of times. Peso had actually been strengthening since August 2019, and was appreciating against USD to the extent that on 17th Feb USDMXN reached a recent low of 18.52. Since then, it shot up to an extreme high of 23.85 as of 15th April. This more than 19% increase in the USDMXN is a huge jump even for an emerging market. In this case, Peso is a riskier asset than the USD, so investors dump Peso and buy USD. The FED interest rate cut should have helped the peso strengthen against its northern neighbor. Yet that was not the case, not even close. Here the fear factor very explicitly seems to be at play. This is because Peso had been doing very well against the USD, yet it fell to such low levels, as against currencies like Euro, which were already weakening before this outbreak hit the economy. Thus, this is solid evidence determining the strength of USD against all currencies.

To visualize whether any other currency apart from the American Dollar has shown strength while battling the corona virus impact on the Forex market, the trends in Japanese Yen are to be analyzed. Previously, whenever in Crisis, the market has seen Yen as a safe haven, even compared to the United States Dollar. This is because Yen usually appreciates during such times. Even considering the situation right now, the data shows that USDJPY saw a sharp decline from a high point of 112.22 on the 20th Feb, 2020 to 101.18 on 9th March, 2020. This amounts to a record 9.8% decline in the value of the US Dollar vis-à-vis Yen in mere 12 days. This may be perceived to be in line with the fact that the FED cut interest rates on 3rd of March, but there most certainly is a good amount of fear in the market that pumped Yen so high in such a small amount of time. Although looking at the month of March USDJPY did regain back its lost value up to 111.12 on 24th March, 2020, but thereafter has been falling again to a point of 107.11 as of 14th of April, 2020. Thus, when we talk about the Japanese Yen, it also has been standing its ground while many currencies are drowning at this hour of crisis.

Finally, to throw some light on India's economy in this battle for survival, the condition that Indian economy saw in the year 2019 has not been helpful to combat this pandemic led economic crisis to say the least. The domestic demand was already very low and the rupee had been depreciating, even before the advent of this pandemic outbreak. Fighting the corona virus crisis with bold moves like the one taken by The Reserve Bank of India, where it opened a US dollar-INR swap window for $2 billion on 12th March, 2020, India's Dollar demand has been reaching heights, thus depreciating INR even further than the previous year levels. Being already in a slump, the USDINR exchange rate presently as of 15th of April has declined to an all-time record low of 76.44%. The extended lockdown of the country is taking its toll on the economy, which comprises mainly the labor force that works in an unorganized sector. The only relief that the country can expect at the moment is the reduction in the oil price that had already started as the Russia vs. Saudi oil war, prior to the COVID-19 crisis. Initially Saudi supplied oil in excess, driving the prices down, and now to make matters deep, COVID-19 reduced the demand for oil to a record low, which further assisted in the decline of oil prices. For the OPEC nations it might be a nightmare, but for a huge importing country like India (80% of its oil consumption is imported), it will result in a narrower trade deficit and hence will provide a slight cushion at a time of continuously depreciating Rupee with no signs of getting up.

Thus, the spotlight is back on shorting the financial markets with most experts suggesting the only safe currency is the US dollar. But even though the US dollar has been appreciating against other currencies of the world at the moment, it is not known how long this could last as there always is a limit to how low the Central Bank of an economy can bring its interest rate down. Hence, it is a matter of patience and regional and international cooperation that can get the world and its economy out of this rabbit hole.

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The Case of Japan (1)

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Covid 19, that hit China on December 31st, 2019 has now spread worldwide. With an increasing number of cases every day, the foreign exchange markets are also tumbling. The best indicator of economic activity in a country is its stock market and foreign exchange markets, in the long run, follow the developments taking place in the economy. Most major stock markets have taken a hit post the pandemic as the announcement of lockdowns, restrictions on social gatherings and movements of masses have brought economic activities to a halt. Restrictions on air travel and imports and exports have significantly impacted the energy-exporting countries like Australia, Russia, and Canada. Emerging economies with foreign currency debt in excess of their foreign currency reserves have also witnessed problems due to a lack of tourism and falling prices of other commodities. Their currencies have seen severe blows against the dollar despite the US Fed slashing the interest rates to near-zero level and initiating quantitative easing by purchasing treasuries. Such acts of the Fed should have depreciated the US dollar but the dollar is appreciating. Initially, it was the fear of the virus spreading to other countries which soon turned into the fear of it turning into the global economic crisis, that is pushing the investors towards the purchase of low-risk assets such as US dollar, Japanese yen, Swiss Franc and gold. The increased demand for the assets denominated in these is leading to their appreciation relative to the currencies of emerging economies.

Japan is one of these few special countries whose currency has been considered a safe haven for decades despite its stagnating economy, constant recessions, low-interest rates, high debt, and its ongoing deflation battle. Being safe haven means that yen appreciates whenever the world economy faces a recession and it has gained this status primarily because of the 1) low policy rate offered by the Bank of Japan, which allowed for the possibilities of the carry trade. Even when carry trade became a remote possibility due to low-interest rates offered everywhere during the 2008 crisis, ending carry trades itself leads to yen strengthening due to increased demand of yen 2) the huge export surplus that makes Japan the 'world's biggest creditor'. This accumulated surplus helps the Japanese holders of foreign assets in selling off risky foreign assets during uncertain times, bringing back the yen into the Japanese economy, followed by its higher demand which appreciates it against other currencies. 3) positive perception among the investors about the credibility of the Japanese economy and the yen that yen is a safe currency, coupled with the resilience and productivity of the Japanese people, which is at par with other advanced nations.

Even though yen had been weakening over past few years as compared to the dollar because of shrinking GDP of Japan (which shrank by 7% for a very recent quarter), investors have been found rushing towards it as soon as the news of the pandemic hitting China on December 31st, 2019 reached headlines because of the past history of yen appreciating during all the crises situations. For instance, after the 2008 financial crisis, the yen appreciated by more than 20%. Later, in 2010 fear of peripheral European debt appreciated yen by 10%. In fact, when the Great East Japan earthquake in 2011 created uncertainty in Japan, the yen rose. The trend of yen appreciating over the past few months is clear from the falling USD/JPY exchange rate. However, the appreciation of yen has been moderate this time, as is clear from the chart below, which is comparing the appreciation and depreciation of currencies of different countries with respect to the dollar due to the Covid 19 outbreak.

This is puzzling as the US is self-sufficient in energy resources and in the production of most commodities and Japan can easily benefit from cheaper imports if the US dollar depreciates. But, its yen is still appreciating only moderately and investors are not engaging in buying a lot of the yen-denominated assets despite the huge interest rate cuts brought by the Fed right at the beginning of 2020, which should have ideally made the dollar less attractive.

There are several views regarding this, one being that the Japanese policymakers must have been intervening to keep yen weakened by regular interventions in the forex markets. This is quite a plausible explanation as Japan's Government Pension Investment Fund recently on March 31st, 2020 announced a 10% increase in the target share of foreign assets (from 40% to 50% of its portfolio). This indicated net new foreign asset purchases worth $160 billion in 2020 to be undertaken, after a purchase of the total assets of $1.6 trillion that had already been made by the end of 2019. This, however, was not done in response to the pandemic as 3% points of the target shift had already been achieved by the end of 2019, hence it could simply be a matter of chance for Japan. Some other explanations about the non-appreciation of yen relate to the nature of the US economy. First, it is the strongest and safest economy to invest in. Out of all the countries, investors expect the most vigorous response from the US government in the form of fiscal stimulus, and secondly, the huge urge to get dollars is mainly because most risky foreign currency deposits are dollar-denominated.

All countries are individually responding to the panic by introducing fiscal and monetary stimulus packages. Right now, the most vulnerable countries, (oil or energy exporters and those with debt issued in foreign currency greater than the domestic foreign currency reserves), require support to prevent any further weakening of their currencies. The stimulus brought by the sale of domestic assets or from a domestic loan in exchange for foreign currencies might put downward pressure on the domestic currency, and that, in turn, would increase the weight of debt servicing for the domestic lenders, making them reluctant to lend in future as well as put the economy under inflation pressure. Hence, countries like Japan and the US that have stronger currencies have to support these vulnerable nations by providing credit access to allow them to service their debts without burdening the exchange rates any further. Some ways include giving passage to exports from these countries and providing access to the 'credit swap lines' that will allow the central bank of a vulnerable country to have access to foreign currency liquidity of a foreign central bank, (which in our case could be a country like Japan, Europe, and the US with strengthened currencies as compared to many other nations right now) in exchange for their own currency.

Apart from this Japan, whose currency is strengthened, should initiate a direct coordinated foreign exchange intervention in the vulnerable countries if their depreciation problems persist. Solely based on the principles of leaning against the wind and aimed at minimizing the trade imbalance and bringing stabilization in the affected country, it will prevent their currency from depreciating further. It can also directly buy the weak currencies of emerging markets and developing economies to help their currencies maintain their levels in times when stronger currencies are high in demand against weak currencies. While these coordinated actions are a necessity at this time, controlling an urge to buy other stronger currencies is equally important for Bank of Japan as this would unnecessarily infuse a currency war which is the last thing we want to witness in times of a crisis when all countries are wishing to buy stronger currencies and such war which would only worsen the situation by further appreciating the currency of some other country.

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The Case of India

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The Coronavirus pandemic has sent the financial markets including the foreign exchange markets into a frenzy. With increasing uncertainty over the future course of the virus, the volatility in the foreign exchange markets is rising. Since, all the major economies of the world are now highly integrated; it has led to a contagion effect, wherein it is not only the virus that is spreading from one country to another, but also the increasing financial turbulence which is being passed on from one economy to another.

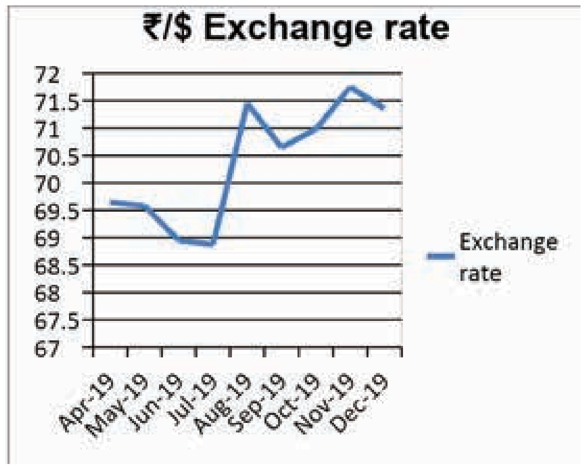
In light of this, the following is a case study of the impact of Coronavirus on the foreign exchange market in India and the behavior of the INR (₹) over this period.

Before the virus outbreak

Even before the Corona virus outbreak, India was struggling to maintain its growth rate with a downgrade of its growth forecast by the IMF to 5.8% in January, 2019. The rupee depreciated heavily from ₹68.9/$ at the end of June, 2019 to ₹72/$ during August, 2019. This was primarily because of the exit of Foreign Portfolio Investors from the Indian market. Net portfolio investment fell sharply in June and it became negative during July, 2019 and August, 2019.

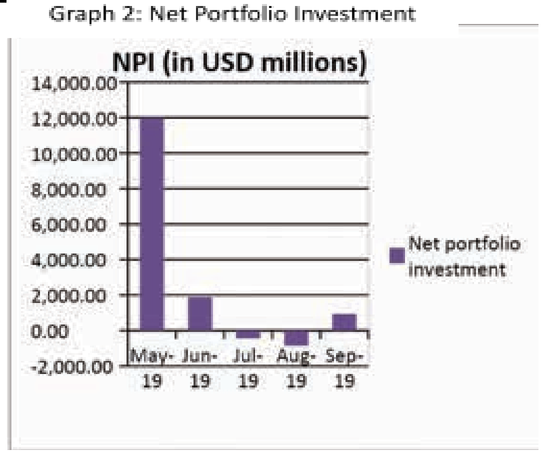
Then in September, 2019 the net portfolio investments stabilized and this led to a gradual appreciation of the rupee. This can be seen in the images below:

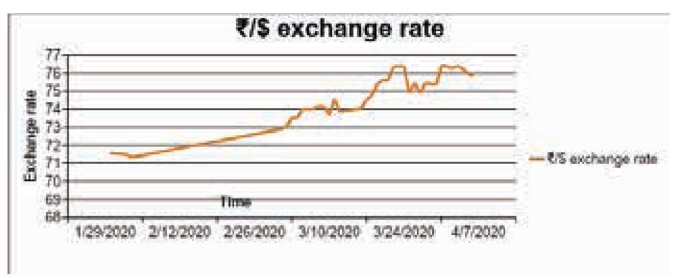
Graph 1: INR/USD exchange rate



Source:www.investing.com,www.thehindubusinessline.com

Graph 2: Net Portfolio Investment





Source:www.ceicdata.com,www.thehindubusinessline.com

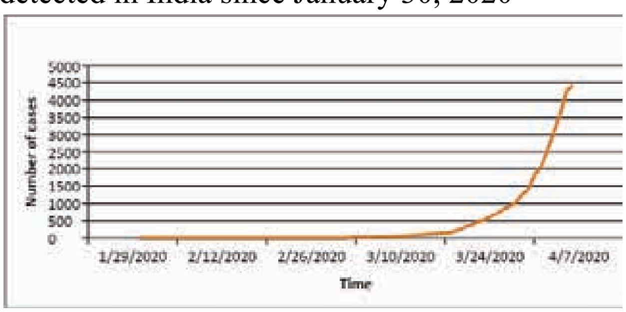
It is clear from the above graphs that there is a direct relationship between NPI and exchange rate movement – decrease in NPI leads to depreciation of the currency (makes the currency weaker against the dollar).

After the virus outbreak

Since the beginning of 2020, the number of coronavirus cases detected has been increasing worldwide. This has created massive uncertainty in the foreign exchange markets all over the world. This is particularly damaging for the Indian economy which was already suffering due to the economic slowdown.

The rupee has depreciated to an all time low of ₹76.16/$ since January, 2020. In March alone, the rupee depreciated from ₹73/$ to ₹76/$. It can be seen in the graphs below that as the number of cases in India started rising in March, the rupee also started depreciating heavily and reached the range of ₹75/$ - ₹76/$ within a month.

Graph 3: Total number of corona virus cases detected in India since January 30, 2020



Source: MoHFW

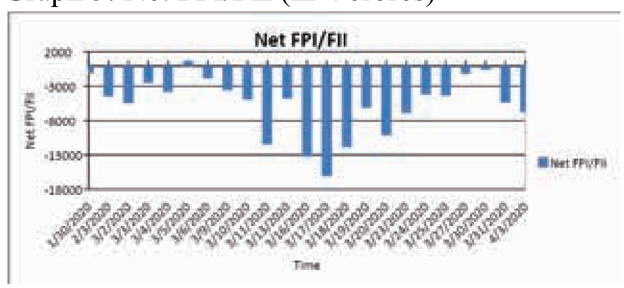
Graph 4: ₹/$ exchange rate since January 30, 2020

Source: www.poundsterlinglive.com

This was mainly because of the outflow of foreign investment from the country. The capital flight can be owed to the fear and lack of confidence of investors in India. They are pulling their funds out of the Indian economy in fear of further deterioration in the Indian markets. As a result, they are selling their investments and demanding dollars in return. This has weakened the domestic currency against the dollar.

The graph below shows the outflow of foreign investment from India since the beginning of 2020. Net FPI/FII has primarily been negative in the past few months.

Graph 5: Net FPI/FII (in ₹ crores)



Source: https://www.fpi.nsdl.co.in/web/Reports/Archive.aspx

The stock markets are also undergoing a massive selloff. On March 23rd, 2020 the Sensex collapsed by 4000 points, suffering its biggest one-day selloff since the beginning of this year.

All these factors combined with the sluggish growth rate of India is causing the domestic currency to depreciate further.

Amidst a weakening currency, the RBI has decided to undertake a few steps to contain the strong deterioration of the rupee:

1. It declared on March 12th, 2020 that it will conduct sell/buy dollar swaps worth $2 billion through an auction. Under this, banks would buy dollars from RBI and simultaneously agree to sell them back at the end of six months. This would help in

reducing the immediate downward pressure on the rupee by increasing the dollar liquidity in the economy. It will also help in preventing panic buying of dollars by ensuring investors that their dollar demands will be met.

2. The RBI is also continuously decreasing its foreign exchange reserves to meet the increasing demand for dollars. The foreign exchange reserves fell by $11.98 billion to reach $469.909 billion at the end of March 20, 2020.
3. The Monetary Policy Committee also announced a rate of 75 basis points which reduced the repo rate to 4.40%. Along with this, the reverse repo rate has been reduced by 90 basis points to 4%. The Cash Reserve Ratio has been cut by 100 basis points to 3%. This will enable the banks to hold more money because the amount to be deposited with the RBI will decrease. This will release ₹1.37 lakh crore into the system.
4. RBI also announced ₹1 lakh crore in targeted long term repo operations with a tenure of three years. Banks can use these funds in corporate bonds, commercial papers and debentures of investment grade.

All these measures have been aimed at injecting liquidity in the economy. Although it will lead to further depreciation of the rupee in the short term, it was the need of the hour to enable the corporates to manage their cash flows.

The central bank has also resorted to selling dollars in the spot foreign exchange market but this will not be sufficient to stop the rupee depreciation. The RBI will continue to sell dollars aggressively in order to keep the foreign exchange market liquid. However, this is not likely to change the downward trend that the domestic currency is experiencing.

<u>Effect of rupee depreciation on the export - import sector</u>

Depreciation of the domestic currency is expected to increase the exports and decrease the imports thereby improving the Current Account Balance. However, depreciation combined with the ongoing lockdown has not been favoring the export sector. Many exporters are experiencing a buildup of inventory due to cancellation of their orders. This is particularly true for the textile industry, the second largest generator of employment in the country. These exporters are now stuck with dollar forward contracts.

Similarly, Indian coffee exporters are also in distress due to the lockdown. Around 21,000 metric tonnes of coffee valued at ₹400 crore is stuck at various ports. So, the exporters have not been able to benefit from the rupee depreciation due to the current lockdown.

A sharp depreciation of the domestic currency will make the imports more expensive, thereby worsening the trade deficit. The decline in oil prices would have been a boon for India. But those benefits are likely to be wiped out in the face of a declining rupee.

At a time when cash flows were declining and India Inc was already undergoing a slowdown, domestic companies with unhedged dollar debts are likely to suffer the most under the current scenario.

<u>Some positive signs</u>

India's current account deficit decreased to $1.4 billion or 0.2% of the GDP during the October - December quarter as compared to $6.5 billion or 0.9% of the GDP during the previous quarter. A decline in the current account deficit could be beneficial for India as it will help in raising the value of rupee. A decline in current account deficit implies that the total outflows of foreign exchange have decreased. This will help in bringing the rupee back to its previous level.

Retail inflation also fell to 6.6% in February from 7.6% in January, along with a decline in core inflation to 3.9% from 4.3% in January. In theory, lower inflation should make domestic goods cheaper for foreigners. As a result, the demand for domestic goods will increase, thereby increasing the production of domestic goods. The increase in production and the corresponding increase in output will lead to a higher demand for the rupee and help in restoring its value.

However, all these factors would only help in reviving the domestic currency if there is proper functioning in all the sectors of the economy. This has been halted due to the ongoing lockdown. As a result, we are observing a steep depreciation of the domestic currency.

Rising risk aversion has put a significant amount of pressure on all the emerging currencies around the world. The dollar itself is seen to be depreciating against the stronger euro.

The rupee has depreciated by around 7.6% since the end of January, with a steep depreciation of 6.8% in March alone. The rupee hit the lowest on April 9, 2020 when it depreciated to 76.44 against the dollar. Most Asian currencies have been experiencing a sell off and a rush to buy the dollar, considering it to be a safe haven. FIIs have also sold around ₹ 4,7897 crore this month in the equity market. The Federal Reserve has also conducted an exchange swap auction worth $2 billion to prevent the dollar appreciation due to an increase in demand for dollar worldwide.

RBI has been continuously intervening in the foreign exchange market to reduce the volatility. But due to the strong downward trend of the rupee, the central bank has not been able to push it beyond ₹74/$.

With the extension of the lockdown and uncertainty regarding the future course of action, it is very unlikely that the rupee will stabilize in the near future.

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The Case of Japan (2)

Zoya Khan, MA Economics, Second Year

The surge in the demand for dollars

The US Dollar is the world's reserve currency. In times of trouble, financial players as well as big companies and investors naturally seek to hold on to the dollar considering its status as a haven. As coronavirus spreads across the globe, causing complete shutdowns of economic activity in several countries, the demand for dollars has surged. Foreign banks demand more dollars to meet the liquidity needs in their respective countries (as issuers of dollar-denominated debt, and to maintain adequate dollar reserves), investors are buying dollar-backed assets, and companies are drawing down their credit lines in an attempt to get credit while they can, given the huge demand.

Steps were taken by the Federal Reserve to maintain the supply of USD in the world market

The US economy itself has been reeling under the unprecedented economic shutdown brought about by coronavirus spread in the country, which has already raised the unemployment rate from 3.5% in February to 4.4% in March (as per U.S. Bureau of Labor Statistics). This is despite the US government's incentives to small businesses to keep employees on the payroll even if they have temporarily shut shop, so the actual unemployment rate is expected to be higher. To help the economy, the Federal Reserve had an impromptu meeting on 3rd

March in which it cut the interest rates by half a percent. However, the movie was not enough, and a series of announcements followed on 15th March. The Fed announced that it will be dropping its benchmark interest rate to zero, and launched a $700 billion quantitative easing program. It also slashed the rate of emergency lending at the discount window for banks by 125 basis points to 0.25%, and lengthened the term of loans to 90 days, to address liquidity concerns.

Further, to address the upward pressure on USD, the Fed along with central banks around the world (Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank) have used existing dollar swap arrangements to ease the supply of dollars. Swap line provisions have also been extended temporarily to central banks in nine additional countries to ease access to dollars.

Some foreign central banks lowered the rate on these swap line loans and extended the period for such loans to facilitate greater liquidity.

USD movement since March ‘20

The following graph shows the movement of the USD index (a measure of the relative value of the dollar against a basket of six world currencies - Euro, Swiss Franc, Japanese Yen, Canadian dollar, British pound, and Swedish Krona, the base year 1973) over the last two months. After dipping to 94.8 on 9th March, the index rose sharply over the next 10 days, indicating the strengthening of the dollar. But the index has sobered since, owing to the pressure due to multilateral efforts to weaken the dollar.

Movement of JPY vis-à-vis USD

The initial spike in Yen following coronavirus fears can be attributed to its ‘safe haven’ status, just like the dollar. A rising Yen had been a cause of concern for an already weak Japanese economy, as its exports were bound to be hit. There were speculations of an intervention by the Bank of Japan to stall the appreciating currency. However, the trajectory reversed sharply from the 9th of March when the exchange rate was 102 JPY per USD, and the dollar surge continued till 25th March when it was as high as 111. The rate has lowered since, but still stood as high as 108.7 as on 8th April.

Reasons for depreciating JPY

There are several reasons for the continued appreciation of the dollar against the Japanese Yen despite the Fed’s expansionary stance.

The number of coronavirus cases in Japan is on the rise. During late March, the number of cases in its capital city Tokyo had been doubling every few days, causing a mounting pressure on the government to announce a lockdown. This led to large scale sale of the currency by investors. As was being anticipated, a month-long state of emergency was declared in Tokyo and six other prefectures on 7th April. The number of coronavirus cases in Tokyo alone was as high as 1,196 (as of 7th April), while total cases in Japan stood at 4,275 (as of 8th April). However, there is no lockdown of the kind seen in European countries and India itself. The emergency entails requests and instructions for the public to avoid non-essential trips within and outside the city and to shut down schools, community centers, parks, non-essential stores, and businesses, and postpone gatherings and so on. The instructions are not legally enforceable. The fear of economic repercussions is said to be one of the reasons for minimal restrictions by the Japanese government, contrary to stringent lockdowns in several parts of the world.

However, since the spread of the virus has been exponential in many parts of the world, there is nervousness about the growth of infected cases in Japan as well. This has taken a toll on the Yen, which is expected to struggle as the country goes into a state of emergency. This explains the shift away from Yen and the resulting rise of the USD against the former.

Japanese President Shinzo Abe has announced a massive stimulus package worth $990 billion, equivalent to a whopping 20% of Japan's output, to help the country tide over the coronavirus crisis. However, the emergency is expected to take a huge toll on the Japanese economy. Goldman Sachs has forecast a 25% contraction this quarter, while Nomura has predicted a 0.4% drop in the annual GDP. The expectations of an economic contraction may add to the weakening of Yen.

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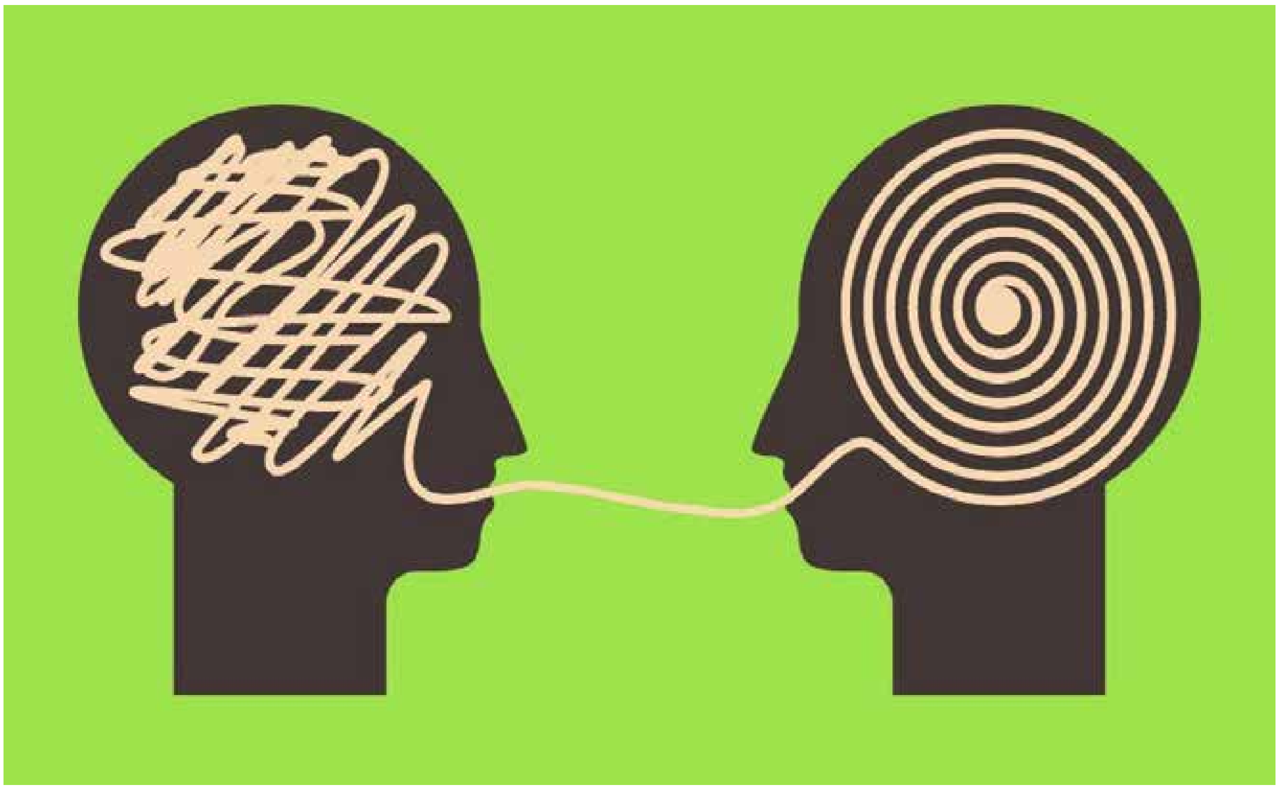
JARGONS SIMPLIFIED



The Lemon Problem

The Lemons problem is a popular term used in financial markets and it arises because of the 'asymmetric information' between lenders and borrowers. Asymmetric information, as the name would suggest, is simply asymmetry of information among different sides or players in the market. To put it plainly, sellers of a particular product have more information about the traded product's characteristics, life, condition, benefits, defects etc than the buyers. This gives sellers an edge in estimating the true

value of the product. In a financial market asymmetric information arises because a borrower has more information about his/her financial state than the lender. Therefore the lender is more unsure whether the borrower will default on the loan or not.

One must be wondering what something like lemons have to do with a serious economic problem? The lemon problem has nothing to do with the lemons we use to add a tangy taste to our food. Economist George Akerlof in the 70s has explained this problem taking an example of the used cars market in the US in his paper "Quality Uncertainty and the Market Mechanism". I present here a simplified version of the example. Consider two kinds of cars, New Cars and Used Cars (Lemons is a term used to refer to used cars in the US). Say new cars cost \$20000 and lemons cost \$10000 to a potential buyer. Only car sellers know whether the car is new or used(lemon) and this information is not available to the buyers. Thus the buyers are at a disadvantage here because he/she doesn't know the true value of the car thus according to Akerlof, the buyer will pay only the average of the price of a new car and a lemon to mitigate some risk. Therefore he/she will offer any amount more than \$15000 for any car.

The Lemon problem arises because no seller will sell a new car at less than its value, and a dishonest seller of a lemon will take this deal and sell a \$10000 car for \$15000 and make a profit. This will continue and sellers of new cars will go out of business and the car market will be full of dishonest lemon sellers only turning the car market into a 'Market for Lemons'.

In Financial markets, a borrower can be good or bad. Lenders, being aware of this possibility, value both good and bad borrowers at an average level and charge a higher rate of interest from good borrowers, pushing them out of the market. Unfortunately, bad borrowers stay and thus increase the cases of defaults in the financial markets.

Free-Rider

Free-Rider, as the name would suggest, is a person who derives benefit from something without paying for it, simply put he/she is someone who uses a good or service without paying for its use. Free Riding arises in the case of public goods. Consumption of public good by someone does not reduce the amount available for others to consume and it is impossible to prevent others from consuming the good. For example National Defence. The same amount of Nation Defence is available for each and every citizen of the country irrespective of whether he/she pays the taxes or not. Another example of a free rider problem is the majority of people benefiting from articles on Wikipedia because only a tiny fraction of users pay for it.

Imagine there are two people, Ramesh and Mohit, who are considering a contribution to a public good. The personal cost of contributing is 6 and the benefit of the contribution is 10. This is a good idea for society as a whole, as the benefit is greater than the cost (each person contributing 6 would receive a benefit of 10). However, individuals see an incentive to free ride as the benefit of this public good is freely available among the members of society.

The Net benefits are summarised in the following table, the numbers before the comma show the benefit to Mohit and the numbers after the comma show the benefit to Ramesh.

		Ramesh	
Mohit		Contributes	Does Not Contributes
	Contributes	4,4	-1,5
	Does not Contribute	5,-1	0,0

- If Ramesh and Mohit both contribute, the total benefit would be \$20. Each person gains 10 for a net gain of 4 (\$10 – \$6).
- If one person contributes but the other does not, the total benefit would only be 10. Each person gains 5 and the person who contributes would realize a net gain of -1 while the person who does not contribute would realize a net gain of 5. For example, if Mohit contributes and Ramesh does not contribute, Mohit would be contributing 6 for a net gain of -1 and Ramesh would be contributing 0 and gain 5. (This is because the benefit of the public

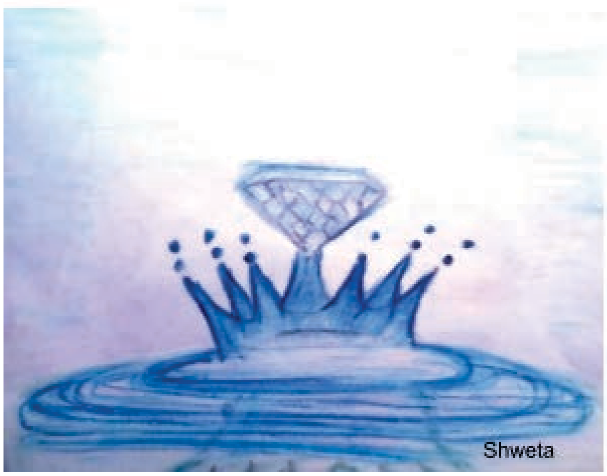
good is divided among all members of society).

- If neither of them contributes to the public good, there would be no costs and no benefits of the public good (net gain of 0)

If Mohit thinks that Ramesh will not contribute, she would lose 1 for contributing. On the other hand, if Mohit thinks that Ramesh will contribute, he would gain more by not contributing. Therefore, both people would come to the conclusion that it would be unwise to contribute. The public good, therefore, does not get built and thus a free rider problem is created.

Diamond-Water Paradox

The Diamond-Water paradox is the phenomenon of the market price of a necessary and essential good, like water, being way lower than that of goods that are non-essential, and luxury like diamonds. It is also called the diamond-water paradox. Understanding why the paradox exists can be helped by understanding the meaning of scarcity and Marginal Utility.



Scarcity can be simply defined as how readily available a good or service is. Is there a lot of it compared to what people are demanding? Marginal utility is the additional satisfaction or gain someone gets from using or purchasing an additional unit of a particular good or service. People are willing to pay a higher price for goods with greater marginal utility. Consuming Scarce goods provide higher marginal utility when consumed and people tend to pay higher prices for goods that provide higher marginal utility to them.

Even though water is much more valuable to life than diamonds, it is available in abundance causing its marginal value to buyers to be lower than that of diamonds. Hence, water usually costs much less than diamonds, unless there is a huge scarcity in its availability. In that case, both the marginal value and price of water would be way higher. For example imagine someone stuck in a desert and is on the verge of dying because of excessive dehydration. Now one would reason that the person would be willing to pay a higher price for water than diamonds. Another example of the Diamond-Water paradox can be paying Rs.40000 for a Smart TV and paying Rs. 400 for a blanket that protects you from cold weather. While a smart TV is Luxury, imagine being stuck in Antarctica and blood in your veins freezing. In this case any rational person would be willing to take a blanket at a higher price than a Smart TV to save his/her life. The Diamond-Water Paradox can provide you an explanation for why sometimes your parents question your financial decisions. The disagreement arises because the marginal utility you will get from making that decision may be very high to you as compared to their valuation.

Economic Bubble

An Economic bubble is the same as a normal bubble which keeps on expanding and finally bursts. An economic bubble may be a rising asset price not justified by its fundamental intrinsic value but by over-exuberant and irrational behaviour of investors. The Bubble finally bursts when no one is ready to pay the overinflated price. We all have heard about the US housing price bubble, the Dot-Com bubble, The Bitcoin Bubble etc. Below I present a hypothetical case of an economic bubble of prices of blue potatoes which mimics the first ever financial bubble of the 1600s in Holland called 'Tulipomania'.

Imagine a potato farmer who finds out that one day all his produce is ruined and due to a genetic mutation, the potatoes have turned blue in colour making them look more beautiful. He knows now no one is going to buy them because the potatoes do not look 'normal anymore'. He takes them to the market and sells them at higher price than normal, say Rs.100 a piece of potatoes claiming that the blue ones are exotic and have high nutrients. One consumer buys it for this high price believing the farmer's claim. Now the news of blue potatoes spread and people line up outside his shop to buy the 'exotic' potatoes. He sees that the demand is rising so he raises the price to Rs. 200 a piece. The news spread further making the demand rise again. Seeing this opportunity the farmer raises the price to Rs.500 a piece.

Now the stock of blue potatoes is finished with the farmer. By now people are claiming that blue potatoes bring good luck, thus they start trading the potatoes amongst each other. Suppose Ramesh sees Mohit bought blue potatoes for Rs.500 a piece. Ramesh offers him Rs.1000 per potato. Mohit will take this offer and earn a profit. Having blue potatoes is now a status symbol. Soon people start seeing blue potatoes as an investment opportunity to make profit and get rich quickly. Prices of blue potatoes sky rockets and now people are taking loans and selling off their homes to invest in blue potatoes. "want to get rich, buy blue potatoes" is now the herd mentality and prices are now higher than that of houses and land, say somewhere around Rs.100000 per piece.

A point will reach when people are not willing or do not have the money to buy any more. Liquidity is reduced in the market. The interest from borrowed money will put a lot of pressure on those who own the potatoes to sell. Since people are no longer ready to buy at a higher price, the sellers will have to settle for a lower price. The drop in prices will make people panic. People have also started getting sick after eating blue potatoes. The prices plunge further. In that sudden dive from say Rs. 100000 to Rs. 10, so many people would have lost their homes, unable to pay off their debts

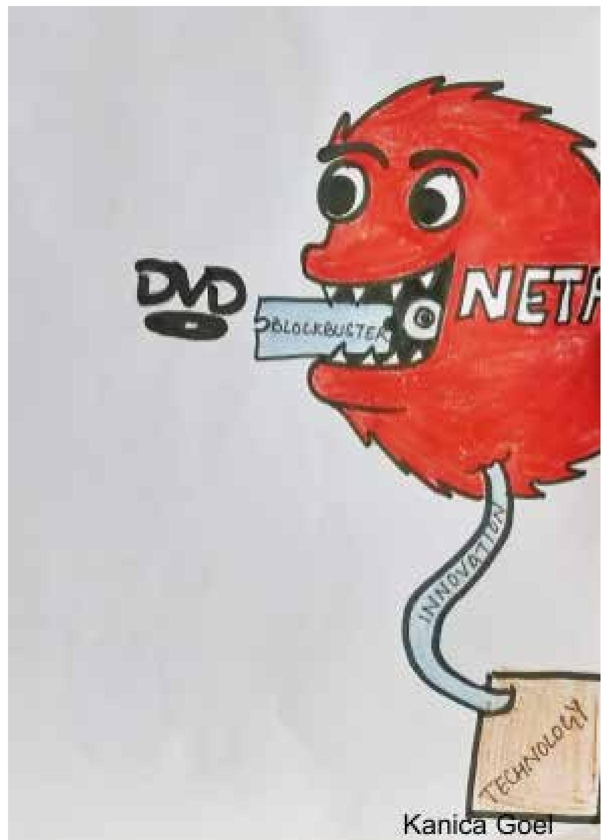
Creative Destruction

Coined in 1942 by Austrian Economist Joseph Schumpeter, the term Creative Destruction means the strategic dismantling of long-standing practices in order to make way for innovation. Schumpeter describes creative destruction as the "process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one."

Schumpeter came up with the term when he saw real life creative destruction in the form of Henry Ford's assembly line. Originally the term was used to describe innovations in the manufacturing process that increase productivity, but with time has been adopted for disruptive technologies such as the railroads or, in our own time, the Internet.

The theory of creative destruction assumes that long-standing arrangements and assumptions must be destroyed to free up resources and energy to be deployed for innovation. As implied by the words of the term, creative- to create, design and build new processes and technology, and destruction- the process inevitably results in losers and winners.

Entrepreneurs and workers in new technologies will certainly create disequilibrium and highlight new profit opportunities. Producers and workers committed to the older technology will be left stranded.

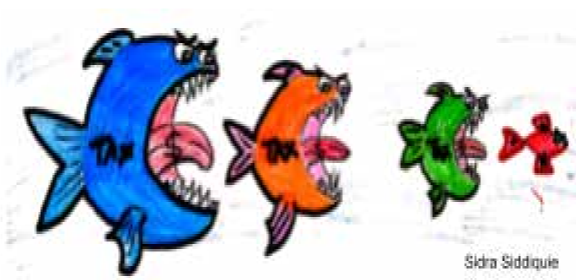


To support the theory, Henry Ford's assembly line example could be used to show how it revolutionized the automobile manufacturing industry. However, it also displaced older markets and forced many laborers out of work. One of the modern examples of creative destruction is Netflix and how it has overthrown disc rental and traditional media industries. Netflix has been so disruptive to existing industries, that its impact is now being referred as the ‘Netflix effect' or that the industry has been ‘Netflixed’

The underlying point behind the term is that an evolutionary process rewards improvements and innovations and punishes less efficient ways of organizing resources. The trend should be towards progress, growth, and higher standards of living.

Cascading of Taxes

Cascading of taxes means taxing a commodity on different stages of production until it is finally sold to the consumer. The common man finds himself strangled in a Gordian knot of multiple tax-rates, complex laws and elaborate lengthy processes and thus often fails to comply with these complex legislations.



Suppose, a cloth manufacturer buys raw material worth $1000 to manufacture shirts. He pays a sales tax of 10% i.e. $100 and then he manufactures shirts by adding value of $500. While calculating the total cost of shirts, the manufacturer will include $1000 + $100 + $500 and fix the price as $1600 and sell to the customer. The customer will pay $1600 and 10% sales tax ($160) resulting in the final cost of $1600 + $160 = $1760. In this case, sales tax has been collected twice ($100), it has the cascading effect i.e. $10 as tax on tax and $50 as tax on value added. Thus, the total tax collected by the government in both stages is $160 + $100 = $260. In this case, the final price increased due to cascading of taxes is to be paid by the customer.

Cascading of taxes, one of the major distortions of the Indian taxation regime caused due to levy of a variety of charges by state and union governments, raised the tax-burden on Indian products which are generally borne by end consumers. In a bid to these complex and obsolete taxation policies and usher-in an era of transparent, fair and legitimate taxation and remove the inefficiencies of supply chain due to such lax policies, India decided to join the bandwagon of 140 countries already practicing Goods and Services Tax (GST). GST is an indirect tax which came into effect from 1 July 2017 through the implementation of the 100 and First Amendment of the Constitution of India by the Indian government and it replaced existing multiple taxes levied by the central and state governments. GST increased the transparency and uniformity of taxes so that even the informal sector doesn't have many options to avoid taxes. This might ignite inflation initially but in the long run the end consumer of the commodity as well as the entire economy would be benefitted.

Events 2019-2020

- The department organized a lecture on "India's Current Economic Slowdown: Antecedents and Prospects" by Prof. Surajit Mazumdar of CESP, Jawaharlal Nehru University, New Delhi on 4th September, 2019. Prof. Mazumdar delivered the first of the series of lectures this year and provided useful insights on this current hot topic by showing its impact on different sectors of the Indian Economy.

- The department organized an Excel workshop by Mr. Shafaat Mosvi for final year M.A. students on 4th October, 2019. The workshop introduced students to the world of Data Science and equipped them with necessary skills to help them when they step out of the college into the job market.

- On 21st October, 2019 Dr. Prabir De of Research and Information System for Developing Countries (RIS), New Delhi, delivered a lecture on “Contemporary dynamics of India’s Trade”. Students were not only brainstormed by different concepts of International Trade but they also learned a lot about the use of regression analysis in the field of economic research

- On 19th November, 2019 the department organized a special lecture on “Behavioral Biases” by Dr. Sujoy Chakravarty, Professor at the CESP, Jawaharlal University, New Delhi, as a part of Jamia Millia Islamia’s Centenary Year Celebration. Prof. Chakravarty gave a highly interactive session which explored a new dimension and motivated the student to look beyond the scope of conventional economics.

Credits

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