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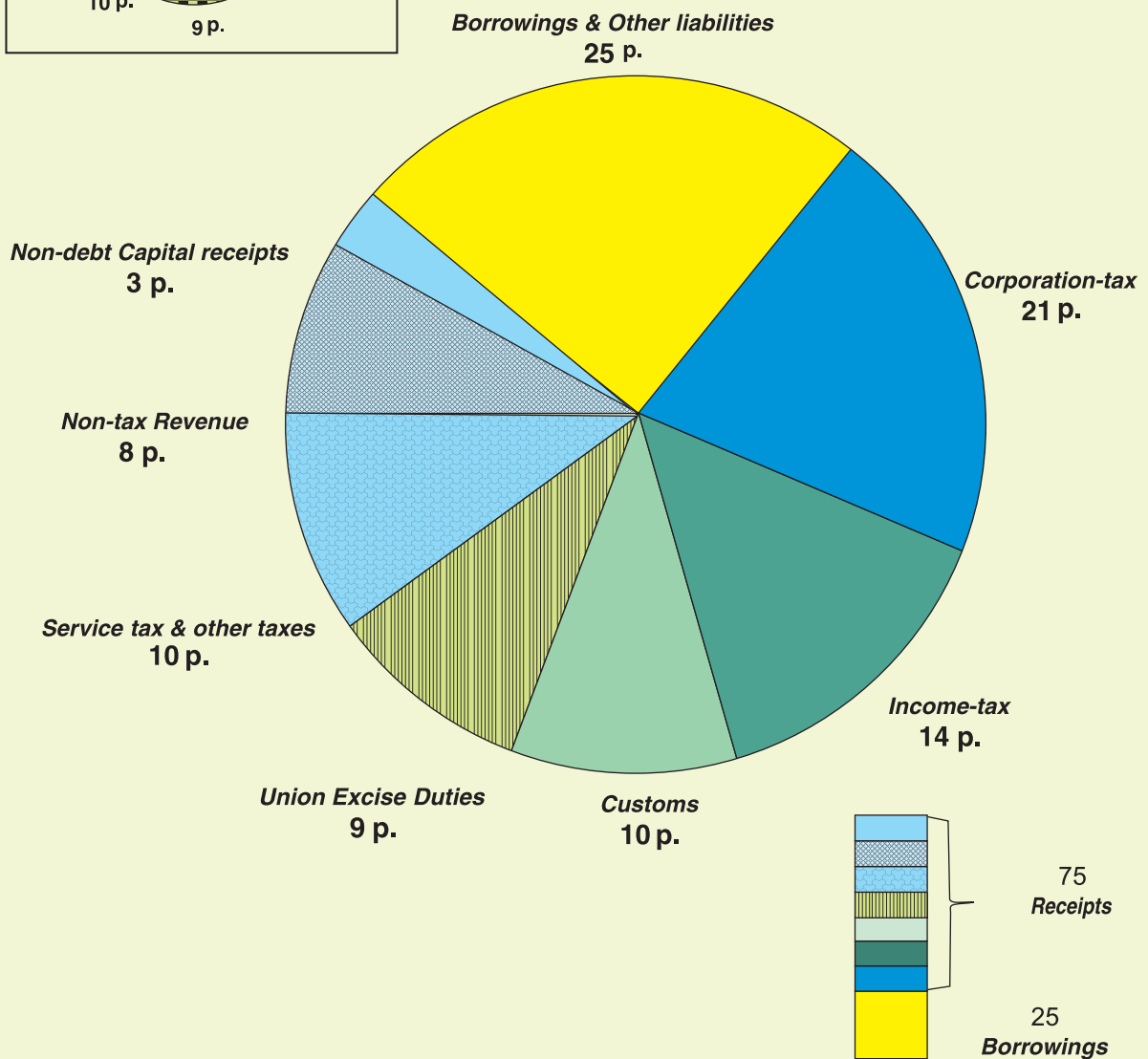
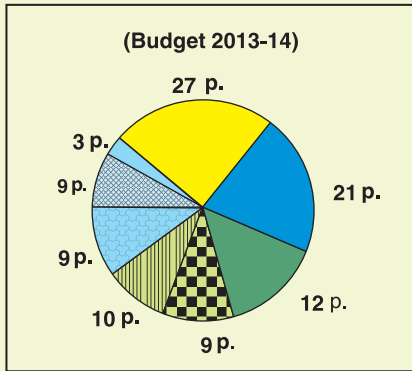
India's Lost Economic Transformation
Kunal Sen

Economic Growth with Technological Self-reliance, What can We Infer from the Evidence?
Sunil Mani

Productive Employment and Empowering Education: An Agenda for India's Youth
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April 2014



Vol 58

YOJANA

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Website : www.yojana.gov.in
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Let noble thoughts come to us from all sides
Rig Veda

CONTENTS

INDIA'S THREE ARROWS Alok Sheel.....	4	MICROFINANCE REGULATION IN INDIA: A CRITICAL PERSPECTIVE Tara S Nair	45
ECONOMIC GROWTH IN INDIA – PERFORMANCE AND PROSPECTS Ravindra H Dholakia	8	ECONOMIC GROWTH WITH TECHNOLOGICAL SELF-RELIANCE IN INDIA WHAT CAN WE INFER FROM THE EVIDENCE? Sunil Mani.....	50
DO YOU KNOW	12	JOBLESS GROWTH Artika Vats.....	55
PRODUCTIVE EMPLOYMENT AND EMPOWERING EDUCATION: AN AGENDA FOR INDIA'S YOUTH Raghendra Jha.....	13	INTERIM BUDGET 2014-15: WHAT IT REVEALS Sona Mitra.....	58
IS INDIA BACK TO THE HINDU GROWTH RATE? Kumar Gaurav, Nalin Bharti, Priyanka Sinha.....	20	THE NEW DRUG PRICE CONTROL REGIME Anant Phadke, S. Srinivasan.....	61
BEST PRACTICES SAFEGUARD OF THE TRADITIONAL WISDOM Baba Mayaram	27	INDIA'S LOST ECONOMIC TRANSFORMATION Kunal Sen.....	67
GLOBALIZATION OF MARKETS AND CONSUMER RIGHTS: CHALLENGES AND OPPORTUNITIES M C Paul.....	28	SHODHYATRA PORTABLE STOVE WITH HIGH EFFICIENCY V Jayaprakash	71
TAX REFORMS AND GST CHALLENGES FOR FUTURE REFORMS Mahesh C Purohit	36	AN ANALYSIS OF THE URJIT PATEL COMMITTEE REPORT ON MONETARY POLICY Rajeswari Sengupta.....	73
SPECIAL ARTICLE WHO GOVERNS THE INTERNET? IMPLICATIONS FOR FREEDOM AND NATIONAL SECURITY Sunil Abraham	41		

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EDITORIAL OFFICE : Yojana Bhavan, Sansad Marg, New Delhi-110001 Tel.: 23096738, 23042511.
Tlgm.: Yojana. **Business Manager (Hqs.) :** Ph :24367260, 24365609, 24365610

For new subscriptions, renewals, enquiries please contact : Business Manager (Circulation & Advt.), Publications Division, Min. of I&B, East Block-IV, Level-VII, R.K. Puram, New Delhi-110066, Tel.: 26100207, Telegram : Soochprakashan and Sales Emporia : Publications Division: *Soochna Bhavan, CGO Complex, Lodhi Road, New Delhi -110003 (Ph 24365610) *Hall No.196, Old Secretariat, Delhi 110054(Ph 23890205) * 701, B Wing, 7th Floor, Kendriya Sadan, Belapur, Navi Mumbai 400614 (Ph 27570686)*8, Esplanade East, Kolkata-700069 (Ph 22488030) *A' Wing, Rajaji Bhawan, Basant Nagar, Chennai-600090 (Ph 24917673) *Press road, Near Govt. Press, Thiruvananthapuram-695001 (Ph 2330650) *Block No.4, 1st Floor, Gruhakalpa Complex, M G Road, Nampally, Hyderabad-500001 (Ph 24605383) *1st Floor, 'F' Wing, Kendriya Sadan, Koramangala, Bangalore-560034 (Ph 25537244) *Bihar State Co-operative Bank Building, Ashoka Rajpath, Patna-800004 (Ph 2683407) *Hall No 1, 2nd floor, Kendriya Bhawan, Sector-H, Aliganj, Lucknow-226024(Ph 2225455) *Ambica Complex, 1st Floor, above UCO Bank, Paldi, Ahmedabad-380007 (Ph 26588669) *KKB Road, New Colony, House No.7, Chenikuthi, Guwahati 781003 (Ph 2665090)

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Fault Lines of the Promised Land

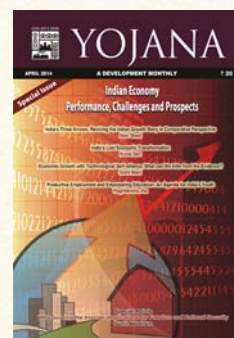
The economic history of India shows a number of distinct phases over the period it fell under the colonial control to the modern times when it embarked on economic reforms. Before the formal onset of the British colonial rule in India after the battle of Plassey in 1757, India was among the richest countries of the world. According to some estimates during the Mughal period India was the second largest economy having a share of almost 25 per cent of the world economy. Two centuries of the exploitative British colonial rule led to India's wealth being drained away and the process of 'deindustrialisation' taking a heavy toll on the people of India. The great nationalist leader Dadabhai Naoroji was the first person to systematically highlight this aspect of the colonial exploitation. His analysis laid the theoretical foundation for the freedom struggle culminating in India's independence in 1947.

At the time of independence, India inherited a stagnant economy. Between 1900-1950, the real GDP growth rate of India was almost zero. The independent India embarked on a process of economic reconstruction and growth by adopting the model of planning. The beginning was made with the Mahalanobis-Feldman model which aimed to build the capital goods industry to lay the foundation for self-reliant growth in India. However, beginning the 1980s winds of change had started blowing across the world in the form of greater international economic integration in the process of globalisation. India realised that its growth rate, sarcastically dubbed the 'Hindu growth rate' of close to 3 per cent annually, was far too low to sustain the expanding aspiration of its people. The distortion in the planned economic process was glaringly reflected in the 'license-permit raj' that empowered the rent seeking class of bureaucrat-contractor-politician to extract surplus from the system. This was the period when economic reforms were initiated, prompted in no small measure by the expanding sphere of finance capital in the world economy.

The process of economic reforms picked up momentum by the early 1990s as India had to undergo structural adjustment in order to avoid defaulting on its international obligations towards debt repayment. The reforms moved apace to include opening up of the economy, decontrol and significant changes in the financial and banking sectors. The transition from the public sector attaining the 'commanding heights of economy' to the 'market driven open economy' has been a complex and multi-layered process. The transition has indeed resulted in an accelerated GDP growth rate of above 5 per cent for the period 1991-92 to 2003-04 and above 6 per cent for the period 2003-04 to 2011-12. Fall in the poverty ratio, improvement in the FDI and better forex reserves have also been noticeable achievements of this period.

However, this period has also been marked by an increase in the level of inequality in the country. According to a study 'in both the early 1990s and the early 2000s the wealthiest 10 per cent of wealth-holders held at least 50 per cent of total assets, while the least wealthy 10 per cent held at most 0.4 per cent of total assets'. In case of land, it is more unequally distributed than wealth as a whole. The ownership of financial assets is even more concentrated, as 'almost all financial wealth is held by well below 1 per cent of the population'. It needs to be highlighted that inequality in resource endowment also culminates into inequalities of opportunity which defeats the purpose of inclusive development that India has adopted as a stated objective of its economic policy. There has also been a serious concern about employment generation in the period of economic reforms. The robust growth rate has not really been accompanied with improvement in the employment generation. Similarly, share of manufacturing sector in the GDP has also been quite low at 16 per cent, putting a structural constraint on the future prospect of growth with employment.

Indeed, the rights based model of inclusive development could be successful only when we are able to bring in larger and larger number of people in the 'circuit of capital' for their productive integration in the process of creation of national wealth. After all, the famous economist Joan Robinson has rightly remarked that 'what is worse than being "exploited" is not to be exploited at all!' □



India's Three Arrows

Alok Sheel



Policy makers need to push through far reaching and politically difficult structural reforms in both advanced economies and emerging markets to rebalance their economies and generate new engines of growth

Recent quarterly data from the US, UK and Japan notwithstanding, the global economy is not out of the woods. It continues to be on extraordinary life support. The fate of the two major demand rebalancings, from Advanced to Emerging Market economies and from public to private, still hangs in the balance. The false dawns or green shoots of 2010 and 2011 make it prudent for the jury to suspend judgement till the recovery is sustained over a number of quarters with the life support withdrawn. Even with this support, with the notable exception of the US and Germany, major advanced economies have still to recoup the output loss of the Great Recession. The US, the star-performer amongst Advanced Economies, has not recovered the notional output loss based on the 2003-2007 growth trend. This is unusual. Run of the mill recessions are followed by above trend growth that recovers this potential loss.

There are two ways in which one can look at the global recovery. On the one hand, research by Kenneth Rogoff and Carmen Reinhart indicates that the recovery is par for the course, as this is unusually slow and painful in the wake of financial crisis. The other view is that the lower trend growth is here to stay because the old growth model is broken; that the 2003-2007 trend was an unsustainable boom based on high levels of leverage and imbalances,

especially in the major economies of the US, China, Germany and within the EU. These imbalances are now unwinding, dragging down trend growth. Lawrence Summers of Harvard University indeed thinks that the US economy is in “secular stagnation”. A return to former trend growth is unlikely in the absence of far reaching and politically difficult structural reforms. Put differently, the recovery has run into the headwinds from globalization, excessive financialization and ageing that were blowing prior to the crisis but were temporarily held in check by the ‘Great Moderation’. Japan was the frontrunner in succumbing to these headwinds, but other Advanced Economies were never far behind.

The current global growth rate of 3 - 3.5 per cent seems politically unacceptable to policy makers because of the 2003-2007 average of over 5 per cent. But if the ‘new normal’ is here to stay, more stimulus may create distortions rather than growth. Indeed, there are enough indications that this is already happening.

Growth in both Advanced Economies and Emerging Markets has declined sharply relative to 2003-2007. But global growth is, nevertheless, now back to the ten year average prior to this boom. The big difference is that Emerging Markets are still growing at a rate faster than the 1994-2003 average. Advanced Economies are not. Secular stagnation would

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therefore, appear to be an Advanced Economy problem, especially since the 2003-2007 boom was largely an Emerging Market phenomenon. However, going forward, the prospects for Emerging Markets look less certain than they have done at any time since the Global Financial Crisis. The International Monetary Fund's recent World Economic Outlook have been repeatedly lifting growth forecasts for Advanced Economies and downgrading those of Emerging Markets. The growth differential between the two gets further reduced when measured in per capita terms.

The fact of the matter is that Emerging Markets are still too dependent on Advanced Economy demand for rapid growth. Given the headwinds to growth in Advanced Economies, if Emerging Markets are to sustain a high growth trajectory over the medium term, they would need to rebalance their engines of growth. Like Advanced Economies, they too, would need to push through politically difficult structural reforms.

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The Indian economy is also clearly in trouble, although the challenges facing it are a little different, but no less daunting, from those of other major emerging markets. The decline in growth and the levels of internal, external and structural imbalances compare unfavourably with other Emerging Markets. India recently lost its traditional rank of the second fastest growing G-20 economy to Indonesia. For these reasons, unlike 1997 and 2008, India now finds itself within the polar vortex of the currency crisis, sweeping emerging markets in

the wake of the Quantitative Easing 'taper tantrums'.

What are the prospects of a sustainable recovery to high growth over the medium term and on what critical factors does it hinge? Although, the prospects for the global recovery over the medium term are distinctly downbeat in view of the major rebalancings required, there is more cause for optimism regarding India over the medium term for two good reasons. First, the two major drivers that recently pushed Indian trend growth from 5.5 – 6.5 per cent into the 8-9 per cent trajectory are intact. The dependency ratio continues to decline, while the roughly ten per cent increase in domestic savings as a share of GDP is largely intact but for some short term damage to financial savings. Second the rather startling fact is that in a demand constrained world, India has the luxury of a domestic crisis caused by supply side problems. Unlike other Emerging Markets dependent on external levers for a return to high growth, our levers are mostly domestic.

The boom was the best time to have pulled these levers. There is no better time to absorb pain than high growth. But the reality is that the boom is also the time when difficult reforms are pushed under the carpet as it creates the seductive illusion that we can carry on without them. Be that as it may, since the supply side crisis is of our own making and not a result of any major external shock, the solutions are also within our control. This will not be easy. In the immortal words of the English poet Thomas Elliot, between the idea and the reality, falls the shadow. Pulling these domestic levers is the big political challenge ahead.

This is not the place to enumerate a shopping list of levers. It may instead be more useful instead to underscore the three most critical levers, or, as has become fashionable these days, the three big arrows, or *brahmastras*, that need to fire. These are *agriculture* that targets the inflation problem, *labour-intensive manufacturing* that targets the current account deficit, and *fiscal restructuring* that targets the infrastructural deficit.

The macro-economist can be likened to a general physician who

diagnoses the general malady and writes a preliminary prescription. He has neither the sectoral expertise nor experience to suggest definitive remedies. This is generally done after detailed diagnosis involving a team of specialists. The author has neither the domain knowledge, nor the necessary experience to design, build and fire the *brahmastras* with the required degree of accuracy. However, he does have the confidence that should these three *brahmastras* be fired accurately from a cross bow called good governance, they can address current macro-economic imbalances, and also lay the foundations for a return to a sustainable high growth trajectory.

At a time when inflation trends are becoming more globally aligned, the persistence of high inflation in India even by Emerging Market benchmarks seems a trifle puzzling. The global trend is presently deflationary. The roots of Indian inflation also do not seem to lie in macro-economic imbalances. But if food inflation is the villain of the piece, it is worth pondering that global food prices have been subdued. That pegs the question why India is an outlier.

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Indian food prices have traditionally been lower than global prices. They continue to remain lower despite high levels of food inflation and volatility in vegetable and horticultural prices. International trade cannot, therefore be expected to dampen domestic food inflation. The roots of Indian food inflation are domestic, the result of market failure. This should not come

as a surprise because agriculture is the one sector which has yet to reap the efficiency gains from the opening up and liberalization of the Indian economy since the early nineties.

Cereal inflation has increased because of repeated sharp spikes in the administered support prices for, public stocks in the large-scale procurement programme. This has negated the deflationary pressures from the demand shift away from cereals to non-cereal food items on account of rising incomes. Non-cereal inflation has increased because of an antiquated marketing system and infrastructure that leads to low

India enjoys the same advantage as China in manufacturing, with the added advantage of stronger private entrepreneurship and more developed capital markets. With competitive frameworks in land, labour, tax, skill development, education, and governance, there is no reason why Indian manufacturing cannot plug into globalization the way China has. This would also help address India's current account imbalance.

levels of productivity, large amounts of wastage and big mark up in prices between the farm and final consumer. The price signalling mechanism, that is the basis of efficient markets equating supply and demand, is therefore relatively weak. The agriculture arrow needs to address these fatal flaws in the agricultural sector and working of agricultural markets. Controlling for technology, Indian agriculture has a global comparative advantage that is waiting to be unlocked.

The second *brahmastra* that needs to be fired is one that will create a conducive environment to leverage India's comparative advantage in labour intensive manufacturing. This would facilitate the transfer of large numbers of underemployed workers stuck in low productivity agriculture to high productivity manufacturing, thereby raising incomes and absorbing the large projected additions to its

labour force. India enjoys the same advantage as China in manufacturing, with the added advantage of stronger private entrepreneurship and more developed capital markets. With competitive frameworks in land, labour, tax, skill development, education, and governance, there is no reason why Indian manufacturing cannot plug into globalization the way China has. This would also help address India's current account imbalance.

The third *brahmastra* is fiscal. There is avoidable confusion regarding fiscal reform in India because we do not distinguish between cyclical and structural budget deficits. *Ceteris paribus*, falling growth increases the budget deficit through a negative revenue shock and vice versa. In either case, the structural balance does not change. The last thing that policy makers should do is aggravate an economic slump by cutting back government demand when private demand is slack in an attempt to keep the nominal fiscal deficit unchanged.

While on the high side, India's structural fiscal deficit has not led to a runaway deterioration in the public debt to GDP ratio. This has actually been falling. The fiscal *brahmastra* is not about the level of India's structural budget deficit as its composition. High growth in the early stages of development creates its own fiscal space for the large-scale investment in physical and social infrastructure necessary to sustain high growth and improve human well-being. Historical experience indicates that private investment can at best supplement this on the margins, and that too, in a conducive policy environment. If this policy space is squandered instead by offering low levels of public goods and services at subsidized cost, growth as well as the productivity of capital employed are bound to suffer and eventually also the consumer welfare. Fiscal restructuring would involve tax reforms, such as the Goods and Services Tax, the Direct Tax Code and improved tax administration, to improve revenue buoyancy to GDP. On the expenditure side, it would involve a shift from non-targeted subsidies to stepping up public investment in infrastructure, both physical and

social. Extant social compacts would need to be renegotiated by the political executive, as reforms are painful over the short-run. As Chancellor Gerhard Schroeder showed in Germany a decade ago, they can be made more palatable through greater, rather than less, fiscal support during the critical phase through well-designed and targeted social safety nets.

To conclude, let me recapitulate my central arguments. The global economy is by no means out of the woods. The recovery is still tepid, the fate of the two major rebalancings remains uncertain, and extraordinary life support mechanisms are still in place. Over reliance on macro-economic policies over an extended period to drive growth higher will only create their own distortions. This is already evident. Policy makers need to push through far reaching and politically difficult structural reforms in both Advanced Economies and Emerging Markets to rebalance their economies and generate new engines

Historical experience indicates that private investment can at best supplement this on the margins, and that too, in a conducive policy environment. If this policy space is squandered instead by offering low levels of public goods and services at subsidized cost, growth as well as the productivity of capital employed are bound to suffer and eventually also the consumer welfare.

of growth. While the Indian economy is also in trouble, the challenges before it are a little different. The levers that need to be pulled are mostly domestic, and on the supply rather than demand side. Three big arrows in particular, namely agriculture, labour intensive manufacturing and fiscal, need to fire in an overall environment of good governance. This would restore domestic and external macro-economic balance and facilitate a return to a high growth trajectory on a sustainable basis. □

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Economic Growth In India – Performance and Prospects

Ravindra H Dholakia



The growth performance during the first phase when the country was under the last 50 years of the British rule was the worst during all the phases so far. Real GDP grew at around 1 per cent annually and so did the population. As a result, the per capita real income almost stagnated for the first fifty years of the last century in India

THE MOST comprehensive indicator of economic growth in an economy is the average annual growth in real Gross Domestic Product (GDP) that is originating within the geographical boundary and measured at constant base period prices. It would, therefore, reflect average incremental availability of goods and services produced domestically in the economy over time. When the growth of real GDP is adjusted for the population growth, it gives the average annual growth of per capita real GDP and reflects closely the improvements in standard of living enjoyed by people in the economy on an average over time. This is particularly valid for large countries where the cross border flows of goods and services are limited in relation to the amount produced within the geographical boundary. These three average annual growth rates in: (i) real GDP, (ii) population and (iii) per capita GDP (PCI) are very significant parameters to reflect the performance and prospects of economic development in any country over fairly long time period.

History of economic growth in India is both interesting and educative. Comparable time series estimates of real GDP in India can be stretched back till the year 1900 for meaningful

analysis (Sivasubramonian, 2004; and Hatekar & Dongre, 2005). There is considerable research on attempting periodization of the economic growth history in India to gain insights about policy regimes and factors determining the performance of the economy over long periods of time (Hatekar & Dongre, 2005; Balakrishnan & Parameswaran, 2007; and Dholakia, 2014). Accordingly, there are five distinct phases so far in the history of economic growth in India: (i) 1900-1901 to 1950-51; (ii) 1950-51 to 1980-81; (iii) 1980-81 to 1991-92; (iv) 1991-92 to 2003-04; (v) 2003-04 to 2011-12.

The growth performance during the first phase when the country was under the last 50 years of the British rule was the worst during all the phases so far. Real GDP grew at around 1 per cent annually and so did the population. As a result, the per capita real income almost stagnated for the first fifty years of the last century in India. Since the last fifty years of the British rule in the country were perhaps the best period for the Indian economy under their rule of about 190 years in terms of development of all physical and social overhead capital such as railways, ports, schools, colleges, hospitals, banks and other institutions, it can be safely assumed that the stagnation of real living standards

The author is Professor of economics at Indian Institute of Management, Ahmedabad since 1985 with research interests in regional economic development, productivity studies, public finance, input-output analysis, labour economics, health economics and national accounting. He was a member of the Sixth Central Pay Commission, High Level Committees for Measurement of Savings & Investment, and for Management of Public Expenditure in India.

of people observed during 1900-51 was perhaps the phenomenon during the entire period of 190 years of the British rule in the country. These two centuries of stagnation ensured that one of the richest countries in the world luring everybody by its wealth and prosperity turned into one of the poorest countries by the year 1950-51.

The stagnation of real per capita income for such a long time also had other implications. Under such circumstances, if anyone becomes better off, it cannot happen without someone else becoming worse off, because it becomes a zero sum game under stagnation. Therefore, in the society people started looking at progressing few with suspicion that they would have been involved in some wrong doing to become rich by depriving others or snatching opportunities from others making them poorer - a perception that continues even today! Social and cultural barriers

The stagnation of real per capita income for such a long time also had other implications. Under such circumstances, if anyone becomes better off, it cannot happen without someone else becoming worse off, because it becomes a zero sum game under stagnation.

to entrepreneurship became stronger and economic growth in the nation further suffered. Moreover, long stagnation in the living standard of masses implies that their consumption pattern would not change significantly, and because there would be hardly any innovations or technological progress in the system, people would continue to consume the same products throughout their life with little diversity and change. Rate of product obsolescence and depreciation was very small and the culture of preserving things by recycling, saving resources and using outdated technology with low material costs was widely prevalent.

After achieving independence, it was a major challenge to break out from such vicious circles of low level

equilibrium. Committing ourselves to achieving self-sufficiency in general and the socialistic pattern of society by adopting both economic and physical planning through creation of public sector undertakings and imposing numerous controls, licenses and high taxes, during the second phase (1950-81) we achieved the breakthrough largely through public sector interventions. In terms of managerial decision to *buy or make*, the national commitment to self-sufficiency implied complete focus on import substitution without consideration to cost of production. It was consistent with the export pessimism subscribed by most of the leaders of those days. Although our share in world exports started falling significantly, the real growth of GDP increased to about 3.5 per cent annually over the 30 years period, 1950-81. Because of a sharp fall in the death rate due to improved provisioning of primary healthcare infrastructure in the rural areas, the growth of population also increased substantially to about 2.2 per cent annually and the per capita income registered annual growth of meagre 1.2 per cent. It marked an increase of about 2.5 percentage points in the annual growth of real GDP, but only about 1.2 percentage points in per capita real GDP.

The need for reforms in economic policies was duly recognized in India in the early 1980s, not substantially lagging behind China. Several economic reform measures got initiated during the 1980s with exchange rates adjusting continually for differences in the inflation rates, change in the approach of monetary policy to monetary targeting, instituting new institutions in financial sector, announcement of long-term fiscal policy, reducing quota requirements in selected commodities, focusing on telecom & information & technology sector, etc. The economic growth during the third phase further picked up from 3.5 per cent to 5.1 per cent annually and the population growth fell to about 2 per cent. Per capita real GDP, therefore, started growing at more than 3 per cent annually during the 1980s.

The fourth phase saw accelerated pace of implementation of some systematic economic policy reforms in various segments of the economy such as fiscal policy, autonomy of the Reserve Bank of India (RBI), commercial policy, capital markets, aviation sector, banking and insurance sector, etc. Sequencing of the reforms was meticulously done starting with privatizing selected sectors by allowing participation by the private sector into those activities reserved hitherto for only the public sector undertakings, liberalizing economic activities by abolishing licensing requirements, gradually reducing protection by cutting tariff rates to integrate domestic economy with the international economy, allowing foreign direct investments in the economy and finally allowing domestic players to go global and become multinational companies. The growth of real GDP further increased during this phase to 6 per cent and per capita real GDP to more than 4 per cent annually.

Because of a sharp fall in the death rate due to improved provisioning of primary healthcare infrastructure in the rural areas, the growth of population also increased substantially to about 2.2 per cent annually and the per capita income registered annual growth of meagre 1.2 per cent.

During the last phase so far covering the period 2003-04 to 2011-12, although no major economic reform took place, the economy was allowed to consolidate and adjust to the reforms already made initially for 5-6 years. However, during the last 4-5 years, some reforms got reversed effectively by introduction of new controls, regulations, approval requirements, bans, environmental and ecological balance oriented clearances and so on. Favourable global factors prior to the year 2008 coupled with easy monetary policy and movement towards fiscal consolidation resulted in high growth.

Annual growth of real GDP increased further to 8.4 per cent and per capita real GDP to more than 6.5 per cent. Interestingly, critical areas of pending reforms such as labour reforms, land market reforms, foreign direct investment, direct & indirect taxation reforms, expenditure reforms and so on are yet not satisfactorily addressed. These represent the opportunities for future growth of the economy.

Prospects For Indian Economic Growth

In the recent past, the best economic performance of the Indian economy was achieved during the year 2007-08. It is important to note some relevant parameter values during the year because they have been actually achieved by the nation in not too distant past and, therefore, can easily be achieved again. It represents the lower boundaries on the potential existing in the economy. In 2010-11, we came very close to achieving several of those parameter values, which indicates the feasibility and practicality of such a potential existing in the economy at present.

In the recent past, the best economic performance of the Indian economy was achieved during the year 2007-08. It is important to note some relevant parameter values during the year because they have been actually achieved by the nation in not too distant past and, therefore, can easily be achieved again.

In 2007-08, the Indian economy clocked the growth of 9.3 per cent in real GDP at factor cost, exports growth of 29 per cent in dollar terms, inflation rates of 4.7 per cent (Wholesale Prices) & 6.2 per cent (consumer prices), foreign exchange reserves of \$310 billion equivalent, average exchange rate of Rs. 40.3 per dollar, current account deficit of only 1.3 per cent of GDP, combined fiscal deficit of 4 per cent of GDP, combined revenue deficit of 0.2 per cent of GDP and primary surplus of 0.9 per cent of

GDP. Thus, the year 2007-08 was outstanding in all relevant performance parameters except consumer inflation. This was made possible primarily because domestic savings rate and domestic investment rate reached their respective peaks at 36.8 per cent and 38.1 per cent of GDP. The Incremental Capital Output Ratio (ICOR) reflecting the efficiency of converting capital formation into growth of output was around 4.1.

The performance of the economy slipped on all these parameters sharply after the year 2007-08. International developments in terms of financial & confidence crisis of 2008, increase in commodity prices including oil prices, Eurozone sovereign debt crisis, etc. led almost all developed economies into severe recession and most of the developing economies to a significant slowdown. Both fiscal and monetary boosts were provided all over with a significant collaborative effort to emerge out of such a slump. Indian economy could fast recover and emerged out of the slowdown initially in terms of regaining the growth momentum, but failed to reign in the inflation, twin deficits on fiscal & current account, steep depreciation of the currency and loss in foreign exchange reserves. Public sector savings fell sharply from 5 per cent of GDP in 2007-08 to 1.3 per cent in 2011-12. Savings of the private corporate sector also fell from 9.4 per cent of GDP in 2007-08 to 7.2 per cent in 2011-12. As a result, overall savings rate in the economy fell by 6 percentage points to 30.8 per cent of GDP in 2011-12. Investment rate also fell from 38.1 per cent of GDP in 2007-08 to 35 per cent in 2011-12 and the growth of real GDP came down to 6.2 per cent in 2011-12. ICOR increased to 5.6 indicating substantial deterioration in the efficiency of capital resources that can occur only if the investments remain under or unutilized.

The government's failure to take several decisions of critical importance and urgency to ensure proper utilization of natural resources and capital investments in areas of strategic importance such as infrastructure

provision, raw material supplies, taxation, providing environmental clearances, giving timely approvals for projects with huge investments, etc. resulted in sharply reducing capital efficiency and consequently increasing the ICOR in the system. From the economy's potential assessment angle, all these factors are of temporary nature and can get reversed very fast. If the central government starts performing by taking quick decisions and clearing the pending cases of approvals, it may not only provide good incentives for additional investments from the private corporate sector but also lead to improvements in utilization rates of existing projects. All this can result in reducing the ICOR back to the level achieved in 2007-08. Similarly, the central government can reign in the fiscal discipline soon to ensure a rise in the public sector saving back to the level of 2007-08.

Thus, achieving the domestic savings rate of 36.8 per cent in near future is very likely. Then, attaining the investment rate of 38 per cent is also quite feasible. However, the future potential of India is far more attractive, because India is among the few economies currently in the world enjoying the demographic dividend.

Thus, achieving the domestic savings rate of 36.8 per cent in near future is very likely. Then, attaining the investment rate of 38 per cent is also quite feasible. However, the future potential of India is far more attractive, because India is among the few economies currently in the world enjoying the demographic dividend. The proportion of population in the employable age group of 20 years to 65 years is on the rise in the country and is likely to continue rising till about 2027-28 as per the UN projections. Thereafter it may stabilize for a while and then start falling. To attain the current level of the ratio, it may take another 15-20 years because the life expectancy in the country is also likely to rise in the meantime, but the further

rise would be necessarily slower as we achieve higher levels. Since the dependency ratio would be falling in the country till 2027-28, domestic savings rate is most likely to rise further to reach the levels already reached in south-east Asia of 40-42 per cent of GDP. If the efficiency of capital resources is maintained with the ICOR staying at 4.1, this in itself would generate an annual growth rate of 10 per cent of real GDP. This is purely domestically funded growth potential. We expect that such a high growth momentum is most likely to attract huge foreign investment in search of better returns and dynamic markets. Similarly our companies would reach out to foreign destinations to expand their markets. If we assume a net inflow of only 2 per cent points, it would push our annual growth potential upward to 10.5 per cent over a fairly long period upto 2050.

Population growth rate is likely to slow down considerably and would be about annual 1 per cent on average. Then the per capita real GDP is likely to grow at around 9 per cent annually. This is a mind-boggling scenario where the per capita real income would be doubling every 8 years. The availability of goods and services would be increasing at an unprecedented rate and so would be the consumption of people. With such a high speed of expansion in the consumption basket, the consumption pattern would be changing drastically and rapidly. The basket would be highly diversified and ever changing. Rate of product obsolescence and depreciation would be very high. Preserving goods would not be found viable and feasible. Recycling of products and resources could become a formal business but affording it within the household could be almost ruled out. Service sector, entertainment, information, communication, research and development are the fields most likely to come to prominence. In short, the first fifty years of the current century are likely to be quite opposite to the first fifty years of the last century in India.

In such a dynamic and fast pace of economic growth, entrepreneurship and diversity of consumption would require considerable resources devoted to research and development. This would require qualitatively a much superior human resource development strategy. For a business enterprise, to survive and maintain one's relative position, rapid growth in labour productivity, technological improvements and emphasis on exclusive products would be the key. Emphasis and reliance on the private sector participation is likely to address most of these concerns as a part of their self-interest.

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DO YOU KNOW?

What Is White Label ATM?

Cash transactions through ATMs (Automated Teller Machines) have made life easy for us. Until recently, only banks were authorised to run the ATMs. However, in view of the reach of ATMs still being largely limited to metro/urban centres, the Reserve Bank of India (RBI) has changed its policy in 2012. The objective is to maximise the reach of ATMs throughout the length and breadth of the country.

White Label ATM is an ATM which provides alternative source of cash dispensing as against the traditional ATMs owned and operated by banks. White Label ATMs (WLA) accept the debit cards of all banks but the company/agency running this ATM is not a bank itself. This system started in the western countries and has now come to India too.

According to the RBI, banks have played a major role in encouraging use of ATMs. Banking has seen considerable growth in terms of number of ATMs. At present, there are about 87,000 ATMs in the country. Yet the small cities and rural areas are still under-covered. Despite a 30 per cent per year growth in the number of ATMs in the country since 2008, per capita, ATM penetration continues to be less, as compared to other countries.

Keeping this reason in mind, RBI reviewed its policy in February 2012 and decided to allow non-banks to set up, own and operate ATMs to widen the spread of ATM network in the country. These are called White Labelled ATMs. They would provide ATM services to customers of all banks.

A non-banking entity seeking permission to open such ATMs need to have net worth of Rs.100 crore at the time of making the application

and on a continuous basis after the permission.

Non-bank entities allowed to open White Label ATMs would be free to choose the location of these ATMs, however, the guidelines of RBI in connection with the urban-rural ratio have to be adhered to.

The cards issued by the banks shall be permitted and no deposits shall be accepted at these ATMs. The White Label ATM operator can earn revenue through advertisements or by offering value added services. The WLA operator shall not charge any fee from the customer. The WLA operations in the country shall be governed by the Payments & Settlement Systems Act, 2007. The WLA operator shall declare one "Sponsor Bank" which will serve as settlement bank for all service transactions at all WLL. The sponsor bank shall see to it that WLAs are adequately stocked with cash and only good quality currency notes are dispensed to the users.

The RBI has said, the primary responsibility to redress grievances of customers related to failed ATM transaction shall be with the issuing bank. The sponsoring bank would provide the necessary support.

According to media reports, RBI has issued certificate of authorisation to four non-bank entities to set up white label ATMs in India. These are Tata Communications Payment Solutions Ltd. (TCPSL), Prizm Payment Services Pvt. Ltd., Muthoot Finance Ltd. and Vakrangee Ltd. TCPSL has opened the first white label ATM in the country at Chandrapada, a rural village in Thane district near Mumbai.

What Is ICANN?

ICANN is Internet Corporation for Assigned Names and Numbers. To reach a person on internet we use an address, which should be

unique and particular. ICANN coordinates these unique identifiers across the world. Without such a coordination, we can not have one global internet. ICANN was formed in 1998. According to ICANN, it is a "not-for-profit partnership of people from all over the world dedicated to keeping the internet secure, stable and interoperable. It promotes competition and develops policy on the internet's unique identifiers."

The domain name system (DNS) is designed to make internet accessible to human beings. As it is not practically possible to remember the numbers, the DNS uses letters instead of numbers and then links a precise series of letters with a precise series of numbers. This system makes the network easier to use. A domain name consists of two elements, before and after the dot such as com, net, org etc.

According to ICANN, it plays an administrative role with the IP addresses used by computers. ICANN does not run the system but it helps in coordination. The role of this organization is to oversee the huge and complex interconnected network of unique identifiers that allows computers on the internet to find one another.

ICANN is made up of different groups, which represent a different interest on the network. There are organisations dealing with IP addresses, domain names etc. ICANN is incorporated under the law of State of California in the United States. It has to abide by the US laws and can be taken to court. ICANN says, it also has mechanism for its accountability to the community through its bye-laws and other methods. □

(Compiled by Hasan Zia, Sr. Editor, e-mail: hasanzia14@gmail.com)

Productive Employment and Empowering Education: An Agenda for India's Youth

Raghendra Jha



The current fixation with growth and poverty is understandable but the realization that neither high growth in the medium term nor sustained poverty reduction is possible without a paradigm change in our approach to education and employment of youth must become the centerpiece of India's development philosophy

A MAN EDUCATED at the expense of much labour and time... may be compared to one... expensive machine ... The work which he learns to perform... over and

above the usual wages of common labour will replace the whole expense of his education" (Adam Smith, 1904[1776],p.101)

"The most valuable of all capital is that invested in human beings" (Alfred Marshall, 1961 [1890] edition, p.564).

At least since 1776, economics has placed a premium on education. It was one of the central pillars of Adam Smith's work and was underscored in good measure by the leading economist of the 19th century, Alfred Marshall. It is one of the sharpest ironies of modern economic history that the pre-eminent growth models of the 20th century, including those in the Harrod-Domar and neoclassical traditions, diluted if not eliminated the emphasis on human capital. It was only in the late 1980s and early 1990s when economists started realizing the inadequacy of the then extant growth models, with their emphasis on labour, capital and technology, in explaining differences in cross-country growth rates and per capita incomes that models of human

capital in economic growth became popular. As the Nobel Laureate Robert Lucas (1988) remarked "Once one starts to think about [economic growth], it is hard to think about anything else."

Empirical research accompanying this theoretical re-orientation came in thick and fast. Almost first off the block, Barro (2001) showed that for a sample of almost 100 countries over the period 1965 to 1995 that educational attainment had a strongly significant impact on the growth of per capita GDP. In particular, this human capital variable had a stronger impact than traditional investment conceived of as net accrual of capital. An additional year of schooling leads to an increase of 0.44 per cent in the growth rate of per capita GDP¹ and investment in education has a social rate of return of 7 per cent. Further, science and mathematics education had particularly strong impacts and much more needs to be done to adequately equip women with per human capital. The "empirics" of economic growth rapidly became a key area of research and the consensus in favour of the importance of education for hastening economic growth remained a dominant theme. The basic message is clear. Adam Smith and Alfred Marshall

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were right: from the point of view of medium to long term economic growth, investment in education is at least as important as investment in capital.

After India's independence, the process of planning for economic development largely reflected the above-mentioned disregard for human capital accumulation and concentrated largely on issues of capital, labour and to a lesser extent, technology.

The time has come for Indian planners to view education expenditure as an essential investment for speeding economic growth. Further, apart from boosting economic growth, an

aggressive program of education with emphasis on science and technology would empower India's burgeoning youth population and lay the true foundations of sustainable high rates of economic growth for the medium to long term.

India's Demographic Dividend

While quantitative estimates of rates of return to investment in education are unavailable, in view of the burgeoning youth population of India, the social rate of return is likely to be higher than 7 per cent estimated by Barro (2001), and last well into the future.

Table 1 summarizes the much-discussed demographic dividend India currently enjoys. It compares India's current position and potential with that of China, other countries that had similar (to India's) per capita GDP in Purchasing Power Parity dollars in 2009, the world and some major country groups.

In 2012, 65 per cent of India's population was in the working age group 15-64. Given the current population trends, this proportion is likely to surpass that of China. Also, India already has the smallest dependency ratio (old as percentage

Table 1: Population Dynamics: India and Select other countries/Groups

Country/ Group	Population (millions)			Average annual population growth (per cent)		Population Age Composition 2012 % age			Dependency Ratio 2012		Crude Death Rate 2011	Crude birth rate 2012
	2000	2012	2025	2000-2012	2012-2025	0-14	15-64	65+	Young per cent of working age population	Old per cent of working age population	Per 1000 people	Per 1000 people
India	1,042.30	1,236.70	1,418.70	1	1	29	65	5	45	8	8	21
China	1,262.60	1,350.70	1,415.90	1	0	18	73	9	25	12	7	12
Mongolia	2.4	2.8	3.3	1	1	27	69	4	39	5	7	23
Viet Nam	77.6	88.8	95.8	1	1	23	71	7	32	9	6	16
Philippines	77.7	96.7	119.2	2	2	35	62	4	56	6	6	25
Indonesia	208.9	246.9	282	1	1	29	66	5	45	8	6	20
World	6,102.10	7,046.40	8,003.80	1	1	26	66	8	40	12	8	19
Low income	648.2	846.5	1,113.20	2	2	39	57	4	69	7	9	33
Middle income	4,243.30	4,897.80	5,555.00	1	1	27	67	6	40	10	8	19
Lower middle income	2,077.90	2,507.00	2,965.90	2	1	31	63	5	50	8	8	24
Upper middle income	2,165.40	2,390.80	2,589.10	1	1	22	70	8	31	11	7	15
Low & middle income	4,891.50	5,744.30	6,668.20	1	1	29	65	6	44	9	8	21
East Asia & Pacific	1,812.20	1,991.60	2,142.80	1	1	21	71	8	30	11	7	14
Europe & Central Asia	256.5	272.1	281.3	0	0	22	68	10	32	15	9	16
Latin America & Caribbean	500.3	581.4	660.2	1	1	28	66	7	42	11	6	19
Middle East & North Africa	276.6	339.6	413.3	2	2	30	65	5	47	7	6	24
South Asia	1,382.20	1,649.20	1,909.70	1	1	30	65	5	47	8	8	22
Sub-Saharan Africa	663.7	910.4	1,261.00	3	3	43	54	3	80	6	12	38
High income	1,210.60	1,302.10	1,335.60	1	0	17	67	16	25	23	9	12
Euro area	315.1	333.8	331.4	0	0	15	66	19	23	29	9	10

Source: World Development Indicators 2013; World Bank

Table 2: Global Comparison of Education Statistics for India

Category	Statistics	Year for which data is reported	Rank in the world
Average years of schooling of adults	5.1 years	2000	65 th out of 100
Duration of compulsory education	8 years	1997	8 th out of 12
Duration of Education (Primary level)	6 years	2002	62 nd out of 177
Duration of education (secondary level)	5 years	2002	155 out of 176
Primary Completion rate	90 per cent	2005	71 st out of 124
Education spending (percentage of GDP)	4.1	2002	82 nd out of 131
Hours of Instruction for pupils aged 9	1,051 hours	2000	5 th out of 38
Primary education teachers (per cent female)	44	2003	112 th out of 135
Primary education ^a teachers per 1000	3.21	2011	104 th out of 134
Public spending per student primary level ^b	7.2	2002	61 st out of 70
Universities top 100 per million ^c	0.00177	2005	22 nd out of 22
Teaching staff in primary. Public and private. Full and part-time. All programs. Total is the total number of teachers in public and private primary education institutions. Teachers are persons employed full time or part time irrespective of their qualifications or the delivery mechanism, i.e. face-to-face and/or at a distance. This excludes educational personnel who have no active teaching duties (e.g. headmasters, headmistresses or principals who do not teach) and persons who work occasionally or in a voluntary capacity in educational institutions. Figures expressed per thousand population for the same year..			
Public expenditure per student, primary level is the total reported current spending by the government on primary education, divided by the total number of pupils in primary education, expressed as a percentage of per capita GDP.			
Number of universities in the top 100. Figures expressed per million population for the same year..			

Source: "India Education: Statistical Profile", Nation Master. Retrieved from <http://www.nationmaster.com/country-info/profiles/India/Education>, accessed 28th February 2014.

of working age population), which implies that, over time, if the youth is productively engaged, India's private financial savings and physical capital investment are likely to boom. Also, in contrast to China, India's population will continue to grow beyond 2025 hence these trends are likely to persist well into the future by which time India can be a high-income or high middle-income country.

Arguably, no country currently faces such fortuitous circumstances; indeed very few countries ever have. It is for Indians to seize this opportunity.

Potential and Performance-Education

Central to capitalizing on India's demographic dividend are mass education of youth, particularly in science and mathematics and their gainful employment in productive jobs. Table 2 reports on key education statistics for India in comparative perspective.

In average years of schooling of adults India ranks 65th out of 100 countries. In fact, except for duration of compulsory education and hours of instruction for pupils aged 9, India's

Of particular concern is the fact that India with its burgeoning youth population has so few universities in the top 100 and ranks last out of 22 countries. Although the idea of spending at least 6 per cent of GDP on education was mooted soon after independence, India spent only 4.1 per cent in 2002. Some authors have categorised the 1980s and 1990s as lost decades for Indian higher education

performance is lacklustre. Of particular concern is the fact that India with its burgeoning youth population has so few universities in the top 100 and ranks last out of 22 countries.

Although the idea of spending at least 6 per cent of GDP on education was mooted soon after independence, India spent only 4.1 per cent in 2002. Some authors have categorised the 1980s and 1990s as lost decades for Indian higher education (Pushkar, 2013). Indeed, Table 2 is a vivid portrait of the gross neglect that India's higher education sector has faced over the years. The 11th Five Year Plan (2007-2012) substantially raised expenditure on higher education as did the 12th Plan (2012-2017). However, there are a number of obstacles to realizing the full potential of this higher expenditure (Pushkar, 2013), e.g., both central and state governments have a say in higher education management. Sometimes, the relation between them in this area is less than co-operative with consequent turf wars.

Table 3 provides some further evidence for primary and secondary education. In 1999, only 63 per cent

of male students and 60 per cent of female students who had begun grade 1 reached grade 5, which is lower than the rate for lower middle-income countries. Even if we ignore the quality of such education and the inequality of access across segments of income, these statistics should set off alarm bells.

Potential and Performance-Employment

Unemployment data for India and several other countries is sketchy.

Even so, according to the World Development Indicators 2013, youth unemployment during 2008-11 for India was 10 per cent for men and 12 per cent for women. For the same period, 12 per cent of those with primary education were unemployed. The corresponding figures for those with secondary and tertiary education were 42 per cent and 23 per cent respectively.

Table 4 sheds further light on the structure of employment, particularly youth unemployment over a decade.

India's employment to population ratio for those over 15 was only 58 per cent in 1991 and actually fell to 54 per cent in 2011. Youth participation in the labor force was lower, even lower than low-income and low and middle income countries. Unpaid family work formed a huge proportion of total employment, particularly for females and although GDP per person growth picked up during 2009-11 as compared to 1990-92, it was still lower than that in China and low and middle income countries.

Table 3: Educational Attainment: India and Select other countries/group

	Gross Intake ratio in first grade of primary education		Reaching grade 5, male per cent of grade 1 students		Reaching grade 5, female per cent of grade 1 students		Cohort Survival Rate		Repeaters in Primary Education		Transition rate to secondary education	
	Male per cent of relevant age group	Female per cent of relevant age group	1999	2010	1999	2010	Reaching last grade of primary education, male per cent of grade 1 students	Reaching last grade of primary education, female per cent of grade 1 students	Male, per cent of enrolment	Female, per cent of enrolment	Male per cent	Female per cent
	2011	2011	1999	2010	1999	2010	2010	2010	2011	2011	2010	2010
India	112	114	63	..	60	..	..	..	5	5	88	89
China	109	110	82	..	80	..	..	..	0	0	..	..
Mongolia	106	104	..	92	..	94	92	94	0	0	98	99
Viet Nam	..	..	80	..	86	..	..	..	..	..	..	..
Philippines	130	120	69	75	79	82	72	80	3	2	99	97
Indonesia	110	115	87	..	92	..	..	..	3	3	84	96
World	114	111	..	..	..	..	74	76	5	5	..	..
Low income	134	126	..	60	..	62	58	59	10	10	..	..
Middle income	111	109	..	..	..	..	76	78	4	4	..	..
Lower middle income	115	111	69	..	72	..	68	71	4	4	86	88
Upper middle income	104	106	83	..	81	..	88	88	4	4	..	..
Low & middle income	115	112	..	..	..	..	72	74	5	5	..	..
East Asia & Pacific	106	109	83	..	80	..	88	89	2	1	..	..
Europe & Central Asia	102	101	..	..	..	..	98	99	1	1	99	98
Latin America & Caribbean	115	112	..	..	..	..	81	86	9	8	..	..
Middle East & North Africa	107	105	89	97	90	97	88	86	8	6	..	..
South Asia	122	119	63	..	60	..	61	65	5	5	86	88
Sub-Saharan Africa	120	111	..	66	..	67	58	57	8	9	..	..
High income	101	100	..	..	..	..	96	93	1	1	..	..
Euro area	100	99	..	..	..	..	96	97	1	4	..	..

Source: World Development Indicators, 2013; World Bank

A Final Word

If nothing else, this essay has underscored the importance of aggressively increasing education and employment opportunities for Indian youth. How to accomplish this is a task well beyond the scope of this paper. However, some basic points can be made. First, there must be enhanced public and private investment (both human (teachers) and capital) in education across the spectrum: primary, secondary, tertiary, professional, vocational. Such investment should come from both domestic sources as well as

FDI. Particular emphasis should be placed on science, engineering and mathematics education. The structure of education may have to be responsive to these transformations. A regulatory mechanism to facilitate rapid expansion of education needs to be set up and central and state governments should be involved in cooperative federalism.

Similar conclusions are warranted for employment. India has recently enjoyed high economic growth but this has largely been jobless economic growth which is unsustainable. The plethora of labor and product

market regulations (for large and small businesses) that inhibit labor mobility and adaptation to domestic and global market requirements must be addressed.

Perhaps, the most significant change required among policymakers is attitudinal– both in the public and private sectors. The current fixation with growth and poverty is understandable but the realization that neither high growth in the medium term nor sustained poverty reduction is possible without a paradigm change in our approach to education and employment of youth must become

Table 4 : Vulnerability of Unemployment: India in Comparative Perspective

	Employment to Population Ratio				Vulnerable Employment				Labour Productivity	
	Total (per cent ages 15 and older)		Youth (per cent ages 15-24)		Unpaid family workers and own-account workers, male (per cent of male employment)		Unpaid family workers and own-account workers, female (per cent of female employment)		GDP per person employed (per cent growth)	
	1991	2011	1991	2011	1990-1992	2008-11	1990-1992	2008-11	1990-92	2009-11
India	58	54	46	34	..	79	..	85	1	5.2
China	75	68	71	51	..	..	..	..	6.8	9.4
Mongolia	55	59	38	32	..	57	..	52	..	..
Viet Nam	77	75	73	59	..	..	..	..	4.6	3.5
Philippines	60	61	42	41	..	42	..	46	-3.3	2.7
Indonesia	61	63	42	40	..	62	..	67	6.2	3.9
World	62	60	52	42	..	..	..	..	0.6	3.4
Low income	72	72	59	56	..	..	..	..	-3.5	4.3
Middle income	63	59	52	40	..	..	..	..	2.7	5.7
Lower middle income	58	55	43	36	..	..	..	..	0.4	3.9
Upper middle income	67	63	60	45	..	..	..	..	4.1	6.6
Low & middle income	64	61	53	43	..	..	..	..	2.4	5.5
East Asia & Pacific	73	68	66	49	..	..	..	..	6.7	7.9
Europe & Central Asia	55	51	40	32	..	..	..	..	-5.9	4.1
Latin America & Caribbean	57	62	48	46	..	..	..	..	0.8	2.4
Middle East & North Africa	41	41	26	23	..	..	..	..	1.9	0.6
South Asia	59	55	47	37	..	..	..	..	3.1	4.7
Sub-Saharan Africa	64	65	47	47	..	..	..	..	-5.2	2.2
High income	57	56	45	37	..	..	..	..	0.9	1.9
Euro area	50	51	42	34	..	..	..	..	2.3	1.9

Source: World Development Indicators 2013; World Bank

the centerpiece of India's development philosophy.

Endnotes

The estimated contribution of human capital to per capita GDP growth is sizable in view of the fact that average per capita GDP growth in India over the period 1951-52 to 2012-13 has been 5.0 per cent (computed from RBI data).

A caveat needs to be added here. India's demographic dividend is also associated with a deteriorating gender balance – a problem that is only going to get worse with higher education and incomes (Chaudhri and Jha, 2013).

Far too often, government agencies have tended to treat child poverty separately from child education. The fact is that the proportion of children that are poor is higher than the proportion of adults who are poor. There should be an integrated approach to both issues as argued by Chaudhri and Jha (2013). The Right to Education Act has too often meant a right to poor quality

education, badly delivered and imperfectly absorbed. Jha (2014) has shown that the problem of inadequately targeted subsidies extends to welfare programs in general.

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Macro-Economic Framework Statement 2014-15

Overview of the Economy

In the recent past, the Indian economy has had to overcome varied challenges in its resolve to sustain its economic success. The major challenges included: unsupportive external environment, domestic structural constraints, growth slowdown and inflationary pressures. The slowdown manifested in the decline in the growth of Gross Domestic Product (at factor cost at constant 2004-05 prices) from 8.9 per cent in 2010-11 to 6.7 per cent in 2011-12 and 4.5 per cent in 2012-13. With the economy projected to have registered a growth rate of 4.9 per cent in 2013-14, the declining trend in growth seems to have reversed. The growth slowdown in India is broadly in sync with trends in similar emerging economies. The sharp downturn in growth owes to the interface of domestic factors with the global economic environment of uncertainties and slow growth in many advanced economies. The growth of real GDP has generally shown a declining trend since the first quarter (Q1) of 2011-12, and is characterized by a moderation in services growth and a protracted slowdown in industry. The revival in agriculture on the back of a steady monsoon and robust growth in financial and business services led to a modest uptick in growth in 2013-14.

The option of a fiscal stimulus did not exist in face of the economic slowdown, post 2010-11, as the elevated levels of inflation precluded further fiscal space. Besides, factors including the slack in investment, exacerbated by delays in projects, signaled the emergence of bottlenecks that made new reforms an imperative to ease the structural constraints hampering growth. The Union Budget 2013-14 laid considerable emphasis, inter alia, on containment of inflationary pressures and mitigation of structural bottlenecks to growth.

The policy response of the Government to the present growth slowdown has been in the form of structural reforms aimed at reducing entry-barriers and boosting competition and productivity in various sectors; fiscal consolidation and reforms in administered prices; further strengthening of financial/ banking sectors; introduction of instruments to encourage financial savings of households; measures to restart the investment cycle through support to infrastructure financing and encouragement to micro, small and medium enterprises (MSMEs); steps to revive growth in manufacturing and reforms in energy pricing. These policies have gone hand-in-hand with macroeconomic stabilization that has had to balance the concerns of inflation and growth recovery, while managing a volatile external situation characterized by a sharp depreciation of the Rupee witnessed till the second quarter (Q2) of 2013-14.

Source : Statements laid before Parliament under the Fiscal Responsibility and Budget Management Act, 2003

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YE-295/2013

Is India Back to the Hindu Growth Rate?

*Kumar Gaurav
Nalin Bharti
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The crisis of 1991 led the Indian policy makers to think beyond the policy of import substitution to outward oriented export promotion model. The Indian economy was integrated with the economies of the world. Reforms were initiated in industrial policy & foreign investment policy, trade & exchange rate policy, tax reforms, public sector policy, financial sector reforms, reforms in agricultural sector, labor market reforms and others. The results of these reforms were seen soon after the reforms. The GDP growth rate which was merely 1.43 per cent in 1991-92, increased to 5.36 per cent in 1992-93

INDIA'S POST economic reforms growth has been one of the most cited examples by economists in last many years. Ahluwalia (1995), Srinivasan (2002), Stern (2004), Virmani (2004), Tendulkar and Bhavani (2007), Panagariya (2008), Bhagwati and Panagariya (2012.) to name a few are among some of the leading contributors in this regard. India was blamed for its inward-looking industrialization from 1950-90. Growth got a new boost from India's macroeconomic reforms when it moved from inward looking to outward looking industrialization. This was in anticipation of the policy makers that Indian economy would achieve faster economic growth. But, the growth in the post reforms period has become a matter of debate. Economists argue that India is an open economy where the Hindu Growth Rate is far from the reality. To get an external linkage in this particular paper, the Pearson correlation coefficient (r) finds the strength of the linear relationship between the GDP Growth and trade deficit in India.

Growth Rate vs. Hindu Growth Rate

Economic growth is defined as the steady process by which the productive capacity of the economy is increased over time to bring about rising levels

of national output and income (Todaro and Smith, 2003). Samuelson and Nordhaus (2007) assert that economic growth represents the expansion of a country's potential GDP or national output. Soon after the independence, Indian Economy was facing chronic imbalances as part of colonial rule. Indian economy was left with weak industrial base, poor infrastructure and static economy. India made the first declaration of industrial policy in their resolution dated 6th April, 1948 in which both public and private sectors had been given importance.

India followed the planning model that was adopted in socialist countries including former USSR. In tune with the socialist central planning model, India started its planning beginning from 1951. However, the development of industries was left in shadow during first Five Year Plan. The gloomy picture of industrialization and sub normality as part of industrial development can be traced through the facts. According to the 1st Five Year Plan, on the one hand, factory establishments in the country accounted for merely 6.6 per cent in 1948-49 as a proportion of national income and on the other, only 1-8 per cent of the working population were engaged in these establishments.

A new industrial policy statement was announced on 30th April, 1956. It was aimed at accelerating the process

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of industrialization and specifically developing large scale heavy industries. The new revised industrial policy includes Schedule A and Schedule B. Schedule A included industries which were the exclusive responsibility of the state - monopoly of the state. Schedule B included mixed sector of public and private undertakings. All the rest of the industries were left for the private sector to establish and operate.

The Third Plan was largely devoted to long run benefits and was in tune with the objectives of increase in the national output and income generating huge employment. The focus was on the development of capital and producer goods industries. It also emphasized on the development of machine-building industries. However, the growth rate of industrial output declined, initially at slow pace and after that, it decelerated sharply reaching stagnation levels. This created serious concerns for nearly three years when the economy fluctuated. The year 1968-69 showed a clear sign of recovery. Fourth Five Year Plan (1969-74), was marked by a very low growth in industrial production of 3.9 per cent against the targeted rate of 8-10 per cent.

Fifth Five Year Plan, started in 1974, proposed to achieve growth with the attainment of self-reliance. The emphasis was on the industries of core-sector like- iron & steel, non-ferrous metals, fertilizers, mineral oil, machinery-building, coal and others. The economy was faced with pressures and the industrial growth rate was low at 2.5 per cent in 1974-75. It was 5.7 per cent in 1975-76 which provided some relief for the economy. Sixth Five Year Plan was started in 1980. Substantial policy changes were announced during this plan. Industrial licensing and controls were relaxed and import policy was more liberalized than ever before. The result was that growth was witnessed in industrial production. Seventh Five Year Plan was started in 1985. The emphasis was on development with growth and increase in productivity. The industrial growth rate during this plan was 8.5 per cent against the target of 8.4 per

cent. Thus, it was successful on the part of industries.

Ahluwalia (1995) pointed out that the inadequacy of the growth performance of the Indian economy led Prof. Raj Krishna to coin the much quoted phrase '*the Hindu rate of growth*', to specify the disappointing trend of growth. The Hindu growth rate has nothing to do with any specific religion; rather it is a term that was economic in nature. It was a caustic remark on the socialist pattern that was adopted by the government after the Independence. It was an indication of low and almost stagnant growth of Indian economy during 1950s to 1980. The average annual growth rate of GDP during this period was 3.5 per cent. The growth rate of GDP has shown in table1:

Table1: GDP growth rate from 1950-1979

Decades	GDP growth Rate
1950-59	3.3
1960-69	4.4
1970-79	2.9
1950-79	3.5

Source: Bhalla's(2009) calculation extended by authors during the period 1950-1979.

Virmani (2004), asserts that the *new economic policy* introduced in 1991-92 had changed the Indian economy and pushed it from the *Hindu rate of growth* to a new higher rate of 5 per cent-6 per cent, called as, new *Hindu rate of growth*.

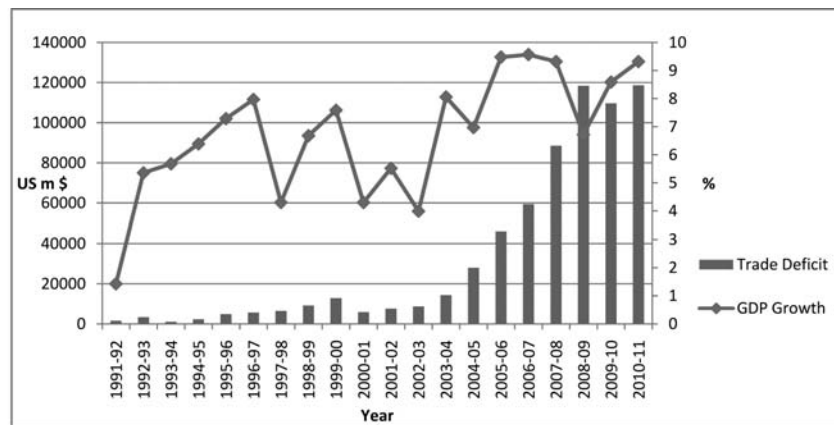
Slow-down Growth Linkages

Growth potential of Indian economy can be gauged in two ways: quantitative and structural. To understand the quantitative aspects, growth rates of different sectors and overall GDP growth are considered. But to understand the economy well, structural aspects have to be considered. Changes in sectoral distribution of GDP give the more realistic account on the part of economic growth of the country. Agriculture dominated the sectoral composition of the GDP till 1970. In 1950-51 agriculture and allied sector's share in GDP was 55.3 per cent. Two decades of planning in India, did not show any significant decline in the share of agriculture and allied sector. This was the manifestation of the fact that industries were indeed in a bad condition in India. The process of industrialization was not smooth and not contributing significantly.

Growth Trends after Reforms

The crisis of 1991 led the Indian policy makers to think beyond the policy of import substitution to outward oriented export promotion model. The Indian economy was integrated with the economies of the world. Reforms were initiated in industrial policy and foreign investment policy, trade and exchange rate policy, tax reforms, public sector policy, financial sector reforms, reforms in agricultural sector, labor market reforms and others. The results of these reforms were seen soon

Figure 1: GDP growth rate and trade deficit from 1991-92 to 2010-11



Source: Annex Table 4

Table 1 Formulae for calculation of sectoral growth in India

Statistics	Formula	Interpretation
Mean		Σ = summation $\sqrt{\quad}$ = square root
Sample variance (S ²)	$\Sigma(x-\text{Mean})^2/N-1$	
Sample standard deviation(S)	$\sqrt{\Sigma(x-\text{Mean})^2/N-1}$	x=different values of variables N=size of the sample data set
Sample Pearson correlation coefficient (r)	$r = \frac{n(\Sigma xy) - (\Sigma x)(\Sigma y)}{\sqrt{[n\Sigma x^2 - (\Sigma x)^2][n\Sigma y^2 - (\Sigma y)^2]}}$	n=number of values x=first set of variables Y=second set of variables Σxy =sum of products of x and y Σx =sum of first set of variables Σy = sum of second set of variables Σx^2 =sum of squares of first set of variables Σy^2 = sum of squares of second set of variables

Source: Authors

Table 2 Sectoral Results from Growth data

Agriculture & Allied	Results
Sum	66.41
Mean	3.018636364
$\Sigma(X-\text{Mean})^2$	352.5430591
Sample variance (S ²)	16.78776472
Sample standard deviation (S)	4.097287483
Industry	Results
Sum	143.93
Mean	6.54227273
$\Sigma(X-\text{Mean})^2$	210.641786
Sample variance (S ²)	10.0305613
Sample standard deviation (S)	3.16710613
Services	Results
Sum	181.31
Mean	8.24136364
$\Sigma(X-\text{Mean})^2$	78.2312591
Sample variance (S ²)	3.72529805
Sample standard deviation (S)	1.93010312
GDP	Results
Sum	145.7
Mean	6.622727
$\Sigma(X-\text{Mean})^2$	92.04044
Sample variance (S ²)	4.382878
Sample standard deviation (S)	2.093532

Source: Based on calculations from the data available in annex table 6

after the reforms. The GDP growth rate which was merely 1.43 per cent in 1991-92, increased to 5.36 per cent in 1992-93. The growth rates of different sectors have been shown in the Table 6.

Agriculture & Allied Sectors

Indian economy was heavily based on agriculture. Its importance can be evaluated on two grounds- share in GDP and in employment. So there is a need to address the problems of agriculture. The low production and productivity poses constraints on the total output of agriculture. The inefficiency on the part of agriculture merits sound policy implications and investments. A very alarming characteristic of agricultural sector is

that real investment in agriculture, both private and public, has been stagnant (Ahluwalia, 1993). This, with other structural factors, led to slow growth in agricultural and allied sector. (Table 2) and (Table 6).

Industry

The economic reforms were more radical as far as industries were concerned. Changes in the policy framework gave a big boost to industries. The major reforms were the abolition of licenses to a wide range of industries. Licenses are required now only for some industries. Industries have thus grown significantly during the last two decades after the reforms. Average growth rate from 1991-92 to 2010-11

was 5.7 per cent with a peak growth of 12.17 per cent in 2006-07 and lowest of 0.34 per cent in 1999-00. (Table 2 and Table 6)

Service Sector

The service sector in India after the reforms has dominated the sectoral composition of GDP. The share of services in 1991-92 was 43.9 per cent which rose to 59.29 per cent in 2012-13. There is a sharp increase in IT, telecom, banking service, insurance, entertainment and many more. But, it's also true that only few services are performing well. Today, India is well known for IT and IT-enabled services (ITES), communication and BPO. The growth of service sector after the reforms shows a relatively

Table 3 Mean, sample variance and Sample standard deviation of Growth Rates from 1991-92 to 2012-13

Sectors	Mean growth rate	Sample variance (S ²)	Sample standard deviation (S)
Agri. & Allied (X ₁)	3.018636364	16.7877647	4.097287483
Industry (X ₂)	6.54227273	10.0305613	3.16710613
Services (X ₃)	8.24136364	3.72529805	1.93010312
GDP (X ₄)	6.622727	4.382878	2.093532

Source: Calculated by authors

Table 4 Trade balance and GDP growth rate

Year	GDP Growth ¹	Trade Balance (US m \$) ²
1991-92	1.43	-1546
1992-93	5.36	-3345
1993-94	5.68	-1068
1994-95	6.39	-2324
1995-96	7.29	-4881
1996-97	7.97	-5663
1997-98	4.3	-6478
1998-99	6.68	-9171
1999-00	7.59	-12849
2000-01	4.3	-5899
2001-02	5.52	-7586
2002-03	3.99	-8693
2003-04	8.06	-14306
2004-05	6.97	-27981
2005-06	9.48	-46075
2006-07	9.57	-59321
2007-08	9.32	-88522
2008-09	6.72	-118401
2009-10	8.59	-109622
2010-11	9.32	-118633

Source: ¹ Data book for DCH (2013). Data for use of Deputy Chairman, Planning Commission, Government of India

² Economic survey 2012-13, Ministry of Finance Department of Economic affairs, Government of India, Delhi

smooth trend compared to agriculture and industries. The growth rate which was 4.69 per cent in 1991-92, started increasing and witnessed double-digit growth in several years.

Performance of Indian Economy

There are different phases of growth of Indian economy. Before 1980s, there was relative stagnation in the economy, with average growth rate of GDP at 3.5 per cent. Partial reforms were started during 1980s. But total reforms were initiated only after 1991. The currency crisis of 1990s compelled the policy makers to initiate the reforms.

GDP started peaking after reforms. Table 2 and 6 shows the growth rate, mean, sample variance, sample standard deviation and deviations from mean and sample standard deviation of GDP growth rates.

The mean growth rates of all the three sectors- agriculture & allied, industry and services, have been shown in Table 3. It gives the complete picture of performance of the economy on the basis of each individual sector's performance.

External Linkages

Domestic sectors have been discussed till now. To analyze the economy completely, it is imperative to understand the external linkages

of growth also, comprising exports and imports. Trade balance remained negative since long. There has been trade deficit in the balance of payments account. Table 4 shows trade balance and GDP growth rates from 1991-92 to 2010-11.

The correlation coefficient between GDP growth rate and trade deficit is found to be 0.58. This indicates that there is a moderate positive relationship between these two. The value of correlation coefficient shows that when GDP increases, India's trade deficit also increases (though moderately), indicating that the exports are not responding as fast as compared to imports. These growth rates indicate that the reforms had certainly brought more imports which has contributed in our growth because such range of growth rate (1991-2010) has not been achieved by India before trade liberalization started in 1991. Figure 1 shows how GDP growth rate and trade deficit are inter-related. Primary vertical axis shows trade deficit in US million \$ and secondary vertical axis shows GDP growth rate in percentage (per cent). Horizontal axis indicates years from 1991-92 to 2010-11.

Recent Growth Trends

The Indian economy is facing problems that are reflected through the facts released by the Ministry of Finance, Department of Economic

Affairs during recent couple of years. Quarterly data released from 2010-11 to 2012-13 related to the growth rates of agriculture & allied sector industry and service sector have been shown in Table 5.

Agriculture & allied sectors have been performing poorly. This is the most fluctuating sector – growth rates have fluctuated between peak rates of 11.0 per cent in quarter 3 (Q3) of 2010-11 to mere 1.2 per cent in quarter 2 (Q2) of 2012-13. Average growth rate during this period was 3.4 per cent. Industrial sector is also a matter of concern for the policy makers and the government. Industries have grown on an average of 4.4 per cent during Q1 of 2010-11 to Q2 of 2012-13. However, service sector shows a steady trend during this period. Average growth rate in this sector stood at 8.6 per cent. Overall GDP growth rate during this period was 6.9 per cent.

Conclusion

Compared to the pre reforms era, Indian economy had much faster economic growth in the post reforms period. But, the recent revised forecasts released by ADB and others on the growth of Indian economy provide a glimpse of slow down of Indian economy.

Agriculture and allied sector is still a matter of concern as it is the most fluctuating sector in the Indian economy

Table 5 Quarterly Growth Rates

Year	Quarter	Agri. & Allied	Industry	Services	GDP
2010-11	Q1	3.1	8.3	10	8.5
	Q2	4.9	5.7	9.1	7.6
	Q3	11	7.6	7.7	8.2
	Q4	7.5	7	10.6	9.2
2011-12	Q1	3.7	5.6	10.2	8
	Q2	3.1	3.7	8.8	6.7
	Q3	2.8	2.5	8.9	6.1
	Q4	1.7	1.9	7.9	5.3
2012-13	Q1	2.9	3.6	6.9	5.5
	Q2	1.2	2.8	7.2	5.3
	Average ¹	3.4	4.4	8.6	6.9

Source: Monthly Economic Report (2013), Ministry of Finance¹Calculated by the authors

Table 6 Deviations & Squared Deviations from Mean and Deviations from standard deviation of Growth Rates of Agriculture & Allied, Industry, Service Sector and GDP from 1991-92 to 2012-13

Year	Agri. & Allied# (X ₁)	(X ₁ -Mean)	(X ₁ -Mean) ²	(X ₁ -S)	Industry# (X ₂)	(X ₂ -Mean)	(X ₂ -Mean) ²	(X ₂ -S)	Services# (X ₃)	(X ₃ -Mean)	(X ₃ -Mean) ²	(X ₃ -S)	GDP# (X ₄)	(X ₄ -Mean)	(X ₄ -Mean) ²	(X ₄ -S)
1991-92	-1.95	-4.96864	24.687347	-6.04729	0.34	-6.20227	38.468187	-2.82711	4.69	-3.55136	12.61218368	2.759897	1.43	-5.19273	26.96441653	-0.66353
1992-93	6.65	3.631364	13.186802	2.52713	3.22	-3.32227	11.037496	0.052894	5.69	-2.55136	6.509456405	3.759897	5.36	-1.26273	1.594480165	3.266468
1993-94	3.32	0.301364	0.09082	-0.77729	5.5	-1.04227	1.0863324	2.332894	7.38	-0.86136	0.741947314	5.449897	5.68	-0.94273	0.888734711	3.586468
1994-95	4.72	1.701364	2.8946382	0.622713	9.16	2.617727	6.8524961	5.992894	5.84	-2.40136	5.766547314	3.909897	6.39	-0.23273	0.054161983	4.296468
1995-96	-0.7	-3.71864	13.828256	-4.79729	11.29	4.747727	22.540914	8.122894	10.11	1.868636	3.49180186	8.179897	7.29	0.667273	0.445252893	5.196468
1996-97	9.92	6.901364	47.62882	5.822713	6.39	-0.15227	0.023187	3.222894	7.53	-0.71136	0.506038223	5.599897	7.97	1.347273	1.815143802	5.876468
1997-98	-2.55	-5.56864	31.009711	-6.64729	4.01	-2.53227	6.4124052	0.842894	8.93	0.688636	0.474220041	6.999897	4.3	-2.32273	5.395061983	2.206468
1998-99	6.32	3.301364	10.899002	2.222713	4.15	-2.39227	5.7229688	0.982894	8.28	0.038636	0.001492769	6.349897	6.68	0.057273	0.003280165	4.586468
1999-00	2.67	-0.34864	0.1215473	-1.42729	5.96	-0.58227	0.3390415	2.792894	11.19	2.948636	8.694456405	9.259897	7.59	0.967273	0.935616529	5.496468
2000-01	-0.01	-3.02864	9.1726382	-4.10729	6.03	-0.51227	0.2624233	2.862894	5.37	-2.87136	8.244729132	3.439897	4.3	-2.32273	5.395061983	2.206468
2001-02	6.01	2.991364	8.9482564	1.912713	2.61	-3.93227	15.462769	-0.55711	6.88	-1.36136	1.85331095	4.949897	5.52	-1.10273	1.216007438	3.426468
2002-03	-6.6	-9.61864	92.518165	-10.6973	7.21	0.667727	0.4458597	4.042894	6.97	-1.27136	1.616365496	5.039897	3.99	-2.63273	6.931252893	1.896468
2003-04	9.05	6.031364	36.377347	4.952713	7.32	0.777727	0.6048597	4.152894	8.06	-0.18136	0.032892769	6.129897	8.06	1.437273	2.065752893	5.966468
2004-05	0.18	-2.83864	8.0578564	-3.91729	9.81	3.267727	10.678042	6.642894	8.13	-0.11136	0.01240186	6.199897	6.97	0.347273	0.120598347	4.876468
2005-06	5.14	2.121364	4.5001837	1.042713	9.72	3.177727	10.097951	6.552894	10.91	2.668636	7.121620041	8.979897	9.48	2.857273	8.164007438	7.386468
2006-07	4.16	1.141364	1.302711	0.062713	12.17	5.627727	31.671314	9.002894	10.06	1.818636	3.307438223	8.129897	9.57	2.947273	8.686416529	7.476468
2007-08	5.8	2.781364	7.7359837	1.702713	9.67	3.127727	9.7826779	6.502894	10.27	2.028636	4.115365496	8.339897	9.32	2.697273	7.275280165	7.226468
2008-09	0.09	-2.92864	8.576911	-4.00729	4.44	-2.10227	4.4195506	1.272894	9.98	1.738636	3.022856405	8.049897	6.72	0.097273	0.009461983	4.626468
2009-10	0.81	-2.20864	4.8780746	-3.28729	9.16	2.617727	6.8524961	5.992894	10.5	2.258636	5.101438223	8.569897	8.59	1.967273	3.870161983	6.496468
2010-11	7.94	4.921364	24.21982	3.842713	9.16	2.617727	6.8524961	5.992894	9.75	1.508636	2.275983678	7.819897	9.32	2.697273	7.275280165	7.226468
2011-12	3.65	0.631364	0.39862	-0.44729	3.49	-3.05227	9.3163688	0.322894	8.2	-0.04136	0.00171095	6.269897	6.21	-0.41273	0.170343802	4.116468
2012-13	1.79	-1.22864	1.5095473	-2.30729	3.12	-3.42227	11.711951	-0.04711	6.59	-1.65136	2.72700186	4.659897	4.96	-1.66273	2.764661983	2.866468

Source: Authors calculations based on data book for DCH (2013), Planning Commission, Government of India

with mean growth of mere 3.01 per cent with high standard deviation of 4.09 per cent in the post-reforms era. Mean growth of industries during 1991-92 to 2012-13 stood at 6.5 per cent with standard deviation of 3.16 per cent indicating fluctuations in the growth rates. Services are performing well as compared to agriculture and allied and industries. The mean growth is 8.24 per cent which gives a trend of growth from 1991-92 to 2012-13. Sample standard deviation is comparatively low at 1.93 per cent showing low spread of growth rates from mean. These results show a relative smooth trend of services growth in India.

After the wake-up call of economic reforms and trade liberalization, the role of external sector became crucial in determining the fate of Indian economy. Trade balance exports-imports (X-M) remained negative and sharp even in the post reforms period. The correlation coefficient between GDP growth rate and trade deficit is found to be 0.58 which shows a positive moderate association between two- GDP is increasing and so is trade deficit. At the beginning of this period, the ratio was admittedly low but after 1991 reforms, the ratio rose more rapidly (Sinha and Bharti 2012). Data (in table-4) reveals the fact that the increase in GDP growth has not turned into increasing exports as increasing import. This indicates that the exports are not responding as fast as compared to imports.

The results on growth statistics after the reforms suggest that GDP growth of 6.6 per cent during 1991-92 to 2012-13 is out-lying from Hindu growth rate of 3.5 per cent. The sectoral mean of growth rates of industry and service sector are 6.5 per cent and 8.2 per cent respectively, moving far away from Hindu growth rate. But the most revealing fact lies in the growth rate of agriculture and allied sector witnessing mean growth rate of only 3.01 per cent during the same period, which is even lower than Hindu growth rate. Thus, agriculture and allied sector being close to Hindu growth rate means more need of the God's blessing. This is a big

question on our post reform growth performance that at the sectoral level, the major contributor in our growth is services where a small workforce is dependent. For many years, agriculture had negative growth rate where the majority of the workforce is dependent. To conclude, there may be fluctuations in growth of the economy, but the post-reforms growth statistics show that India will certainly not be back to the Hindu Growth but much ahead from such growth. The quantum of fear for back to Hindu growth rate has mostly been exaggerated.

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Safeguard of the Traditional Wisdom

Baba Mayaram

THE REMOTE Pithauragarh village of Satna District lies in the central Indian state of Madhya Pradesh holds the dubious distinction of being one among the five Indian States that showed an increase of over 50 farmer suicides compared to 2010, according to the National Crime Records Bureau (NCRB). Ironically, in this village lies a secret that can help arrest the suicide trend and also bring back the agriculture in this land of farmers.

Here, a farmer, is not only experimenting with indigenous seeds on his farm but is also inventing new methods for their conservation and promotion, becoming a role model for his fellow farmers caught in the web of hybrid seeds.

As one enters the house of sixty five year old Babulal Dahiya, the sight of his impressive collection of conserved seeds brings back images of a glorious ancient India. On the wall, like a blackboard, are the varieties of paddy seeds preserved carefully in poly bags. Flakes from the recent harvest stored in the cow dung plastered yard reflect the hard work invested in the farming practices. As a knowledgeable Babulal explains the merits of indigenous seeds, his wisdom is complemented by the fragrance of fresh saplings and the sound of the hand driven mill crushing the *urad daal*.

“These paddies, as compared to the hybrid ones, offer good taste, hence one gets a better price for them. Indigenous paddy crops can be grown using the traditional cow-dung fertilisers, while hybrid or dwarf crops necessarily require chemical fertilisers. Besides increasing the production cost, it also damages the fertility of the soil,” shares a proud Babulal, flaunting the collection of the seventy varieties of paddy seeds he has collected by

wandering from one village to another and growing them with the most traditional and natural methods.

“Harmful insects are naturally controlled by flies, honeybees, ants and other insects. Earthworms work 24 hours a day, eating into the infertile elements of the soil and making it soft, facilitating a healthy crop. As compared to the hybrid varieties which demand more irrigation, indigenous varieties take less time to be ready for harvesting and that too, through a natural process.”

Each variety of paddy has its own unique characteristics. Some like Sarya, Sikiya, Shyamjeer, Dihula and Sarekhni are ready for harvest within 70-75 days while others like Newari, Jhalore, Kargi, Mungar and Sekurgar take 100-120 days; and Badal phool, Korakhamha, Vishnubhog, Dilbakhsh are ready only 120-130 days after sowing.

The gradual extinction of traditional songs and folklores celebrating the beauty and colour of the innumerable varieties of seeds attracted Babulal’s attention towards the conservation of vulnerable indigenous grains which have nearly lost the battle to the hybrid varieties. This concern drove him to conserve and promote not only the traditional ways of farming but the “farming in culture” as well.

In earlier days, when there were no radios and televisions to give us a weather forecast, the experience of our forefathers helped predict the weather appropriate for each stage of the farming process. They could gauge Nature’s mood by assessing the colour of the clouds, the flow of the wind, and the pattern of rainfall. An old saying goes, ‘*Purva jo purvai pabay, sookhi nadiyan nav chalavein*’, meaning, ‘When wind starts blowing in the direction of the Orient star, it rains so heavily that even the dry

rivers can offer a boat ride.’ Based on such wisdom, the farmer created proverbs and folk songs which played an important role in passing on such ingrained wisdom to the following generations. Alas, the link has been broken, much to the dismay of the older generations.

“Like our indigenous seeds are becoming extinct, so also are we, losing our agriculture-related vocabulary. The entire culture around our farming activities and life system is being hampered. We manage with words like rice, wheat and *dal*. Earlier, we had several varieties of pulses and grains: Sama, Kodo, Kutki, Mung, Udad, Jwar and Tilli, to name a few. People would be involved at every step, every procedure of farming, right from the day it was planted to the day it was harvested.” says Babulal whose vast collection of season-related songs and proverbs have been published in a book named “*Sayanan ke Thathi*” brought out by the Madhya Pradesh Biodiversity Board.

In olden days, the agricultural activities were self-reliant. Except for salt, people could procure all their daily necessities from within the village. They would produce all they required through the year on their farm. They would grow multiple grains: Jwar, Mung, Udad, Tuar, Til or Kodo. They followed the concept of *milwan* farming (mixed farming). This would provide wheat, rice and dal. Similarly, the village blacksmith would prepare all the tools necessary for farming. He would barter it for grain during the harvest. The entire village was interdependent. We will have to return to the wisdom of our traditions, our own *desi* seeds, plow-bullocks and cow-dung fertilizer-based farming if we want to save our tradition and, most important, the lives of our fellow farmers!

Charkha Features

Globalization of Markets and Consumer Rights: Challenges and Opportunities

M C Paul



Synergizing all the pro-consumer action programmes and strategies together can deliver the goods. Now the time has come when the legislature, the executive, the judiciary and the fourth Estate must come together and pro-actively work in tandem curbing the rising menace of market wrongdoings and injustices in the era of globalization and liberalization of Indian market economy

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AS A RESULT of economic reforms, a large capital flow helped making varieties of quality goods and services, cheap telephone services, internet and computers, airline services, etc. available offering choices in the free markets including 24X7 E-commerce to consumers. Along with this profit-driven market growth, new ideas, consumption culture shaping lifestyle changes are also increasingly seen like in developed economies as a result of development of multi-storied well-stored malls, super markets and other refurbishing markets with varieties of goods and high-end products and services. It is a fact that profit-driven global market forces of all hues are in continuous search of consumer markets in every nook and corner because nation's growing consumer markets are very lucrative and profitable as India's affluent and vast middle class consumers are becoming 'lifestyle-change-agents'. This asymmetric information through eyeball-catching advertisements and publicity definitely act to the disadvantage of *aam* consumers as they do not help in making informed-choice /decision but only mislead.

This rising menace of unethical and misleading advertisements by the producers of goods and services from cars to electronics to daily

necessities of life goading the *aam* consumers to buy them or spur a demand is certainly a violation of consumer rights as enshrined in Consumer Protection Act, 1986. It is in this developing scenario that the role of welfare state is considerable. The various intervention measures by the state setting proper consumer protection mechanisms are *sine qua non* to ensure the safety, security and overall wellbeing of its citizens since they rely increasingly on the free-market for purchases of goods and services. Moreover, there is a growing dissatisfaction and serious concern raised by consumers how to stem many other rising phenomena of consumer rights violations by the profit-driven market forces affecting the health, wellbeing and environment. For example, the marketing of adulterated and spurious goods and unsafe services, and their consequences on millions of *aam* consumers on particularly belonging to poorer sections, cannot be easily imagined as the sufferers only know where the shoes pinch. This is not an aberration but certainly a very disturbing scenario; a phenomenon of serious concern that urgently demands comprehensive state intervention since it relates to larger socio-economic and political questions of policy-making.

Fortunately, at the behest of the UN, the Indian Parliament legislated

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the Consumer Protection Act in 1986, much before the adoption of liberalization and privatization policy in 1991. In fact, India became one of the first few countries in the world to have passed such a revolutionary legislation exclusively for consumer protection with three-tier machinery at district, state and national level for redressing consumer grievances.

Globalization, Market Growth and Consumer Rights Violations

It is a fact that India is the second fastest growing economy of the world, after China, with 8 per cent plus average GDP growth rate for the last few years before the recession hit. The rate of growth of consumerist culture is expected to increase but whether free-market activities without comprehensive regulatory regime under globalization are pure manna from heaven or a fiendish attempt to

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exploit consumers is a question that will be definitely debated for a long time. For example, the Corporate Social Responsibility (CSR) is narrowly defined and the issues of consumer rights protection are yet to enter into the lexicon of business and/or take a firm place. Unless it is wholeheartedly accepted by the business, the consumer rights violations cannot be defeated to the satisfaction of *aam* consumers. Some of the problems consumers face in the emerging market economy are:

Unethical, Unfair and Deceptive Trade Practices: in regards to quality, quantity pricing policy, deceptive and innovative packaging, and sales promotion schemes etc.

High and Unfair Prices: charging high prices to accrue undue profit and thereby exploit vulnerable consumers.

High Cost of Distribution- Consumers pay for excessive distribution costs as there are too many intermediaries, inefficiency and duplication of services.

Under-weight and Unsafe Products and Services- Many times, the product offered lacks the requisite quality and performs less than the promise with regard to weights and measures and poor services as well.

Product Safety and Security-This concerns the production of flawed products due to company indifference, increased product complexity, and poor quality control. Most companies are wary of producing poor quality products in the backdrop of rising consumerism and market expansion.

Harmful, Spurious and Low-benefit Products-Producing harmful and low-benefit products affecting health and well-being of consumers in the short and long run like adulterated food products, tobacco-based harmful products, cigarettes, alcoholic beverages/ health drinks, skin creams and genetically-modified products, spurious pharmaceuticals and healthcare products etc. are causes of great concern and many of these promotional products often lack nutritional value without much scientific validity including hazardous junk foods/fast foods. Often consumers end up buying inferior, unsafe, spurious, low quality, impure goods at higher prices from many retail outlets etc. In rural areas, marketers sell spurious, unsafe products which often pass off as originals by the dealers/ retailers, particularly in weekly *Haats* and *Bazars* to illiterates, uninformed and uneducated. These are not rare. Moreover, they are also often over-

charged on many goods and services beyond the fixed or MRP.

Excessive/ Aggressive Use of Media-Deceptive, Misleading Surrogate Advertisements and Marketing Strategies are very often used to skilfully manipulate, allure or influence consumers. These manipulative strategies do not help consumers to make informed-choice about the goods and services marketed, and thereby they are made to suffer loss financially, psychologically, physically in health and wellbeing.

Planned Obsolescence and Sales Policy-Some producers follow a policy or program of planned obsolescence; causing products to become obsolete and thereby fail to supply parts to consumers who need replacement etc

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Poor service to Disadvantage - It is observed that the consumers often feel disadvantaged as they become victims of poor service in many emerging areas like banking, insurance, real estate, health, hotel and hospitality, travel, tourism, airlines, education sectors etc.

Some Broader Issues

The issues of global warming, climate change etc. are also cause of tremendous concern as the over-consumption and consumption-stimulated economic growth and development may be a boon to the business, but in the long run, it will be a curse for future generations. Gandhiji's message that 'The planet has everything to fulfil the needs of the people and not the greed' is equally

revolutionary to make our saner, planet safer and secure so the excessive consumerist culture as adopted by the West cannot become the panacea. The Consumer Protection Act, 1986 has been amended thrice to meet the needs of the times but due to one reason or the other, the consumer protection mechanisms are yet to make difference to consumer rights violations in 24X7 market scenario in our country.

Thus, the need of the hour is to proactively take measures to strengthen good governance system with strong regulatory mechanisms applying stringent rules and laws against wrongdoers to meet the growing challenges thrown up by profit-driven free-market forces under the privatization and liberalization agenda if the fruits of growth are to reach the *aam* people. In other words, the relevance and centrality of consumer

It is often said that in a free-market environment, consumers are the kings and/or sovereign since they have the options of when, where, how and what to buy from the market. But in reality, it may not always happen that way as the vulnerable consumers find themselves under mercy of powerful manufacturers and traders

protection mechanisms must be realized if we want to sustain the balanced growth of economy and society with equity. It is here that the Father of the Nation, Mohandas Karamchand Gandhi's pragmatic message that "A customer is most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an outsider on our business. He is part of it. We are not doing him a favour by serving him. He is doing us a favour by giving us an opportunity to do so." Thus, both the consumers and producers are partners of growth and development and, the adoption of Gandhiji's message by the business of all hues can bring a sea change to consumer rights violations in India. But the disgruntled marketers who are

blinded by profit-making syndrome pay little heed to it. It is here that the welfare government has tremendous responsibility to bring this universal message into the senses of all business activities to create a healthy society and economy through appropriate government interventions.

Consumer Education and Awareness Movement

In India, the consumer rights movement, is certainly not a new idea; it is as old as trade and commerce. In fact, Kautilya's *Arthashastra* detailed many consumer protection rules and regulations to check exploitations by the trade and industry, particularly related to under-weights and measures, adulteration etc. with highlighting clauses for punishment for many offences in clear terms. There is no doubt that ensuring consumer welfare is certainly the responsibility of the government. For example, we often see or buy goods with a label or clause even printed in the cash memo: "Items once sold will not be returned under any circumstances" or "goods once sold cannot be taken back". This is just direct by opposite to what the sellers of free-market developed societies prominently declare: "In case you are not fully satisfied with our product, you can bring the same to us within a month for either replacement or return of your money." This specific example shows all the difference between Indian and the Western business approach to consumers.

The recent data from the consumer courts in different States shows that there is a direct relationship between literacy and consumer awareness. A person's choice to approach Consumer Forums for redressal of grievances against marketers depends on levels of consumer awareness and confidence generated by the former. Thus, to check the rising malaise of market wrongdoings, deceptive trade practices related to unfair pricing, promotion of harmful products and/or unsafe goods and services, counterfeits etc. the role of regulatory authority with specific powers to check and punish

the guilty can go a long way. A public-private participation scheme, as said earlier, can check the menace. Aware, active and concerned consumers are an important part of civil society; it will pave the way for creating ethical marketing of products and consumer-oriented services. It is in this context that the spread of consumer rights education and awareness movements find their relevance and centrality.

Media, Awareness and Consumer Protection

Media plays a significant role in bringing objective news and views to public at large. Their expansion, reach and coverage are assets in spreading consumer awareness and protection education; it helps in maintaining the vitality of democracy and its vital organs of governance. Audio-visual and print media, internet and daily newspapers are exposing regularly the free-market wrongdoings; how they are exploited in not getting value-for-money as they

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frequently suffer underweight, under-measurement; sub-standard quality of products and materials; higher pricing than fair price; you pay for original but get the duplicate or fake one; impure or adulterated items in the name of pure; false advertisements—not providing full information, hiding information, forcing us to make a wrong choice, poor after-sales service; shop-keepers misbehave after products are sold; consumers are harassed by sellers and service providers for demanding full satisfaction for the value of money for the products and services; etc. The web sites are full of heart-breaking stories of consumers

who have been cheated 24X7 in our country by the unscrupulous companies whether it is travel and tourism sector, airlines to coaching and education sector, banking, insurance, hospital to pharmaceutical sector, real estate and housing sectors, telecommunication or mobile telephone companies. The trader bodies and associations both national, states and local levels can be roped in by giving them confidence that the consumer rights protection is for the benefit of all stakeholders. However, many established business firms do really care for consumer rights; it has helped them enhance their reputation, goodwill and consumer loyalty since they believe and practice fair and ethical business practices. If this type of policy is adopted by all as mandatory requirement, then the menace of consumer rights violation will be greatly checked.

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We may be aware that the consumer movement in the USA got a boost when the late U.S. President, John F. Kennedy extended wholehearted support and legislative cover to consumers. He remarked: "If a consumer is offered inferior products, if prices are exorbitant, if drugs are unsafe or worthless, if the consumer is unable to choose on an informed basis, then his dollar is wasted, his health and safety

may be threatened, and national interest suffers." Through a historic declaration in Congress on March 15, 1962, he extended to American consumers four basic consumer rights (choice, information, safety and the right to be heard). Now, every year 15 March is celebrated as World Consumer Rights Day.

Consumer Disputes Redressal System: The Challenges

Fortunately, the Government of India, recognizing the consumer rights protection, took in right earnest a historic step to enact the Consumer Protection Act, 1986. The Act is also considered as one of the most progressive, comprehensive and unique piece of legislation ever enacted by the Indian Parliament exclusively for consumer protection. It defines the consumer as one who purchases goods and services for his/her use. The user of such goods and services with the permission of the buyer is also a consumer unless these are purchased for resale purposes. Under this Consumer Protection Act, 1986, a separate Department of Consumer Affairs was also created in the Central and State Governments focusing on ensuring the rights of consumers as enshrined in the Act. In fact, the Consumer Protection Act, 1986 has set in motion a revolution in the fields of consumer rights, the parallel of which is not seen anywhere in the world.

The special feature of this Act is to provide speedy and inexpensive redressal to grievances of the consumer and provide relief of a specific nature and award appropriate compensation. As per the Act, the government has set up a three-tier quasi-judicial redressal machinery popularly known as "Consumer Courts" at national, state and district levels with an apex National Consumer Commission which functions from *Upabhokta Nyay Bhavan*, New Delhi. As of now, there are 35 State Commissions and 629 District Consumer Fora in India. As per the Act, these quasi-judicial bodies must be consumer-friendly, disposing

off complaints within 90-150 days without giving the fear of usual civil court sites, the decision prompt, simple and pro-consumer. Thus, the Act was passed with high hopes that these quasi-judicial bodies would deliver quick justice to affected consumers whose rights are so rampantly violated in the market but today it is a far cry.

It is unfortunate that even after more than 25 years of passing of the Consumer Protection Act of 1986, and after more than 16 years of passing of the said Ruling, the similar 'rot' as highlighted above, is still prevailing in the market arena costing the consumers heavily. It is in this regard that the role of specially institutionalized quasi-judicial machinery is highly important to protect and build consumer confidence since increasingly, the

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unsuspecting consumers are falling victims to wrongdoings of business and commerce that now operate in an international environment with new varieties of goods and services, and they are also growing fast, getting integrated and powerful. The legal systems have to cope with the impact of 21st century technologies and methods of working which demand better and timely updating of knowledge to meet the growing challenges. It is *sine qua non* for the core functionaries of these quasi-judicial redressal bodies to develop consumer jurisprudence. Thus, pragmatic training modules have to be developed to effectively train the functionaries of these quasi-judicial

dispute redressal bodies, since at present most of the core functionaries are appointed on retirement from the civil courts without having clear concept about different provisions of consumer protection laws. That's why it is found that consumer courts invariably habitually fall back upon the civil court formats and procedures while adjudicating consumer complaints as they have had long training and experience in the civil court procedures and techniques. Thus, the inadequate knowledge bank in various provisions of revolutionary Consumer Protection Act, 1986 and lack of sensitiveness to its true spirit among the 3-tier Fora functionaries who are appointed to man the quasi-judicial consumer dispute redressal Fora have failed to satisfy the aggrieved consumers who approach them with tremendous expectation. In fact, the consumer confidence in Fora administration and governance of justice is diminishing. It is in this scenario that the aggrieved consumers suffer from 'double-victimization

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syndrome', i.e., once in the hands of market and second, in the hands of consumer redressal fora when their complaints find inappropriate redressal by putting them into the adversarial technical and procedural laws.

Thus, what is required is the urgent training and appropriate orientation for the core functionaries to understand and appreciate the purpose of the special Act and its different provisions to deliver justice. Only then they can truly protect and uphold the dignity of aggrieved consumers. In fact, Justice M.B. Shah, former President, NCDRC,

rightly advised that the "proceedings in a consumer Forum are not of adversarial nature. For breach of certain obligations, there has to be consumer factor or consumer surplus, as one may like to call, to which a consumer should be entitled". The other ills that have been found prevailing in quasi-judicial consumer redressal system are that they are not punctual and regular, delivery of justice is unusually delayed, presence of lawyers is scarce and they frequently rely on technical points than on the substance of the case, lawyers make the litigation a very costly affairs in many ways like seeking adjournments as a matter of course, increasing reliance on lawyers by the core functionaries, etc. As Justice Wadhwa said that the justice delivery inside of being in expensive and speedy, the people are getting the impression that these are another set of civil court. Under this circumstance, in many cases, the aggrieved consumers daring to approach consumer courts often decide not to do so as they don't have time, energy and money to invest in it.

The consumer redressal Fora have to be strengthened by several other timely measures like funding from the Central and State governments, punctuality and regularity of these courts have be enforced, proper methods have be identified to reduce the delay in justice delivery, improvement of infrastructural facilities, adjournments cannot be allowed as a matter of course, lawyers presence must be banned and/or discouraged, adoption of complex and long procedures like in civil courts have to be avoided, etc. Law colleges and universities must start core courses on Consumer laws and jurisprudence to produce right manpower to man these special quasi-judicial redressal bodies and/or experienced lawyers well-versed with the Consumer laws and jurisprudence have to be appointed, unlike the present system of appointing retired Judges to do justice with aggrieved consumers as well as to justify their position as, certainly, these quasi-judicial bodies are not a civil court structure. Moreover, the unscrupulous powerful businessmen with moneybags

can hire seasoned lawyers with hefty fees to contest against the aggrieved complainant to win the case and make the scenarios worse for the latter who can hardly afford to confront the mighty businessmen. This certainly is another factor that does not encourage aggrieved consumers to approach the quasi-judicial consumer fora even if they wish to and suffer the market misdemeanor silently.

Many of the above situations have also resulted in piling up of cases without disposal in different consumer courts all over the country. Thus, appropriate amendments of the Act by appreciating the present challenges of the market and proper understanding of the same can help in rectifying the drawbacks of the system to ensure consumer protection,

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otherwise the noble purpose of the Act will fail to serve the consumers' interests. Without delivering the quick and appropriate consumer justice as has been laid down in the Act, the consumer confidence cannot be enhanced which at present seems to be a rarity.

Comprehensive Consumer Protection Mechanisms

Last but not the least, the following innovative initiatives could help effectively in protecting the consumer rights and interests keeping in view

the challenges at present confronted by *aam* consumers. In this, the strong will of the government in serving the interests of consumers will be critical. Only showing concern without responsibility to intervene in the evolving market scenarios as highlighted above cannot redress the rampant consumer rights violations as enshrined in the CP Act, 1986.

1. All producers and dealers of goods and services must be forced to follow the fair trade and ethical practices in all business activities as a part of their duty to the people and the nation as well.
2. The national business associations like CII, FICCI, ASSOCHAM, etc. as well as other small business association all over the country, producing goods and services, must mandatorily take pro-active roles in adopting this ideal without fail.
3. Business of all hues, the producers and dealers of goods and services must have 'Consumer Complaint Redressal Cell' to deal with consumer complaints within a specified time-limit.
4. The CSR cannot be narrowly defined but broadened to cover the consumer rights protection as its primary objective. The rest of the activities undertaken under the CSR should be secondary, like social welfare or philanthropic activities etc.
5. The PSUs, the Ministries both in the Centre and States that produce and market goods and services should also be mandatorily made responsible to protect consumer rights. It means, all the business entities involved in marketing goods and services must respect and protect consumer rights without question.
6. With regard to the redressal of consumer complaints which are filed in quasi-judicial 3-tier Fora system, we may think of following innovative initiatives to strengthen the administration and governance of the 3-tier Fora because at present, the consumer-victims are not happy

about the performance of the quasi-justice delivery system in our country. There is also a urgent need to amend the CP Act. The following suggestions would help strengthen the quasi-Fora system.

- a. Once the complainants fail to find justified and reasonable solution to their problem at the level of sellers/dealers etc., they can immediately contact any registered and government accredited Voluntary Consumer Organizations (VCOs) to open Mediation and Reconciliation Centres in different parts of the country under PPP model. The genuine pro-active VCOs need to be given contract to mediate with the help of well-trained professional Mediators authorized by the National Consumer Protection Authority and/ or NCDRC to perform these special tasks. Their performances have to be reviewed and monitored periodically for renewal of the licences.

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- b. Similarly, the NCDRC will also have to play a pro-active role in streamlining and institutionalizing the Mediation Cells in 3-tier Fora system. That means once a complainant files a complaint in Affidavit (mandatorily) to the quasi-Fora-controlled Mediation Cells (for this we need to suitably amend the Consumer Protection Act, 1986), the trained professional Mediators would try to mediate giving sufficient chance to the disputing parties to mutually find satisfactory amicable solutions.

In the process of mediation, in no way should the lawyers be allowed to intervene, mediate or prompt except the designated Mediators whose professional conduct and action will be monitored by the Fora administration. The Mediators in this process screen the case filed in Affidavits, noting its strengths and weaknesses of the disputes brought before them which would help the 3-tier Fora to adjudicate the matter in the future. Thus, once the mediation fails, the matter automatically moves to the second stage (Stage-II) at the 3-tier quasi-judicial Redressal Fora for final adjudication as per the provisions of Consumer Protection Act, 1986. The mediation process would certainly relieve the consumers, unburden and reduce the costs of the consumer fora in many ways. I feel the separate Mediation Centre under the Delhi Government opened with separate paraphernalia may be discontinued. Once we integrate and run the Mediation Cell under 3-tier Fora jurisdiction in turn, would also strengthened the Redressal system. The Mediation Centre can also be authorised to perform with flexi-time schedule (till evening) and the modalities can be designed and formulated based on the need. Initially, we may start this programme on a pilot basis to serve the interests of aggrieved consumers. The multi-media should be suitably used to advertise and cases focussed to check further misdemeanour by the disgruntled marketers in future.

- c. Keeping the spirit as above, it will be required to suitably amend the existing Consumer Protection Act, 1986 to incorporate these in the provisions for pro-actively ensuring protection of consumers as well as their welfare. These two stages will definitely send a strong signal to the producers/manufacturers of goods and providers of service to have in-built mechanisms to sort out the consumer problems right earnest in their own premises.

- d. Regular movement of Mobile Consumer Right Protection Van stationed at specific market locations with Mediators to mediate and solve the consumer complaints then and there, can usher a new era of consumer protection. This may be operated under the PPP scheme with the help and facilitation of concerned sections of local people and/or organizations like RWAs, Schools, Colleges, Universities, NGOs, VCOs, etc. Many may like to volunteer also to check the market rot.
- e. Any other associations, organizations, recognized Law colleges and universities including many others who wish to participate and impart consumer awareness and education, advocacy etc. can be encouraged with seed fund provided by the government or by voluntary scheme like CSR. Part of the revenues collected from the buyers as sales tax and service tax may be deployed to finance these innovative consumer protection programmes. Special care has to be taken to outreach the poorer sections of society.
- f. As said, there should be an Apex Body called National Consumer Protection Authority to take care to all the activities highlighted above. They will oversee the overall functioning of these formal, informal and non-formal activities of different bodies and sub-bodies like Lokpal with a

strong committee to guide and recommend punishment for any market misdemeanour.

The above innovative programmes are basically to ensure the timely adequate relief to the consumers as their rights are rampantly violated by the marketers of goods and services. Thus, synergizing all the pro-consumer action programmes and strategies together can deliver the goods. Now the time has come when the legislature, the executive, the judiciary and the fourth Estate must come together and pro-actively work in tandem curbing the rising menace of market wrongdoings and injustices in the era of globalization and liberalization of Indian market economy.

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Tax Reforms and GST: Challenges for Future Reforms

Mahesh C Purohit



Since 1991, the major thrust in fiscal policy was on overall reforms in tax policy and administration. Initially, the reforms in direct taxes focused on simplification and rationalization of the rate structure; reduction in the high marginal rates and the rate categories; reducing the dispersion and lowering of tax rates. However, owing to the plethora of changes in the original enactment of all the taxes on income and property, the tax structure has now become very complex

SINCE INDEPENDENCE, India has followed the path of planned economic development. Initially, the basic objective of Indian fiscal policy was to ensure acceleration in the growth rate with social justice. Given this objective, the fiscal policy had a significant impact on the overall growth rate of the economy during the period of planned economic development. However, the overall growth rate of the economy was not up to the mark and the results on many fronts did not meet with the expectations. Some countries, in a similar situation, attained a very high rate of growth during the same period, leaving India way behind on the path of development. Due to the sluggish growth rate and the adverse balance of payments, financial stability was on the brink of collapse prior to the adoption of the structural adjustment programme in 1991.

Tax Reforms

Since 1991, the major thrust in fiscal policy was on overall reforms in tax policy and administration. Initially, the reforms in direct taxes focused on simplification and rationalization of the rate structure; reduction in the high marginal rates and the rate categories; reducing the dispersion and lowering of tax rates. However, owing to the plethora of changes in the original

enactment of all the taxes on income and property, the tax structure has now become very complex. Consequently, efforts were made to redraft the overall Income Tax Act. The revised enactment, known as Direct Taxes Code (DTC), consolidates all the laws relating to direct taxes, *viz.* income-tax, dividend distribution tax, fringe benefit tax and wealth-tax, so as to establish an economically efficient, effective and equitable direct tax system.

In the case of indirect taxes, steps have been taken to reduce multiplicity of rates, rationalize the rate structure, and facilitate the adoption of VAT in union excise duty and sales tax. The introduction of dual-VAT has been a remarkable achievement. It helped in removing the cascading effect from taxes and in making business more competitive. However, this was only a short-term reform. The dual-VAT did not take into account all the deficiencies in the tax system. Dual-VAT still suffers from the following weaknesses:

- The CenVAT generates definitional issues relating to a commodity whether it falls in a particular rate group and causes valuation problems leading to large number of litigations.
- It has a narrow base due to which the tax system lacks neutrality and continues to be inefficient.

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- The services are taxed by the Centre only and these are taxed independent of commodity taxes. This causes difficulties in taxation of goods supplied as a part of a composite works contract or leasing contract.
- The cascading of CenVAT under sales tax and of sales tax under CenVAT continues. This applies to central sales tax (CST) as well.
- The existing system is creating a bias in favour of imports which do not bear the hidden cost of taxes on inputs.
- The tax administration at both the Centre and the State levels is still very complicated and complex.

The exclusion of petroleum crude and its products from GST is based on the premise of raising larger resources through cascade type taxes. This would in fact cause higher incidence of tax on inputs including capital goods and would ultimately affect the efficiency of the overall petroleum sector.

Recognizing the above weaknesses, it is now proposed that a Goods and Services Tax (GST) be introduced to replace the existing dual-VAT, service tax and some other commodity taxes levied by both the Centre and State Governments.

Design of GST

In 2009, the Empowered Committee of State Finance Ministers (EC) constituted a Joint Working Group (JWG) to give a detailed framework for GST. According to the JWG, the GST for Central Government would cover CenVAT (including union excise duty); the additional excise duty levied on *pan masala*; petroleum and tobacco products; additional excise duty levied under Additional Duties of Excise (Goods of Special Importance) Act, 1957; additional customs duty in the nature of countervailing duties (CVD) and other domestic taxes imposed on imports to achieve a level playing field between domestic and imported

goods (which are currently classified as customs duty); cesses and surcharges levied by the Union; and special additional duty of excise on motor spirit and high speed diesel. Among the State taxes, the GST will cover state-VAT, purchase tax, entertainment tax, luxury tax, and entry tax not levied in lieu of octroi. The coverage of GST would, however, exclude the taxes on petroleum crude and its products.

The exclusion of petroleum crude and its products from GST is based on the premise of raising larger resources through cascade type taxes. This would in fact cause higher incidence of tax on inputs including capital goods and would ultimately affect the efficiency of the overall petroleum sector. It is, therefore, suggested that the overall petroleum sector should be brought under the GST regime with additional levy of excise and sales tax, if necessary for raising more revenue.

In the case of tobacco it has been proposed that it would be a part of the base of GST. However, the Centre will levy a special excise duty to yield larger tax resources for its activities; the States would not levy any additional tax on it. This raises the question: Why should there be an unequal base for the Centre and the States?

Whatever the base finally accepted by both, the proposed GST will have two components – CGST (levied by the Centre) and SGST (levied by the States). The rates of these two components will be determined keeping in view the revenue implications for the Centre and the States, total tax burden and the general acceptability of the tax.

In this context, the EC initially suggested that the rate should be in the vicinity of 15 per cent, a 7 per cent rate to be levied by the CGST and 8 per cent by the SGST. This is based on the premise that currently the effective tax rate is 13.5 per cent (with some lower rate categories of 5 per cent and some more than 13.5 per cent) for state-VAT, 10 per cent for CenVAT and 12 per cent for service tax.

The Central Government on the other hand, has proposed that in the

first year of the introduction of GST there would be a three tier rate category, viz. 6 per cent on essentials, 8 per cent on services and 10 per cent as standard rate. The standard rate would come down to 9 per cent in the second year and will be 8 per cent in the subsequent years. Similarly, the 6 per cent rate on essentials would increase to 8 per cent in the third year. Thus, in the third year GST would have a single rate.

The States, however, differ on this aspect. In fact, after a recent visit of some foreign countries by State Finance Ministers, the EC has opined that when the European countries have more than one rate in their VAT regime, why should it be so difficult to have similar system in our country?

All inputs including capital goods would be given a set-off. Also, exports would be zero-rated.

While there has been some sort of agreement on this issue in the past, it seems that the “Pandora’s box of different models of inter-State taxation” has been reopened.

Tax on inter-state trade under the current system of dual-VAT is origin-based and is collected by the exporting State under the provisions of the Central Sales Tax (CST) Act of 1956. The origin-based CST being inconsistent with the GST, the current system of CST is proposed to be replaced by a destination based “Integrated GST”. Therefore, there would be no ‘tax-exporting’ to the importing States. All inputs including capital goods would be given a set-off. Also, exports would be zero-rated. While there has been some sort of agreement on this issue in the past, it seems that the “Pandora’s box of different models of inter-State taxation” has been reopened. This is unfortunate and must be treated as settled.

Constitutional Amendment

Under the present provisions of the Constitution, the Centre is not empowered to levy tax beyond manufacture and the States do not

have the power to levy tax on services; therefore, an amendment to the Constitution is a pre-requisite for the levy of GST. Keeping in view this fact, the Finance Ministry, had tabled the 115th Amendment Bill 2011 in the Lok Sabha on 22nd March 2011. It is pertinent to note that prior to this Bill, the EC had considered three drafts of the Constitutional Amendment Bill sent by the Union Government to three different meetings of the EC held in August-October 2010 and one held in February 2011. The States had some serious objections on the provisions of the Bill and these are given below:

Under the present provisions of the Constitution, the Centre is not empowered to levy tax beyond manufacture and the States do not have the power to levy tax on services; therefore, an amendment to the Constitution is a pre-requisite for the levy of GST.

First, the proposed amendment to the Constitution envisages the setting up of a GST Council to make recommendations on issues like rates of tax, exemptions and threshold limits. The Bill empowers the President to set up the Council with the Union Finance Minister as Chairperson, and the Union Minister of State for Revenue and Finance Ministers of all the States as Members. The States, however, feel that they should have equal authority with regard to all the aspects related to the Council. Keeping in mind these objections raised by the States, we propose that the GST Council should be constituted on the pattern of the present EC which has had an excellent track record of reforming the tax system for more than a decade. Accordingly the proposed Council should comprise of the Union Finance Minister and the Finance Ministers of all the States and the Union Territories as its members. The revenue interest of the Centre would automatically be taken care of due to the fact that any change would affect the Centre and the States in a similar fashion.

Second, the bill provides for the setting up of a GST Dispute Settlement Authority. This will have a Chairperson and two members to resolve disputes arising out of deviations from the recommendations of the GST Council, either by the Centre or the State Governments. The States have serious concern about the need of having such a body.

Third, the decision to exclude petroleum products from the coverage of GST needs reconsideration. It is proposed that the petroleum products should be included in the definition of GST to have a broader base for the tax. Even if the GST is presently not levied on these items, excluding these items from the definition and coverage of GST in the Constitution Amendment Bill will make the system inflexible. In future, if the States or the Centre decided to levy GST on these items, it would require another Constitutional Amendment. From a futuristic point of view, it would be prudent not to confine the scope of the tax under the bindings of the Constitution.

It is hoped that a consensus would be possible between the Centre and the States to take care of the issues mentioned above.

Administration of GST

The authority for administering GST has become a perplexing issue. The Joint Working Group (JWG) on GST, appointed by the EC has suggested that the taxpayers below a defined threshold limit would be accountable for the day-to-day administrative matters (including registration, collection, and the ITC issues for both CGST and SGST) to the State authorities and the taxpayers above the prescribed turnover would be accountable to both the Central and the State authorities. The EC further considered these recommendations and put forth its view in *A Model and Road Map for GST in India*. Accordingly, the assignment of the administrative tasks will be based on the threshold limits for gross turnover of goods or services as given below:

- gross turnover of goods up to Rs 1.5 crore be assigned exclusively to the States;
- gross turnover of services up to Rs 1.5 crore be assigned exclusively to the Centre; and
- gross turnover of above Rs 1.5 crore be assigned to both the Governments: for the administration of CGST to the Centre and for the administration of SGST to the States.

The above design for the administration of GST would not only involve both the tiers of Government but also require interaction between dealers and the officers of tax administration at the Centre, as well as in the States.

In future, if the States or the Centre decided to levy GST on these items, it would require another Constitutional Amendment. From a futuristic point of view it would be prudent not to confine the scope of the tax under the bindings of the Constitution.

However, keeping in view the tenets of taxpayer convenience and least compliance cost, it is suggested that instead of involving both the Governments in all the administrative procedures it would be more rational to assign specific tasks to the Centre and the States.

Therefore, the following road map is proposed for a rational administration of GST in India.

First, there should be a thorough re-engineering of the department of GST (*i.e.* the departments of SGST and of the CGST) at both the levels. This must be done in such a way that the responsibility, accountability and authority of each tax department at the Central and the State level could be established.

Second, given the limited number of officials at the Central level, it is proposed that these officers be assigned special tasks to monitor the operations of a large number of dealers under

CGST and SGST. The day-to-day operations related to registration, payment of tax, and submission of return for all the dealers (irrespective of their size) should be assigned to the States. In other words, the dealers will register and submit their return to the State Department where the dealer is located. In general, the dealers will interact with one tax authority only.

Third, payment of tax by the registered dealer will be made into the bank account of the concerned Government, viz. the tax receipts from SGST would be paid into the account of the State Government and the tax receipts from CGST paid into the bank account of the Central Government.

Fourth, cross-verification of documents must be strengthened under the new regime. In the absence of proper cross-verification, the dealers avoid the payment of tax and claim undue credit for taxable sales. Tax evasion can be prevented by setting up departments similar to the centralized, as well as regional, anti-evasion organization in France. Drawing upon the experiences of countries like France, it is proposed that this role be bifurcated between the officials of the SGST and those of CGST. The former should look into the issues of cross-verification within the State boundaries and the latter should deal with tax cases having inter-State and inter-country ramifications.

Fifth, auditing is essential to minimise the gap between the reported tax and the actual statutory tax liability of the taxpayer. Therefore, there is need for a proper audit plan to cover different economic activities and the large variety of taxpayers, classified according to the level of turnover of goods and services. Also, it should include different procedures to identify and appropriately deal with non-compliance. Since GST audit

The introduction of GST in the indirect tax system of the Union and the State Governments and the DTC in the direct taxes of the Union Government will help to establish an economically efficient, cost effective and transparent tax system.

(whether for SGST or for CGST) involves local factors as well as inter-State issues, the audit role has to be assigned to the officials of both the SGST as well as those of the CGST. In general, the cases involving inter-State boundaries should be taken up by the CGST officials. This will entail proper coordination between the top-level officials of SGST as well as the CGST in the selection of cases.

Sixth, the MIS has to be an integrated activity of both the SGST

and CGST offices. The integration of information for SGST, CGST, customs and income tax through PAN number and tax information exchange system (TINXSYS) would be an essential component of GST administration. While these aspects will remain with the concerned authorities, officials from other tax departments will have access to such information whenever required.

Conclusion

The introduction of GST in the indirect tax system of the Union and the State Governments and the DTC in the direct taxes of the Union Government will help to establish an economically efficient, cost effective and transparent tax system. It would make the Indian taxpayer competitive at home as well as in the international market. It is, however, important to remove the bumps and road blocks in its introduction. Also, the other taxes at the State level need to be further reformed. Special care need to be taken to reform the other State taxes, viz. state excise, motor vehicles tax, passengers and goods tax and stamp duty and registration fee. That would make the Indian tax system suitable for taking the country toward a new horizon of future growth and prosperity. □

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Macro-Economic Framework Statement 2014-15

GDP Growth

As per the Advance Estimates released by the Central Statistics Office (CSO), the Indian economy is estimated to register a growth rate of 4.9 per cent in 2013-14 (in terms of GDP at factor cost at constant prices). This growth is significantly lower in comparison to the decadal average of 7.6 per cent during 2004-05 to 2013-14. The sub-5 per cent growth of the economy in 2013-14 is primarily the result of the continued slowdown in the industrial sector that is estimated to grow at 0.7 per cent in 2013-14 and lower growth in the 'trade, hotels, transport and communications' segment of the service sector. On the brighter side, sectors, viz. agriculture, electricity, gas & water supply, financial, insurance, real estate & business services and community, social & personal services are projected to have grown at faster rates in 2013-14 vis-à-vis 2012-13.

The economy recorded a modest pick-up in Q2 2013-14 with a growth of 4.8 per cent, compared to 4.4 per cent in Q1 this year. The growth of 4.6 per cent achieved in the first half of the current year, set against the growth of 4.9 per cent for the full year projected by the Advance Estimates, also indicates a further recovery in the second half of the year.

On the demand side, GDP at constant market prices is projected to register a growth of 4.6 per cent in 2013-14 as against a growth of 4.7 per cent in 2012-13. The growth of consumption expenditure, gross fixed capital formation and exports is estimated at 4.4 per cent, 0.2 per cent and 8.0 per cent respectively in real terms during 2013-14. The growth in these components was 5.2 per cent, 0.8 per cent and 5.0 per cent respectively in 2012-13. The growth of investment in the economy is estimated to have registered a decline during 2012-13 as compared to 2011-12. As per the First Revised Estimates released by the CSO, gross domestic savings as a ratio of GDP at current market prices (savings rate) declined from 31.3 per cent in 2011-12 to 30.1 per cent in 2012-13. This decline is primarily accounted for by a reduction in savings of the private corporate sector and savings by households in physical assets.

Source : Statements laid before Parliament under the Fiscal Responsibility and Budget Management Act, 2003

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YE-284/2013

Who governs the Internet? Implications for freedom and national security

Sunil Abraham



Multistakeholderism is a form of governance that seeks to ensure that every stakeholder is guaranteed a seat at the policy formulation table (either in consultative capacity or in decision making capacity depending who you ask). The Tunis Agenda, which was the end result of the 2003-05 WSIS upheld the multistakeholder mode. The 2003–2005 World Summit on the Information Society process was seen by those favouring the status quo at that time as the first attempt by the UN bodies or multilateralism - to takeover the Internet

THE SECOND half of last year has been quite momentous for Internet governance thanks to Edward Snowden. German Chancellor Angela Merkel and Brazilian President Dilma Rousseff became aware that they were targets of US surveillance for economic not security reasons. They protested loudly. The role of the US perceived by some as the benevolent dictator or primary steward of the Internet because of history, technology, topology and commerce came under scrutiny again. The I star bodies also known as the technical community - Internet Corporation for Assigned Names and Numbers (ICANN); five Regional Internet Registries (RIRs) ie. African, American, Asia-Pacific, European and Latin American; two standard setting organisations - World Wide Web Consortium (W3C) & Internet Engineering Task Force (IETF); the Internet Architecture Board (IAB); and Internet Society (ISOC) responded by issuing the Montevideo Statement on the 7th of October. The statement expressed “strong concern over the undermining of the trust and confidence of Internet users globally due to recent revelations of pervasive monitoring and surveillance.” It called for “accelerating the globalization of ICANN and IANA functions...” - did

this mean that the I star bodies were finally willing to end the special role that US played in Internet governance? However, that dramatic shift in position was followed with the following qualifier “...towards an environment in which all stakeholders, including all governments, participate on an equal footing.” Clearly indicating that for the I star bodies multistakeholderism was non-negotiable. Two days later President Rousseff after a meeting with Fadi Chehadé, announced on Twitter that Brazil would host “an international summit of governments, industry, civil society and academia.” The meeting has now been dubbed Net Mundial and 188 proposals for “principles” or “roadmaps for the further evolution of the Internet governance ecosystem” have been submitted for discussion in São Paulo on the 23rd and 24th of April. The meeting will definitely be an important milestone for multilateral and multi-stakeholder mechanisms in the ecosystem.

It has been more than a decade since this debate between multilateralism and multi-stakeholderism has ignited. Multistakeholderism is a form of governance that seeks to ensure that every stakeholder is guaranteed a seat at the policy formulation table (either in consultative capacity or in decision making capacity depending who you

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ask). The Tunis Agenda, which was the end result of the 2003-05 WSIS upheld the multistakeholder mode. The 2003–2005 World Summit on the Information Society process was seen by those favouring the status quo at that time as the first attempt by the UN bodies or multilateralism - to takeover the Internet. However the end result ie. Tunis Agenda clarified and reaffirmed multi-stakeholderism as the way forward even though multilateral governance mechanisms were also accepted as a valid component of Internet governance. The list of stakeholders included states, the private sector, civil society, intergovernmental organisations, international standards organisations and the “academic and technical communities within those stakeholder groups mentioned” above. The Tunis Agenda also constituted the Internet Governance Forum (IGF) and the process of Enhanced Cooperation.

When it comes to surveillance, one could argue that the US is worse than China. Again, as was the case with censorship, China only conducts pervasive blanket surveillance upon its citizens – unlike US surveillance, which not only affects its citizens but targets every single user of the Internet through a multi-layered approach

The IGF was defined in detail with a twelve point mandate including to “identify emerging issues, bring them to the attention of the relevant bodies and the general public, and, where appropriate, make recommendations.” In brief it was to be a learning Forum, a talk shop and a venue for developing soft law not international treaties. Enhanced Cooperation was defined as “to enable governments, on an equal footing, to carry out their roles and responsibilities, in international public policy issues pertaining to the Internet, but not in the day-to-day technical and operational matters, that do not impact on international public policy issues” – and to this day, efforts are on to define it more clearly.

Seven years later, during the World Conference on Telecommunication in Dubai, the status quoists dubbed it another attempt by the UN to take over the Internet. Even those non-American civil society actors who were uncomfortable with US dominance were willing to settle for the status quo because they were convinced that US court would uphold human rights online more robustly than most other countries. In fact, the US administration had laid a good foundation for the demonization of the UN and other nations states that preferred an international regime. “Internet freedom” was State Department doctrine under the leadership of Hillary Clinton. As per her rhetoric – there were good states, bad states and swing states. The US, UK and some Scandinavian countries were the defenders of freedom. China, Russia and Saudi Arabia were examples of authoritarian states that were balkanizing the Internet. And India, Brazil and Indonesia were examples of swing states – in other words, they could go either way – join the good side or the dark side.

But Internet freedom rhetoric was deeply flawed. The US censorship regime is really no better than China’s. China censors political speech – US censors access to knowledge thanks to the intellectual property (IP) rights-holder lobby that has tremendous influence on the Hill. Statistics of television viewership across channels around the world will tell us how the majority privileges cultural speech over political speech on any average day. The great firewall of China only affects its citizens – netizens from other jurisdictions are not impacted by Chinese censorship. On the other hand, the US acts of censorship are usually near global in impact. This is because the censorship regime is not predominantly based on blocking or filtering but by placing pressure on identification, technology and financial intermediaries thereby forcing their targets offline. When it comes to surveillance, one could argue that the US is worse than China. Again,

as was the case with censorship, China only conducts pervasive blanket surveillance upon its citizens – unlike US surveillance, which not only affects its citizens but targets every single user of the Internet through a multi-layered approach with an accompanying acronym soup of programmes and initiatives that include malware, trojans, software vulnerabilities, back doors in encryption standards, over the top service providers, telcos, ISPs, national backbone infrastructure and submarine fibre optic cables. Security guru Bruce Schneier tells us that “there is no security without privacy.

Security guru Bruce Schneier tells us that “there is no security without privacy. And liberty requires both security and privacy.” Blanket surveillance therefore undermines the security imperative and compromises functioning markets by make e-commerce, e-banking, intellectual property, personal information and confidential information vulnerable. Building a secure Internet and information society will require ending mass surveillance by states and private actors.

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The Opportunity for India

Unlike the America with its straitjacketed IP regime, India believes that access to knowledge is a precondition for freedom of speech and expression. As global intellectual property policy or *access to knowledge* policy is concerned, India is considered a leader both

when it comes to domestic policy and international policy development at the World Intellectual Property Organisation. From the 70s our policy-makers have defended the right to health in the form of access to medicines. More recently, India played a critical role in securing the Marrakesh Treaty for Visually Impaired Persons in June 2013 which introduces a user right [also referred to as an exception, flexibility or limitation] which allows the visually impaired to convert books to accessible formats without paying the copyright-holder if an accessible version has not been made available. The Marrakesh Treaty is disability specific [only for the visually impaired] and works specific [only for copyright]. This is the first instance of India successfully exporting policy best practices. India's exception for the disabled in the Copyright Act unlike the Marrakesh Treaty, however, is both disability-

Regardless of the final solution, it is clear that those that control domain names and allocate IP addresses will be able to impact the freedom of speech and expression. The impact on the national security of India is very limited given that there are three root servers within national borders and it would be near impossible for the US to shut down the Internet in India.

neutral and works-neutral. Given that the Internet is critical to the successful implementation of the Treaty ie. cross border sharing of works that have been made accessible to disabled persons in one country with the global community, it is perhaps time for India to broaden its influence into the sphere of Internet governance and the governance of information societies more broadly.

Post-Snowden, the so called swing states occupy the higher moral ground. It is time for these states to capitalize on this moment using strong political

will. Instead of just being a friendly jurisdiction from the perspective of access to medicine, it is time for India to also be the enabling jurisdiction for access to knowledge more broadly. We could use patent pools and compulsory licensing to provide affordable and innovative digital hardware [especially mobile phones] to the developing world. This would ensure that rights-holders, innovators, manufactures, consumers and government would all benefit from India going beyond being the pharmacy of the world to becoming the electronics store of the world. We could explore flat-fee licensing models like a broadband copyright cess or levy to ensure that users get content [text, images, video, audio, games and software] at affordable rates and rights-holders get some royalty from all Internet users in India. This will go a long way in undermining the copyright enforcement based censorship regime that has been established by the US. When it comes to privacy, we could enact a world-class privacy law and establish an independent, autonomous and proactive privacy commissioner who will keep both private and state actors on a short lease. Then we need a scientific, targeted surveillance regime that is in compliance with human rights principles. This will make India simultaneously an IP and privacy haven and thereby attract huge investment from the private sector, and also earn the goodwill of global civil society and independent media. Given that privacy is a precondition for security, this will also make India very secure from a cyber security perspective. Of course this is a fanciful pipe dream given our current circumstances but is definitely a possible future for us as a nation to pursue.

What is the Scope of Internet Governance?

Part of the tension between multi-stakeholderism and multilateralism is that there is no single, universally accepted definition of Internet governance. The conservative definitions of Internet Governance

limits it to management of critical Internet resources, including the domain name system, IP addresses and root servers – in other words, the ICANN, IANA functions, regional registries and other I* bodies. This is where US dominance has historically been most explicit. This is also where the multi-stakeholder model has clearly delivered so far and therefore we must be most careful about dismantling existing governance arrangements. There are very broadly four approaches for reducing US dominance here – a) globalization [giving other nation-states a role equal to the US within the existing multi-stakeholder paradigm], b) internationalization [bring ICANN, IANA functions, registries and I* bodies under UN control or oversight],

...we need a scientific, targeted surveillance regime that is in compliance with human rights principles. This will make India simultaneously an IP and privacy haven and thereby attract huge investment from the private sector, and also earn the goodwill of global civil society and independent media.

c) eliminating the role for nation states in the IANA functions and d) introducing competitors for names and numbers management. Regardless of the final solution, it is clear that those that control domain names and allocate IP addresses will be able to impact the freedom of speech and expression. The impact on the national security of India is very limited given that there are three root servers within national borders and it would be near impossible for the US to shut down the Internet in India.

For a more expansive definition – The Working Group on Internet Governance report has four categories for public policy issues that are relevant to Internet governance:

“(a) Issues relating to infrastructure and the management of critical Internet

resources, including administration of the domain name system and Internet protocol addresses (IP addresses), administration of the root server system, technical standards, peering and interconnection, telecommunications infrastructure, including innovative and convergent technologies, as well as multilingualization. These issues are matters of direct relevance to Internet governance and fall within the ambit of existing organizations with responsibility for these matters;

- (b) Issues relating to the use of the Internet, including spam, network security and cybercrime. While these issues are directly related to Internet governance, the nature of global cooperation required is not well defined;
- (c) Issues that are relevant to the Internet but have an impact much wider than the Internet and for which existing organizations are responsible, such as intellectual property rights (IPRs) or international trade.;
- (d) Issues relating to the developmental aspects of Internet governance, in particular capacity-building in developing countries.”

Some of these categories are addressed via state regulation that has cascaded from multilateral bodies that are associated with the United Nations such as the World Intellectual Property Organisation for “intellectual property rights” and the International Telecommunication Union for “telecommunications infrastructure”. Other policy issues such as “cyber crime” are currently addressed via plurilateral instruments – for example the Budapest

Convention on Cybercrime – and bilateral arrangements like Mutual Legal Assistance Treaties. “Spam” is currently being handled through self-regulatory efforts by the private sector such as Messaging, Malware and Mobile Anti-Abuse Working Group. Other areas where there is insufficient international or global cooperation include “peering and interconnection” - the private arrangements that exist are confidential and it is unclear whether the public interest is being adequately protected.

So who Really Governs the Internet?

So in conclusion, who governs the Internet is not really a useful question. This is because nobody governs the Internet per se. The Internet is a diffuse collection of standards, technologies and actors and dramatically different across layers, geographies and services. Different Internet actors – the government, the private sector, civil society and the technical and academic community are already regulated using a multiplicity of fora and governance regimes – self regulation, coregulation and state regulation. Is more regulation always the right answer? Do we need to choose between multilateralism and multi-stakeholderism? Do we need stable definitions to process? Do we need different version of multi-stakeholderism for different areas of governance for ex. standards vs. names and numbers? Ideally no, no, no and yes. In my view an appropriate global governance system will be decentralized, diverse or plural in nature yet interoperable, will have both multilateral and multistakeholder institutions and mechanisms and will

be as interested in deregulation for the public interest as it is in regulation for the public interest.

Readings

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- 2 Brazil to host global internet summit in ongoing fight against NSA surveillance <http://rt.com/news/brazil-internet-summit-fight-nsa-006/>
- 3 Tunis Agenda For The Information Society <http://www.itu.int/wsis/docs2/tunis/off/6rev1.html>
- 4 Roadmap for globalizing IANA: Four principles and a proposal for reform: a submission to the Global Multistakeholder Meeting on the Future of Internet Governance by Milton Mueller and Brenden Kuerbis March 3rd 2014 See: http://www.internetgovernance.org/wordpress/wp-content/uploads/ICANN_reformglobalizing_IANA_final.pdf
- 5 Mumbai (I Root), Delhi (K Root) and Chennai (F Root). See: <http://nixi.in/en/component/content/article/36-other-activities-/77-root-servers>
- 6 Report of the Working Group on Internet Governance to the President of the Preparatory Committee of the World Summit on the Information Society, Ambassador Janis Karklins, and the WSIS Secretary-General, Mr Yoshio Utsumi. Dated: 14 July 2005 See: <http://www.wgig.org/WGIG-Report.html>
- 7 *Messaging, Malware and Mobile Anti-Abuse Working Group website* See: <http://www.maawg.org/> □

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Condolences

Yojana condoles the demise of its founding Editor Khushwant Singh. An author of repute, illustrious editor and a popular columnist, he is considered a doyen of Indian journalism. 'Yojana, like the plans themselves will endeavour to embrace the entire field of development, economic, educational, social and cultural'. Writing in the inaugural issue of Yojana in January 1957, he had set the tone of the magazine. His words of wisdom still inspire us.



Microfinance Regulation in India: A Critical Perspective

Tara S Nair



It is noteworthy, however, that between 2001 and 2011, there was a 23 per cent increase in the number of households serviced by banks. The increment was more pronounced in the rural areas, where the share of such households rose from 30 per cent to 54 per cent. These numbers to some extent allay the anxieties expressed by some that with the deregulation of the banking industry, there would be a retreat of banks from serving rural populations

GOING BY the 2011 Census data, 102 million households out of a total of 247 million in India are not covered by the banking system. Importantly, 63 per cent of these households are in rural areas. The coverage of urban household is by banks, according to the Census data, is more (69 per cent of all households) compared to rural households (54 per cent). It is noteworthy, however, that between 2001 and 2011, there was a 23 per cent increase in the number of households serviced by banks. The increment was more pronounced in the rural areas, where the share of such households rose from 30 per cent to 54 per cent. These numbers to some extent allay the anxieties expressed by some that with the deregulation of the banking industry, there would be a retreat of banks from serving rural populations. The branch expansion data reveals that during the period 2007-13, a fourth of all the new branches created in the country were in rural areas or areas with population less than 10,000 (RBI 2008; RBI 2013).

Despite such encouraging signals from the population census as well as

RBI statistics, the financial inclusion indices have not been very favourable to India. These indices incorporate the measure of usage of banking services along with those of availability and accessibility to estimate the extent of inclusion. As per the Global Findex (2011), only 35 per cent of adults in the country have a formal account and 8 per cent, a formal loan. Among the bottom 40 per cent of the population in terms of income only 27 per cent have accounts with formal financial institutions. Only 12 per cent adults save with banks, while a miniscule 2 per cent and 4 per cent respectively use their accounts to receive remittance and receive government benefit transfers. The CRISIL Inclusive (2013), though reports an improvement in the status of financial inclusion since 2009, finds that only 14 per cent individuals access bank loans. Significantly, the analysis by CRISIL shows that the bottom 50 districts have just 2 per cent of all bank branches in the country.

Low level of financial inclusion is attributed by some to the inherent incapability of the formal banking system in the country to cater to the distinct needs of certain regions

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and population groups, especially the poorer ones. They argue that institutions that can mediate the flow of financial resources between the formal institutions and the fragmented communities of users of financial services are critical for furthering the goals of both financial inclusion and inclusive development. While one section advocates the commercially oriented microfinance institution (MFI) model as the most appropriate form of an intermediary, others put their faith on self-help groups and the linkage banking model, which focuses on gradually building the poor households' financial discipline and credit history by combining members' own money saved over time and bank loans without any collateral and at market interest rates.

Microfinance Sector: Structure and Growth

The SHG and MFI models have been evolving parallel to each other since the early 1990s. There are two distinct phases in the growth trajectory of Indian microfinance (Nair, 2011). The 1990s can be described as the decade of learning and innovation. During this phase several independent experiments were carried out largely within the non governmental, not for profit sector with NGOs acting as self help promoting agencies (SHPA). The southern states spearheaded most of these initiatives. The SHG-bank linkage programme of the National Bank for Agriculture and Rural Development (NABARD) and the SHG based poverty alleviation schemes implemented by the state governments, mainly, Andhra Pradesh, Kerala, Tamil Nadu and Orissa, led to massive promotion of self-help groups. Through the late 1990s and early 2000s, several of the prominent SHPAs transformed to commercial entities mainly with the help of private equity. Unlike their NGO predecessors, the transformed entities licensed as non-banking finance companies (NBFCs), put their emphasis on building viable and

efficient businesses of microfinance and enhancing financial capability to fulfill social mission. The infusion of equity started attracting debt from banks triggering the onset of a phase in the 2000s of expansion, high growth, intense competition and 'legalization' of microfinance structures (Ibid).

The state of Andhra Pradesh bore the brunt of the aggressively growing microfinance sector caught between a set of ambitious MFIs and the provincial government in the guise of a dynamic self help promoter. Two crisis in the state in 2006 and 2010, where the MFIs were accused of driving borrowers to committing suicide, discouraged further investment in the sector, forcing it to slow down the pace of growth. Table 1 demonstrates the deceleration in microfinance activity in the case of both the channels during 2010-13 compared to 2007-10. The decline was more pronounced in the case of the MFI channel. The annual average increment in loan outstanding in the MFI stream dwindled to Rs. 248 crore between 2010-11 and 2012-13 from over Rs. 3700 crore during the previous period.

A review of the data relating to both MFIs and SHGs suggest that the sector has been able to transcend the worst part of the crisis. Flow of debt funds to MFIs improved considerably

especially from the public sector banks. The loan disbursements that experienced a dip from Rs. 8500 crore to Rs. 5200 crore between 2010-11 and 2011-12 could rise up to Rs.7800 crore by March 2013. The loan disbursements to SHGs increased from Rs.16535 crore to Rs. 20585 crore (NABARD, 2013). Thus, during 2012-13 fresh loans worth about Rs. 28000 crore were infused in the microfinance sector as against Rs. 22000 in 2011-12.

Regulating for Order

What made such quick turn-around of the microfinance sector possible post 2012 despite badly bleeding MFIs and a near-stagnant SHG-bank linkage programme?

The crisis in Andhra Pradesh prompted a rather controversial legislative action from the state government - the passage of Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Act, 2011. The Act severely restricted the functioning of MFIs within the state and caused several of them to downsize, restructure and relocate businesses. The sector's overall performance in terms of loan disbursals, outstanding and number of borrowers got affected by the losses made by the market-leading MFIs in Andhra Pradesh. Funds flow from banks became a trickle. Investors wary of the political

Table 1 Growth of Microfinance: 2006/07 to 2012/13

Year	Number of clients (crore)			Loan outstanding (Rs. crore)		
	SBLP	MFI	Total	SBLP	MFI	Total
2006-07	3.8	1	4.8	12,366	3,456	15,822
2007-08	4.7	1.4	6.1	16,999	5,954	22,953
2008-09	5.4	2.3	7.7	22,679	11,734	34,413
2009-10	6	2.7	8.7	28,038	18,343	46,381
2010-11	6.3	3.2	9.4	31,221	21,556	52,777
2011-12	6.1	2.7	8.8	36,340	20,913	57,253
2012-13	6.5	2.8	9.3	39,375	22,300	61,675
Average annual addition						
2007-10	0.55	0.43	0.98	3918	3722	7640
2010-13	0.07	-0.13	-0.03	2718	248	2966

Source: Nair and Tankha (2014).

risks also abstained from infusing fund in MFIs, especially the ones with significant business within Andhra Pradesh. As seen earlier, the progress of linkage banking programme too got impacted negatively by the erosion of confidence among bankers.

Coming out of a damaging crisis, the microfinance sector in general and MFIs in particular have been looking forward to a robust regulatory arrangement. The intervention of the central bank on several occasions has helped ease the situation substantially by boosting the confidence of the banking system and facilitating increased funds flow to the MFIs.

Addressing the general concerns regarding the implications of the AP government's uncannily speedy legislative action, the RBI constituted a sub-committee (under the chairmanship of Y. H. Malegam) to study the issues related to regulated MFIs. The Committee recommended the creation of a separate category of NBFC-MFIs, which hold more than 90 per cent of their total assets (excluding cash, bank balance, and money market instruments) as qualifying assets (defined mainly in terms of annual income of the borrowing household, proposed use of loan, loan amount, extent of indebtedness of the borrowing household and loan term). Importantly, the committee recommended interest rate and margin caps for NBFC-MFIs. The other recommendations included transparency in interest charges, restriction in the number of loans extended by the same MFI to a single individual, restriction in the number of MFIs lending to the a single individual, creation of credit information bureaus and social capital funds and setting up of grievance redressal systems at the MFI level. The committee also recommended that bank loans to compliant NBFC-MFIs be categorized under priority sector loans. The broad framework

of regulations recommended by the Malegam Committee was subsequently accepted by the RBI and the annual Monetary Policy Statement 2010-11 of the Bank laid out its details. Specifically, the creation of a separate NBFC-MFI category formulation of the regulatory guidelines putting in place restrictions and safeguards with regard to minimum standards of governance, management and customer protection (RBI, 2012) are observed to have helped the for-profit MFIs to streamline and standardize their operational policies.

Even as the RBI came out with a series of steps to guide the working of for-profit companies engaged in microfinance activities, the Ministry of Finance prepared a draft legislation - the Microfinance Institutions (Regulation and Development) Bill 2012 - to regulate the sector nationally and introduced it in the Parliament on 22 May 2012. The MF Bill 2012 states its purpose as to provide for "development and regulation of the microfinance institutions for the purpose of facilitating access to credit, thrift and other microfinance services to the rural and urban poor and certain disadvantaged sections of the people and promoting financial inclusion through such institutions....". As per the Bill microfinance institutions include all societies, trusts, companies and other body corporates that provide microfinance services, but exclude banks, cooperatives and individual moneylenders.

The major provisions in the MF Bill 2012 include (1) registration of microfinance institutions (excepting those NBFCs that are registered under the RBI Act, 1934) that are involved in extending services such as credit, thrift, pension and remittance and (2) setting up a layered architecture spanning district, state and national levels vested with advisory, implementation and review functions related to microfinance activities. It confers on RBI the power to "specify the maximum limit of the margin

and annual percentage rate which can be charged by any microfinance institution, sector related benchmarks and performance standards pertaining to methods of operation, fair and reasonable methods of recovery of loan advanced by the microfinance institutions" as also the authority to inspect and scrutinise MFI records and to direct them in matters that involve transaction of property and assets. The central bank is also vested with the authority to approve/ disapprove activities of MFIs like closure, amalgamation, demerger, division, take over, transfer of ownership or control.

Considering the dynamic nature of financial services business, the MF Bill 2012 was drafted as a broad framework and not as a

The intervention of the central bank on several occasions has helped ease the situation substantially by boosting the confidence of the banking system and facilitating increased funds flow to the MFIs. Its emphasis on encouraging self-regulatory organisations (SRO) gives some hope that sector networks will get to play more definite and constructive role in helping MFIs stick to the regulated path.

prescriptive regulation. After wide ranging consultations with multiple stakeholders and despite general consensus about its potential to further the positive aspects of microfinance (Becker (2013), the Parliamentary Standing Committee that reviewed the draft Bill found that "the Bill is rather sketchy with inadequate groundwork and lacking in consensus, requiring wider consultations with stakeholders and deeper study on vital issues" (Standing Committee on Finance, 2014: 56). The Committee hence did not accept the Bill. It urged the government "to have wider consultations with the State Governments and stakeholders and

arrive at a consensus; and reconsider / review the proposals contained in the Bill in all its ramifications and bring forth a fresh legislation before Parliament duly addressing the concerns expressed by the Committee” (Ibid).

Some Concerns

Coming out of a damaging crisis, the microfinance sector in general and MFIs in particular have been looking forward to a robust regulatory arrangement. The intervention of the central bank on several occasions has helped ease the situation substantially by boosting the confidence of the banking system and facilitating increased funds flow to the MFIs. Its emphasis on encouraging self-regulatory organisations (SRO) gives some hope that sector networks will get to play more definite and constructive role in helping MFIs stick to the regulated path. However, RBI has limited its focus only to MFIs as of now. In the absence of an appropriate regulatory umbrella, the non-profit and community based microfinance organisations are left with only one option – transform into either an NBFC- MFI or a for profit company.

New challenges have also cropped up in the SHG-bank linkage programme despite its continued growth in terms of outreach and transactions. Their cooperation by the state as sheer conduits of government benefits, neglect of member savings and internal lending, over lending to members, multiple memberships, inadequate quality monitoring and rise in non-performing assets are some of the ills that affect the effective functioning of this channel of microfinance (Tankha, 2012; NABARD, 2013). An appropriate regulatory structure is yet to evolve around the SHG-bank linkage model.

The current phase of the financial inclusion drive of the state is said to be bank-led in that only the mainstream, regulated financial players are considered as part of it. Given

the limited financial intermediation role of microfinance institutions currently, this seems logical as only formal financial institutions have the capability to provide a range of critical financial services. However, as the experimentations around financial inclusion progress, opportunities seem to arise for integrating the existing microfinance institutional channels with the predominantly technology driven initiatives. Effective exploitation of such opportunities would warrant regulatory support from the state and the central bank.

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Endnotes

- The government passed the Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Act in December 2010 (effective from January 1, 2011) which among other things, makes it compulsory for MFIs to register themselves with the district administration, and prescribes limits for the number of loans per household and multiple SHG membership. The law treats microfinance on par with money lending.
- For a detailed discussion of the impact of the crisis, see, Srinivasan (2011) and ‘2011 - Country Briefing: Recent Events – Andhra Pradesh Crisis’, www.mixmarket.org (accessed 20 July 2013).
- The central government made the first ever attempt to bring the sector under the legislative umbrella in 2007, following an earlier crisis in Andhra Pradesh. In March 2007 a bill named The Micro Financial Sector (Development and Regulation) Bill, 2007 was introduced in the Lok Sabha. Though the Bill could not be enacted into a law before the incumbent government went out of power, it marked a significant watershed as it laid down the basic framework of the legal regulation of microfinance. It designated NABARD as the regulator for all the ‘microfinance organisations’ (MFOs), which by definition included all registered societies, trusts and cooperative societies that provide microfinance services insurance and pension services, but excluded SHGs and SHG federations. The for-profit NBFC microfinance providers were left out of the purview of the Bill given their licensed-with-RBI status. □

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Economic Growth with Technological Self-reliance in India: What can we Infer from the Evidence?

Sunil Mani



A number of studies have identified technological development as one of the drivers of India's strong economic growth. The country's science and technology system has undergone perceptible changes over the past twenty years or so. In recent years, there has been much discussion in the popular press about the rise in innovation in India

THE RECENT resurgence in India's economic growth has come in for much discussion and debate. India is considered to be the second fastest growing country in the world although in more recent times, the rate of growth has declined. A number of studies have identified technological development as one of the drivers of India's strong economic growth. The country's science and technology system has undergone perceptible changes over the past twenty years or so. In recent years, there has been much discussion in the popular press about the rise in innovation in India. The following indicators may have precipitated this discussion.

- **There are many instances of innovation in the services sector, especially as concerns healthcare.** Currently, the service sector accounts for two-thirds of GDP and both the service and manufacturing sectors have been performing very well. For a very long time, Indian policy-makers avoided using the explicit term of 'innovation' in policy documents dealing with technological activities. The word 'innovation' appears in a policy document for the first time in 2008, the *National Innovation Act*. This development reflects a broad sentiment in both policy and

business circles that the country is becoming more innovative - and at least certain industries

- **The knowledge-intensity of India's overall output has expanded. Currently, about 14 per cent of overall NDP is composed of knowledge-intensive production), much of it from the services sector.** Also of note is that growth in the knowledge-intensive production sector surpasses that of the economy overall. Data show that the largest share of new companies belongs to knowledge-intensive sectors account and that the number of these knowledge-intensive enterprises has mushroomed over *the past seven years or so*. This trend is corroborated by the technology content of all industrial proposals implemented since economic reforms were implemented in 1991. Once again, with the exception of the textile industry and a few others, the majority of new proposals emanate from technology-oriented industries in areas such as chemicals, energy, electrical equipment and so on.
- **Foreign direct investment (FDI) from India has grown.** This has grown from just 2 million US \$ in 1993 to about US \$ 17 in 2010-11. This includes some high-profile technology-based acquisitions abroad by Indian companies. Information on the

The author is Planning Commission Chair Professor at Centre for Development Studies, Trivandrum, Kerala. His most recent publications include Mani, Sunil and Richard R.Nelson (eds.), TRIPS Compliance, National Patent Regimes and Innovation, Evidence and Experience from Developing Countries.

rate of survival of these ventures is unavailable, however. There had always been insignificant amounts of FDI flowing from India until the trickle became a torrent from about 2005 onwards. Most of these investments have flown to technology-based ventures in the manufacturing sector of developed economies. The attributes of Indian firms, which created such capacities and abilities, are embedded in the past and have emerged over a much longer period of time'. According to the *Economist* (2009), the pursuit of technology is a powerful motive for foreign acquisitions. Before Tata Steel's purchase of Corus, Europe's second-largest steel producer with annual revenues

India is acknowledged to have considerable technological capability in the design and manufacture of spacecrafts and is now an acknowledged global leader in remote sensing.

of around £12 billion the Indian steelmaker did not hold a single American patent. The takeover bought it over 80 patents, as well as almost 1 000 research staff. Thus, the growing number of foreign acquisitions of 'active targets', in technological jargon, has given Indian companies considerable access to the technological capacity of the acquired firms without their having to build this up assiduously from scratch. The same goes for mergers.

- **India has become more competitive in high-tech areas.** Although manufactured exports are still dominated by low-tech products, the share of high-tech products has doubled in the past 20 years. India has become the world's largest exporter of IT services since 2005 and has been maintaining this leadership position since then: exports of IT services stood at \$ 62 billion in 2011-12. And her exports of aerospace products have been increasing at a rate of 74 per cent

per annum, compared to 15 per cent for world exports of these products. India is acknowledged to have considerable technological capability in the design and manufacture of spacecrafts and is now an acknowledged global leader in remote sensing. According to Futron's 2011 ranking of ten entities on its Space Competitiveness Index India ranks better than the Republic of Korea, Israel or Brazil. However, most innovation in this area comes entirely from the government sector in India rather than industry. I would argue that the Indian government has thwarted all attempts to create a sectoral system of innovation in the aerospace industry by invoking a security angle. This prevents the country from emerging as a serious player in the civilian aerospace sector, despite possessing all the requisite ingredients. However, this situation is set to change now. Aerospace exports from India have increased manifold in recent times, even if exports tend to be confined to parts or components of aircrafts. With approximately 300 small and medium-sized enterprises active in this area, India is slowly emerging as one of the few developing countries to have a high-tech industry of the caliber of its aerospace industry.

- **India has become a hub of sorts for generating frugal innovations:** A number of what is now referred to as frugal innovations have emanated from India. Frugal innovations are essentially stripped down versions of an existing product (e.g. The Nano car, Swachh water filter, Chotokool refrigerator) or services (eg. Arvind Eye Clinic, Narayana Hrudalaya for cheap heart surgeries, Life Springs Hospital for cheaper maternal care)
- **There are also very many instances of invisible innovations** which are between businesses (B2B). For example, global delivery model, something that most people have taken for granted today, is one of the greatest innovations to have helped global businesses becoming efficient. Process innovation,

happening in India day in and day out, is making businesses better and better. These are not visible but have created immense business value for global economy.

Measuring Technological Development

Technological development of a developing country is contributed by domestic technological efforts complemented by reliance on foreign technology imports. Domestic technological development is measured usually in terms of the amount of financial resources that is expended by firms and research institutes to create the technology. This is best captured through an analysis of R&D expenditures. However R&D investment need not always result in the production of new products or processes. So to overcome this problem of measuring only the input for innovation and not outputs, trends in patenting are studied. Patent counts are a good proxy for measuring output of innovations. Reliance on foreign technology is usually measured in terms of the number of foreign technical collaboration agreements signed between MNCs and their own

Domestic technological development is measured usually in terms of the amount of financial resources that is expended by firms and research institutes to create the technology.

affiliates and unaffiliated companies. We first discuss the recent trends in domestic technological development and then the recent record on reliance on foreign technologies.

Domestic Technological Development in India

(i) Trends in R&D

Both the nominal and real growth rates of GERD have declined in India since liberalization of the economy began in 1991. The country's overall research intensity has remained virtually constant at about 0.80 per

cent. In China, on the other hand, the GERD/GDP ratio has more than doubled to 1.42 per cent.

Care has to be exercised in interpreting these figures to mean that overall investment in R&D has declined, owing to the peculiarities of Indian research. Even now, the government accounts for over two-thirds of R&D performed in the country, although this share has declined over time. This has been accompanied by an increase in R&D investment by business enterprises, which now account for about 30 per cent, compared to just 14 per cent in 1991. In China, business enterprises have come to perform as much as 71 per cent, with government research institutes accounting for only 19 per cent. The growing share of R&D performed by the private sector is generally considered to be a desirable trend, as enterprises tend to transform the results of their research into products and processes more rapidly than the government sector.

Both the nominal and real growth rates of GERD have declined in India since liberalization of the economy began in 1991. The country's overall research intensity has remained virtually constant at about 0.80 per cent.

According to the break up of GERD, according to type of work in terms of basic, applied, experimental development etc., the amount devoted to basic research has increased from about 18 per cent of the total GERD to about 26 per cent in 2006. Government expenditure on R&D in India tends to focus on nuclear energy, defense, space, health and agriculture.

The spillover of government research to civilian use is very much limited in the Indian context, although in more recent times, the government has made conscious efforts: to orient research more towards socio-economic goals. This is slowly beginning to produce results, especially in the area of space research: with the development of environmental monitoring, satellite communications and so on.

One interesting result thrown up by the above analysis is that the higher education sector constitutes only a fraction of R&D performed in the country, despite the fact that this sector encompasses the prestigious Indian Institute of Science inaugurated in 1909, the existing eight Indian Institutes of Technology and a host of over 300 universities. In other words, the higher education sector in India is not a source of technology for industry (what about the contract research conducted by the IITs with industry?). However, it is an important source of human resources for the other actors in India's national system of innovation.

Thus, the only sector performing more R&D than before is industry and private companies in particular. Currently, private companies spend approximately four times more than public enterprises on R&D and nearly three times more when compared to Government Research Institutes (GRIs). In other words, private enterprises in India are moving towards the core of India's innovation system.

The veracity of this trend is sometimes questioned on the grounds that business enterprises reporting R&D expenditure to the Department of Science and Technology may be tempted to exaggerate their R&D expenditure to gain tax incentives available in India to any business enterprise investing in R&D. These tax incentives are linked to the volume of R&D performed. Hence the temptation to overstate it. However, this suspicion would appear to be unfounded. In order to verify this proposition, I compared R&D investment as reported by the Department of Science and Technology with the dataset available from the Centre for Monitoring the Indian Economy's Prowess for the period 1991-2003. This comparison shows that, although the level reported by the Department of Science and Technology is higher over most of the years under consideration than in early 1990s, the difference has tended to decrease over time. Moreover, both series have gone in a similar direction. The argument that the increase in R&D expenditure by private companies is a

mere statistical artifice would thus not appear to be true.

Four industries account for the lion's share of investment in R&D with the pharmaceutical and automotive industries being the biggest spenders on R&D. In fact, it is sometimes said that India's national system of innovation is led by the pharmaceutical industry.

It can therefore be safely concluded that, although GERD may not have risen, the pharmaceutical industry has been at the helm of a tremendous increase in R&D expenditure by the private industrial sector. Based on this one indicator, the more correct statement to be made is that there is not enough evidence to show that the entire industrial sector in India is becoming more innovative since 1991, but there is some evidence to show that India's pharmaceutical industry certainly is

Four industries account for the lion's share of investment in R&D with the pharmaceutical and automotive industries being the biggest spenders on R&D. In fact, it is sometimes said that India's national system of innovation is led by the pharmaceutical industry.

becoming more innovative. I propose to confront this proposition a bit more, but this time employing an input based indicator such as the number of patents applied for and granted.

(ii) Trends in Patenting

As noted before, number of patents granted to inventors from a country is taken as a quantitative measure of innovation or technological development. Indian inventors can take patents either in India or abroad, say at the United States Patent and Trade Mark Office (USPTO). There has been a significant increase in patenting by both in India and abroad especially over the last ten years or so. However a detailed analysis of the ownership of these patents showed that over two thirds of the patenting in India and at

the USPTO is by foreign companies operating from India. Attracted by cheaper human resource in science and engineering and by the availability of stricter Intellectual Property Regime brought about by TRIPS compliance of India's patent regime, MNCs are increasingly performing portions of their R&D in India and taking out patents based on the output of these R&D activities. According to some estimates by the Reserve Bank of India, foreign companies now perform something like 20 per cent of the total

One of the most important statements that were made during the discussions on TRIPS (Agreement on Trade Related Intellectual Property Rights) compliance was that with it the IPR regimes in developing countries such as India would have tightened up to an extent that reverse engineering is virtually impossible.

industrial R&D done in India. From this it may be concluded that India is not becoming innovative but becoming an important location for innovative activity.

(iii) Trends in Publications

According to Thomson Reuters Web of Science, there has been tremendous increase in India's publication record since 2000. In 1998, only 16, 500 publications emanated from India. By 2007 it had become 3000. India has one of the highest growth rates in the number of publications. India has a very diverse publication record in a range of areas although, as expected Chemistry and Agricultural Sciences account for the largest focus of attention.

Reliance on Foreign Technologies

One of the most important statements that were made during the discussions on TRIPS (Agreement on Trade Related Intellectual Property Rights) compliance was that with it the IPR regimes in developing countries

such as India would have tightened up to an extent that reverse engineering is virtually impossible. This state of affairs would prompt MNCs to transfer technology to unaffiliated companies located in developing countries much more freely than before. Now that with TRIPS compliance, the IPR regimes are tightened one should see an increase in the number of technical collaboration agreements signed between MNCs and unaffiliated Indian companies. The period of TRIPS compliance coincides with a period of economic liberalization where in the government had already relaxed the conditions under which technical collaboration agreements are contracted between foreign and Indian firms. Specifically, unlike before, these collaboration agreements do not go through a formal approval process. Further, the upper limit that was fixed on royalty payments and technical knowhow fees was considerably raised. All these would have contributed to a large number of licensing agreements- the traditional mode adopted by Indian companies towards technology importation from developed country firms. In order to check this we have compiled data on two different ways of looking at the volume of licensing contracts signed between MNCs and Indian companies. At the aggregate level, we have first put together the fragmentary data that are now available in the total number of collaboration agreements and the share of those collaboration agreements in the total that does not involve any equity payments. The share of pure technical collaboration agreements has been steadily coming down over time.

This shows that MNCs are willing to transfer technologies to companies in India only if their own affiliates are allowed in India. In fact this data from India can be counter checked with the source of royalty receipts received by US MNCs from abroad: over two thirds of it emanate from their own affiliates abroad. The argument here is that

while the total number of collaboration agreements may have increased (and so do royalty payments per unit of GDP), an overwhelming majority of these transactions are intra firm transfers, namely between MNCs and their affiliates in India and not between MNCs and unaffiliated companies.

Conclusions

We have seen that economic growth has taken off in India, especially in the past five years. This performance has been very lopsided, however, tending to favour certain regions and income groups over others. In order to make economic growth more inclusive, the government has been placing a lot of emphasis on S&T, as witnessed by the massive increase in the budget allocation to S&T during the Eleventh Five-year Plan (2007-2012). It is also making an effort to orient innovation in the government sector more towards socio-economic goals.

At the aggregate level, we have first put together the fragmentary data that are now available in the total number of collaboration agreements and the share of those collaboration agreements in the total that does not involve any equity payments.

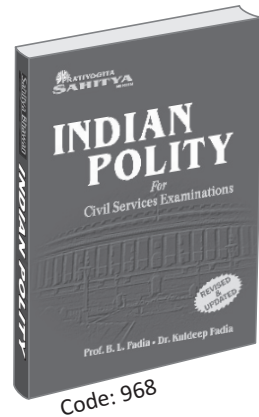
The country has certainly made great strides in space research, life sciences and especially in biopharmaceuticals and information technology. Although domestic science continues to dominate, there is also a growing presence of foreign entities in India's technology system. The main challenge facing the country will be to improve both the quality and quantity of S&T personnel. Fortunately, policy-makers are seized of this problem and have taken several energetic steps to remedy the situation. The future success of India's STI system will depend on how well they succeed. □

(E-mail : mani@cds.edu)

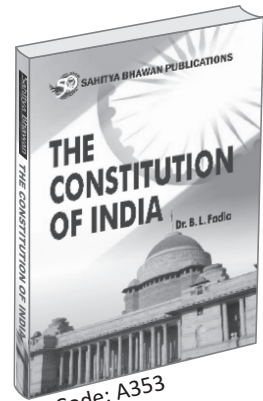
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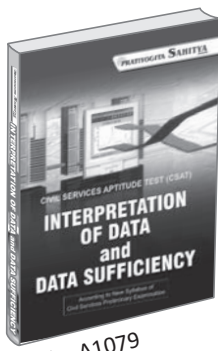
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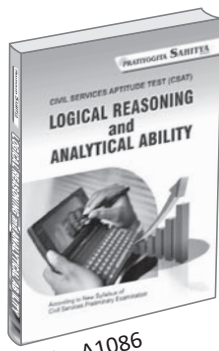
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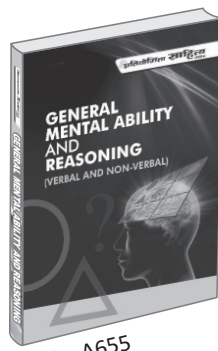
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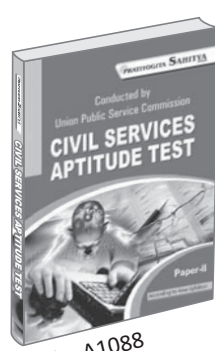
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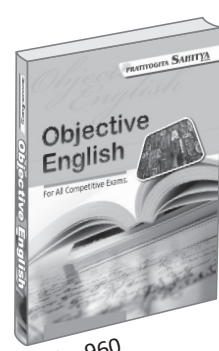
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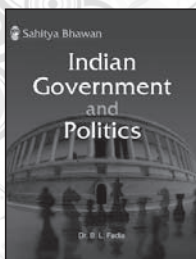


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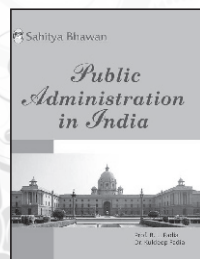


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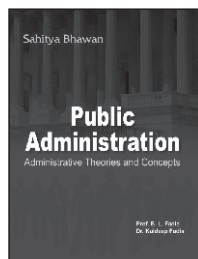
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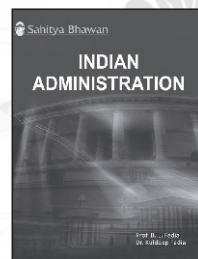
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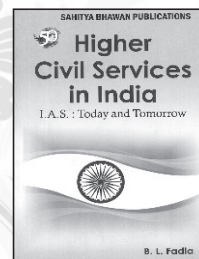
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Jobless Growth

Artika Vats



The rise of middle class was expected to fuel the growth of the economy through the multiplier effect. According to the Market Information Survey of Households conducted by NCAER, the demand for consumer durables was expected to increase significantly due to the ‘rise in the size of the Great Indian Middle Class’¹. It was envisaged that an overall increase in economic activity, with the rise of middle class, will ultimately benefit the poorer members of the society through ‘trickle down effect’

DATA ON India’s growth story for the past decade is widely available. Growth rate, increase in income, rise in savings and investment, FDI & FII flows, everything has been largely in the positive direction since the policy change of early 1990s (or 1980s as some economists mention). On the other hand wide range of data and research work is also available highlighting the costs of globalization in terms of increasing inequalities, social disruption, large scale displacement and jobless growth. Both these thoughts have ample supporting data, empirical evidence to substantiate the arguments and impeccable logic and articulation to make the readers agree. Herein, I would not comment on the benefits or costs of reforms but focus on only one aspect of it namely job creation.

The proponents of reforms have been gala about the new jobs made available due to reforms. They state increase in private investment is directly correlated with job creation. The middle class clearly seems to be satisfied with the argument. Bollywood movies, no longer focus on a poor, hardworking guy who is unable to find a job due to corruption and nepotism. These movies now reflect the aspirations of the middle class – success and richness. Assuming that movies are a reflection of the society,

this, highlights the definite change that the Indian middle class has seen over the last 20-30 years. The middle class however generally provides to the industry the supervisors or the managers. Can one say the same growth story for the labourers, skilled & unskilled workers with as much confidence? The trade union strike has also disappeared from bollywood movies and more or less also from real life – but has it disappeared because the workers are satisfied and there is no need to strike or is it because we have directly or indirectly ensured that strikes do not occur inspite of immense dissatisfaction.

Trickle Down Effect

The rise of middle class was expected to fuel the growth of the economy through the multiplier effect. According to the Market Information Survey of Households conducted by NCAER, the demand for consumer durables was expected to increase significantly due to the ‘rise in the size of the Great Indian Middle Class’¹. It was envisaged that an overall increase in economic activity, with the rise of middle class, will ultimately benefit the poorer members of the society through ‘trickle down effect’. This has been the key logic for giving tax breaks and other benefits to businesses and higher income groups. India, like most other globalised nations, has been offering various incentives for investment. The

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basic premise, as stated above, is that investment drives growth which in turn leads to higher income, more jobs, higher earnings for government (in form of taxes), higher savings (which are further invested) and an overall cycle of development. However, the picture actually turns out to be this rosy or not will depend on several factors. The incentives for private investment have increased the investment flow in capital intensive technologies and not labour intensive technologies. The tax incentives, subsidies, depreciation allowance all are solely linked to the amount invested and not to the number of jobs created. However, from various examples it seems the amount of investment might not have a very high correlation with job growth, or at least will not suffice. In economic terms – it can be said to be a necessary but not sufficient condition for ‘full employment’.

The tax incentives, subsidies, depreciation allowance all are solely linked to the amount invested and not to the number of jobs created. However, from various examples it seems the amount of investment might not have a very high correlation with job growth, or at least will not suffice.

This brings me to the very important aspect of the growth being jobless or ‘jobless growth’. The period between 2004-05 and 2009-10 saw an increase of only 0.3 per cent in total workforce in spite of the high growth rate.⁴ Some liberal economists believe that we need to wait for a ‘long term’ to see the full positive impact of high growth rate. However, Keynesians believe ‘this long run is a misleading guide to current affairs. In the long run we are all dead!’

Sonalde Desai, in her article ‘Middle Class in India’, on analysing the NSS data has mentioned that, ‘while all segments of society have gained over the past twenty years, the growth is greatest among professionals and government officials / managers.

The proportion of households with a monthly expenditure level of Rs. 5000 and above has risen sharply for upper-level professionals – consisting of doctors, engineers and lawyers, among others. Fewer than one-third of such households fell into expenditure category of Rs. 5,000 and above in 1983, whereas nearly half of the professional households had attained the expenditure level Rs. 5000 and above by 2000. In contrast, manual workers and artisans show hardly any gains, and farmers and self-employed entrepreneurs show only limited gains⁵. And we need to realise that farmers, self employed small time entrepreneurs, manual workers, artisans constitute a very high percentage of our population. Also, being amongst the economically weaker sections of society their welfare should be amongst the key factors determining government policy.

The phenomenon of jobless growth is not restricted to India. Mussie Delelegn, officer-in-charge at UNCTAD’s New York Office mentioned “These countries (referring to Least Developed Countries or LDCs) have gone through radical policy reforms. In the 1980s many of them implemented structural adjustment programmes. The assumption that growth would automatically translate into employment and poverty reduction has not been seen.”⁶

Even in the most liberal and most developed of all countries, including the United States, similar concerns are being highlighted. Herman Daly in his article Full Employment Versus Jobless Growth in The Daily News mentions ‘The Full Employment Act of 1946 declared full employment to be a major goal of U.S. policy. Economic growth was then seen as the means to attain the end of full employment. Today that relation has been inverted. Economic growth has become the end, and if the means to attain that end — automation, off-shoring, excessive immigration — result in unemployment, well that is the price “we” just have to pay for the glorified goal of growth in GDP.’⁷

The issue at hand is therefore not restricted to India. It is a widespread phenomenon. The government needs to take these factors into account while debating and finalising the policies for the country.

Future

What is even more worrisome is the fact that the economic growth all across the world is likely to slow down substantially. The gains of the middle class and whatever little trickle down impact for the lower class happened might actually dwindle in the coming years. India is now expected to grow at around 5 per cent as against 8-9 per cent a couple of years ago. The middle class which was expected to be the key segment driving the economy might not grow at a pace to be able to sustain the consumerist economy.

India is now expected to grow at around 5 per cent as against 8-9 per cent a couple of years ago. The middle class which was expected to be the key segment driving the economy might not grow at a pace to be able to sustain the consumerist economy.

Some might question, that largely the article says that growth has not helped in job creation. Then why should slowing down of economy be a concern. As the government representatives mentioned during the 2008 crisis – if jobs are being lost now it proves that jobs were created with economic growth. Their point was to negate the belief that the growth was jobless.

What is important to note here is that jobless growth does not mean that no new jobs are being created. Growth in jobs would refer to the net addition of jobs in the market i.e. numbers of new jobs created less number of previously available jobs no longer available (due to structural changes, use of ‘better’ and more capital intensive techniques, closing down of ‘uncompetitive’ factories due to increased competition,

duty free imports, removal of subsidies etc). Generally, data on the latter .i.e. jobs lost is not maintained at all while data on former .i.e. new jobs created is widely available. However, as mentioned earlier, the period of best GDP growth rate (period between 2004-05 and 2009-10) saw an increase of only 0.3 per cent in total workforce in spite of the high growth rate. The self employed though had actually decreased.

How can this be Addressed?

The UNCTAD report on LDCs, 2013, that highlights the challenges faced by LDCs with regard to employment generation mentions “In order to reach the goal of creating sufficient quality jobs, LDCs need to base employment generation on development of productive capacities through the investment-growth-employment nexus. The critical entry point for creating such nexus is investment.”⁸ The report therefore highlights the importance of investment undertaken with a consideration for employment generation. The government policies, tax incentives etc basis the number of jobs created and not basis absolute investment can be one way of ensuring better correlation between investment and job creation.

On the other extreme, Aseem Shrivastava and Ashish Kothari have come up in their book- Churning the Earth⁹, with examples of how small time groups, with little support from government, have made themselves self-reliant. Examples of how opportunities of job and livelihood can be created through small decentralised economic and social activities. The worry is that these activities are

not supported by the government in the same way as attempts towards increasing private investment and GDP growth. Muhammad Yunus, winner of 2006 Nobel Peace Prize, highlights in his book – Banker to the Poor, various examples of how a tiny sums of money lent to the poorest of the poor helped them set up small village enterprises and pull themselves out of poverty.¹⁰

Given the total workforce of around 50 crores, and over 90 per cent of that in the unorganised sector, either of these approaches alone might not be able to achieve the objective of full

The government policies, tax incentives etc basis the number of jobs created and not basis absolute investment can be one way of ensuring better correlation between investment and job creation.

employment. The approach should be to make the country’s environment business friendly in a way that it is easy to do business even for the small entrepreneurs and self employed. Economic benefits can be linked more to employment generation than to the absolute amount of investment. Tax incentives can depend more on the number of permanent workers employed than on the amount invested in machinery (by way of depreciation allowance etc). These and similar measures can help ensure that the investment is more oriented towards job creation. However, given that the vast majority of our population still lives in villages, it is absolutely necessary that the government support to village and tribal communities is also improved. As mentioned earlier in the article, there are numerous examples of how even slight support, both financial

and otherwise, can go a long way in making people self employed and self reliant. Some initiatives have been taken by the central as well as various state governments. However, a lot more needs to be done.

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Macro-Economic Framework Statement 2014-15

Prospects

The World Economic Outlook (WEO) update released by the International Monetary Fund in January 2014 has revised the growth projection for the world economy slightly upwards to 3.0 per cent and 3.7 per cent for 2013 and 2014 respectively. From 2014 onwards, global growth prospects are projected to improve over the medium term at a gradual pace. In India, several reform measures have been undertaken including clearance of several large projects by the Cabinet Committee on Investment. These steps could help in revival of investment and growth in the economy. In addition, resurgence of exports, prospects of revival in the global economy and moderation in inflation observed recently, point to a better outlook for the Indian economy in 2014-15 vis-à-vis 2013-14.

Source : Statements laid before Parliament under the Fiscal Responsibility and Budget Management Act, 2003

Interim Budget 2014-15: What It Reveals

Sona Mitra



Even in this period of lean expenditure on development projects, it has been heartening to see that the Union Government has gone ahead with the restructuring of the CSS, following the recommendations by the B. K. Chaturvedi Committee. The government has transferred a large part of the money meant for the CSS to the states as Central Assistance to State Plan. This has come as a welcome step towards strengthening the states' financial autonomy

AS THE nation gears up for the general elections, 2014, the final budget of the outgoing government was presented last month to the 15th Lok Sabha.

With the reduction of the Fiscal Deficit in 2013-14 from the earlier estimated level of 4.8 per cent of GDP (in Budget Estimates) to 4.6 per cent of GDP (in Revised Estimates), the government continues to follow its policies of fiscal restraint. However, the 'fiscal consolidation' has been achieved solely on the basis of compression of crucial development expenditure as the government's poor record in stepping up the tax-GDP ratio has persisted in 2013-14.

The total tax revenue collected by Centre and States (combined) had fallen from 17.4 per cent of GDP in 2007-08 to 14.7 per cent of GDP in 2010-11; it has registered a rise to 17.2 per cent of GDP in 2012-13 (BE) but it still is way below the average tax-GDP ratio for BRICS countries at 22 per cent. The Gross Tax Revenue of the Centre registers a decline from 10.9 per cent of GDP in 2013-14 (BE) to 10.2 per cent of GDP in 2013-14 (RE).

On the expenditure side, therefore, the government has keenly pursued a policy of compression of development expenditure from the Union Budget. In 2012-13, the total Plan Expenditure from Union Budget was projected to be

Rs. 5.21 lakh crore (in BE); however, the actual magnitude for the year has fallen sharply to Rs. 4.14 lakh crore. Likewise, the total Plan Expenditure in 2013-14 had been projected last year as Rs. 5.55 lakh crore (in BE), but it has now been slashed to Rs. 4.75 lakh crore (in RE). Similar cuts are observed for the Non-Plan expenditure. The table 2 shows the declining trends in Plan and Non-plan expenditure since 2004-05. It was only during the years 2008-10 that expenditures were higher in order to shield the Indian economy from the global financial crisis.

Such expenditure cuts, as compared to the levels projected in Budget Estimates, have been severe in case of a number of crucial sectors, like Rural Development and Health. The actual expenditure by the Department of Rural Development in 2012-13 has been Rs. 50,187 crore, way below the BE figure for that year at Rs. 73,222 crore; for 2013-14, the Budget Estimate for the Department had been pegged at Rs. 74,478 crore but it has been slashed to Rs. 59,356 crore in Revised Estimate for this year. In health, the difference between the allocations and expenditures in 2013-14 has been Rs. 6,483 crore which marks a substantial decline in centre's share of health expenditure by 17.4 per cent since last year's projected figures. It is a major cut in expenditure in this crucial sector given that the National Rural Health Mission was transformed to include

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Table 1: Central Tax Revenue and Fiscal Deficit (as % of GDP)

Year	Gross Central Tax Revenue	Fiscal Deficit
2004-05	9.4	3.9
2005-06	9.9	4.0
2006-07	11.0	3.3
2007-08	11.9	2.5
2008-09	10.8	6.0
2009-10	9.6	6.5
2010-11	10.2	4.8
2011-12	9.9	5.7
2012-13	10.2	4.9
2013-14 BE	10.9	4.8
2013-14 RE	10.2	4.6

urban areas under the National Health Mission. While budgetary allocations to NHM last year were inadequate, a slash in expenditure (from Rs. 21,104 crore in 2013-14 BE to Rs. 18,206 crore in 2013-14 RE) seems to question the intention of the outgoing government towards universalisation of healthcare facilities.

The disturbing part of the expenditure compression has been the negligence of certain specific Centrally

Sponsored Schemes (CSS) that had gained a lot of importance in the past few years reflecting the dire need for funds in those areas of development. In MGNREGA, the funds have been stagnating at Rs. 29,213 crore in 2011-12 (Actuals), Rs. 30,273 crore in 2012-13 (Actuals), and Rs. 33,000 crore in 2013-14 (Revised Estimates). The actual expenditure by the Department of Health and Family Welfare in 2012-13 was Rs. 25,133 crore as compared to the BE figure for that year at Rs. 30,702 crore; for 2013-14, the Budget Estimate for the Department was Rs. 33,278 crore but it has been slashed to Rs. 27,531 crore in Revised Estimate for the year. Other major schemes like SSA, MDM, IAY, NHM show a decline in the revised estimates from what had been projected by the last budget (Table 3).

However, even in this period of lean expenditure on development projects, it has been heartening to see that the Union Government has gone ahead with the restructuring of the CSS, following the recommendations by the B. K. Chaturvedi Committee.

Table 2: Plan, Non-Plan and Total expenditure (as % of GDP)

Year	Non-Plan Expenditure	Plan Expenditure	Total Expenditure
2004-05	11.3	4.1	15.4
2005-06	9.9	3.8	13.7
2006-07	9.6	4.0	13.6
2007-08	10.2	4.1	14.3
2008-09	10.8	4.9	15.7
2009-10	11.1	4.7	15.8
2010-11	10.5	4.9	15.4
2011-12	9.9	4.6	14.5
2012-13	9.9	4.1	13.9
2013-14 RE	9.8	4.2	14.0

Table 3: Allocations to major Centrally Sponsored Schemes (In Rs crores)

Major CSS	2012-2013	2013-2014 BE	2013-14 RE
National Health Mission (NHM)	20822	21104	18206
Sarva Shiksha Abhiyan (SSA)	23645	27258	26608
Mid Day Meal Scheme (MDM)	11500	13215	12189
Integrated Child Development Scheme (ICDS)	15850	17700	16312
Indira Awas Yojana (IAY)	9024	15184	13184
Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA)	30273	33000	33000

The government has transferred a large part of the money meant for the CSS to the states as Central Assistance to State Plan. This has come as a welcome step towards strengthening the states' financial autonomy. Last year's budget promised a step towards restructuring the CSS and providing the states with more flexibility in terms of implementing Plan schemes. A laudable step towards that has been an increase in the quantum of the Central Assistance to State Plans from Rs. 1,36,254 crore in 2013-14 BE to Rs. 3,38,562 in 2014-15 BE via the Additional Central Assistance component. This marked increase is reflected in the budgets of most Ministries and Departments implementing the 'big-bang schemes' such as the Ministries of Minority Affairs, Tribal Affairs, Women and Child Development, Social justice and Empowerment, Drinking Water and Sanitation, Human Resource Development, Rural Development, Health and Family welfare and Panchayati Raj institutions, under a separate head of State and UT plans. This would lead to an enhancement of internal accountability in the process of fund utilization (as these would come under the direct purview of the CAG audit every year).

Nonetheless, it does not yet address the long standing concern of the States for stepping up the share of the truly untied component of funds within the Central Assistance for State Plans. The magnitude of *Normal Central Assistance for State Plans* (determined by the Revised Gadgil-Mukherjee formula) still continues to be a small part of the Centre's Gross Budgetary Support to Plan.

Given these trends of following the roadmap for fiscal consolidation based on expenditure compression, it is to be seen in the coming months whether these strategies would continue to move in the same direction or follow a reversal, both in terms of stepping up the tax-GDP ratio and granting greater financial autonomy to the states. □

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YE-293/2013

The New Drug Price Control Regime

Anant Phadke
S. Srinivasan



A cost-based formula would reflect real increases/decreases in the raw material costs and accordingly, the price ceiling. Indeed, it ill serves the manufacturer too when the raw material price increases abnormally and the Government's NPPA is neither designed nor equipped at present to be quick enough to respond to the increase – there is no provision in the DPCO-2013 to do so. Again, in the absence of cost-based pricing, there is no guideline as to how and by how much an increase of the ceiling price will be effected in such an eventuality

THROUGH A Gazette notification of May 15, 2013 a new Drug Price Control Order (DPCO) is in place. It has been welcomed in some quarters on the grounds that it will substantially reduce the prices of the 348 medicines in the National List of Essential Medicines (NLEM). It has been claimed that some medicines will be cheaper by 80 per cent. But a closer look reveals that the DPCO-2013 has major problems and would lead to regulation of only 17-18 per cent of the sales in the market and the average reduction in prices with respect to the market leader would be around 6.2 per cent instead of an expected reduction of at least 100 per cent. Indeed, an analysis by the Public Health Foundation of India (PHFI) et al in a forthcoming publication reveals that about 47 per cent of a sample of 339 notified ceiling prices exhibit less than 10 per cent decrease and 28 per cent of the notified ceiling prices are greater than or equal to the market leader.

The tokenistic price-control of DPCO-2013 is because it has two major problems – firstly, to decide the ceiling prices of medicines to be brought under price control, it has abandoned the Cost-Based Pricing (CBP) formula and has instead, opted for market-based pricing (MBP). Secondly, it has major

gaps like including only essential drugs in the NLEM-2011, that too restricted only to the dosages and presentations mentioned in the NLEM-2011. In the process, it has excluded many life-saving drugs, irrational Fixed Dose Combinations with NLEM-2011 drugs, and medicines belonging to the same chemical class. This article examines these issues in some detail.

Tokenistic Reduction in Prices

To begin with, it is to be noted that the DPCO-2013 has come due to pressure of a PIL by the All-India Drug Action Network (AIDAN) in the Supreme Court on pharmaceutical pricing. In its initial hearing in 2003, the Supreme Court had directed the Government to consider and formulate appropriate criteria “for ensuring essential and lifesaving drugs not to fall out of price control should be put under price control” and further directed the Government of India “to review drugs which are essential and life saving in nature” by May 2, 2003. Government took 10 years to comply with this directive and came out with the tokenistic DPCO-2013.

The Supreme Court, during the hearing in October 2013, had said that the Government should continue with the cost-based pricing (CBP) that has been used for the 74 medicines that have been under price control since 1995. Cost-based pricing (CBP) with

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appropriate margins for the trade, quality control, marketing, return on investment, and R & D, is the most logical way of deciding ceiling prices. MBP or market-based pricing is not used by any Government for price-control anywhere in the world. When retail prices are determined by regulatory authorities for telephone/cell phone charges, electricity, auto-taxi fare, etc., they are based on costs. Yet, DPCO-2013 has adopted Market-based Pricing without giving any reason. As per CBP in operation since 1995, the ceiling price of medicine equals manufacturer's cost of production plus a margin of 100 per cent. In the currently prevalent MBP regime of DPCO-2013, ceiling prices of price-controlled medicines would be the simple average of prices of all brands that have more than one percent market share. This MBP regime would merely legitimise the current exorbitantly high prices of essential medicines. For example –

In case of atorvastatin 10 mg, which is used to reduce high blood cholesterol level, the price as per CBP under DPCO 1995 norms with 100 per cent margin would be Rs 5.60 (see col. 4, row 13, Table 1) while the Maximum Retail Price or MRP (DPCO-2013 simple average price plus 16 per cent retailer's margin) would be around Rs 59.10 per 10mg. This is because prices of brands reflect brand value rather than actual cost of production and as a result, pharma companies earn unreasonable super profits to the tune of 200-4000 percent. Such unreasonable profits are based on questionable marketing practices in the name of brand promotion. Table 1 shows that choosing Market-based Pricing mechanism is not addressing the issue of what is a legitimate profit margin: 100 per cent or 1000 per cent or 4000 per cent?

Leading pharmaceutical companies have indulged in rapacious profiteering for too long. One

estimate (by SPIC-Small and Medium Enterprises Pharmaceutical Industries Confederation) suggests that big companies made excess profit, in the past 10 years, to the tune of Rs.1,01,750 crores by virtue of most drugs being kept out of price control (only 74 drugs were price controlled before the DPCO-2013, of which only 30-35 are were regularly used).

It has been claimed that there has been a significant price reduction in medicines after DPCO-2013. Firstly, till the end of 2013, the Department of Pharmaceuticals could fix prices for only 500 dosages of the 600 plus dosages (of 348 drugs) in DPCO-2013. Secondly, the DPCO-2013 is such that it will reduce only the highest prices, it will not affect prices of majority of the brands that are below the ceiling price. That is, it will not reduce the average prices. The common person is not interested in reduction in only the maximum price, but in reduction in prices of all excessively priced

Table 1

Comparison of MRP as per DPCO-2013 and as per Cost-Based Pricing (Prices in Rupees for a strip of 10 tablets)

No	Name of Drug and Use	MRP (Ceiling Price plus 16 per cent) as per DPCO-2013	Ceiling Price as per CBP (100 per cent margin as per DPCO 1995 norms)*	Col 4/ Col 3
1.	Diethylcarbamazine Citrate, 50 mg, Anti-filarial	4.7	2.4	1.96
2.	Diclofenac Sodium, 50mg, Painkiller	19.50	2.81	6.93
3.	Metformin, 500mg Antidiabetic	15.6	4.75	3.28
4.	Amlodipine 5 mg, Antihypertensive	30.6	1.77	17.29
5.	Domperidone, 10mg, Antivomiting	22.60	2.5	9.04
6.	Hydrochlorothiazide, 25 mg, Antihypertensive	16.6	2	8.30
7.	Paracetamol, 500mg Painkiller	9.4	4.48	2.10
8.	Glibenclamide, 5mg Antidiabetic	9.6	1.42	6.76
9.	Amoxicillin Capsules, 500 mg Antibiotic	60.9	21	2.90
10.	Enalapril Maleate, 5 mg Antihypertensive	29.6	2.4	12.33
11.	Azithromycin 500 mg Antibiotic	198.6	116.12	1.71
12.	Cetirizine, 10mg Antiallergic	18.10	2	9.05
13.	Atorvastatin, 10mg, Blood cholesterol lowering	59.1	5.6	10.55
14.	Metoclopramide Tablets, 10 mg, Antivomiting agent	10.4	2.6	4.00
15.	Albendazole 400 mg tablets Hookworm Infestation Treatment	91.2	12	7.60
16.	Diazepam tablets, 5 mg Sedative	13.2	1.7	7.76
17.	Fluconazole - 50mg. Antifungal	78.3	7.3	10.73

Data Source: For ceiling prices, NPPA website <http://www.nppaindia.nic.in>. Accessed in June-Sep 2013. DPCO 1995 prices of all drugs, estimated by S. Srinivasan. Please note that in the fourth column gives the price that would have been if the DPCO-1995 norms were to be used. Most of these drugs were not in the price control basket under DPCO 1995 regime.

brands. Thirdly, as mentioned above, when price reduction with respect to Market Share Leader was examined it was found that the average price reduction with respect to market leader for a sample of 339 dosages was a mere 6.2 per cent. A more correct way of calculating price reduction is the actual decrease/increase in sales after the price ceiling order. Available data shows that out of a total sale of a sample of 370 formulations of DPCO-2013 drugs of Rs 11233 crores, the total decrease in sales (at constant volume) due to DPCO-2013 was about Rs 1280 crores (about 11 per cent). This would be more than made up in an year due to natural increase in sales year on year. Additionally, prices of the drugs under price control would be allowed an automatic increase on April 1 of every year as per the increase in Wholesale Price Index.

Life-Saving Essential Medicines Absent

The DPCO has violated even the letter of the above mentioned Supreme Court directive by excluding following life-saving medicines from price-control -

While the WHO EML (Essential Medicines List) mentions capreomycin, cycloserine, ethionamide, kanamycin and para-aminosalicylic acid for treatment of Multi-Drug-Resistance TB (MDR-TB), the NLEM-2011 does not mention any of these. These medicines for the MDR-TB, which carries a very high mortality, are highly expensive (with an estimated cost of Rs. 8340 per month for medicines alone). According to 2011 figures, only 6 per cent of MDR-TB cases were detected and only 5 per cent were put on treatment under Government programme called 'DOTS-Plus' (Daily Observed Treatment Short) course. The WHO Model list of April 2013 includes 5 rational Fixed Dose Combinations of anti-TB medicines. However, the NLEM-2011 and hence DPCO-2013 has not included any of these. For the treatment of severe 'falciparum malaria' which also

has a very high mortality, the WHO Essential Medicines list includes Artesunate tablet, Inj. Artesunate, Inj.Artemether and a combination of Artemether and Lumefantrine tablet. But the DPCO-2013 has only Artesunate tablets and omits the other falciparum malaria medicines altogether.

By interpreting the concept of 'Essential Medicines' in a convenient and minimalist sense, medicines listed as 'complementary' in the Model List of Essential Medicines of the World Health Organization have not been included in DPCO-2013. However, all editions of WHO's publication of 'Model List' of Essential Medicines state the meaning of the core and complementary list

The DPCO 2013 and NLEM 2011 do not have even ferrous sulphate plus folic acid combination – a basic drug for the nutritional anemia prophylaxis programme, under price regulation.

By interpreting the concept of 'Essential Medicines' in a convenient and minimalist sense, medicines listed as 'complementary' in the Model List of Essential Medicines of the World Health Organization have not been included in DPCO-2013. However, all editions of WHO's publication of 'Model List' of Essential Medicines state the meaning of the core and complementary list as follows -

The *core list* presents a list of minimum medicine needs for a basic health care system, listing the most efficacious, safe and cost effective medicines for priority conditions. Priority conditions are selected on the basis of current and estimated future public health relevance and potential for safe and cost effective treatment.

The *complementary list* presents essential medicines for priority diseases, for which specialized diagnostic or monitoring facilities, and/or specialist medical care, and/or specialist training are needed.

The three adjectives used by the WHO publication in defining the Core list - minimum, basic and priority are important and should be noted. Secondly, it should be noted that complementary list also consists of essential medicines and hence it is quite unjustifiable and unreasonable to exclude medicines from complementary list from price-control.

Because of this minimalist interpretation of the concept of list of Essential medicines, in addition to the exclusion of some life-saving medicines, there are other important omissions: out of anti-asthmatic medicines, only salbutamol is included in the current NLEM. Other essential medicines like doxofylline, salmeterol, montelukast (and other members of the respective class like theophylline, and zafirlukast), belonging to other important types of anti-asthmatics, are missing from this list. Many of these are useful especially in life saving situations.

India is now widely recognised as the country with the largest number of diabetics in the world. Diabetes is one of the most important killer diseases in India. However, only anti-diabetics in the NLEM-2011 list apart from insulins are glibenclamide (belonging to the class - Sulfonylurea) and metformin. Instead of glibenclamide, many physicians prefer glimeperide, another medicine from the same class of medicines, sulfonylureas, because it has a lower risk of hypoglycemia (low blood sugar). But DPCO-2013 excludes it. The prices of different brands of Glimeperide vary vastly, with Amaryl 1mg being the costliest and the most promoted brand selling at Rs 65 per 10 tablets (Oct 2012 sales for preceding 12 months: Rs 32.57 cr), whereas if Cost-based Pricing norms of DPCO 1995 were adopted, the price would be Rs 2 per 10 tablets, that is almost 3000 per cent less!!

Medicines in Same Chemical Class Included

There are some medicines which are not included in the Essential Medicine List but are chemically

almost identical to the one included in the NLEM and have only a slight tweak in the structure of the molecule. They have hardly any advantage in terms of efficacy or safety. For example: lisinopril is a 'me-too' variant of enalapril; simvastatin is a 'me-too' variant of atorvastatin. These costly 'me-too' variants have generally been introduced in the market as 'new medicines' with a new patent when the patent period of the original molecule is getting over. The company then starts promoting this 'new' medicine, which has high monopoly price and entices doctors to stop prescribing the 'old' original medicine. Since the NLEM-2011 contains only the original molecule and none of these 'new' medicines which belong to the same chemical class, only the original molecule has been included in the DPCO-2013.

The essential drugs in the list are selected on the criteria of cost, safety and efficacy. This implies that other things being equal, the more costlier drugs of similar efficacy and safety are left out. This is the logic under which the therapeutic equivalents belonging to the same chemical class are left out. But if the costlier equivalents are left out of NLEM-2011, it makes all the sense to put them under price regulation. By mechanically focusing only on essential drugs as listed in the NLEM-2011, DPCO-2013 misses the woods for the trees.

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regulation. By mechanically focusing only on essential drugs as listed in the NLEM-2011, DPCO-2013 misses the woods for the trees.

Among anti-hypertensives, while enalapril, belonging to a class 'ACE inhibitors' will have a price cap because it is part of the NLEM-2011, prices of all other widely used other ACE inhibitors such as captopril, fosinopril, imidapril, lisinopril, perindopril, quinapril, ramipril andtrandolapril will be free from any regulation because they are not in the NLEM-2011. Now there is a great possibility that manufacturers, instead of continuing with the production of the much cheaper enalapril, would shift further to production of Ramipril and Lisinopril. Already, ramipril's sales are 3.5 times that of enalapril! As suggested in 2005 by the Pronab Sen Task Force, (set up to recommend measures to make essential medicines affordable), to prevent such "migration", all medicines of the same therapeutic class should be under price control.

The Government has no powers to prevent the migration mentioned above to the production of 'new', 'me too' costly medicines. Concerned provisions in the DPCO-2013 are toothless and also will be against the right to trade (Art 14). Also, a manufacturer already producing NLEM-2011 drug and its chemical analogue, has to only make less of one and more of the other to escape being named for migration.

Exclusion (FDCs) from Price-control

The list of 348 drugs in NLEM-2011 contains 333 single ingredient formulations plus about 15 rational Fixed Dose Combinations. Hundreds of other FDCs consisting of all kinds of combinations of two or more medicines have escaped price control. It may be noted that in India in most cases, single ingredient sals are much less than that of Fixed Dose Combinations.

For example, Paracetamol 500 mg tablets with atleast one per cent market share has sales of Rs 128 cr in 13 brands – after price control 9 of these 13 brands accounting for Rs 105 cr sales has been affected. The actual sales shrinkage will be Rs 7.59 cr (that is Rs 105 cr would become Rs 97.41 cr. at constant volume). In contrast, sales of paracetamol preparations of all strengths and dosages plus combinations are Rs 2571 cr. Only Rs 105 cr sales of this figure of Rs 2571 cr, about 4 per cent, stands affected as a result of DPCO 2013. Such examples abound in most other drugs in the NLEM revealing the nature of tokenistic price control effected under DPCO 2013. (*Data from IMS, working sheets uploaded by NPPA, and from PHFI op.cit.*)

According to Government's own affidavit filed in the Supreme Court, during November 2013, only 18 per cent of the market of Rs 71,246 cr is under price control. That is, a whopping 82 per cent has slipped out of the DPCO 2013 gaze. Out of this covered under price control are Rs 1900 cr (as combinations) and Rs 11,197 cr (single ingredient).

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The same affidavit also mentions the percent of market not covered by the DPCO 2013: antidiabetics (82 per cent); antimalarials (86 per cent); anti-TB (81 per cent); blood related (99 per cent); cardiac (71 per cent); hepatoprotectives (100 per cent); HIV related (71 per cent); Pain/analgesics (90 per cent); respiratory (94 per cent); vitamins/minerals/nutrients (99 per cent); and so on.

'Standard' Dosage Forms under Price Control

The antibiotic combination of amoxicillin with clavulanic acid is marketed under the brand name Augmentin in tablets of several strengths: 375 mg, 625 mg and 1,000 mg. Of these, only 625 mg tablet is price controlled. In the top-selling 1000 products (PharmaTrac, October 2012), eight products of atorvastatin 10 mg strength mentioned in NLEM, have a sales turnover of Rs 187.39 cr for the previous 12 months whereas seven other products in non-standard dosages of 15 mg, 20 mg, 40 mg, etc., have a sales of Rs 138.63 crores. In all, about half of all dosage forms will be out of price control.

Automatic Price Increase of Drugs under Price Control

Also, every year manufacturers will

be free to hike the prices of all price-controlled medicines at the same rate as the increase in the Wholesale Price Index (WPI) irrespective of the change in input costs. This is irrational. It may be alright to allow increase in prices in case of increase in raw materials and conversion costs. Conversion costs form a relatively small part of the total price. A cost-based formula would reflect real increases/decreases in the raw material costs and accordingly, the price ceiling. Indeed, it ill serves the manufacturer too when the raw material price increases abnormally and the Government's NPPA is neither designed nor equipped at present to be quick enough to respond to the increase – there is no provision in the DPCO-2013 to do so. Again, in the absence of cost-based pricing, there is no guideline as to how and by how much an increase of the ceiling

price will be effected in such an eventuality.

Leaving out some other problems with DPCO, we can see that the DPCO-2013 is seriously flawed and would allow the pharma companies to continue to fleece the people. It remains to be seen whether the Supreme Court gives justice to the people by directing the Government to adhere to Cost-Based Pricing and to use an improved list of Essential Medicines for price-control.

Acknowledgments: The authors wish to thank Dr Anurag Bhargava of Himalayan Medical Institute, Dehradun, as well as Dr S.Sakthivel, Malini Aisola and colleagues from PHFI whose research findings have been used in this article. □

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FORM IV

(Statement about ownership and other particulars about newspaper Yojana (English) published in the first issue of every year after the last of day of February)

1. Place of Publication : New Delhi
2. Periodicity of its Publication : Monthly
3. Printer's Name & Nationality : **Ira Joshi,**
Indian,
Soochna Bhavan,
Publications Division,
New Delhi-110 003.
4. Publisher's Name, Nationality & Address : **Ira Joshi,**
Indian,
Soochna Bhavan,
Publications Division,
New Delhi-110 003.
5. Editor's Name, Nationality & Address : **Mrs. Shyamala Mani Iyer**
Indian,
Yojana, Publications Division
Room No. 542, Yojana Bhavan, New Delhi - 110 001
6. Names and addresses of individuals who own the newspaper and partners of shareholders holding more than one percent of the total capital : Wholly owned by Ministry of I&B
Govt. of India, New Delhi-100 001.

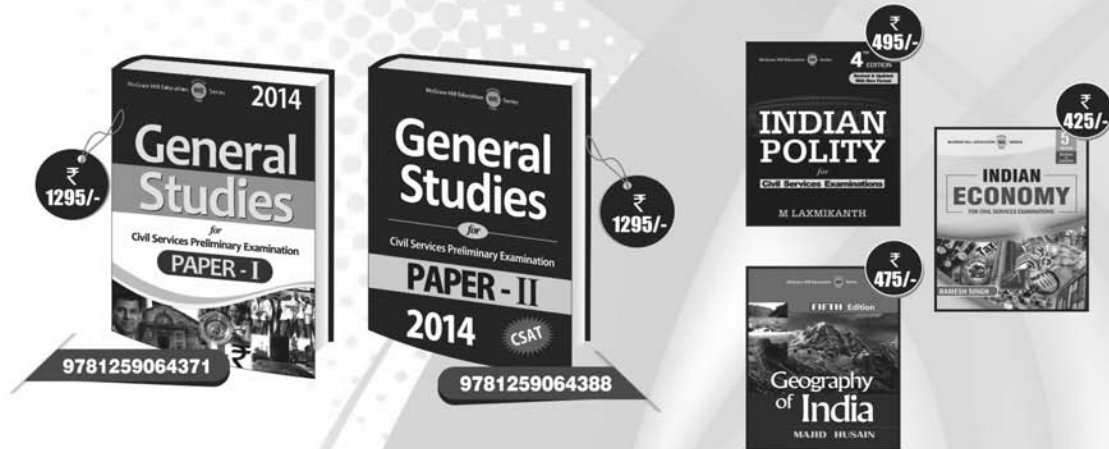
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YE-294/2013

India's Lost Economic Transformation

Kunal Sen



Clearly, whether India can maintain its strong economic growth in the future, and at the same time, have a more equitable development strategy in the future is intimately related to its ability to reclaim its lost transformation from an agriculture-based to a manufacturing-based economy

THERE HAS been a significant change in the structure of the Indian economy in the last six decades since independence. In 1955, agriculture comprised 57 per cent of output whereas in 2008, it comprised a mere 19.8 per cent of output. In 1955, manufacturing comprised 9.9 per cent of output in 2008, it comprised 15.6 per cent. This was mostly due to the growth in the output of the organised or formal manufacturing sector, from 4.9 per cent in 1955 to 10.6 per cent in 2008. Perhaps, the most remarkable feature of the Indian economy's structural change has been the increase in the share of the service sector from 19 per cent of GDP in 1955 to 40.7 per cent in 2008. It is well known that India's pattern of economic development has been atypical in that the service sector has comprised a far higher share of economic activity than should have been the case, given India's level of per capita income. The two fastest growing service sectors in the period 1993-2004 were business services (24.3 per cent) and communications (20.3 per cent). This was mostly due to the advent of cellular technology as the government opened the telecommunications sector to the private sector by relinquishing its monopoly control over the provision of communication services (Kotwal et al., 2010). Economic reforms that

relaxed the entry of foreign firms into the services sector were also directly attributable to the growth in the services sector as the share of services in foreign direct investment increased from 10.5 per cent in the early 1990s to nearly 30 per cent in the second half of the decade. As a consequence of the entry of outward oriented foreign direct investment into the information technology sector since 1992, software exports grew substantially at nearly six times than the world export of services.

Growth and Structural Change

With respect to the manufacturing sector, a distinctive feature of this sector has been its dualism – the existence of a relatively small set of formal sector firms which have a largely protected workforce along with a large number of firms in the informal sector, where workers have little access to social security, employment protection and other benefits (Mazumdar and Sarkar 2008). Formal sector firms are very different from informal sector firms both in labour productivity and wages paid to their employees – labour productivity in formal sector firms are 28 times higher than that in informal sector firms, and wages five times higher in 2005-2006. More strikingly, productivity differences have been widening over time – labour productivity in formal sector firms was only 5

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times that of informal sector firms in 1984-1985. The share of organised manufacturing in GDP has increased, especially since 1980, while the share of unorganised manufacturing in GDP has remained remarkably constant over the sixty years since independence at around 5 per cent of GDP. In contrast to its declining importance in total manufacturing output, the importance of the informal sector in providing employment in manufacturing has remained same over the time. The proportion of workers in the informal sector in total manufacturing was 83 per cent in 1984-95 – it declined marginally to 80 per cent in 2005-2006. The persistence of dualism in Indian manufacturing and the presence of a large low productivity (and low wage) informal sector in the face of significant and rapid economic change remains a matter of policy concern and may have played a contributing role in the relatively weak effect of economic growth on poverty reduction in India.

Another distinctive feature of India's pattern of economic

The persistence of dualism in Indian manufacturing and the presence of a large low productivity (and low wage) informal sector in the face of significant and rapid economic change remains a matter of policy concern and may have played a contributing role in the relatively weak effect of economic growth on poverty reduction in India.

development has been the slow movement of labour from the agricultural to the manufacturing and service sectors. As countries grow and diversify away from agriculture, workers move from the low productivity agricultural sector to the high productivity manufacturing and service sectors over time, and the faster the movement of labour from agriculture to other sectors, the higher the rate of economic growth. The reallocation of labour from agriculture to manufacturing and

services has been slower in India than China. In 1980, the employment share of agriculture was 68.7 per cent in China which was very similar to that of India, which stood at 68.1 per cent. However, by 2000, the share of employment in agriculture had fallen to 50 per cent in China, while it remained stubbornly high at 59.3 per cent for India (Kochhar et al. 2006). The shift in employment away from agriculture has been mostly towards the services sector, which increased its share in total employment from 20 per cent in 1983 to 29 per cent in 2004. In contrast, the share of manufacturing in total employment has hardly changed – with a small increase from 10.6 per cent in 1983 to 11.7 per cent in 2004. The weak absorption of labour by the high growth manufacturing and services sectors has implications for the employment creating potential of economic growth.

Therefore, India's high rate of economic growth has not been job creating. The employment elasticity of output – the per cent increase in employment for a one per cent increase in GDP - has fallen from 0.40 in 1983-1993 to 0.29 in 1993-2004. Employment growth was 1.79 per cent per annum in 1993-2004 as compared to 1.99 per cent per annum, in spite of a higher rate of economic growth in the 1990s as compared to the 1980s. However, the overall low rate of employment creation in the 1990s and early 2000s masks changes in patterns of employment creation within skill categories. Perhaps, the most relevant indicator of job creation from a poverty reduction perspective is the rate of employment growth for unskilled workers. Kotwal et al (2010) find that in the 1980s, the fastest growing sectors hardly provided any unskilled labour employment. ¹In fact, many of the fastest growing sectors shed unskilled labour. This changed in the 1990s, when many of the fastest growing sectors used unskilled labour abundantly. The most important of the fast growing sectors from the point of view of providing

unskilled labour employment were the trade and construction sectors, which increased their share in GDP rapidly since the early 1990s. There was also less evidence of labour shedding in the 1990s. Non-farm employment increased strongly in 1993-2004 by 60.2 million workers as compared to an increase of 35.9 million workers in 1983-1993.

The Transformation that Never Was

The low rates of job creation in the high growth era of the Indian economy still leave open the question: why has this been the case? To answer this question, it is important to recognise that India's pattern of growth has been atypical and has not followed the standard path that we have seen other economies, especially with large supplies of mostly unskilled labour. All the major Asian economies, starting with Japan, then Korea, Singapore, and Taiwan, and now more recently, China and Vietnam, have moved from the import substituting phases of their economic development to an export-oriented development

The low rates of job creation in the high growth era of the Indian economy still leave open the question: why has this been the case? To answer this question, it is important to recognise that India's pattern of growth has been atypical and has not followed the standard path that we have seen other economies, especially with large supplies of mostly unskilled labour.

strategy that witnessed in its initial years, a strong growth in the labour intensive segment of the manufacturing sector. In all these countries, as their economies integrated more closely with world markets, economic growth and structural transformation from an agriculture based to a manufacturing based economy went hand in hand, one driving the other. Surplus labour was pulled, sometimes in massive amounts, from less productive agriculture to the

more productive manufacturing sector, and economic growth was driven in its early stages by a rapid expansion of labour-intensive manufacturing, mostly producing for export markets (Krueger 1997). This was not the case in India, where the labour –intensive manufacturing sector did not become the engine of growth. In fact, it was the knowledge-intensive services sector which along with some segments of capital intensive manufacturing was the engines of growth in India. But these sectors by their nature were not employment-intensive. Whatever jobs that were created outside of agriculture were mostly in the low productivity – low wage informal services sector (comprising mostly trade, hotels and restaurants). But this informal services sector, by the virtue of the fact that the growth of this sector depends on the growth of other sectors, cannot be the leading sector of growth and therefore, is constrained in its capacity to absorb more of the labour force in agriculture than it is at present.

...the nature of the trade regime in India is still biased towards capital-intensive manufacturing, in spite of reforms which have reduced the protection towards the capital goods and intermediate goods sectors. Tariffs in India still remain high as compared to the regional average

There has been a stagnation in manufacturing output and employment over time and an increase in both the formal and informal segments of the services sector in total output and the growth of the informal services sector in total employment. Not only has manufacturing stagnated as a share of total output and total employment, the labour-intensive segment of the formal manufacturing sector has contracted over time.

Why has this happened? There are several reasons. Firstly, the nature of the trade regime in India is still biased towards capital-intensive manufacturing, in spite of reforms

which have reduced the protection towards the capital goods and intermediate goods sectors. Tariffs in India still remain high as compared to the regional average (Athukorala 2009). In addition, as recent as 1996-2000, the shares of intermediate inputs and consumer goods subject to non-tariff barriers were as high as 28 and 33 per cent respectively (Das 2003). Secondly, stringent employment protection legislation among the most protective of formal workers in the world has reduced the incentive of firms, especially those in the purview of employment protection legislation, to hire workers on permanent contracts and pushed them towards more capital intensive modes of production, than warranted by existing costs of labour relative to capital. Dougherty (2008) finds that for large firms (that is, firms with 100 or more workers, almost all the increase in employment has been in the form of contract workers – workers employed through intermediaries who do not benefit from Employment Protection legislation – while the employment of permanent workers has decreased for these firms. Employment protection legislation is applicable to firms with 100 workers or more, so this shows that labour laws have led to firms shedding regular labour in favour of temporary labour. On the other hand, the employment of permanent workers increased for firms with less than 100 workers. Gupta et al. (2008) find that Indian states with relatively inflexible labour legislation have experienced slower growth in labour-intensive industries and slower employment growth overall. Saha, Sen and Maiti (2013) find that states with labour legislation that favour permanent workers have shown a higher growth of contract workers relative to regular workers.

A third reason behind the jobless growth in formal manufacturing has been infrastructural bottlenecks (especially in access to electricity) and other impediments to entrepreneurial growth in small firms (such as high costs of formalisation) along with a long history of small scale reservation

policy which prohibited the entry of large scale units in labour intensive industries (Joshi 2010). Finally, the opening up of the economy leading to the availability of cheap capital goods from abroad and the increased pro-competitive forces brought about by the economic reforms have led to increased skill and capital intensity of firms, even those which were located in the informal sector, to ward off foreign competition (Sen 2008, Raj and Sen 2012, Kathuria, Raj and Sen 2010).

In conclusion, we have noted in this article that in contrast to the previous growth success stories of the developing world, especially those originating from Asia, India's pattern of growth has followed a non-standard and what

India's pattern of growth has followed a non-standard and what one could call a perverse route, and that such a growth pattern that privileges knowledge-intensive services and capital-intensive manufacturing over labour-intensive manufacturing is not in India's long-term interests, either from viewpoints of efficiency or equity.

one could call a perverse route, and that such a growth pattern that privileges knowledge-intensive services and capital-intensive manufacturing over labour-intensive manufacturing is not in India's long-term interests, either from viewpoints of efficiency or equity, as it has not been built on the foundation of the innate comparative advantage India possesses in unskilled labour intensive manufacturing, and has limited the poverty reducing impact of economic growth (Sen 2008). Clearly, whether India can maintain its strong economic growth in the future, and at the same time, have a more equitable development strategy in the future is intimately related to its ability to reclaim its lost transformation from an agriculture-based to a manufacturing-based economy.

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Macro-Economic Framework Statement 2014-15

Industry and Services

The index of industrial production (IIP) [base: 2004-05] is the leading indicator of industrial performance. As per the IIP, industrial output growth rate was (-) 0.2 per cent during April-November 2013 as compared to 0.9 per cent during the same period of the previous year. A combination of global and domestic factors has led to deceleration in the industrial output. The contraction in the growth during current year was largely because of decline in mining sector, capital goods, and consumer goods. Manufacturing, the dominant sector in industry, witnessed contraction of 0.6 per cent during April-November 2013 as compared to a growth of 0.9 per cent in the corresponding period of the previous year. During 2012-13, manufacturing output had increased by 1.3 per cent.

The reasons for sluggishness in manufacturing are multiple. The rise in the policy rates, necessitated by the need to contain inflation, coupled with the bottlenecks facing large projects took toll on investments. The growth rate of gross fixed capital formation (GFCF) has been on the decline from around Q1 2010-11. Further, Indian manufacturing has not moved up the value chain over time. Due to low level of investment in research and development (R&D), India has not seized the growing opportunities available in high and medium technology sectors in the global market such as chemicals, machinery & equipment, electronic goods, etc.

Owing to the robust growth in electricity generation from hydel sources, the growth in overall electricity generation increased to 5.4 per cent during April-November 2013 as compared to 4.4 per cent during the same period of the previous year. Because of structural constraints, mining sector continued to drag overall industrial recovery with its output contracting by 2.2 per cent, compared to a contraction of 1.6 per cent in the corresponding period of the previous year. The output of the capital goods sector contracted by 0.1 per cent during April-November 2013 as compared to the contraction of 11.3 per cent during the corresponding period of the previous year, which indicates that deceleration in this sector may have started to bottom out. Overall manufacturing growth also suffered on account of negative spillover from the mining and capital goods sectors, lower demand for consumer durables, etc.

Source : Statements laid before Parliament under the Fiscal Responsibility and Budget Management Act, 2003

Portable Stove with High Efficiency

V Jayaprakash

V Jayaprakash (43), a chulha maker from Kerala has improvised the portable stove by incorporating a secondary combustion chamber for burning the un-burnt bio mass and hydrocarbons. As a result, the thermal efficiency of the stove has improved while the pollution has reduced.

Coming from a lower middle class background, V Jayaprakash was a very good student. Since his childhood, he had keen interest in science and innovations. He used to participate regularly in science exhibitions and represent his school. Some of his early projects included using pulley to lift load to a certain height and a small toy motor-boat, which could go up to a certain distance and come back automatically.

His childhood was spent among a lot of constraints and he had to face a lot of financial problems. He recalls that one of the incentives to attend the school was the mid-day meal scheme. Though, he passed SSLC with a first class, he could not secure admission in intermediate in the science stream. Then due to high fees, he could not enroll in aeronautic diploma course as well. After passing class twelve, he went to his fathers' work place in Coimbatore and started to earn his living as a daily wage labourer. The idea was to make some money and continue studies. However, he lost all his certificates in an unfortunate incident, which jeopardised his chances of securing an admission. A year later in 1989, he returned to his home town and started a small fruit business.

The Chicken and the Stove Connection

While he was trying to settle in his new business, he heard about Kerala

Shastra Sahitya Parishad (KSSP- a local forum for science literature and awareness) and the low cost *smokeless chulha* popularised by it. The term 'smokeless' somehow caught his fascination and he discovered a new interest. He got in touch with ANERT (Agency for Non Conventional Energy and Rural Technology- a Kerala government organisation working in the field of non conventional energy) to learn about the smokeless *chulhas*. With time, he got sufficient knowledge and confidence to switch over to the business of making *chulhas*.

Once he made a community *chulha* for a hospital and installed it at its



premises. While inspecting it one day, he noticed a sudden spur of flame near the chimney after about 10 minutes of operation. He was surprised and reported the same to the experts from ANERT. They explained him that the observed flame was the result of the complete combustion of the carbon particles, which came in contact with oxygen near the top of the chimney. This triggered his innovative mind and he started thinking of a stove model

where burning can take place at two levels. He tried over and over again for many months, making and breaking numerous stoves in the process trying different passages for air movement.

Persistence paid off finally. One fine morning, his attempts bore results and he became successful in burning the firewood at two levels with complete combustion and without smoke. He happened to attend a workshop organized by *Kerala Shastra Sahitya Parishad* who tested his stove and found its efficiency to be more than 30 per cent as against less than 20 per cent of the smokeless *chulhas*. He improved the model further and started selling the new product.

The Stove

Jayaprakash's innovative stove is a double chambered efficient portable stove, used primarily for community cooking. It can use coconut shell or wood as a fuel.

This portable stove is made of bricks, cement, clay, cast iron and can cook food upto 100 kg. The base of the bottom chamber is made of iron grill on which the fuel is kept. Below the grill is an air chamber. When the fuel burns, smoke mixed with unburnt hydrocarbons reaches the upper chamber, which has been provided with air inlet holes. Complete combustion takes place here and the combined heat gets available to the cooking vessel above the second chamber. The fuel opening has been provided at the front of the device and can be regulated using shutter, which in turn, controls the flow of air. The air which flows through the opening during combustion causes an updraft when the fuel is burnt. This triggers secondary combustion as the carbon particles, which were left unburnt, will now get burnt due to the additional air.

Apart from its efficiency, lower cost and portability are also significant features of this stove. The combustion efficiency is in the range of 37.67 per cent when wood is used as a fuel and 29.48 per cent when coconut shell is used (Test report by Integrated Rural Technology Centre, Mandur, Palakkad). IIT Guwahati also tested the same and observed the thermal efficiency of 29.28 per cent. ANERT team has informed that Hotel in Calicut, using this stove, needs only 75 coconut shells costing about Rs. 30 for cooking 40 kg rice. This is in contrast to LPG operated system, which needs 10 kg fuel costing about Rs. 400 for cooking the rice of same quantity. Considering the efficiency, cost effectiveness, portability and unique design, NIF applied patent (1582/CHE/2011) for this portable wooden stove in the innovator's name.

Nif supported the innovator under the Micro Venture Innovation Fund for the commercialisation of the stove.

Jayaprakash has sold over hundred stoves in the last two years and has been getting a lot of orders from colleges, hospitals, and municipalities. He has orders for over 500 stoves pending with him presently. In order to scale up his business, he wants to set up a production unit and is also looking for entrepreneurs interested to licence the technology so that he can spend more time in research and development. User feedback is of much importance to him as he believes that consumers can provide valuable advices for the innovators. He informed that many of his women customers have given him important insights from their experience of using this stove. One of them even asked him to make a two burner version.

Besides the portable wooden stove, he also manufactures and sells smokeless and community chulhas. License and certificate for the same has been issued from ANERT. He has sold more than 4000 smokeless *chulha* and

around 700 community *chulha*'s.

Apart from his business, he also goes to community gatherings and shares his experiences with other people as well. In 2009, he demonstrated the design development and evaluation of improved biomass stove and its community use in Rural Innovators Meet organized by Kerala State Council for Science Technology and Environment (KSCSTE) at Thiruvananthapuram, Kerala. He also received Kerala State Energy Conservation Award 2008 in appreciation of the commendable achievements towards energy conservation and management. NIF invited him at the Innovation Exhibition at the President House in March 2011, which he considers as the most memorable day of his life. He later got a National Award in NIF's Sixth National Award Function in 2012 at the President House, New Delhi. ■

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Macro-Economic Framework Statement 2014-15

External Sector

India's exports grew by 21.8 per cent in 2011-12 and then contracted by 1.8 per cent in 2012-13. During 2013-14 (April-December), exports were valued at US\$ 230.3 billion, registering a growth of 5.9 per cent over the level of US\$ 217.4 billion in 2012-13 (April-December). Value of imports during April-December 2013 was US\$ 340.4 billion, showing a decline of 6.6 per cent compared with the level of US\$ 364.2 billion in the corresponding period of 2012-13. Of the total imports, POL imports accounted for US\$ 125.0 billion (36.7 per cent) in April-December 2013. This was 2.6 per cent higher than the level of US\$ 121.8 billion in 2012-13 (April-December). Non-POL imports during 2013-14 (April-December), valued at US\$ 215.4 billion, were 11.1 per cent lower than the level of US\$ 242.4 billion in 2012-13 (April-December). The better outcome in exports and lower imports led to a contraction in trade deficit for 2013-14 (April-December) to US\$ 110.0 billion from US\$ 146.8 billion in 2012-13 (April-December).

While data on merchandise trade are available for the period April-December 2013, most information pertaining to balance of payments is available only for the first half (H1) of 2013-14. The trade deficit stood at US\$ 83.8 billion in H1 2013-14, as against US\$ 91.6 billion in H1 2012-13. Net invisible earnings were placed at US\$ 56.8 billion as against US\$ 53.4 billion in H1 2012-13. Contraction in the trade deficit coupled with a rise in net invisibles receipts resulted in a reduction of the Current Account Deficit (CAD) to US\$ 27.0 billion in H1 of 2013-14 vis-à-vis US\$ 38.2 billion in H1 of 2012-13.

Net inflows under the capital and financial account declined to US\$ 15.1 billion in H1 2013-14 compared to US\$ 37.3 billion in H1 2012-13 owing to net outflows of portfolio investment. Notwithstanding a lower CAD during H1 2013-14, there was a drawdown of foreign exchange reserves to the tune of US\$ 10.7 billion as against an accretion of US\$ 0.4 billion in H1 2012-13 primarily due to a decline in net capital inflows.

In 2013-14, foreign exchange reserves remained in the range of US\$ 275.5 billion to US\$ 293.9 billion. At the end of December 2013, foreign exchange reserves stood at US\$ 293.9 billion, indicating an increase of US\$ 1.9 billion over the level of US\$ 292 billion at end-March 2013.

During April 2013 - December 2013, the monthly average exchange rate of rupee (RBI's reference rate) was in the range of 54-64 per US dollar. The daily exchange rate of the rupee breached the level of 68 per US dollar in August 2013 (68.36 per US dollar on August 28, 2013). However it recovered to 61.16 per US dollar on October 11, 2013, reflecting the impact of the measures taken to moderate CAD and boost capital flows. On month-to-month basis, the rupee depreciated by 12.1 per cent from 54.40 per US dollar in March 2013 to 61.91 per US dollar in December 2013.

India's external debt stock stood at US\$ 400.3 billion at end-September 2013, registering a decline of US\$ 9 million vis-a-vis the level at end-March 2013.

Source : Statements laid before Parliament under the Fiscal Responsibility and Budget Management Act, 2003

An Analysis of the Urjit Patel Committee Report On Monetary Policy

Rajeswari Sengupta



Monetary policy in independent India has evolved substantially over the past several decades. India adopted widespread liberalization, privatization and deregulation reforms in the early 1990s. During the post liberalization period running up to the present time, the RBI has been following a multiple indicator approach for executing monetary policy. In this approach, information is gathered on various macroeconomic indicators such as output, trade, credit, inflation rate, exchange rate, capital flows etc

THE EXPERT Committee formed under the supervision of Reserve Bank of India (RBI) Deputy Governor, Urjit Patel released their report

to revise and strengthen the monetary policy framework, earlier this year. Since then, the report has been heavily discussed and debated in academic and policy circles. It recommends a fundamental change in the way monetary policy is conducted in India. The one recommendation that has been the main talking point so far is the adoption of a flexible inflation target. In this article, we attempt to analyze this particular recommendation of the committee against the backdrop of the current Indian economic scenario.

Monetary policy in independent India has evolved substantially over the past several decades. India adopted widespread liberalization, privatization and deregulation reforms in the early 1990s. During the post liberalization period running up to the present time, the RBI has been following a multiple indicator approach for executing monetary policy. In this approach, information is gathered on various macroeconomic indicators such as output, trade, credit, inflation rate, exchange rate, capital

flows etc. Thereafter, monetary policy is designed to fulfill the multiple objectives of increasing employment, closing the gap with potential output, moderating inflation, stabilizing exchange rate and so on.

This kind of a multiple indicator approach however, lacks a nominal anchor or a specific target per se and hence it maybe argued that it is less likely to be effective in achieving all the objectives at the same time. Such an approach makes the monetary policy highly discretionary and runs the risk of sending confusing signals to market participants as well as corporations.

In India, the multiple indicator approach of the monetary policy worked relatively well especially between the late 1990s and late 2000s when Indian GDP was growing at a healthy and robust rate of close to 10 per cent or more, and inflation (measured by the wholesale price index or WPI) was moderate at around 5-6 per cent. This was also the time when all was apparently well in the global economy which was going through a phase of relatively low output volatility.

However, all of these ended with the outbreak of the Global Financial Crisis

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(GFC) in 2008. In the aftermath of the crisis, India's own macroeconomic health and stability started showing signs of rapid deterioration. Over the last few years in the post GFC era, GDP growth rate has exhibited a sharp and dramatic decline from more than 10 per cent to less than 5 per cent in just 4-5 years and inflation has been unprecedentedly and persistently high (close to 10 per cent or more), primarily driven by sharp rises in the prices of food and fuel, both of which are crucial items in an average Indian household's consumption basket. Retail inflation since 2008 has been in the double digits despite the sharp growth slowdown. This has also meant that inflation expectations have got entrenched and despite successive round of hikes in the policy interest rates by the RBI, inflation still has not been brought down to the comfortable levels of 5-6 per cent.

One of the factors often cited as a reason for inflation becoming persistent and inflationary expectations getting entrenched in the Indian economy in the aftermath of the GFC, was the slow, timid and gradual response by the authorities in the initial years.

Such persistently high inflation not only erodes the purchasing power of the common man, it also leads to low real interest rates on savings, which in turn, reduces the incentive of households to deposit their savings in banks. Domestic financial savings have indeed gone down from more than 12 per cent of GDP in 2007 to less than 9 per cent in 2011. Consequently, during the last few years, demand for gold as an alternative saving instrument has sky rocketed. This of course has adverse implications for India's current account deficit that has been at an all time high over the same period of time; it went up from less than 2 per cent to more than 5 per cent of GDP. A higher current account deficit leads to a weaker rupee, which in turn raises the price of imported items such as crude oil. This has a feedback

effect into domestic inflation. As domestic savings go down, and interest rates are raised to control inflation, investment gets hampered thereby lowering GDP growth rate. In other words, high and persistent inflation and inflation expectations can destabilize the economy for a prolonged period of time and hence need to be controlled as quickly as possible.

One of the factors often cited as a reason for inflation becoming persistent and inflationary expectations getting entrenched in the Indian economy in the aftermath of the GFC, was the slow, timid and gradual response by the authorities in the initial years. In India, we have almost always been pre-occupied with the objective of raising GDP growth rate rather than ensuring price stability. During 2000-2007, the spectacular increase in growth rate pushed up the rural wages, which raised the demand for essential food items. However, the supply of these items continued to be constrained by institutional bottlenecks thereby creating an inevitable demand-supply imbalance, which only worsened over time as the pre-occupation with high growth rate camouflaged several underlying structural issues.

In the period immediately following the GFC when interest rates were lowered all over the world in response to a growth slow down, India followed suit as well, in addition to rolling out a massive fiscal stimulus program, to shield the economy from the adverse external shocks. However, even when the economy started recovering, the stimulus was not reined in leading to a sharp rise in fiscal deficit and neither was monetary policy tightened. Inflation began to increase around this time but authorities responded by raising interest rates with a substantial lag by which time inflation had become too high. Several economists are of the opinion that even then the response of the authorities was less than substantial and robust and at best, can be characterized as mild.

One can argue that this kind of a delayed and insufficient response to

rising inflation might have been a direct fall out of a discretionary approach where the reaction is triggered only after a problem has emerged, rather than a distinct and well-defined monetary policy rule that needs to be followed under all circumstances.

Against this background, in principle, inflation targeting (IT) as proposed by the Expert Committee seems like a reasonable strategy to bring down inflation quickly and in a sustained manner and thereafter adjust monetary policy such that inflation remains within the flexible target band. According to the Committee's Report, in the short run, RBI should try and bring down inflation from the current level to 8 per cent over a period not exceeding the next 12 months, and to 6 per cent over a period not exceeding the next 24 months "before formally adopting the recommended target of 4 per cent inflation with a band of ± 2 per cent".

IT is a monetary policy rule that prescribes to the central bank a target or a range of targets for inflation. It was first adopted by New Zealand in 1990 and Chile was the first emerging economy to implement it in 1991. Since then it has become quite popular

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among both developed and emerging economies. Major emerging economies such as Brazil, Colombia, Peru, South Africa, Indonesia, Turkey and Mexico have adopted IT.

The IT strategy sets out a well-defined framework for monetary policy formulation and gives a clear way forward which may be a welcome change from the multiple indicator

approach currently followed by the RBI that can be quite haphazard. A single variable approach clearly spells out the target and makes it easier for the RBI to follow a rule based monetary policy as opposed to the current discretionary approach. Also with a proper target declared, market participants are likely to get a clear signal regarding the RBI's monetary policy stance instead of the endless confusion markets suffer now, especially before every monetary policy review meeting. This strategy is likely to bring greater transparency, higher accountability and more clarity, that are important not only for financial market participants, corporations and policy makers at the government level but also for the common man, who is most affected by and least hedged against persistently high inflation rates. Furthermore for a central bank, a primary objective ought to be price stability and IT will help the RBI achieve this objective in a systematic manner. It also lends credibility to the RBI if it is successful in maintaining inflation at the targeted level.

Overall, IT reduces inflation volatility, anchors inflation expectations, brings macroeconomic stability, helps achieve price stability, and also enhances the confidence of international investors in the Indian currency. Critics may well pose the question as to whether India is ready yet for IT.

According to the critics of this approach, a single-minded, exclusive focus on inflation may reduce the flexibility of monetary policy and divert RBI's attention from other important policy objectives such as boosting growth, reducing currency volatility etc. However, a sustained trajectory of low and stable inflation by itself is likely to resolve several other issues the Indian economy is facing right now and create room for a broader agenda of reforms. For instance, with inflation controlled and inflation expectations stabilized, monetary

policy can become more effective, interest rates can be lowered again and hence investments boosted, which in turn can help to restore the growth rate. Also, improved price stability is crucial for overall macroeconomic stability. Moreover, the recommendation of the committee is to adopt a flexible IT rather than a strict IT. The former implies that the objective would be to achieve the targeted inflation rate over the business cycle in the medium run whereas growth can continue to be the focus in the short run.

Overall, IT reduces inflation volatility, anchors inflation expectations, brings macroeconomic stability, helps achieve price stability, and also enhances the confidence of international investors in the Indian currency. Critics may well pose the question as to whether India is ready yet for IT. We may never know the actual answer to this question until and unless we implement the strategy and try to adhere to the announced inflation target and what better time to initiate the discussion on this given the persistently high inflation that has been plaguing the economy for a few years now. As regards, the target rate that has been suggested by the committee, for the longest period of time post liberalization inflation has been around 5-6 per cent and in view of this, the target does not seem unreasonable.

A crucial element of the recommendation of the Committee is that Consumer Price Index or CPI be used as a nominal anchor for targeting inflation. Central banks in all advanced and emerging economies calculate inflation using the CPI. In fact, India is the only country in the world where the RBI does not focus primarily on the CPI but on the Wholesale Price Index (WPI), which however does not include food and fuel prices. WPI also excludes the service sector that now contributes more than 60 per cent of the GDP. Food is a crucial item in an average Indian consumer's daily consumption basket. Thus, a monetary policy designed predominantly on the basis of WPI is bound to be ineffective in addressing inflation problems faced by majority

of the country's population. CPI on the other hand, assigns more than 50 per cent weight to food and fuel. Also consumers are affected by the inflation they face in the retail market, which is best reflected in the CPI index.

Having argued in favor of the recommendation so far, it is also important to point out that this strategy is not going to be a panacea for all ills. It is true that the current economic crisis has raised questions about the effectiveness of IT given that it ignores asset prices. Moreover in a country like India, supply side bottlenecks play a big role in generating persistence in inflation and IT as a monetary policy strategy is unlikely to be able to address these issues. Also, this strategy alone while necessary, may not be sufficient to achieve its objective given the myriad complexities of the Indian economy that make the situation unique and different from other emerging economies that have experimented with IT. There has to be corresponding corrective action in other areas of the economy as well so as to provide support to the central bank's attempt at bringing inflation under control. For instance, it is important for the central government to practice fiscal prudence and lower fiscal deficit.

There has to be corresponding corrective action in other areas of the economy as well so as to provide support to the central bank's attempt at bringing inflation under control. For instance, it is important for the central government to practice fiscal prudence and lower fiscal deficit.

A systematic fiscal consolidation by the central government can enhance the effectiveness of monetary policy transmission.

In other words, there are some obvious and clear obstacles to IT being effective in reducing the inflation rate to the targeted 4 per cent in the medium run. In India, food prices are heavily influenced by factors such as monsoons as well as a plethora of administered prices (such as Minimum

Support Prices or MSPs) and subsidies, which are of course outside the direct control of the RBI. This may limit the ability of the central bank to affect inflation expectations in the current economic scenario. To what extent the RBI may succeed in bringing down food inflation by using interest rate as a policy instrument is hence debatable. Recurrent food inflation cannot be curbed by monetary policy alone. There are several underlying structural rigidities and market inefficiencies that need to be simultaneously addressed as well. These are some of the limitations the central bank needs to be cognizant of as it discusses the merits of adopting IT.

Finally, even if we set aside these hindrances for the time being and assume that adopting IT will be effective in the short and medium run, the real test of the recommendation may come in the longer run. Given the multitude of institutional and political factors that add to the complexities of the Indian economic landscape, any failure on the part of RBI to maintain inflation at the targeted level can do irreparable damage to its credibility. So it must be made clear at the very outset, that deviation from the target is possible as no one

can predict the changes in domestic and global economic landscapes, or sudden disruptions to macroeconomic stability owing to external shocks or political disturbances that have a strong bearing on the Indian economy. It must be communicated clearly that any deviation in future does not automatically imply failure to maintain

There are several underlying structural rigidities, and market inefficiencies that need to be simultaneously addressed as well. These are some of the limitations the central bank needs to be cognizant of as it discusses the merits of adopting IT.

price stability. Such transparency may be crucial to maintain the credibility and accountability of RBI.

Needless to say, the formal adoption of IT comes with a lot of responsibility and commitment to adhere to the target under all circumstances and also if it ever has to be abandoned, to have clear, concrete and credible reasons for doing so. Otherwise, it may do more harm than good by permanently jeopardizing the credibility of the RBI and the confidence it intends to restore among

the Indian people towards monetary policy through this very approach.

To conclude, in India, the efficacy of inflation targeting as recommended by the Expert Committee, will depend upon a multitude of factors and policies and is not going to be merely a function of announcement of a target and then changing the policy rates to achieve the announced target. In conjunction with a rule based monetary policy strategy, it is also important that steps be taken to create the necessary environment for such a monetary policy to be effective. Reduction of the twin deficits i.e. current account deficit as well as fiscal deficit is crucial to make room for effective monetary policy transmission. Furthermore, given the current Indian economic scenario, broad-based reforms are urgently needed to correct the macroeconomic imbalances arising from structural rigidities and to alleviate the supply side bottlenecks. Finally, there has to be a widespread and sustained political will to provide the necessary support mechanism, for this experiment with inflation targeting to be a success story. □

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Macro-Economic Framework Statement 2014-15

Money, Banking and Capital Markets

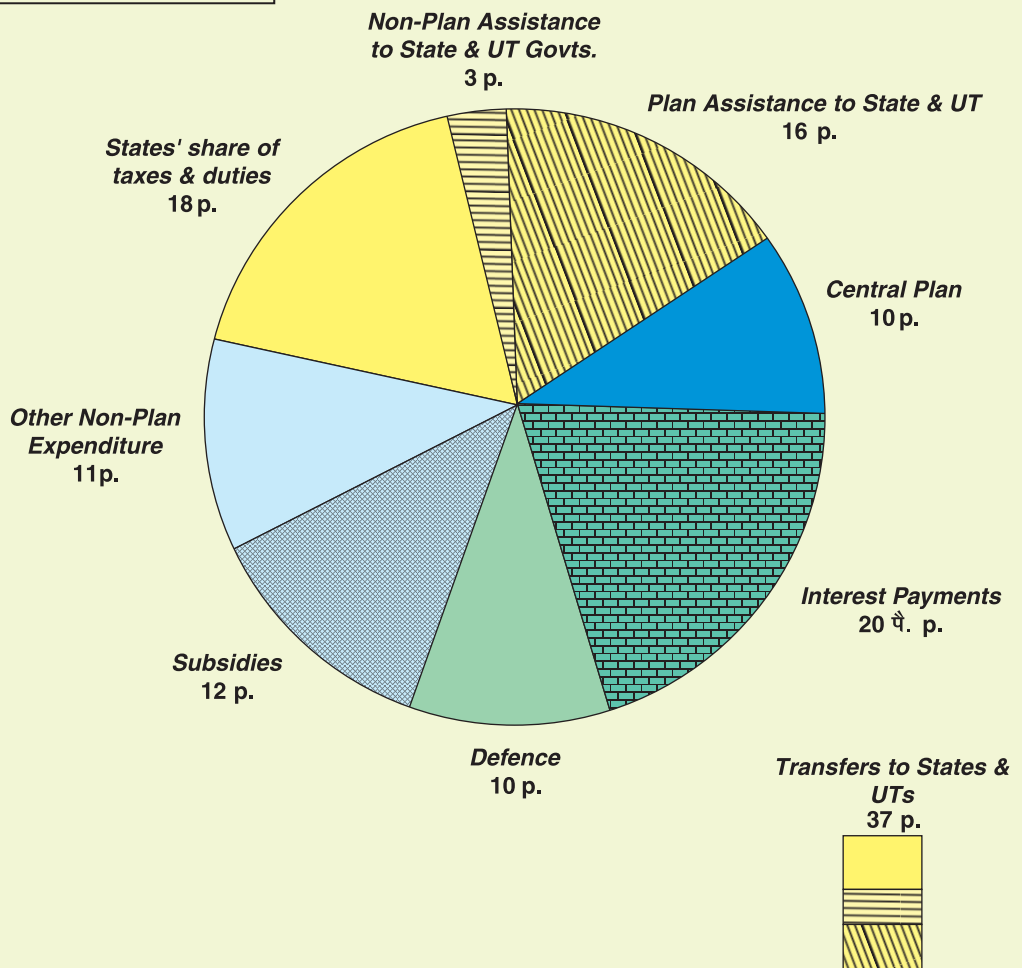
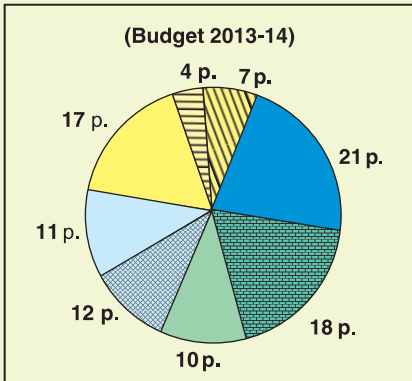
The RBI, in its Annual Monetary Policy Statement on May 3, 2013, announced a reduction in the policy repo rate by a further 25 bps from 7.50 per cent to 7.25 per cent to support growth in the face of gradual moderation of headline inflation. Apprehensions of likely tapering of Quantitative Easing (QE) by the US Federal Reserve in late May 2013 triggered outflows of portfolio investment. Recognising the risks to the economy from external developments as well as taking into account the evolving growth inflation dynamics, the RBI in its First Quarter Review of July 30, 2013 kept its key policy rates unchanged. The RBI began the process of calibrated withdrawal of the exceptional liquidity measures, undertaken to tackle exchange market pressures, in the Mid-Quarter Review on September 20, 2013, noting the improvement in the external environment and also considering the number of measures put in place to narrow the CAD and to ease its financing. The MSF rate was reduced by 75 basis points from 10.25 per cent to 9.5 per cent and the minimum daily maintenance of the CRR was reduced from 99 per cent of the requirement to 95 per cent effective from the fortnight beginning September 21, 2013. However, the rise in inflation and the need to provide a nominal anchor to help preserve the internal value of the rupee, the repo rate was increased by 25 basis points to 7.5 per cent.

Considering the evolving liquidity conditions, the RBI reduced the MSF rate by a further 50 basis points from 9.5 per cent to 9.0 per cent on October 7, 2013. Provision of additional liquidity through term repos of 7-day and 14-day tenor for a notified amount equivalent to 0.25 per cent Net Demand & Time Liabilities (NDTL) of the banking system through variable rate auctions on every Friday beginning October 11, 2013 was also announced.

Source : Statements laid before Parliament under the Fiscal Responsibility and Budget Management Act, 2003

Rupee Goes To

(Budget 2014-15)



Notes:- 1. This does not include Plan outlays met from internal and extra budgetary resources of public enterprises.
 2. Total expenditure is inclusive of the States' share of taxes and duties which have been netted against receipts in the table on page 1.

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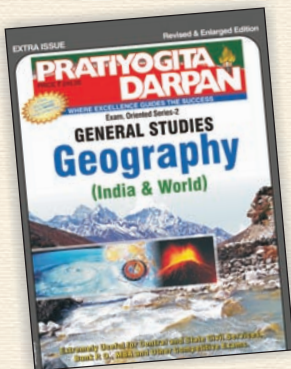
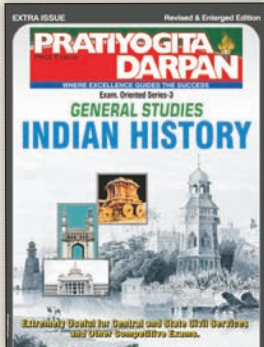
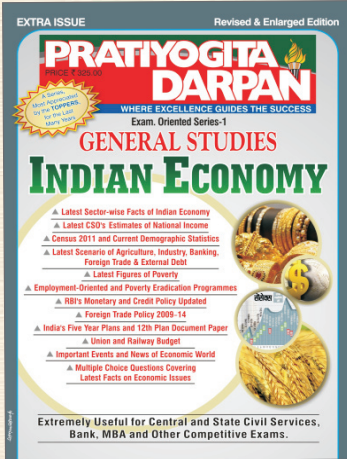
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