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ECOLLECTUAL

DEPARTMENT OF ECONOMICS, LSR

The good, the bad & the ugly
— ECONOMICALLY SPEAKING

what's inside?

Global recession
Amazon fires
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The BCCI, Doughnuts
and MUSIC

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Is the next global recession in sight?

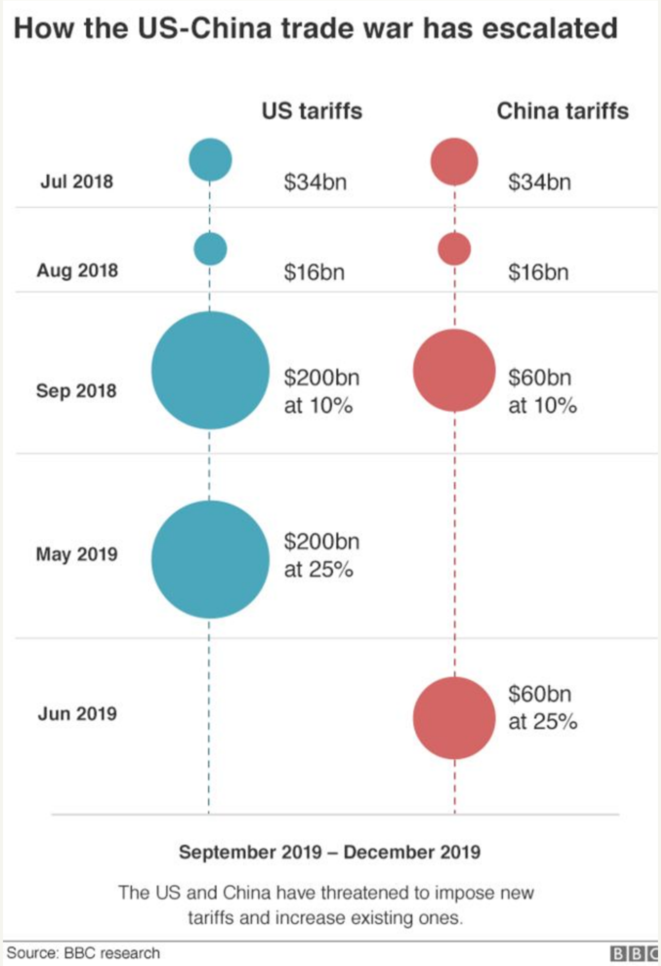
- NEETIKA KANOJIYA

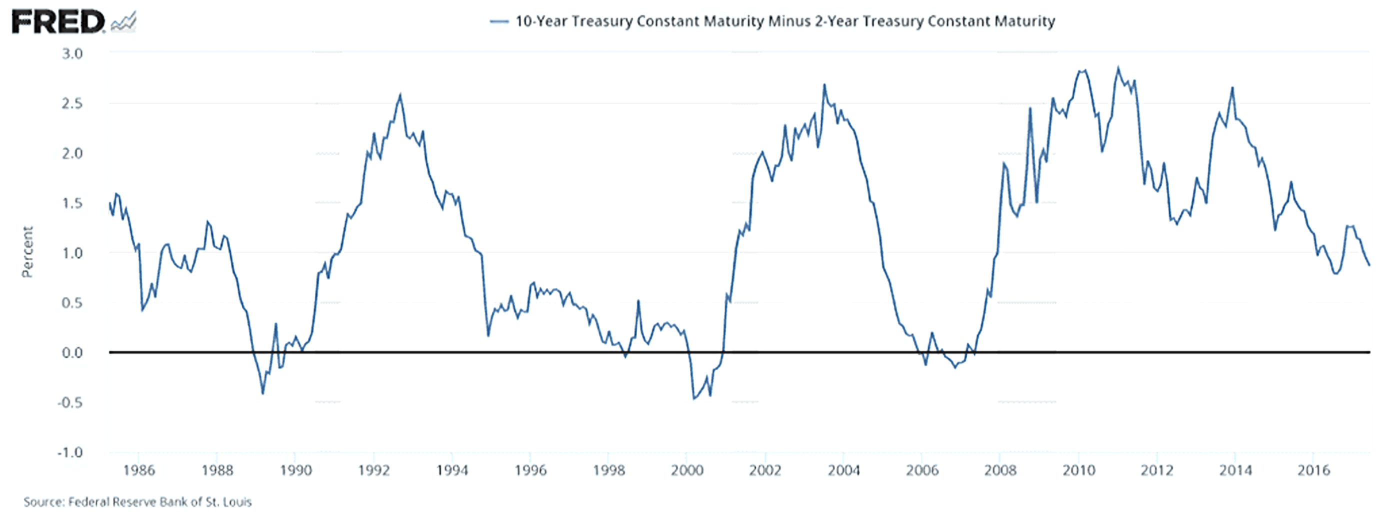
Fears of a global recession have intensified recently. The event will not only be catastrophic for developed markets like US and China, but also emerging markets like India, Brazil and Mexico, especially in the backdrop of **trade war concerns**, and **volatility in crude oil prices**.

This year, an array of economic indicators predicted a global economic crisis, which include possible outcomes owing to phenomena such as the **US-China trade war**, the **inversion of the Bond Yield Curve** in the US, Germany and UK (i.e. when short term bonds have higher yields than long term bonds) and other political factors that have led to an **economic slowdown** in many leading economies.

The US-China trade war may be the reason why China has recorded its slowest growth rate in the past 17 years. But the effects of the trade war are not limited to U.S and China alone.

The trade war has had a considerable impact on the German economy which relies heavily on exports to USA and China, with the economy contracting by a small margin in the second quarter - 0.1%, and is expected to suffer a second and a larger drop in the third quarter, due to consecutive quarters of negative growth.





INVERSIONS IN THE BOND YIELD CURVE HISTORICALLY

Although, the stock markets in US and Germany remain at historically high levels, **bond markets are more jittery**.

Recession could set its feet in the United States by 2020, which is largely predicted by the inverted Yield Curve, signifying that the Fed has increased the short-term rates, but investors have invested in Long-term Bonds which gives lower yield.

On the political front, a **No-Deal Brexit** could damage UK's economy. This may lead to a slowdown globally, considering that the UK is the 6th largest economy in the world.

When considering developing countries, it was speculated that India might go into recession by 2020 but according to a report by *JP Morgan*, India is unlikely to slip into a recession, but the probability of a global recession is about 40% over the next 2 years.

The possibilities of an upcoming global recession are 1 in 3, which means that it is not certainly inevitable.

But if the global economy does come into a recession, the consequences could be disastrous in terms of **economic activity**, **long-term competitiveness of our economies** and the **widening of the inequality gap**.

The BCCI's Hegemony and the Economics of World Cricket Earnings

- SHREYA KHURANA

You must be pondering: why have I blended sports with financial aspects? Truth be told, in this situation, it is quite apt.

India is a nation where cricket and cricketers are revered like gods.

The game, given to us by colonialists, is now something we have exceeded expectations in, and reached a level higher than theirs (If only it were the same during the World Cup Semi-Finals!).

However, would you be able to envision that India once acted as an obstacle to the development of world cricket?

In 2014, the International Cricket Council (ICC) reworked parts of its organisation and the structure of income distribution among its Full Members. The ICC's Finance and Commercial Affairs Committee suggested an income stream called Circulation Costs, Contribution Costs or Participation Fees under different heads. These were to be earned from ICC's gross incomes and distributed through a reviewed rate share, worked out by a **stamped scoreboard technique**.

According to that, the ICC gave 75% of its surplus profit to its ten Full Member countries and conveyed the staying 25% to Associates and Affiliates. Three countries' apex cricket boards, the **Board of Control of Cricket in India (BCCI)**, **England Cricket Board (EBC)** and **Cricket Australia (CA)**, won more than the rest.

Because of this, **BCCI, ECB and CA shaped a coup called the Big Three.**

The most disputatious actuality of the 2014 model was the idea of contribution costs and the acknowledgement that not all members bring in an equivalent measure of cash to the game.

Out of the **gross ICC income of $2.5 billion, the BCCI remained to gain between 17.6-18%** (between $440-445 million). Moreover, according to a SWOT examination report,

Cricket hasn't become a worldwide game on the grounds that a significant piece of income originates from the BCCI and there is over-reliance on one country.

The ICC World T20 (2016) was viewed by **730 million people** in India. I'm certain no nation can beat that. More watchers mean more income. Regardless of whether the ICC concedes, it depends on BCCI for the real lump of its income.

On a more brilliant note, in 2017, the ICC presented its **new money related model** which resulted in a shot at the Big Three. It was bolstered by seven Full Members and contradicted by two (India and Sri Lanka). In the new model, the rate portions of the BCCI and the ECB in the absolute pie have gone down, while that of the CA remains generally equivalent.

The **BCCI will presently get just 10-10.2 % of the income shares**, as a contrast with the 17-18% it used to get before. The decrease in the potential income is between $180-190 million. **Despite its dissatisfaction, the BCCI gets the biggest piece of the pie**.

It would appear that the ICC has attempted to safeguard both the concept of commitment cost - by perceiving the privilege of the BCCI to the biggest offer - and narrowing the gap between the BCCI and the others, guaranteeing a level of equity among them.

The Boy Who Cried Influenza

- CHUDAMANI IYER AKSHARA, TIARA DUTTA SIYEM

The fire in the Amazon rainforests is undoubtedly one of the most talked about natural disasters in 2019.

Having sparked a worldwide debate and social outcry about the "state of the environment", social media influencers, who dictate public opinion on this matter more than environmental activists, seem to have forgotten about one crucial detail - the facts.

The Amazon rainforests are not the lungs of the earth. Following the principles of basic biology, the oxygen that the rainforest produces through photosynthesis is almost entirely consumed during the process of respiration.

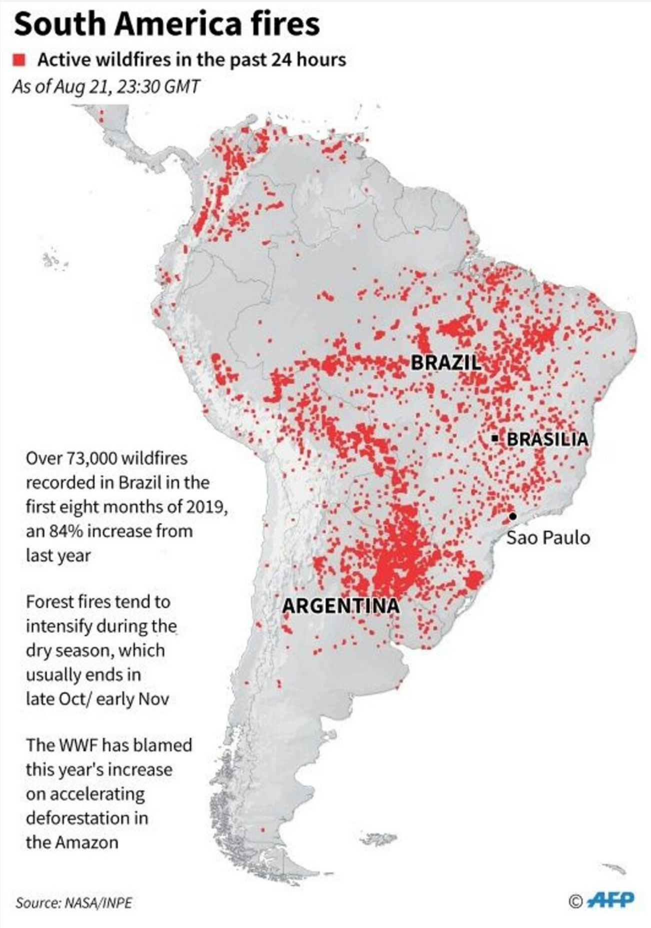
The claim that the Amazon forests produce 20% of the Earth's oxygen is hence nonsensical and entirely unjustified.

In a similar manner, it is possible to break apart the entire apocalyptic rhetoric produced around the crisis in Brazil.

The jumping on the bandwagon of a **social media justice crusade for climate change**, is a new way for content creators to stay relevant.

Why, then, when it is so easy to question the rhetoric of this social cause, is the mainstream population so eager to accept this false news and take sudden drastic measures which end up having long term destructive effects on the ecology and society? Why are we buying into this gross pandering?

The Amazon fires are undoubtedly a problem but let's be honest with ourselves: this was not a situation we needed to be unprepared for – **we had the science to anticipate this, we just chose not to use it**.



Even more scary is how no one is talking about the **fires in Indonesia**, which are on a much larger scale and are having an extreme economic and ecological impact.

The simple implication of this is that as a people, all we want to do is soothe our own guilt by skimming over noteworthy issues without any actual insight into the context.

The complete implications of this notion of people being selfish (wow, never heard that one before) in the context of environmental damage is well beyond the scope of this article, but hopefully this makes you want to do some research before you wear a funky *Save the Climate* badge on your backpack strap.

Bank Mergers: Yay or Nay?

- SHRADDHA TALWAR, MANVI AGARWAL, DIVYA

Mergers of banks began in India in the 1960s in order to bail out the weaker banks and protect customer interests. Following this path, the government approved the merger of 5 associate banks with SBI in February 2017. More recently, the government decided to merge 10 more public sector banks into 4 groups, making this the second big merger, after Vijaya Bank and Dena Bank were merged with Bank of Baroda.

What are the pros?

1. Merger of smaller banks, like the United Bank of India, which has a stronghold in the Eastern and North Eastern regions of the country, with bigger banks spread across the nation, like Punjab National Bank, will provide the merged entity **a pan-India presence**.

2. The anchor bank's reputation and strength will provide support to the weaker banks it is being merged with. With this combined power, they can **penetrate deeper into the market and expand their customer base**.

3. Capital infusion by the government will enable the amalgamated units to **create a sound capital base and scale up their operations**, while fighting off the NPAs and distressed assets looming over their heads.

What are the cons?

1. The **weaknesses** of the small banks are also **transferred** to the bigger bank. Large global banks had collapsed during the global financial crisis while smaller ones had survived due to their strengths and focus on micro aspects.

2. When banks are merged, it is difficult to change the people and the work culture. Different banks have different systems, processes, procedures. Thus, mergers may lead to **clash of organisational cultures**.

In conclusion, we believe mergers are a good idea. However, this should be carried out with the right banks for the right reasons. Mergers are also tricky given the huge challenges banks face, including the bad loans problem that has plunged many public sector banks in an unprecedented crisis, which needs to be tackled urgently.

Surajit Das's Guest Lecture: Fiscal Policy for Human Development

- TANVI MAHANT

Surajit Das held his lecture on 6 September 2019 at LSR. For those who missed it, here are its major takeaways!

- **Government expenditure on human development** has worked in India's past, and in other countries. Infant mortality rates have been cut, and life expectancy has been shown to increase with government expenditure on health.

- India has a **poor tax-to-GDP ratio**. We have high tax rates, with a low tax base. **Tax evasion** is also a prevalent problem.

- The way to amend this is to **increase sources of non-tax revenue**, and also focus on **expanding the tax base**.

- The **HDI** must be understood as a **basis for policy decision-making**, not just an outcome of economic growth.

- Fiscal policy's objectives should not only be growth, stabilising inflation, and increasing employment. **Access to education and health** is a stepping stone to faster and more equitable growth in the future.

Doughnut Economy

- SHREYA MAHAJAN, MAITHILI KAMBLE

Have you ever wondered that we, the citizens of 2050, are being taught an economic mindset in the textbooks of 1950 which in turn are based on 1850 and they have no relevance in the complex world?

Our unhealthy obsession with burgeoning GDP has now rendered us in the shackles of **deepening inequality and ecological catastrophe**.

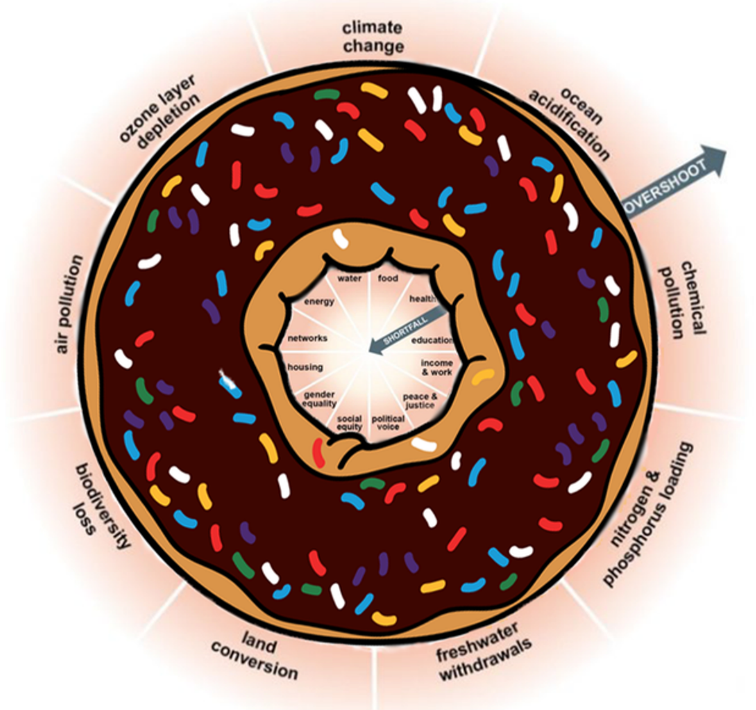
When Xenophon first coined the term *oikonomics*, the main economic problem was how a single household could balance their wants in spite of scarce resources. After two thousand years, Adam Smith shifted the onus of economics to the study of nation and changing its dynamics to economic prosperity through economic activity.

These myopic visions are still permeating the majority of the policy attention in the world of global inter-relatedness and dynamism. A healthy economy should thrive with balance, which is where the concept of **Doughnut Economy** comes.

Doughnut is an economic model used to measure the performance of an economy with a multitude of parameters.

Its main objective is that efficiency in utilisation of resources to fulfill ever-growing needs of people are met in such a way that the Earth's ecology is not over-exploited and damaged and growth is holistic rejecting the old trade off between efficiency and equality.

It considers our world as planetary household.



Source: GreenBiz

Brought together by Kate Raworth, inside the doughnut hole lies our **social foundation**, which consists of **twelve basic physiological needs** like water, food, health, education, income and many other factors.

Outside the doughnut are nine **planetary boundaries**, which represent our **ecological ceiling** formulated by ecological scientists Johan Rockström and Will Steffen. If we overshoot on the maximum limit of ocean acidification, air pollution, chemical pollution and climate change the ecology can handle, we are causing irreparable damage to our common home.

This signifies that the most ideal space for economic operation is to be within the 'dough' of doughnut, the area within social foundation and the ecological ceiling. When economy is operating within that space there is a **striking balance between prosperity and sustainability**.

Confronted with the fierce urgency of now, we quote Buckminister Fuller:

You never change things by fighting the existing reality. To change something, build a new model that makes the existing model obsolete.

Indrani Gupta's Guest Lecture: Health Policy In India

- TEJASVI DESHPANDE

Indrani Gupta held her guest lecture on 19 September 2019 at LSR. Here are its major highlights!

- India'a **IMR** at 33 deaths per 1000 live births is surprisingly **higher than the global average** of 29.4 deaths per 1000 live births. Not only this, it is ranked significantly below South Asian neighbors like Sri Lanka (8) and Nepal (28).

- The patterns observed in high **maternal mortality rates** can also be attributed to discrimination pursued in in food consumption patterns on the basis of gender; in households.

- The **dysfunctional primary healthcare centers** (PHCs) at the village/block level and **lack of regulation** in both public and private hospitals have further worsened the status of the Indian Healthcare System.

- Schemes of the government, like Ayushman Bharat and Rashtriya Swasthya Bima Yojana (RSBY), have not done any good because of **lack of pan India coverage**, **limited financial resources** and **lack of accountability of public servants**.

- The way forward entails **improving the government expenditure on healthcare** from the present figure of 1.5% of the GDP, **strengthening the existing referral system** of healthcare with special focus on PHCs and **increasing stringency on regulation** of public and private healthcare units in the country.

India's Fintech Rise

- BHAWNA CHETIWAL, ANUPREETA DATEY, PAVANI GANDHI

India is moving towards a revolutionary collaboration between technology and finance, namely **FinTech**, which is the **amalgamation of technology in finance** that offers more effective financial solutions than traditional institutions.

India now ranks 2nd in consumer fintech adoption globally, right after China.

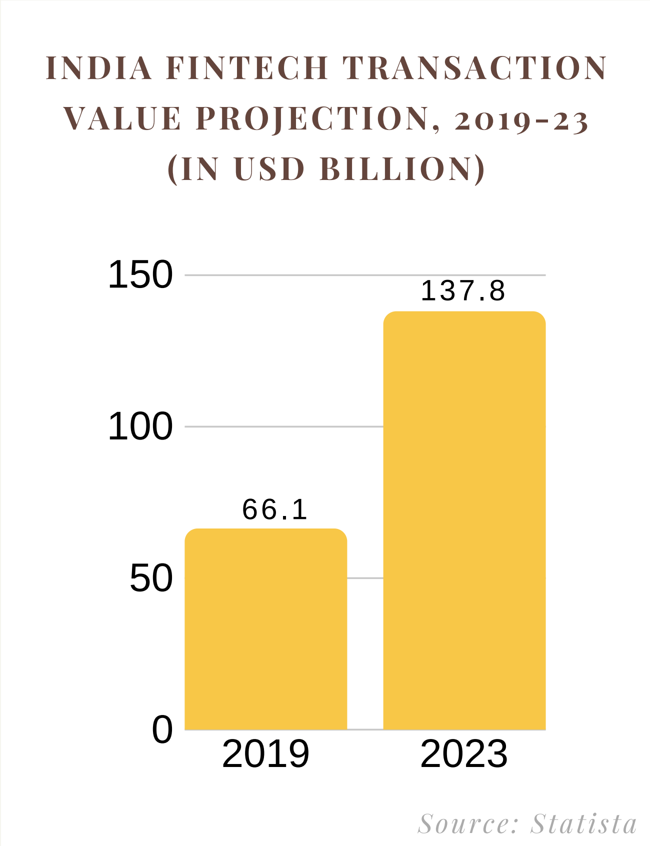
Some examples of fintech are **cryptocurrency** and **digital cash**, **blockchain technology**, **smart contracts** and **virtual banking**.

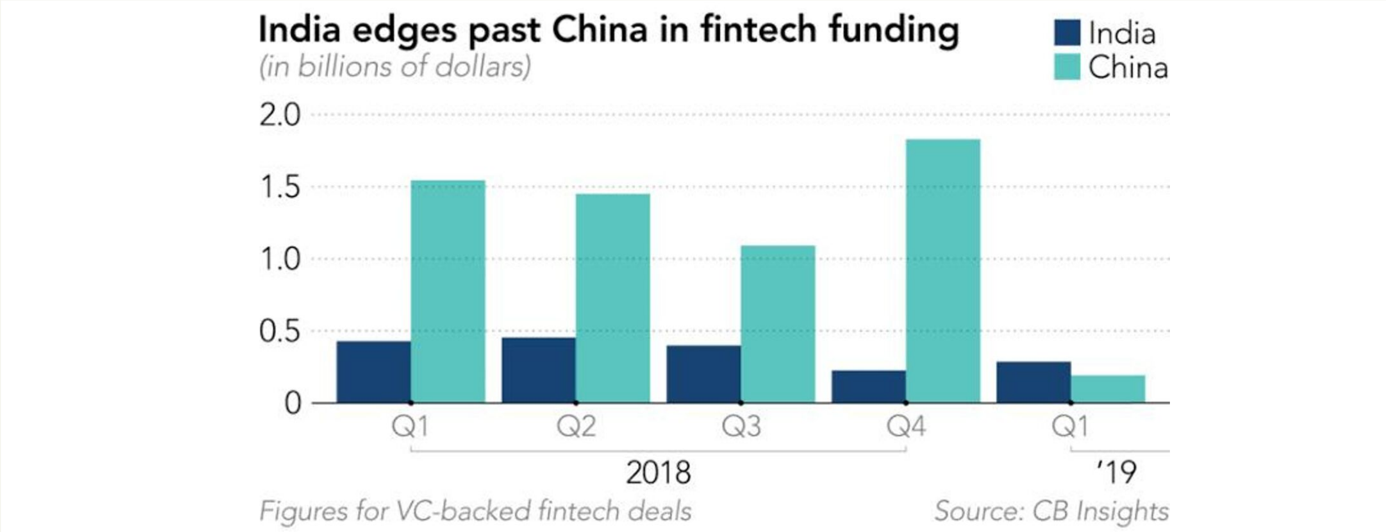
Some fintech firms provide services, like acting as financial aggregators, which provide **customised financial advice** to customers about managing and investing their resources and choose from different financial products across different categories like loans, credit cards, savings accounts and mutual funds.

But why is it growing?

There are several reasons for that.

- We now have access to newer technologies.
- There is an increased use of the internet and smartphones by the general public.
- Investors believe such ventures can be very profitable, which is leading to huge investment in this sector.
- The government too has launched many schemes which provide funding and infrastructure support, tax and surcharge relief, and financial inclusion to these industries.





Estimates suggest fintech could play a big role in **promoting the growth of MSMEs** by designing their business models, based on methods of credit scoring, disbursement and risk assessment.

By 2020, the fintech industry is expected to expand by 1.7 times with a future valuation of USD 8 billion.

Some firms are already playing a crucial role in providing easier access to finance for small and marginal farmers by **providing credit and crop insurance**.
Virtual banking can provide faster and cheaper services to customers using fintech.

Although the industry is growing by leaps and bounds, there are certain obstacles it faces.

- Many financial regulators are doubtful of fintech, and many have banned or do not recognise technologies like cryptocurrency.
- Many are concerned about data security, as it may be vulnerable to hacking and data breach.
- There is no clear cut set of rules and regulations for fintechs from regulators be it RBI or SEBI.
- There is a lack of awareness. Fintech products are mainly used in urban areas, but in India, where more than 60% of the population is rural based, would limit the reach of fintech.

However, in this era of growing technology and digitization, fintech industries may grow at a very fast pace. Fintech has tremendous growth potential in India, thanks to the country's inclusive economy, broad consumer expectations, and developmental scope.

Hitting The Right Note?: Growth of the Music Sector in India

- ASTHA MOHAPATRA

Every 10% growth in the music industry is expected to generate Rs 810 crore (USD 112 million) of additional revenue in the economy from formal partner industries and can ensure employment in the region of 3,600-3,700 FTE.

- Vikram Mehra
Chairman of IMI, M.D. of *Saregama*

The Indian Music Industry, as a part of the greater bustling entertainment sector presents a plethora of opportunities for New India.

Recording a **24.5% growth** from Rs 858 crores in 2017 to 1,068 crores in 2018, this industry emerged as one of the fastest growing sectors according to a report published by the industry. Employing over 1,460 full time employees, it forms **0.006% of India's GDP**.

Over the past two decades, the service sector in India has experienced rapid growth rates, and has showcased the fastest rate in employment generation.

The music industry is one of the oldest in India, but in the wake of the new age, the industry has undergone a tremendous change with the arrival of global players.

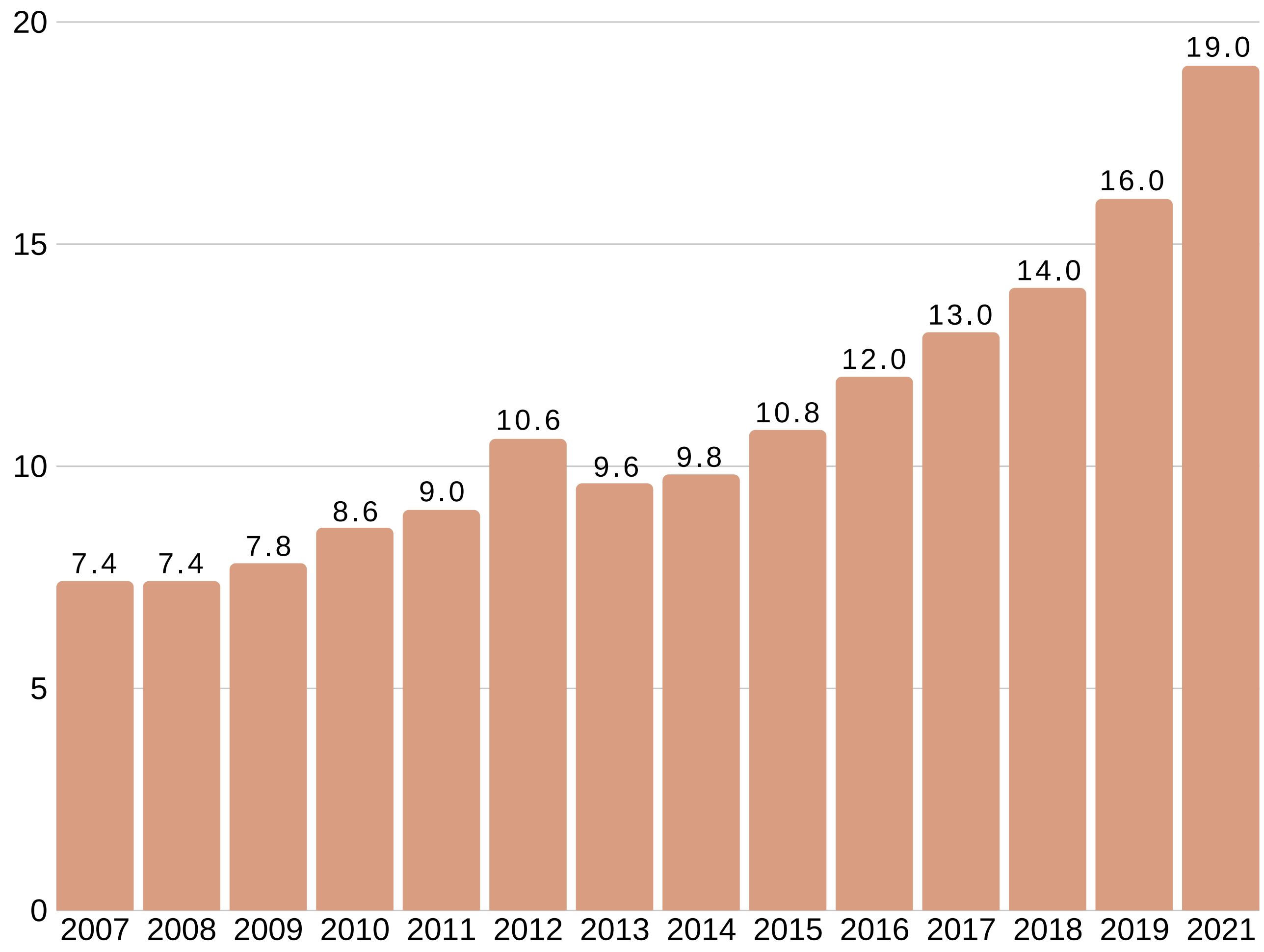
The music market now is transitioning and is poised to grow further as the industry is projected to have a **market size of around 19 billion Indian rupees in the year 2021**, up from about 14.2 billion Indian rupees in 2018.

Accelerating the growth of the music industry in India, music streaming currently consists of seven active players: **Gaana, JioSaavn, Apple Music, Amazon Prime, Google Play, Hungama, SoundCloud** and the very recent addition of **Spotify**, forming a very crucial part of the sector as a whole.

With **personalisation and localisation** being the new attraction towards streaming platforms, this sector can only grow bigger with time.

With the current economic slowdown in the country leading an overall slowdown in several sectors, the rise in the music sector from a growing to a rapidly growing sector creates a new hope for the future and seeks to present new avenues for young Indians as the Indian Music Industry aims to be a top 10 music market by 2022.

THE MUSIC INDUSTRY'S BOOMING EVALUATION (IN INR BILLION)



Source: Statista

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