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Editorial Board 2015

Note from the Faculty Advisor

The editorial board of *Ecolloquial 2015* has done a commendable job. This journal is a platform for our students to analyse important current economic issues in India and worldwide, and express their views for wider dissemination. *Kudos* to the editorial team for introducing new features like interview of eminent economists and book review!

Dr. Neelam Singh

Editorial Note

It is with determined effort and perseverance that the editorial board has put together this year's issue of the Annual Journal of Economics - Ecolloquial 2015. Similar to every previous issue of the academic journal, this year too the editors aimed to reflect the quality of research endeavours undertaken by students of the department with as many innovative means and initiatives as possible. A couple of new introductions that the editorial board is particularly proud of are the introduction of an interview section and a book review section. These sections were introduced because we thought that any kind of academic engagement that the students indulge in is incomplete without a perspective from economists who influence policy and intellectual discourse in a significant manner. Hence we hope that these introductions in the journal can be expanded and sustained in the issues to come.

Moreover, every journal hopes to contribute to the ongoing debates around pertinent issues in some capacity and with this issue we hope that our pursuit of a nuanced understanding of issues and policies is identifiable if not more. A journal's value is determined by two crucial elements, one is the quality of papers and second is the precision of editing. We hope that this edition lives up to both these parameters.

Lastly, more importantly we hope that this journal serves as a springboard for young students to pursue further research and study in the multifaceted field of economics. Research at an undergraduate level is only a humble beginning and we hope that this journal proves to be an encouraging facilitator for future researchers and intellectuals.

The Editorial Team
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Under the Veil of the "Right" Questions

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Interstellar, the latest instalment of Christopher Nolan has the audience across the globe mesmerized. In an interesting adaptation of the Newton's Third Law of Motion to social sciences, a character in the movie remarks "Humanity has not known a way to advance without leaving someone behind". With a historically disproportionate distribution of this advancement against the weaker sections of society, the lines should evoke a deep sense of disappointment amongst the beneficiaries if not an outright feeling of guilt.

Unfortunately, a section of neo-liberal media often portrays these wretched strata of society as impediments on the road to larger social good. In India too, this came to light with the coverage of proposed dilution of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), a public works programme which guarantees at least 100 days of employment for all the rural households. One of these major dilutions is restriction of the programme to some of the "poorest" districts only. Further, it is also proposed that the labour material ratio of the expenses would be 51:49 from the current 60:40. In a recent letter to the Prime Minister, a group of 28 eminent economists, armed with years of insights and experience pleaded the *Pradhan Sevak* against this proposed dilution. Allaying all apprehensions, the government decided against the move.

Research findings on MGNREGA and its implementation in West Bengal is a testimony to this. Despite being one of the poor implementers of MGNREGA, there is enormous evidence to suggest that the programme has been quite helpful in areas where it has been implemented well. Though performance in terms of women participation and average person-days generated has been relatively low when compared to the rest of the country, it must be said that the benefits of the programme have reached the poor population in the state (Das, 2014). Das (2015a) shows that distress led migration have reduced substantially due to the implementation of MGNREGA in parts of the Cooch Behar district (CBD henceforth), which is one of the poorest districts of West Bengal. Qualitative evidence from the field research also suggests that social unrest has drastically fallen in parts of the district due to MGNREGA. For example, the *Nirman Sahayak* of the Dawaguri village in the Cooch Behar-I block of the CBD acknowledged about a marked reduction of theft and *gunda gardi* that prevailed in these parts after the inception of the programme. The villagers too pointed toward the need for better implementation of the programme since it can have multiple benefits on their lives. Most of the households engaged in agricultural reported availability of hardly ten days of employment every month in open market during the lean agricultural

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season and hence it is important that MGNREGA acts as a cushion for employment generation.

"Digging holes and filling them" has been one of the many phrases used raising questions on the quality of assets created under the programme. There also has been wide criticism against MGNREGA (which accounts for about 0.3 per cent of GDP) on the efficiency front, especially with respect to the nature of these "dubious" assets creation. Though this demands attention and deliberation, there is some evidence which documents creation of decent rural infrastructure and progressive improvement in asset quality across various regions in India. In fact, in West Bengal and parts of Maharashtra, beneficiaries revealed how the assets have helped them to improve the agricultural yield and productivity (Narayanan et al. 2014; Das, 2015a). An example is a flood proof structure built across the shores of the Torsa river in 2011 in the Dawaguri village of the Cooch Behar-I block. Households reported that two years back, the area used to be flooded because of the river and hence the land was predominantly barren for agriculture. However, now this land regained its fertility and has started to produce corn and tobacco. Incidentally, this household used to migrate five years ago under distress conditions but now, there is no need. Apart from agriculture, there have been other benefits too. For example, a road built in isolated parts of the Brahmapuri block of the Chandrapur district (a tribal area in Maharashtra) has made the market place, hospitals and the schools more accessible. To some of the urban elites, a *kuccha* road built may not really look fancy (and hence may not be considered a real asset), however the utility that it might add to the villagers may be enormous. Another example worth noting is a work under the programme in a village in the Kabeerdham district of Chhattisgarh where 37 lakh saplings were planted in a single day, which also entered in the Limca book of world records.

Thus, to paint a picture that all or even the majority of assets created under the programme as merely a wasteful digging-filling exercise is completely misplaced. Moreover, the efficiency stance seems to be a perfect case for the adage of penny wise pound foolish. In what is often conveniently brushed under the carpet, India spends close to double the amount spent on MGNREGA on the gold and diamond industry. However the employment generated under the programme is about 25 times that generated through the industry. Further, it should also be noted that India spends a huge amount in diesel subsidy, which is often utilized by the rich diesel car owners without paying any extra tax for taking the benefits of the subsidy. Moreover, the state also has various considerations beyond efficiency, with equity and social protection being an important cog in the wheel on the arduous climb to economic development. It should be noted that India's big money spending on social welfare is nothing more than a myth. It ranks 23rd on Social Protection Index among a group of 35 countries in Asia and Pacific with an allocation of 1.7 per cent of its Gross Domestic Product (GDP) towards Social Protection (Asian Development Bank, 2013). Region wise, South Asian countries were the worst performers with an average allocation of 3.2 per cent of GDP, almost double that of India's contribution. To put things into perspective, Sri Lanka and Nepal with a contribution of 3.2 per cent and 2.1 per cent respectively perform better than India. So let us not flatter ourselves with notion that we are spending beyond our means and doing more than the rest of the civilized society by any means.

Allegations have also been raised about rampant corruption practices under the programme. Though some of these may also be still existent, there has been marked reduction with the introduction of bank payments and online data. Drèze (2014) shows two independent surveys reporting similar figures in terms of number of days worked and they closely match when compared to the official figures. During one of the field visit in the Haldibari block of CBD back in 2012, the *panchayat* official acknowledged that siphoning money from the programme used to be very easy but after the introduction of bank payments and stringent social audit, it has become very difficult. A research conducted by using the National Sample Survey data for 2009-10 and 2011-12 shows that there has been improvement in terms of targeting of benefits to the poorer households under the programme (Das. 2015b).

We are by no means claiming that the programme has no problems as a huge scope for improvement exists. Besides the issue of asset quality, persistent delay in payments remains as one of the major problems, often discouraging the households from seeking work. Rationing in the sense of households not getting work on demand and even if they do, not getting the full entitlement of 100 days is another major issue, which needs attention. Corruption remains a major impediment. However, these issues are relatively muted in areas where the programme has been implemented well. Also, these cannot be the reasons for shelving a programme which can improve the conditions of the deprived population. If corruption is a reason, then the Coal and Telecom Ministry should be the first to be scrapped. Under this context, the decision not to restrict MGNREGA is welcome. The focus should now shift to plugging the loopholes in terms of curbing delay in payments, meeting unmet demand and enhancing the quality of assets.

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Economics of Traditional Soil Fertility Management Practices: A Look at Farmers' Practices in Medak District of Telangana State

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Abstract

The over dependence on chemical fertilizers for nutrient management in crop production for the last few decades has led to several problems affecting soil health, environment and farmers themselves. The fertilizer scarcity, as complained by farmers in the regions of Telangana and Andhra Pradesh during the year 2008 has caused social unrest among the farming community. This paper sheds light on a strong need to provide policy support to those soil fertility management practices which not only support the livelihoods of the rural poor but can also keep the conditions of the Indian soil healthy.

Keywords: Farmers' practices, sheep penning, social unrest, soil fertility enhancement, traditional knowledge

1. Introduction

Chemical fertilizers are not sustainable in the long run while accounting for the soil health (GOI, 2008). A most recent report of FAO highlights that 20% of the cultivable lands in the world are losing fertility impacting 150 crore people (one fourth of world's population). However, majority of the bureaucracy, policy makers, agricultural scientists and agricultural extension departments still think that chemical fertilizer application is the only way of improving our crop and food production. These sections seldom think of what is happening to the long term health of the soil and its capacity to produce in a sustainable manner. Sole dependence on chemical fertilizers leads to ecological degradation, production of unsafe food, increase in pests and diseases and high input costs. The fertilizer scarcity seen in states of Telangana and Andhra Pradesh during the last 7-8 years and the crisis arising out of it should be an eye opener for all of those concerned with the agriculture sector.

1.1 Methodology

Medak district of Telangana was selected for this field study as it falls under the semi-arid regions of the country. These semi-arid regions have large tracts of dry land areas hosting huge agro-biodiversity and livestock diversity. Farmers in this part of the world have been practicing farming since ages and possess abundant knowledge about agriculture that is based on generations of experience. Hence the results of this study in Medak district would benefit the large farming population in the semi-arid regions. Based on similar criteria Pulkal and Zaheerabad mandals[1] of Medak district were selected for the study. Digwal and Shekapur of Zaheerabad mandals and Pocharam and Mudimanikyam villages from Pulkal were selected for the field work. One focused group discussion was conducted in each village with a mixed group of men and women farmers. In each focused group discussion, 15-20 farmers

[1]*Mandal* is the smaller administrative unit in Telanagana state, which is above the villages.

participated. Farmers having an age of above 50 years were randomly selected for participating in the discussions, since they have ample experience in farming. Hence, **70 farmers from four different villages** have participated in the study.

Similarly, case studies of some farmers who were adopting different traditional SFM practices were done so as to obtain a comprehensive understanding of these practices. Thus, based on the interactions with farmers and field experiences drawn from Medak district of Telangana state, this paper intends to highlight the importance of traditional soil fertility management practices and its economic implications. Secondary data from newspaper reports was also analyzed to understand the social unrest amongst farmers belonging to different regions of the Telangana and Andhra Pradesh. After discussing the problems arising out of the social unrest due to fertilizer scarcity, an attempt is made to look at farmers' own practices which not only supply macro and micro nutrients but also contribute enormous quantities of organic matter to the soil which helps in maintenance of long term soil health.

1.2 Unrest among Farmers

During the 2008 Kharif season, farmers of the undivided state of Andhra Pradesh and at present the new state of Telangana and residuary Andhra Pradesh reported that there was a severe shortage of fertilizers. More than 80% of the farming community in the state was affected by this fertilizer scarcity during the year 2008. This scarcity caused severe unrest among the farming community all across the state and instigated them to resort to extreme steps to express their discontent and draw the attention of the government. In some cases the elected representatives of the ruling party led protests like *rasta roko* and *dharnas* demanding the proper supply and distribution of the fertilizers by the local agriculture department. In several places farmers stood in long queues in front of agro-centres and cooperatives to get a couple of bags of fertilizers. In one incident, a farmer Uppalaiah of Sripathipalli village of Warangal district died in a stampede while he was trying to reach the fertilizer supply point. In another incident, Maccha Rajesham, a *sarpanch* (village president) of Cheelapur village, Bejjankimandal of Karimnagar district had climbed a huge cell tower and threatened to commit suicide if sufficient quantities of fertilizers were not supplied to his villagers. Farmers even broke open the locks of fertilizer godowns so as to sell the grains in the black market.

Government has spent a lot of time and effort to diffuse the situation and took several administrative measures to ensure supply of fertilizers was as per the farmers' requirements. Several senior IAS officers were specially assigned the task of ensuring equal and effective distribution of fertilizers to all the farmers. In certain cases, the fertilizers were sold under full police protection. Such a dangerous situation was a result of our poor policies with reference to soil fertility management. With problems in fertilizer industry, such a situation may arise in other states in the years to come causing social unrest in rural areas and affecting the crop production. Hence, the need for solutions that are based not only on local resources but also those that are ecologically safe, arises.

2. Need to Look at Local Solutions

Farmers' perceptions of soils are usually holistic and include more aspects than only plant nutrition. Most farmers attempt to maintain or improve the soil quality. In order to achieve this farmers not only add nutrients, but also use a range of management practices that improve soil properties, control erosion and keep the soil organisms healthy. The application of farm yard manure, for example, influences all these factors as well provides macro and micro nutrients. The enormous crop and varietal diversity not only enhances soil fertility but is also a strategy for climatic risk management (Reddy, 2009). There are a wide range of traditional soil fertility management practices which are based on the local resources that are economically viable, ecologically safe and are within the management capabilities of farmers, especially that of the small and marginal farmers (Acharya *et al* 2001; Butterworth *et al* 2003 and Reddy 2010).

Similarly, soil fertility management practices prevalent in Medak district include farm yard manure, sheep penning/cattle penning, tank silt application, sand application to black soils, mixed cropping, cultivation of legumes, niger cultivation, crop rotation, deep summer ploughing, green manure crops/ green leaf manure incorporation, neem/castor cake, poultry manure, pig manure and night soil. A recent addition to these practices has been vermicomposting. Out of the several practices listed above, sheep penning which is an important fertility enhancing practice is discussed in detail through a case study.

2.1 Sheep Penning

Sixty five year old Anji Reddy of Pocharam village follows several traditional soil fertility enhancing practices. These include farm yard manure, summer ploughing, sheep penning, crop rotation, mixed cropping and green leaf manuring in the paddy fields.

Sheep penning is most commonly practiced by Anji Reddy and is the most favoured practice by him. Sheep penning is a fascinating cooperative effort between pastoralists and farmers. He proudly says, "The way we get the crop yields, nobody gets, which is because of penning". This practice can be adopted both in irrigated and dry land conditions. Sheep penning is usually done between Nov and June. According to Reddy 20% of the cultivable area (200 acres) in Pocharam village will be covered by penning every year. The number of sheep in one flock ranges between 1000-2000. The penning time starts at 6 p.m. in the evening. Penning can be adopted to all types of soils. Any crop can be grown after sheep penning. "*D.A.P yentha power undho, gorreleruvukooda antha birruna andisthundi*", says , Anji Reddy (The fertility given by **penning the soil is quick in nature** and is equal to the fertility given by DAP to the soil**).** The ground nut yield of penned field is 25-30 bags/acre whereas in the case of unpenned fields it is 15-20 bags/acre.

Anji Reddy highlights the role of sheep penning in improving soil structure and pest management by saying "In the soils which are soft, if the trampling is done with sheep due to penning, the soil particles get a closer grip per plant. Even if penning is done in rains, it kills the root grub." The root grub dies due to the power of sheep urine.

Most of the traditional soil fertility management practices support the livelihoods of people and provide employment to the poor including the landless. The economic costs of these practices are presented in Table 1.

Table 1: Economic costs of Farmers' Soil Fertility Management Practices in Medak district.

Name of the Practice	Approximate quantities applied per acre	Approximate Adoption Cost/acre (in Rs.)
Farm Yard Manure	5,000 Kgs- 10,000Kgs	1000-2000
Sheep penning	Flock of 4000 sheep for one day.	1000-1500
Vermicompost	1000Kgs at Rs2.50/Kg.	2500
Tank silt application	8-10 tractor loads	1000-1500
Green Manuring	20Kgs	1000-1200
Neem Cake	250Kgs	1500
Mixed Cropping (Seed cost)	Varies from crop to crop	200-300
Crop Rotation	No cost. Decision to be taken for rotation.	No cost involved except the decision to rotate
Niger crop cultivation	1.5 to 2 Kgs	50
Summer ploughing	2-3 times	200-300
Chemical fertilizers	Varies from crop to crop	1000-1500

Source: Based on Field survey

3. Conclusion

Sustainable soil health is the key to food and livelihood security of millions of people living in India, especially in semi-arid regions. Traditional soil fertility management practices which enhanced soil fertility contributed to livelihoods of rural people in various ways. Instead of arguing over special packages for fertilizer companies so as to bail them out of their economic crisis, one has to seriously look at **local solutions**. The following recommendations can be worked upon by key stake holders for sustainable soil fertility management:

- **Raise awareness** among agricultural research and extension agencies on the wide range of effective local soil fertility management practices.
- Create a **'level playing field' for both organic and inorganic soil fertility management** methods by promoting and supporting farmers in using organic methods.
- Undertake **on-farm research** to better understand the impacts of chemical fertilizers on soil quality and develop alternatives for small and marginal farmers.

Appendix 1

Questionnaire:

1. What are the crops you grow in different types of soils?
2. What are the major soil fertility management practices used for cultivating your crops under different soil types?
3. Do you use chemical fertilizers? If yes, which ones do you use?

4. Do you face any scarcity of these chemical fertilizers? If yes, then how are you handling the scarcity of chemical fertilizers such as Urea and D.A.P? What problems do you encounter during fertilizer scarcity?
5. What are the traditional soil fertility management practices adopted in this village?
6. What is the cost involved in adoption of each of these practices?
7. What are the resources needed for the adoption of these traditional practices?
8. What are the advantages and disadvantages of adopting these practices?
9. What are your suggestions for maintaining sustainable soil health?

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Legalisation of Cannabis with Constraints: Policy Analysis*

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Abstract

The world is becoming more globalised, trade barriers are being removed and all impediments to free trade are being minimised. It is being widely accepted that the strengthened trading networks have in fact facilitated the movement of narcotics. In response to this, various governments have imposed strict prohibition policies to curb drug production, supply and use in their respective countries. At the same time others like Washington, Uruguay etc. have moved in a different direction, legalising soft drugs like cannabis with the imposition of some restrictions. This paper focuses on the "legalization with constraint policy", analysing the challenges, impacts and benefits of such a policy for any given country.

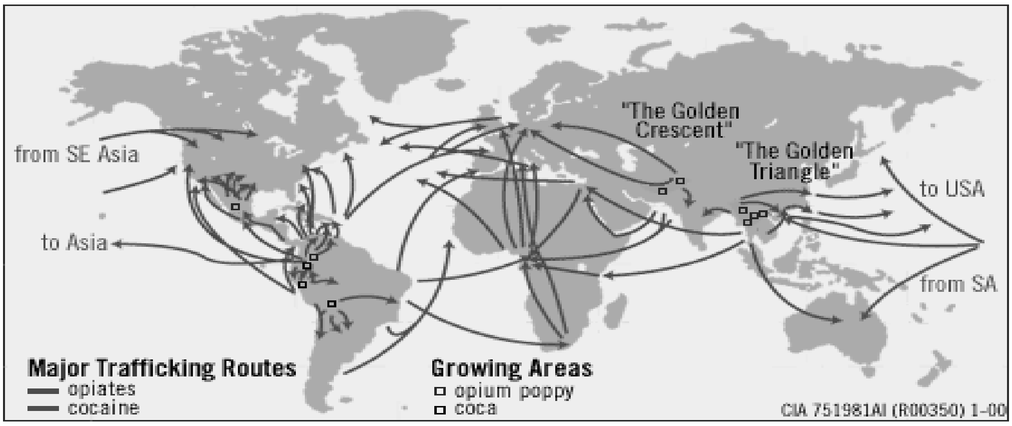
Keywords: Drug production, legalisation with constraints, movement of narcotics, prohibition policies, soft drugs

1. Introduction – Drug Trafficking Today

The monetary value of illicit drug trade crossed $4000 billion as mentioned in the 1997 World Drug Report by United Nations Office of Drugs and Crimes. Global trends in drug use show an alarming reality. The prevalence of illicit drug use is high, and has been increasing over the years.

Trading networks are facilitating this trade by providing easy and cheap transport. For instance, the removal of customs borders between the customs union countries in Europe and Asia has made drug trafficking an easy affair. This has led to the problems of law enforcement in the member countries like Belarus. Figure 1 shows the flow of narcotics throughout the globe.

Figure 1: CIA Map of International drug pipelines



Source: CIA Employee

* The views expressed in this paper are solely of the authors of the paper.

The problem of drug trafficking encompasses two broad aspects: the supply of drugs or its supply chain, and the demand for drugs. The impact however is multifaceted. Drug trafficking is closely related to black money. It also brings with it supplementary issues like narco-terrorism. Governments around the globe have acted in various capacities to curb this problem. While some have tried to curb the demand for these drugs, others have tried to prevent the flow of narcotics across countries. These policies have not been able to give a satisfactory result, thus leading to the world debate on the alternate policy of legalisation of drugs with constraints. This paper analyses this policy in detail, with regards to a particular soft drug called marijuana or cannabis, which is the most widely used illicit substance throughout the globe[1]. Figure 1 shows the status of legality of cannabis in countries around the globe.

2. Policy: Legalisation of Cannabis with Constraints

As per the World Drug Report 2010, released by the United Nations Office on Drugs and Crime, and as per the Global Illicit Drug trends Report by the UNODC, Cannabis is the most widely used substance in this world. Also, as per the UNODC's Discussion Paper on Cannabis, Cannabis is produced in nearly every country across the globe. Cannabis can be grown both in natural and artificial environments. Schedule II of the Opium Act, Netherlands qualifies cannabis as a "soft drug" along with sleeping pills and sedatives like Valium and Seresta. These soft drugs have less impact on a person's health as compared to the "hard drugs" like cocaine, heroin, amphetamine, etc.

The policy that is being analysed in this paper is **"regulated legalisation of possession, sale, distribution and consumption of marijuana"**.
Legalisation would mean that such possession and retail (as long as it's being done within the legal framework) become a legal act and hence would entail the removal of penalties, both criminal and administrative.

3. Case Study 1: Uruguay (Legalisation)

Uruguay passed the law legalising production, sale and consumption of Cannabis in July 2013, depriving the traffickers of approximately 90% of their markets. Uruguayan president, José Mujica opined that rather than leaving the youth at the mercy of criminal traffickers and randomly imprisoning them, it is more important to free them of the "plague" forever. He himself passed this law reluctantly; however, he believes that worse than any drug is drug trafficking, both economically and socially. Uruguay state will allow firms to grow cannabis under state licenses and sell them at reduced prices, in order to reduce the demand for trafficked drugs. In October 2014, the government began registration of "grower's" clubs, who can grow up to 99 cannabis plants annually. Small quantities can be grown by households themselves (up to 6 cannabis plants per household). Since this reform was rather recent, the results of such a policy can't be concluded yet. Moreover, the policy reform has not even been fully implemented in Uruguay.

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[1](United Nations Office on Drugs and Crime, 2010) (UNODC, 2003)

4. Case study 2: Portugal (De-facto Legalisation)

The case of Portugal isn't that of legalisation of Cannabis, but of decriminalisation, which is the first step towards legalisation.

Portugal was inflicted with the drug problem, both in terms of trafficking and consumption. In fact, a survey by the Eurobarometer in 1997 showed that the Portuguese state considered drug-related issues as their biggest social problem. The Portuguese government passed a law in 2000 (Law no. 30/2000 of November 29, 2000) decriminalising possession of drugs. The purchase, possession or the consumption of illegal drugs was made an administrative offence rather than a criminal offence.

Since the implementation of the policy, there has been a significant fall in the rate of ordinary crimes associated with drug consumption like stealing money and violence. However, there has been an increase in the drug consumption since 2001 in the age group of 20-24 from 12.4% to 15.4%. Nonetheless, there has been a decrease in drug consumption in the age group of 15-19, i.e. the late teenage period, from 10.8% to 8.6% (Domoslawski, 2011) . This decrease is a positive phenomenon, showing the decrease in experimentation among the highly "sensitive" age group. Moreover, the state of Portugal also provides harm reduction supplies including needle exchange, thus avoiding the spread of diseases like HIV through infected needles used for injecting drugs.

As Forbes Magazine put it in 2011, "Rather than locking up 100,000 criminals, the Portuguese are working to cure 40,000 patients and fine-tuning a whole new canon of drug treatment knowledge at the same time". This alternative adopted by Portugal has reaped benefits. It has also helped in saving costs of capturing criminals.

5. Policy Analysis: Costs

Cannabis is commonly referred to as the "gateway drug". If consumption of cannabis is legalised, its market will become regulated. The prices of cannabis in the regulated market will be lowered as then there will be no risk factor involved for drug dealers in the newly regulated framework, which is significantly responsible for the current high price of drugs. The lower prices may encourage the public to experiment with cannabis. As is claimed, this series of experiments may encourage more people to experiment with marijuana use, because it will be accessible and affordable. There is a chance that people will try harder drugs like heroin and cocaine, which are far more detrimental to health. For instance, in the case of Portugal, the people in the age group of 20-24 have increased their consumption of drugs since drug policy reforms in 2001. The opponents of this policy also claim that the worker productivity declines under the influence of marijuana, which is detrimental to the industrial productivity at large.

Also, legalisation of marijuana use has the potential to increase the number of cases reported in drug rehabilitation centres. Expenditure on public health, social services and new policy reforms will rise as well. These indirect costs cannot be ignored, given the magnitude of the policy revamp.

Apart from visible health costs, there are certain social acceptability norms which stand in the way of implementation of this policy. Drug use is a matter of social importance, and the legalisation of marijuana is as well a social topic, as it is an economic topic. This policy is revolutionary and would invite opposition from the society at large. Hence, this policy cannot be run successfully in all the countries.

6. Policy Analysis: Benefits

The proponents of legalisation of Marijuana believe that prohibition of Marijuana does not solve either the supply side problem of drug trafficking, nor that of the demand side. It merely pushes the drug market underground. The risks involved with trafficking drugs shoot up the drug prices. The high prices in turn lead to violence and crime for obtaining quick money for buying drugs. It also exploits the drug addicts financially.

Almost all the problems associated with prohibition of drug trafficking can be overcome by legalisation of Marijuana. Through legalisation, the government can keep a tab on the prices of marijuana. Also, the drug trade, once regulated can be taxed by the government. The government would no longer have to spend money on arrests, prosecutions and incarcerations. Thus, it will lead to budgetary savings and revenue gains. For instance, it is estimated that legalisation of Marijuana will result in $8.7 billion reduction in US government expenditure, and an additional tax revenue of $8.7 billion[2]. The resources saved this way can be employed in other spheres for public welfare.

Legalisation of Cannabis will help improve the **budget condition** in two ways:

- **i) Reduced expenditure**
  - **a)** On policing: Money spent on making arrests and incarceration of prisoners will be saved.
  - **b)** On judicial structure: The number of trials will reduce, and the time of the court will be saved.
- **ii) Generation of revenue through taxation**

The sales of cannabis will be taxed like other commodities and will be used to generate revenue. The rate of tax can be either in line with other commodities, or be as high as "sin tax", as imposed on alcohol and tobacco. However, if the tax rate is increased too much, then the cannabis industry will shift to the second half of the Laffer's Curve, where the tax revenue is lower with a higher tax rate. Also, high taxes will encourage consumers who are more likely to be affected by the tax burden (inelastic demand) to look for illegal sources for cheaper drugs. Therefore, the tax rate needs to be chosen very wisely.

The revenue generated can be allocated towards creation of drug rehabilitation centres. The focus must be more on not reducing the supply of cannabis but on reduction in the social impact of demand for drugs. The policy of drug interdiction has miserably failed in countries

[2](Miron & Waldock, 2010)

across the world. However, there is a renewed hope with the successful models of cannabis legalisation in many countries and states throughout the globe, such as in Uruguay, Colorado, and Washington.

7. Conclusion

With the legalisation of cannabis, the drug traffickers will face a competition with the legal suppliers of cannabis. This will stir a competition between high priced, doubtful quality, high risk drugs and average priced, regulated quality and quantity of drugs, whose sale and distribution entails no legal risk. This will no doubt help to scale down the business of illicit traffickers, if not eliminate them completely. Hence, the policy of legalisation of cannabis can prove helpful in tackling the issues related to drug trafficking and the problem of drug abuse, along with reaping economic benefits. However, this policy must be supplemented by efforts in the treatment of drug victims. On the other hand, there are various social, economic and political challenges associated with the implementation of this policy. The implementation of this policy entails the risk of encouraging experimentation with drugs and increasing the consumer base of not only marijuana but other drugs which are more harmful than marijuana. Hence, the policy mentioned above, if implemented has irreversible consequences because drug use is tightly woven with the social fabric of social acceptability and norms. Therefore, this decision requires many deliberations and needs to be taken with utmost care.

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The Underlying Assumption

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Abstract

In Cass R. Sunstein and Richard Thaler's iconic book "Nudge", a director of food services conducts an experiment; she directs the school's cafeteria to vary the arrangement of the food. Desserts were at times placed at the beginning, end or sometimes in a different line altogether. Certain dishes were displayed at eye-level while the rest were not. It was found that just by re-arranging the way the food was laid out, the caterers could increase or decrease consumption of a product by up to 25%. The book propounded the concept of how "everything matters" and how even the most insignificant details go a long way in decision-making. This prompted us to think that if we as humans are so vulnerable and prone to environmental influences, then our decisions cannot all be rational and optimal. This in turn made us wonder: is the fundamental assumption of rationality in humans, the basis of all economic theory, true? Are we truly optimizing?

Keywords: Rationality assumption, cold cognition, hot cognition, prospect theory

1. Introduction

In a perfectly rational world, buyers would exhaust all sources of information before making their purchase. Farmers would invest in the education of their children. Shoppers would critically evaluate every potential buy; compulsive shopping would not exist. Taxi drivers would work longer hours on days with many customers and go back much early when there are none. None of the above happens in the real world. So, is it safe to assume that we don't make perfectly 'rational' decisions?

The underlying assumption behind the most famous Expected Utility Theory is that humans make the most optimizing (and thus, the most rational) decision, which upon intense study has been found to be, quite flawed. What then, restrains us from selecting the most economically beneficial course? Why is it that the very idea of what is most beneficial does not coincide with the most economically feasible choice? Our rationality is bounded by the realities of lack of perfect knowledge and the cognitive limitations that steer this elusive process of utility-maximization.

2. Imperfect Knowledge

Economics assumes the presence of perfect knowledge i.e. a situation in which an agent is theorized to have all relevant information with which s/he must make a decision universally among all 'rational consumers'. The problem of decision making remains one of pure logic only if we possess all the required information, have a standard system of preferences and command complete knowledge through all available means, which in actuality, is a difficult goal for all consumers to achieve at once.

"The peculiar problem of a rational economic order is determined precisely by the fact that the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess" (Hayek 1945).
More often than not, the very information required is often limited in terms of availability and accessibility.

Now if a piece of cloth has to be selected for a dress it is the salesman's job to provide the whole, unbiased information to the buyer. Usually, this generosity is not common on part of the seller. And this is why the decisions made by the consumer, while rational on his part are not in fact optimal. Had a system of perfect knowledge existed, it still would be virtually impossible to attain perfect knowledge for all kinds of cloths/textures/colours/styles. No matter how many web-sites one goes through or how many professionals one consults (ignoring even the cost of those) in all probability a better choice has been missed out. It is very common for consumers to give in to a decision on the basis of limited options that they have rather than attaining that 'perfect knowledge'.

Information failure can be extended to many practical day-to-day examples like a real estate agent who exploits his customer's inexperience in property or a job applicant who doesn't reveal his true qualifications.

This lack of information and non-availability of resources, coupled with scarcity of time leads to what are called "Deliberation Costs". Decision makers find it more satisfactory to gather less information and use fewer resources and spend lesser time to arrive at a sub-optimal decision. And so, decision makers resort to being "satisficers", those seeking a sub-optimal albeit faster solution rather than the optimal one. This phenomenon explains the human tendency to select the first option that satisfies most of the criteria rather than the optimal option.

Consider a haystack containing 1000 needles, out of which only one 3.5 inch needle with a 2 millimetre eye can be used for stitching. According to satisficing behaviour, the first needle that can be used for sewing is used. Searching for that one needle is a waste of time and resources.

3. Cognitive Limitations

A departure from rational judgements that sometimes may result from a limited capacity to process information or are meant for faster decisions when timeliness outweighs accuracy, is representative of what are "Cognitive limitations or Biases" (Tversky & Kahneman, 1974, p. 1125) . Such analyses are accomplished with the help of information processing and mental shortcuts called Heuristics.
Now cognitive limitations are essentially of two kinds:

(i) Cold Cognition
(ii) Hot Cognition

Cold Cognition essentially involves logic and critical analysis as part of the decision-making process. Emotions are culled out from this process so as to follow the most objective path, one devoid of motivational influences. A juror concentrating on and evaluating the evidence prior to formulating a decision is an example of cold cognition.
An important heuristic, part of cold cognition, is called **Anchoring and adjusting.** This refers to the tendency of people to pick a convenient and often irrelevant fact as an anchor and then making adjustments around this anchor with the help of other potentially relevant information.

Illustrative of this phenomenon is the study by Dan Ariely (2008) in which he asked an audience to take note of the last 2 digits of their social security numbers and then they were asked if they would pay this amount for items whose value is unknown to them. Upon bidding for these items, it was found that audience members with the larger 2 digit numbers bid higher than those with smaller numbers, which was being used by the audience members as their anchor.

It was found that an equal number of customers and real estate agents use the initial price as an anchor and adjust their decisions accordingly. Thus anchoring affects everyone, even the experts!

The other important cold cognition bias is called **Framing**, which quite simply put, refers to the selective and stylised representation of data often done to influence an individual's perception. Framing involves presenting the same information and issues in ways that induce the desired response from the consumer without altering the actual facts. The positive effects of framing have resulted in a risk-averse outlook when presented with value-increasing options; whereas a negative framing of problems (such as value decreasing problems) leads to riskier choices.

In 1981, Tversky and Kahneman demonstrated a reversal of preferences of the subjects when presented with the same data in different ways. A 600 strong audience was informed of an outbreak of an Asian disease (with the potential to kill 600 people) in the US and the results of the following mitigating programs undertaken by the government were given to the 1st group:

- Program I: 200 will live
- Program II: out of 600, the probability of saving a life is 1/3.

Despite being identical, 72 percent preferred the 1st program.
Similarly, the 2nd group was told that out of 600,

- 400 are likely to die
- There is a 1/3rd probability that one will survive

Here, 78% preferred the 2nd one this time, despite the two being the same.

Thus, Tversky and Kahneman were successful in proving that framing can significantly affect the choices we undertake.

On the other hand, a bias born out of **Hot Cognition** is exemplified by a juror disregarding evidence because of an emotional link to the defendant. This is a state heightened by emotion and all the decisions taken henceforth are impulsive and dependent on environmental factors.

Emotions create biases in rational decision making which may improve our decision making or degrade it. The most common emotional biases include **integral emotions** which once attached are rather irremovable. For instance, someone with a fear of heights may go by rail to a far-away place rather than by flight even though the option of flying may be more affordable. Research has proved that **incidental emotions** like pessimism and optimism also significantly affect decisions and thus constitute a different kind of emotional bias. Based on the assumption that people are happier on sunny days, economists found a positive correlation between the amount of sunshine on a given day and stock market performance across 26 countries. In contrast, the share prices of stocks across the market declines after the home team lost in the World Cup. **Content of thought** very often affects the extremism of a decision, for instance consumers in rage are likely to make a decision with higher risk factors as opposed to those in fear who would opt for a less risky decision. There often seems to be irrational **status-quo bias**, a preference for keeping a current option over switching to another option. These comprise only the predictable emotional patterns noticed by psychologists albeit humans exhibit many other **non-predictable emotions** that may further distort the rational decision.

4. Conclusion

Essentially, what needs to be understood is that individuals are different. Each individual is affected differently; and in turn reacts differently. Every consumer does not have the precise ability to reason faultlessly and this is reflective of the classic unpredictability that is so characteristic of the human race. Our analysis indicates that consumers do what they 'feel' is best for them, which may not be the rational/optimal decision that economic theories like the Expected Utility Theory assume. So do economic theories such as these truly resonate in practicality to that level of accuracy? It doesn't seem so.

Are we then being too assuming by claiming that such behavioural irregularities are enough to distort and shaken the very foundation of some of the most widely accepted microeconomic theories to date? We think not.

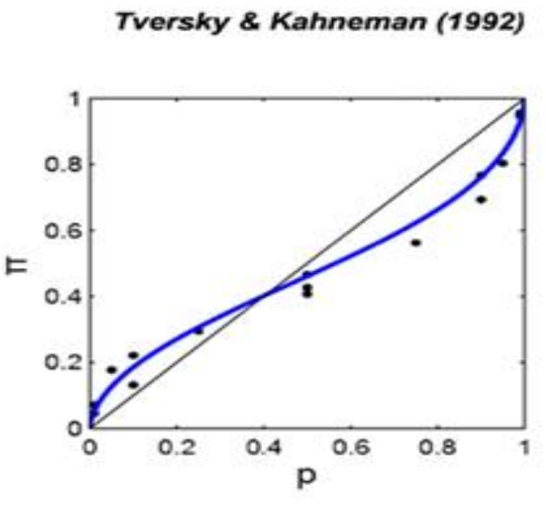
We came across a very widely cited paper "Prospect Theory- An Analysis of Decision under Risk" published in the journal- Econometrica in 1979, which is the work of two psychologists, Kahneman and Tversky. They developed what is called the "Prospect Theory" that explains much more than the Utility Theory possibly could.

We have referred to a study in their paper to illustrate what Prospect Theory has to offer. Consider the following:

Problem No.	Event	Corresponding Probability	Response Of The 72 Respondents
1.	A: • Gain of 2500 • Gain of 2400 • Gain of 0	• 0.33 • 0.66 • 0.11	18% chose A.
	B: • Gain of 2400 with certainty	• 1.00	82% chose B.
2.	A: • Gain of 2500 • Gain of 0	• 0.33 • 0.67	83% chose A.
	B: • Gain of 2400 • Gain of 0	• 0.34 • 0.66	17% chose B.

This theory thus sheds light on how individuals tend to favour outcomes that are certain rather than consider alternative outcomes which while more beneficial, are merely probable. It successfully explains why we as individuals are averse to loss. It also makes use of the concept of "decision weights" instead of probability, which is used in the Utility Theory.

Figure 1: Difference between decision weights and probability



Decision Weights	On Y axis
Probability	On X axis

Source: Kahneman, D. and Tversky, A. (1979) *Prospect Theory: An Analysis of Decision under Risk* Retrieved February 8 2014 from http://www.princeton.edu/~kahneman/docs/Publications/prospect_theory.pdf

Figure 1 explains how decision weights differ from probability and thus the differences arising in the subsequent calculations help accommodate the variations of decision making.
Now this theory, while very promising is by no means a perfect explanation for the irrationality of human decisions. Prospect theory largely caters to the defects of the Utility theory alone and in itself, is not faultless either. Our aim was to explore flaws in the theories

we so readily lap up in our studies and to explore uncommon theories with immense potential. Be it Dan Ariley's work "Predictably Irrational" or the Nobel winning work of Kahneman or Thaler's "Nudge", the shift towards recognizing Behavioural Economics as an endeavour to further represent the thinking of a consumer more accurately is undeniable. It accounts for some of the deviations from rational decision making, namely the use of heuristics, effects of framing and anchoring.

The overall consensus has led to an understanding that consumers are not always hedonistic and that "perfect selfishness" on part of economic agents is not a sound assumption. Behavioural Economics has been able to explain many commonly found departures from the so called rational choice theory. We believe that the key to sound representative economic theories is rooted in the understanding of man's behaviour and by developing Behavioural Economics further; we will be that much closer to correctly predicting and quantifying the dynamics of decision-making.

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Public Pensions– Promising or not?

A study in Soda, Rajasthan

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Abstract

An extremely critical scheme in India is the central and state funded social pension, National Social Assistance Program. Under this scheme, those unable to work; the old, disabled and widowed are entitled to a lump sum cash transfer each month. India's demographics clearly require such a policy, since 13% of the elderly are forced to participate in the work force, at an age when they should not be working. However, there are problems of inefficiency and delays prevalent in the social pension scheme even though corruption is low. To understand the efficacy of the transfers and the importance of the public pension to the beneficiaries, we conducted a survey in the village of Soda in Rajasthan to understand the functioning and to further enable the *sarpanch* to develop mechanisms to address the recurring problems associated with the scheme. The paper addresses two pertinent issues; whether the pension is imperative for the recipients' wellbeing and the myriad reasons why eligible candidates are not able to attain access to the pensions. We have attempted to point at some critical problems and their causes to assist policymaking in this area in the future. We hope that our micro-level study adds to the existing literature on the public pension policy in India.
Keywords: Delayed transfers, economically vulnerable, inefficient access to welfare schemes, Rajasthan, social pension, sufficiency of public pension, unconditional cash transfer.

1. Introduction

During December 2014, as part of our work to aid the *sarpanch* of village Soda in Tonk district in Rajasthan, we along with other *Asmat* volunteers (a student-run NGO working in the village) carried out a primary survey with 150 elderly, disabled and widowed citizens to assess the number of potentially dependent of the working age population, and if there are any discrepancies in the process to get a sanction.

The village is divided into 8 hamlets, each with its own *anganwadi* centre and workers. The questionnaire was divided into three parts:

i) The first part revolved around general information regarding the age, sex, marital status, and occupation of the respondent and their household, educational level, living arrangements, type of dwelling, amount of agricultural land owned, APL or BPL status and possession of a ration card.

ii) For those who receive a pension, the questions revolved around receipt and regularity of the pension, mode of payment and collection as well as the expenditure pattern.

ii) For the ones who are eligible but do not receive the pension, the questions revolved around the number of times the pension had been rejected and reasons for rejection/ not applying to the scheme or any reason that did not allow them to get their pension sanctioned.
The sampling strategy chosen was simple random sampling. The sample of those surveyed was spread across the 8 hamlets.

2. Literature Review

A World Bank report (2008) finds that the pension amount is used mainly by the pensioners themselves which is a strong sign of its importance, similar to our study. There is an impact on labor supply and expenditure patterns of beneficiaries, with public pensions reducing the elderly's workforce participation (Kaushal, 2013).

There are many studies in the literature on the program's implementation. Previous studies have found that the pension scheme works much better compared to other schemes, a view similar to the one expressed by the officials of the village. Corruption is low in the scheme as seen by leakage from the pension amount. However, Dutta and Murgai (2010) argue that because the sum of money in question is low, there is less incentive for leakages by the officials and the corruption levels remains low. However pension sums have increased, yet those receiving the pension receive a full amount indicating that it is not the small amount that acts as a disincentive for corruption. The biggest problem as found by Gupta (2013) in Jharkhand and Bihar is one of delays, a highly critical issue due to the large numbers dependent on the pension. However many authors have previously found problems in accessing the money (Chopra and Puduserry, 2014). Distances lead to dangerous exertion on the part of the poor elderly & disabled who may have to walk all the way. Lastly, the procedure for sanctioning the pension is extremely cumbersome. The deterrents to the eligible applicant are many as we later find. Similarly, there are issues from the administrative side as well.

3. Observations and Results

3.1 Dependency and Utilization Trends of Beneficiaries

We find that the majority of pensioners live with their married children or in a joint family set up with their brothers or sisters. It will not be wrong to say that the pension supplements the household income however it is not necessarily through increasing expenditure on the household's income. For the majority, we believe the pension supplements the household's income implicitly, since it allows reduction of out of pocket expenditure on health of the elderly or disabled. Given that the main occupation of the villagers is farming, which gives a return of Rs. 10,000-15,000 per year for those with smaller land holdings, the pension becomes a clear source of supplementing their meager income from agriculture every month. Around 11 percent of the elderly pensioners however live alone. The expenditure patterns are summarized below:

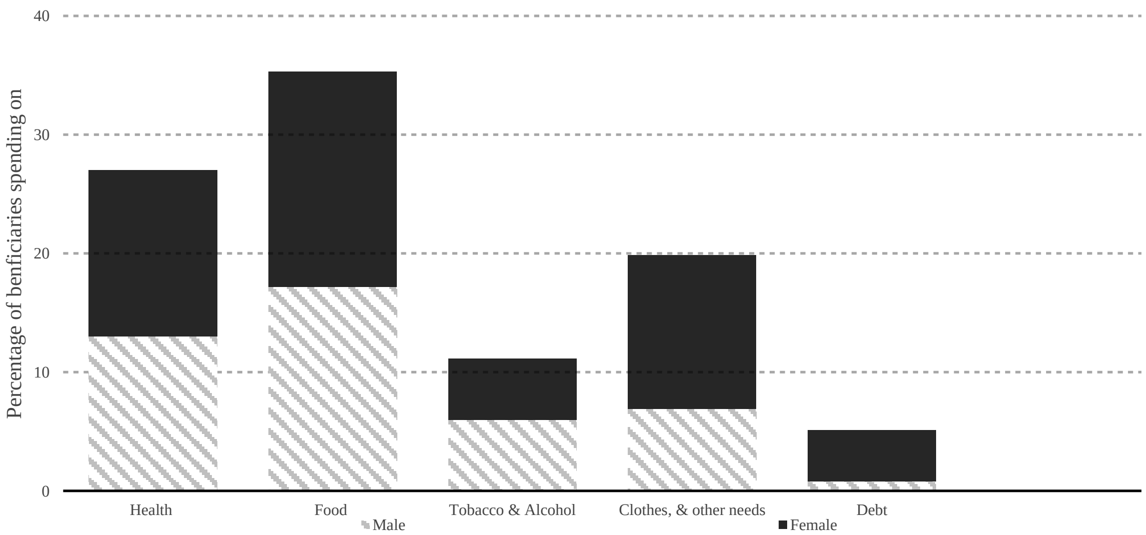
1) Food: 38% of those receiving the pension spend a major portion of it only on food. The numbers clearly indicate that the pension is critical for subsistence needs.

2) Health: 31% of all beneficiaries spend on health, which amounts to a huge sum due to the large out of pocket expenditures and lack of a strong medical institution nearby. The PHC for the village is open but we observed that most villagers lack trust in the public health system and thus like to go to the nearest town. The elderly have to spend a large amount of money if they need to visit a district hospital or a private hospital.

3) Tobacco and Alcohol: A disturbing trend is the utilization of pension money on tobacco and alcohol (12% of all pensioners). We find that almost a same number of men and women spend their pensions wastefully. Further, through our interviews we found many elderly in households which are relatively wealthy to spend a majority of their pension on tobacco and alcohol.
The expenditure patterns show clearly that expenditure is mainly on healthcare and food followed by other needs like clothes, tea etc.

We find a definite pattern of usage of the pension money on themselves, as outlined below:

Figure 1: Percentage pension spending heads



Source: Primary Survey

Finally, other expenditures came up during our surveys. A large number of pensioners spend the money on purchasing clothes, paying electricity bills or any other subsistence needs. Further, we find women from wealthy households saved their money or spent it on their grandchildren. There were also cases of using the pension money to repay loans.

3.2 Problems in Receiving the Pension

Having established that the pension is of critical significance to those receiving it, there are problems occurring with the same.

- There is no fixed date of receiving the pensions. The pensions are usually **delayed**. During the interviews, we found that a large number had not received pension over the past two months. They do receive a cumulative amount the next time they receive the money. However, the ones who rely only on their pension money have to borrow.

- Elderly from 3 hamlets have to walk **5-6 km** to the main village where the post office is housed. The situation is worse for women who usually have to walk the entire way and cover 12 kms to get their money.

- Certain areas face more problems than other; there is a lot of heterogeneity in the problems of elderly living in a given hamlet faces. The Banjaaras' hamlet (historically nomads, although they are now settled in Soda) is not treated well by the officials at the post office, unlike the treatment meted out to any other hamlet. If they go to collect their pension a day or two later, they are not allowed to collect the sum and have to go home empty handed. We believe this may be because of the distance of the community (both geographical and cultural which leads to a lack of information as noted above) from the main village.

3.3 Reasons for not receiving the Pension

Of the 150 elderly, widowed and disabled we surveyed; 41% of the eligible did not receive the pension due to critical problems. The average age of those not receiving the pension is 62 years. A survey of the reasons due to which the elderly are unable to receive their pension shows that the most prevalent problems are seen in the table below:

Figure 2: Reasons for not receiving the pension

Causes for rejection	Percentage of eligible suffering from the particular problem (%)
Unavailable Documents	8
Technical Errors in Documentation	27
Lack of Awareness	23
Waiting for sanction	25
Bias	6
Other (unknown)	10

Source: Primary Survey

The problem of technical errors in documentation is exceptionally huge in the village and we find that women suffer the most from this. Secondly, **lack of awareness** also deprives many of their pensions. The widows and elderly are unaware about the conditions for the pension scheme; we find many villagers are not aware of the eligibility criteria and procedure. Another major issue is the prevalence of **illiteracy and dependency**, almost all those lacking awareness or facing rejection due to technical errors are women. 27% complained about having applied a year ago and still not having received any. While bias at the hands of officials is infrequent, it is extremely problematic for the few individual cases we came across. Some of their applications were rejected due to personal problems with the old *patwari*. Further, there were a few common discrepancies regarding the conditions such as whether an elderly who works as a government worker should receive a pension or not, even if they may earn less than Rs.4000 per month. We discuss this further in the section on case studies.

The reasons are characteristic of India's political economy with a complete **lack of fiscal decentralization which makes administrative decentralization almost meaningless**. The number of people that the application has to be checked by allows discrimination at the hands of many. Indeed, the application has to be passed by the *patwari*, the secretary and the Block Development Officer in the village and thus discretion is inevitable in terms of relaxation of criteria. It may not necessarily be intentional but the number of levels the money has to pass through retards the process.

3.4 Case Studies

There were many particular cases that were not just one off, but impacted us deeply and will serve as allowing those reading to go beyond the statistics:

i) An elderly lady who lives alone after being abandoned by her son in one of the six hamlets in the village of Soda in Rajasthan reveals the significance of the social security payment for her subsistence. She has no means of income and is not in a position to work as an agricultural or manual laborer. Her only source of income is the Rs. 500 which she gets from the government as pension. She manages to limit her expenditure on food and medicines within Rs. 500, but just so. The problem arises when the pension is not received (as it has not been received since the past 2 months) when the lady has had to borrow to buy the necessary food and medicines to sustain herself and her family.

ii) The rules regarding whether government workers should receive pension or not make it quite unclear. There are many who have been classified as government employees such an *anganwadi* workers, yet the receipt of their salaries is usually delayed. They are not allowed to receive the pension and do not have the security of a government job. Due to such ambiguity, there are cases where one *anganwadi* worker's pension has been sanctioned while another's rejected leading to question the bias involved.

iii) The ration cards of many women in the village show their age much less than their actual age, which is 55 or more in most cases. Some with their ration cards saying they were 4 months old in 1995 but that they are currently 39 years. They do not know how to rectify this problem. When we discussed this issue with the secretary, he said that other documents can also be produced as proof of age. It appears that most women are unaware of this solution.

3.5 Does the Pension allow the elderly to leave the workforce?

Finally our survey supports the idea that a social pension allows the elderly and disabled to leave the workforce and lead a life of dignity without being forced into work that would be detrimental to their health. We questioned the respondents (both recipients and non-recipients) on whether they have been active in any sort of work over the past 12 months- agricultural, manual, self-employed non-agricultural, job or whether they are unable/uninterested in working.

3.5.1 Those who receive Pensions

Only 23% of those who receive the pensions are active in agricultural/ manual labour, while 54% reported themselves as unable to work or uninterested in working. We were glad to find that most did not have to participate in manual labour; the few who did could not depend on their children for income, mostly widowed.

3.5.2 Those who do not receive Pensions

The situation is reversed when we compare the statistics to those not receiving the pension. This is particularly seen in the case of male elderly, 65% of the eligible work and 30% report themselves as unable to work. The trend is not seen so visibly in the case of females, 50% of whom report themselves as unable to work.

We find support in microeconomic theory, where such a transfer will affect an individual's decision to supply labour through the income as well as substitution effect. We can find it to act as a sort of subsidy on leisure (since working may reduce the chance to get the lump sum transfer by increasing household income). Thus the income effect allows the elderly and disabled to increase their leisure hours. As Kaushal points out, the substitution effect on the other hand acts as a deterrent by increasing the cost of giving up leisure as an increase in time spent working will lead to a rise in household income, thus not allowing them to receive the pension (2013). She uses a time-series econometric study across states to prove that while the effect of public pension on labor supply is modest (1-3 percentage points decline in the employment of male elderly), it would lead to a much higher fall in employment of low-educated men.

4. Conclusion

While we have seen that a lot of literature is available on social security in the country, the need for a comprehensive and evaluative study of the state of social security in India is still felt. Through our study, we have found that the reasons for lack of social security are not only administrative and technical but are also conditioned on a lot of biases. This paper has examined empirically what the underlying reasons for non-distribution of pensions are, and has taken a look at various relevant case studies. We really hope this adds to the existing literature and aids in policy making in the country.

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Bringing our Girls to School:
Looking at Factors Affecting Girls' Education

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Abstract

India's 15th Prime minister reckons that the proportion of girls dropping out of school will significantly drop after separate toilet facilities are made available for girls and boys in all schools. A claim which was not in vain: During ASER 2013, 14,724 government schools with primary sections were visited across rural India. In 2010, 31.2% of all schools visited did not have a separate toilet for girls. This number declined to 19.3% in 2013. The percentage of useable toilets for girls also increased from 32.9% in 2010 to 53.3% in 2013.The aim of this study is to understand the impact that the ***'Swachh Bharat' campaign*** can have, specifically with respect to separate toilets for girls, on the school enrolment and drop out of girls in the age group of 10-15 years (primary school going age group). This has been carried out in two steps:

1. Secondary data relating to primary education of girls in the country was taken for India's states and union territories (35 in number). Regression analysis was done on the same to understand the significance of toilets on the status of education of the girl child in India.[1]
2. From a macro level, a micro level view of the scenario was taken to see if the results of the econometrics model hold any ground for girls in village **Ulaita, District Mewat** in the state of Haryana. Mewat is one of the 21 districts in the state of Haryana, its farthest point being only 145 km from the National Capital. The population is predominantly Meos (Muslims) who practice agriculture. The sex ratio is 906 females for every 1000 males and the female literacy rate is 37.60.

Keywords: Toilets, girls' education, enrollment rate, dropout rate

1. Regression Analysis on Secondary Data

Model 1: OLS, using observations 1-36 (Table 1.1)
Dependent Variable: Gross Enrolment
Independent Variables : Number of government schools (2011-12);Upper Primary Schools per thousand child population (11-14 years) (2011-12); Density of schools per 10 sq km (2011-12); % schools having girls' toilet (all schools) (2011-12)
R-squared: 0.312272
P-value (F): 0.017636

	Coefficient	*Std. Error*	*t-ratio*	*p-value*	
Const	88.0169	16.1453	5.4515	<0.00001	***

[1]*Sources of the data : Elementary Education in India Progress towards UEE , National University of Educational Planning and Administration ; Planning Commission data table 226 and 227*

NOGOVTSCHOOLS	2.36694E-06	1.73355E-05	0.1365	0.89228	
UPPERPRIMARYSCHOOLS	2.24422	0.687982	3.2620	0.00269	***
DENSITYOFSCHOOLS	0.527492	1.06378	0.4959	0.62349	
PERCENTAGEGIRLSTOILET	-0.0768634	0.171162	-0.4491	0.65651	

Table 1.1

Model 2: OLS, using observations 1-30 (**Table 1.2**)
Dependent Variable: Dropout Rate
Independent Variables: Average Number of instructional days; % of schools with female teachers in schools having 2 or more teachers (2011-12); % of schools having functional girls' toilet (all schools) (2011-12); Percentage of schools providing mid day meals (2011-12); Pupil Teacher schools Ratio (All government schools) (2011-12)
R-squared: 0.407493
P-value (F): 0.020770

	Coefficien	*Std. Error*	*t-ratio*	*p-value*	
Const	240.495	96.9616	2.4803	0.02053	**
AVGDAYS	-0.409187	0.42249	-0.9685	0.34245	
PERCFEMALETEACHER	-1.12811	0.435015	-2.5933	0.01595	**
FUNCTOILETS	-0.487032	0.362764	-1.3426	0.19198	
MIDDAYMEALS	0.228737	0.257848	0.8871	0.38383	
PUPILTEACHERRATIO	0.425729	0.417538	1.0196	0.31808	

Table 1.2

1.1 Observations

1. The goodness of fit of both the models, as given by the R-squared values, is low, especially for the first model (approx. 31%) as opposed to the second model (approx. 41%). This implies that the behavior of the dependent variable in each case is not fully explained by the independent variables.
2. In model 1 only the constant and the Upper Primary Schools per thousand child population (both at 0.1% LOS) are positively significant. The Number of government schools and Density of schools per 10 sq km seem to have no significant impact on the Gross Enrolment Ratio of girls. It is important to note that neither does the percentage of schools having girls' toilet have a significant impact on the Gross Enrolment Ratio of girls. (In fact, the p-value for number of government schools is as high as 89%).
3. In model 2 only the constant and the percentage of schools with female teachers in schools having 2 or more teachers (both at 1% LOS) have a significant positive and negative impact respectively on the Dropout rates for girls. **If we keep all other independent variables constant, then on an average if the percentage of schools with female teachers in schools having 2 or more teachers increases by 1% then the dropout rate decreases by 1.128%.** The Percentage of schools providing mid day meals and the Pupil Teacher schools Ratio seem to have no significant impact on the Dropout rates for girls. It is important to note that neither does percentage of schools having

functional girls' toilet have a significant impact on the Dropout rates for girls. (The p-values for functional toilets, mid-day meals and pupil teacher ratio are considerably lower than the non-significant independent variables of model 1 - 19%, 38% and 31% respectively.)

4. The P-value for the regression as a whole is significant for both model 1 and 2 at 1% LOS, which means that the independent variables together explain the same part of the variation in the dependent variable. Thus **the regression in model 1 and 2 is significant as a whole.**
5. **The following can be interpreted based on the observations above:**

- Mere presence of separate toilet for girls does not seem to be solving the problem of low enrollment ratio for girls. However, when questioned on the functionality of the toilets, it may explain the high dropout rates in conjunction with other factors influencing education of girls.
- There seems to be a stress on quality over quantity, with pupil teacher ratio, female teachers and average number of instructional days assuming more importance than the number of government schools.
- The **low R-squared** can partly be attributed to other important factors that have not been taken into account like **income of the family, caste, religion, number of siblings** (specifically male siblings). It has been seen that under less favorable conditions (like parents being illiterate) the impact of community effect is significant (Sriya and Borooah, 2007)

2. Micro Analysis

Place: Village Ulaita, District Mewat, Haryana

Government Middle School (GMS), Ulaita

- There are separate toilets in the school for girls and boys but the location of the two is side by side. The girls thus feel shy to use the same and prefer to relieve themselves out in the field. Thus, when asked if there is a separate toilet for girls in the school, all of the 7 respondents said that there is only one toilet in the school which is used by boys. They said it is clean but rarely used by any girl. At the most, if the teacher concurs to their request and opens the toilet at the back of the school built for teachers, they use that.
- All the girls interviewed live within a 1 km radius of the GMS and take at most 15-20 minutes to walk to school, even those who have dropped out.
- Interestingly, **none of the 8th standard girls were to be found in the school** at the time of the visit. Although enrolled, this is the time they start dropping out of school to get married (which is a harsh reality in this area) or to manage the house. Some of the drop outs still have their name on the enrollment list, can in fact give exams and take away homework, and also come to collect school dress, books or money (SC, BPL) distributed annually.
- When asked if menstruation stops girls from coming to school, the respondents say that it is generally not the case. Girls come to school, stay till lunch and then head back home. Some of them do not even use a cloth, let alone sanitary napkins. They also seem quite comfortable in relieving themselves in the open, saying that they are not scared of snakes or loitering boys.

2.1 Girls Attending School

Name, Age, Class	Do you like going to school? Why?	Would you come to school even if there was no toilet?	Rank : Presence of separate toilets for girls	Rank : Presence of good teacher	Rank : Presence of hot cooked meals	Number of days in a month attending school (total :24)	Details of siblings (including self)
1. Noor Jahan, 10, 6th	Yes - Friends, Studies	Yes	3	1	2	24	4 sisters (the eldest one who is 15 years old has dropped out of school) ; 2 brothers - both younger to the sisters
2. Jamshila, 12, 7th	Yes – Studies	No	2	1	3	19	5 sisters (2 have dropped out of school) ; 2 brothers (eldest one married and working after completing education)
3. Dilshana, 11, 7th	Yes – Studies	Yes	2	1	3	24	3 sisters (1 has dropped out , the other two attend GMS) ; 1 younger brother - goes to a private school
4. Chanchal, 12, 7th	Yes - Studies (“I want to become someone in life”)	Yes	1	2	3	24 (She said school is a way for her to escape household chores)	2 brothers ; 1 sister
5. Swalia, 11. 6th	Yes – Studies	Yes	2	1	3	24	3 brothers (all married and working after completing education) ; 2 sisters (eldest one dropped out of school after class 5)
6. Manisha, 11, 6th	Yes – Studies	Yes	2	1	3	22	1 brother (younger) ; 1 sister
7. Ruksar, 10, 6th	Yes – Studies	Yes	2	1	3	19 (absent only when household chores need to be attended to)	4 sisters (3 married) ; 2 brothers (both elder)

Table 2

- **Rambir Singh, the Science teacher at GMS**, agrees that the joint toilets pose a problem but also emphasizes that he opens the teachers’ toilet for the girls whenever needed. He however says **“toilets won’t solve problems until parents**

change their mindsets." He sees the **lack of lady teachers** as a major problem. On the subject of tertiary education, he cites distance (often wrought with cases of harassment), co-ed colleges and lack of transportation as some of the main hurdles.

2.2 Drop Outs

Name, Age, Studied till	Did you like going to school? Why or why not?	Reason for dropping out	Rank : Presence of separate toilets for girls	Rank : Presence of good teachers	Rank : Presence of hot cooked meals	Details of siblings (including self)
1. Tavasum, 13, 4th	Yes - Friends, Studies	Tall, so students and even the teacher taunted her saying she is 'big enough' to stop coming	2	1	3 ("I can eat at home, why do I have to go school for that?")	5 brothers (2 go to school , 1 too young to go, 1 married) 2 sisters (other one too young to go to school)
2. Anju, 14, 4th	Yes - Studies	Household chores made her late for school	1	2	3	3 brothers (younger than the sisters, but go to school) ; 4 sisters (all others married)
3. Shabnam, 15, 5th	No - didn't get time to study after finishing household chores	Burden of household chores (has to fill water for all uses for 16 members of the family), father didn't approve and complains of constant headache - '*Paani ka bojh*' (burden of water)	2	1	3	6 sisters (4 of whom don't go to school) ; 4 brothers (younger than the sisters, all go to school)
4. Afida, 15, 5th (recently got married)	Yes - to escape household work	Too much work at home which didn't leave time for studying	1	2	3	5 sisters (only 1 goes to school) ; 2 brothers (eldest - went to school, is now married and working)
5. Tavasum, 13, 6th	No - didn't like studying	Likes to be at home, more interested in stitching and household work	3	2	1	4 sisters (2 go, one got married) ; 2 brothers (went to school, now working)

Table 3

- **Urmila Gupta**, working with the SM Sehgal foundation in the village, on issues of governance and agriculture, places financial resources and thinking of the parents above the presence of separate toilets in school for girls.

- In the rankings, the smaller number denotes higher preference. Summation from both the tables yields the following result :
- **Presence of separate toilets for girls: 23**
- **Presence of good teachers: 16**
- **Presence of hot cooked meals: 33**
- **The lowest number shows the highest preference.**

3. Conclusion: Moving from Macro to Micro

The girls in Mewat stressed on the presence of good teachers and specifically female teachers over presence of toilets. **Mere presence of toilets is seen to have no impact in Mewat, underscoring the functionality aspect even further.** Similarly infrastructure is undermined vis-a-vis the mindset, norms of the society (**early marriage, gender roles defined in a patriarchal set-up**) as the school is well functioning in terms of the building and classrooms. A preference for education of the male child is seen in Mewat. While Mid-day meal cannot be discarded, individually it may not have a significant impact, as was seen in model 2. Most girls see going to school as an opportunity to study, escape the household chores and maybe do something like the '*didi*' interviewing them. It is in this context that **quality over quantity** needs to be emphasized and India needs to look beyond just building toilets for girls in schools to retain them. Contrary to popular perception what can be observed here is that the mere presence of toilets or mid-day meals will not help in retention of girls in school. In fact the two factors that have not been a part of popular discourse but emerge important here are the quality of teaching in the school and the presence of female teachers. This is not a blanket supposition. The role played by meals and toilet facilities is not being undermined. But the question is, even if retained by way of these factors in the short run, will it be giving our girls meaningful education in the long run if the conduit of this education is not present and if present is of a sub-optimal quality? Must we not make our girls comfortable in the teaching-learning environment by recruiting more female teachers, with whom they will be better able to voice their concerns and the degree of fear with respect to sexual harassment will go down? For the girl effect to materialize, the government must take a multi-dimensional view regarding girls' education, impacted not just by toilets but also by teachers.

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Should Housewives be Paid Salaries?

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Abstract

There is no dearth of literature about whether or not housework classifies as an economic activity. If it does, then the question that arises is how one should value it such that it is included in the calculation of the national income of an economy. This paper seeks to discuss and concentrate on a proposal made by the Government of India in 2012. The proposal suggested that husbands must pay their housewives a certain salary for non-monetary services that they render. This was proposed by the government to not only make housework an economic activity but to also financially empower the women. This paper will critique the proposal on both these grounds. This paper will further discuss how the gendered/conventional division of labour in society is the reason for under valuation and lack of recognition of housework.

Keywords: Economic agency, housework, paternity leaves, patriarchy, salary, women

1. Introduction

Housework involves cleaning, washing, subsistence work such as collecting wood and vegetables and taking care of the old and sick. What makes household work a pertinent issue is that there exists a highly gendered division of labour in the society today. In the current patriarchal society, women typically do most of the household work which is unpaid and indistinguishable while men are engaged in economic activity that is accounted for in the national income of the economy. Recognizing the contribution of housework towards economic progress and secondary status attributed to housewives, some have advocated the payment of salaries to housewives.

1.1 Statistics supporting Gendered Division of Labour

A study conducted by OECD Gender Portal on time use in 2014 shows the existence of traditional division of labour. The study gives the average time, in minutes in one day, spent by men and women on paid work or study, unpaid work, personal care and leisure. The study states that on an average a regular man spends 330 minutes a day on paid work, 139 minutes on unpaid work and 318 minutes on leisure, whereas a woman spends 215 minutes on paid work, 274 minutes on unpaid work and 280 minutes on leisure. The data also reveals that the difference in minutes between paid and unpaid work for men is 191 minutes whereas for women it is a mere 59 minutes.

1.2 Inference from the above Statistics

The inequitable distribution of different tasks in a family between the two genders is apparent from the above data. This is a direct result of the **patriarchal system**, specifying each gender's role in society. Maria Meis in her book 'Patriarchy and Accumulation of the World' claims that patriarchal structure is a mechanism of exploitation and oppression of women.

Within the patriarchy, where men enjoy all the power, women have been relegated to perform a very productive and valuable task of housework but in return for no claims whatsoever on resources (land and property). The data on difference in time between paid and unpaid work between the two genders indicates that even if the contemporary woman works, her responsibility to finish her unpaid work remains. The work performed is not included in the calculation of national income. But the performance of this work is vital in a society: cooking nutritious food, keeping the home clean is necessary for the development of a competent human resource which is an objective of every nation for its development and growth plans. It is therefore, in that sense, an important activity that provides future economic dividends. The future dividends may not always be constant or may not even fulfil a particular standard.

Many therefore support the need for recognition of unpaid work in economic development, to do so some advocate payment of salaries to housewives by their husbands.

2. Policy Proposal by Government of India in 2012

The Minister of Women and Child Development Krishna Tirath, Government of India in 2012 September spoke to a news agency (PTI) about an idea for a potential bill that would make it mandatory for husbands to pay a certain percentage of their salary to their wives, who are not engaged in paid economic activity, a proportion of their salary. This proposal would, the ministry believed, achieve a two-fold objective. Firstly by valuing housework monetarily the **perception of housewives in society would change** by granting them economic freewill. Secondly this method of valuation would **make it possible to account housework in the national income**. This paper will highlight how this bill is a bad measure on both these accounts.

2.1 Economic Implications of the Proposal

The proposed idea states that a proportion of the husband’s salary is to be given to the housewives. This would mean that the wife of a daily wage labourer would earn far less than the wife of say a doctor for exactly the same work done. This means that the same exact work is being valued differently which will lead to **stark class distinction** and make valuation of housework rather arbitrary when included in national income accounting. Women of the lower class will also feel marginalized and disillusioned with the government that places more value to the work done by the housewife belonging to, say, the upper middle class. Considering that the payment of a proportion of husband’s salary is not ideal, a standard salary could be paid by a third party like the government. This proposal too falls short on three grounds.

Firstly in contemporary times, women, though educated and well qualified to work, often choose to be housewives because of societal expectations. Therefore in such a situation should the women be **paid in terms of their opportunity cost**, because a rational person will choose to perform a particular activity with economic returns only when the said wage is higher or at least equal to the wage/salary forgone or should one pay the housewives the same amount paid to full time maids? Secondly even if we were to rule out the former option because the choice to be a housewife is not based on a cost-benefit analysis and hence adopt the latter choice, it is highly **impossible to value abstract tasks** such as nurturing, teaching children moral standards that contribute equally to the development of a proficient workforce in the future. Thirdly it is economically **unviable for the Government of India to take up such a huge burden of paying salaries** to housewives. Though through this move the GDP of the country might increase, its implications on women's economic agency is severe.

2.2 Will Salary lead to true Financial Agency/Independence for Women?

Economic independence of women is desirable. But will the salary given to housewives from the pocket of their husbands have a negative impact with regards to the economic agency of women? In families where housewives enjoy economic freedom and power this new proposition will bring little change. The major change will be seen in families where most decisions, economic or otherwise of all family members are taken by the patriarch. The housewives belonging to these families will find themselves with money that they can spend, but it is highly unlikely that the patriarch's attitude towards the woman's economic freedom will change, especially if that salary is coming from the pocket of the said patriarch. The **patriarch will continue to restrict or control the housewife's spending**. This move will only heighten the dependency of housewives on their husbands. Hence this solution is either redundant or unfulfilling of its goal.

3. Policy Suggestions

Since the policy proposal made by the Government of India is in fact detrimental to the economic agency of women, true economic freedom of women is only possible if the salary is earned by them outside the familial setup. Women therefore have to increasingly enter the workplace. But the **gender wage gap is a major problem** that dissuades many working mothers from continuing to work.

OECD defines gender wage gap as the difference between male and female earnings expressed as the percentage of male earnings. Even with the same qualifications, skills and age a woman is paid less than a man for the same job and same work done. For the year 2011, the **difference in wage is 14.8%**. Imagine a situation where both the working partners in a family mutually decide that one of them should quit work to perform housework. More often than not it is the women who resign from their jobs. While this trend is due to the gendered division of labour it is also triggered by the wage gap. The partners simply find it **economical for the female to give up her job instead of the male's well paid one**. The major reason for the existence of the wage gap is the outright discrimination that is inherent in the society. **Women are seen as a liability** and as a bad "investment" as they demand more maternity leaves and there is uncertainty regarding their commitment towards the job. Hence men need to contribute to housework. In the status quo there exists no legislation that mandates private companies to grant paternity leaves. While some companies do offer paid paternity leaves, they range from 3-7 days. Hence government **has to pass an act making it obligatory for companies to offer longer and flexible paid paternity leaves.**

4. Conclusion

It is unambiguous that housework contributes to economic development, but to support payment of salaries to housewives so that housework can be valued and hence accounted for in GDP is both dangerous and problematic. The subsidiary benefit of economic independence of the proposed policy also remains unfulfilled as it only deepens traditional division of labour and the wife's dependency on the husband. To cease the vicious cycle of society defining the right jobs for women because of which wage gap exists which further dissuades women to continue working; the government and the corporate sector need to encourage male household participation.

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Have the Main Causes of the Global Financial Crisis been Tackled?

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Abstract

The Global Financial Crisis (GFC) has become one of the most widely studied and scrutinised crises to have hit the modern world. What makes it a further object of interest is that its origins lay in the U.S., the hub of global financial activity, and it severely affected most advanced economies, particularly the European nations. The paper begins by explaining the responses that the GFC generated from its victims, particularly the formation of the Financial Stability Board (FSB) at the global level, the revamping of Basel II requirements into Basel III, the Dodd-Frank Act in the United States of America, banking reforms in the United Kingdom and the greater, albeit still restricted, role of the European Central Bank in the European Union. The paper then identifies and explores in detail three reasons for the failure of affected nations in successfully addressing the sources of the GFC. It finally highlights opportunities for future research and further study.

Keywords: Global Financial Crisis, cheap credit, securitisation, shadow banking, financial globalisation

1. Introduction

The crisis occurred and could not be precluded since not many were looking out for it. However today, in hindsight, most major causes tend to be understood and widely subjected to analysis. Such knowledge makes it imperative for policy makers to implement actions that can at best insulate and at worst minimise the effects of a systemic risk. An overwhelming need is felt for the global financial system in general, and the financial systems of countries which became the worst victims of the GFC in particular, to learn from past recklessness and to make amends in the contemporary scenario.

However, as the paper shall point out, they have been less successful in this endeavour. Affected countries have largely failed to effectively address the key reasons for the GFC and this can have three broad, inter-related explanations.

Policy reforms in the post-crisis period were directed towards only some of the causes and most policies, devised in haste, were guided by the fear of credit risk rather than sound rationales. Implementation predicaments are another reason for the collective failure of countries to combat the causes. Finally, there is also scepticism over the feasibility of tackling all the main causes of the crisis. A diagnosis of the crisis would lead disgruntled citizens and Marxists to claim that the incumbent financial order is in itself a cause and hence needs to be changed.

2. Responses

The GFC served as a wake-up call for callous financial institutions and complacent financial regulators around the world who then turned to the state for help. The developing countries (particularly China, India and Brazil) were quick to respond to the financial slowdown by enacting countercyclical monetary and fiscal policies thereby avoiding the adverse effects of the crisis. The advanced economies, on the other hand, had a tough time dealing with the crisis. The crisis originating in the North American region got converted into the European Sovereign Debt crisis in several E.U. countries (particularly Greece, Spain, Ireland, Portugal and Italy) with housing bubbles sprouting up in Spain, Ireland and U.K. The GFC also had a major impact on Iceland, with its three top banks going bust at the peak of the crisis despite government intervention.

Further aggravation of the crisis did not provide any respite to the policy makers in the developed world who were resorting to mammoth fiscal stimulus and austerity measures. Not only did they have the task to contain the situation and rescue the financial system from the brink of collapse, but also had to address the rudimentary reasons for the crisis. While eventually they were able to somewhat achieve the former (through massive bail-outs using public money), the latter seems far from attained.

Financial development, more often than not, creates "waves of financial crises" (Reinhart and Rogoff, 2013: 4). Greenspan, Mankiw and Stein (2010: 218) reiterate that "maximum sustainable growth and permanent stability" cannot both be achieved. A trade off almost always needs to take place between "financial stability and efficiency" and the sooner this is accepted, the better it is for mitigation efforts in the next crisis (Claessens and Kodres 2014). The financial environment in the contemporary scenario is one where greater growth can be ensured only at the cost of persistent stability. A risk-taking, competitive system has become inevitable today. Therefore, tackling the root causes with an approach to prevent a future financial shock is not an effective solution as shall also be seen later in this paper.

Following the crisis, major international endeavours were undertaken, albeit primarily to implement regulatory reforms. The most prominent, perhaps, was the transformation of the Financial Stability Forum (FSF) into a more formal structure of the FSB in 2009. The FSB, like its predecessor is responsible for securing the financial system against systemic risks (Helleiner 2011) of the form of the GFC, something that the FSF clearly failed to do during its tenure. The FSB currently coordinates, at a global level, between the financial authorities and standard setting bodies of mostly G-20 nations to ensure financial stability (Claessens and Kodres 2014).

The FSB Progress Report to the G20 nations on 5th September 2013 reiterated the goals to be achieved for international financial stability and the progress made thus far.
Some of the significant reforms proposed in the report include:

- Adoption of Basel III by the 2019 deadline "as a fundamental overhaul of international regulatory standards for banks, to substantially raise the quantity and quality of their capital and liquidity." This would involve higher levels of capital adequacy ratios for banks so as to avoid any shortfall. The Liquidity Coverage Ratio

(LCR) that requires banks to hold High Quality Liquid Assets(HQLA) has also been agreed upon and is due to come into effect from 1st January 2015.

	1 January 2015	1 January 2016	1 January 2017	1 January 2018	1 January 2019
Minimum LCR	60%	70%	80%	90%	100%

Source: Bank for International Settlements, Basel III: The Liquidity Coverage Ration and liquidity risk monitoring tools. Available at: http://www.bis.org/publ/bcbs238.pdf

- Ending Too-Big-To-Fail (TBTF) financial institutions by making Systemically Important Financial Institutions (SIFIs) more loss-absorbent through increased supervision
- Reducing systemic risks posed by shadow banking by implementing policies that help to identify shadow banks and regulate activities that can potentially harm financial stability. The aim is to transform shadow banks into "transparent and resilient market-based financing, thus diversifying the sources of financing"
- Modifying CRAs by subjecting them to "stronger oversight, regulation and transparency requirements about their underlying processes" so as to avoid the conflict of interests that led to poor rating practices.

(See Financial Stability Board Progress Report to the G20 nations on 5th September 2013 for more details)

In addition to such global endeavours, the U.S. came up with its own set of regulatory and financial sector reforms covered under the ambit of the 'Dodd-Frank Wall Street Reform and Consumer Protection Act'. The legislation, in essence, aimed to prevent the repetition of events that led to the GFC by setting up institutions and rules to incessantly monitor and regulate the financial system. The Financial Stability Oversight Council was set up to supervise TBTF institutions so as to avoid future bail-outs. The Federal Insurance Office scrutinizes insurance companies to ensure they do not pose a system-wide risk. The Volker Rule, an important element of the Dodd-Frank Act, restricts the lending ability of the banks and further supervises trading in derivatives and other asset- backed securities.

The E.U., battling with the Sovereign Debt Crisis, too responded with several policy measures. The European Financial Stability Facility (EFSF) was established in 2010 as a temporary mechanism for providing financial support (raised through issue of bonds on capital markets) to Euro Area Member States (Sandoval et al. 2011). This was followed by a more permanent mechanism, European Stability Mechanism (ESM) in 2012, to give financial assistance under stringent economic compliances (Olivares-Caminal 2011).

The U.K. also reacted with banking sector reforms in the post-crisis period. The 'Independent Commission on Banking' also known as the 'Vickers Commission' was set up in 2010 to provide recommendations for banking and financial stability in the U.K. A key suggestion made by the Commission, in its report to the British parliament in 2011, was the 'ring-fencing' of British retail banks. This effectively involved separating commercial banks, which perform the functions of taking deposits and lending money, from investment banks (Edmonds 2013). The Financial Services Act 2012 put into effect several such recommendations of the Vickers Commission.

3. The Verdict

The GFC made it imperative for countries which were hit hardest by it to address the underlying issues. A plethora of hasty policy decisions and reform practices were undertaken, particularly in the financial hubs of the developed world. There are three pertinent and inter-connected questions that need to be answered prior to arriving at a comprehensive conclusion regarding the effectiveness of these policies in combating the main causes. Firstly, were these policies targeting the root causes or simply focussing on superficial aspects of the crisis? Secondly, is the implementation of such reforms a feasible exercise? Lastly, can all the major causes of the crisis be tackled in the contemporary scenario of large scale financial globalisation?

It is essential to ascertain if the policies were based on sound principles or were merely a short-sighted endeavour arising out of panic and fear. There has been a lot of scepticism about a global coherence in the new regulatory efforts. Most policies proposed or implemented till date are a testimony to the fear that the GFC instilled in the minds of the authorities towards credit, leverage and risk-taking.

The Volcker Rule (Dodd-Frank Act) in the U.S., the Vickers Commission in the U.K. and the Liikanen report in the E.U. are examples of reforms that limit the activities that banks can perform (Claessens and Kodres 2014) by specifying not only *how much* they can lend but also *when* and *to whom* they can lend. The aim behind such restrictions is to “isolate” banks from “risky activities” without, however, necessarily reducing the risks. Claessens and Kodres further argue in their 2014 work that high capital requirements for sustained periods of time can even be counter-productive with extensive deleveraging leading to an exodus towards less regulated avenues such as shadow banks. Thus, it becomes important that a lot of foresight goes into enacting such reforms with the policies having a long-term perspective.

‘Risk’ was not so much of a cause as was the ‘under-pricing of risk’. Most financial institutions held more capital than was required of them in the pre-crisis period and yet were not able to absorb the losses as the risk itself was undermined. Hence, further raising capital and liquidity ratios does not seem to serve much purpose and may even lead to more harm than good.

Moreover, the remedies have mostly focussed on the ‘regulatory aspect’ of the causes without addressing the other global imbalances responsible for the crisis. The ballooning current account deficits in the developed world, their colossal debt accumulation, the savings-consumption gap, the income inequality in the wake of globalisation and the savings glut in the developing world are some major causes that have been conveniently overlooked. The

U.S. continued to experience huge foreign capital inflows even after the crisis break-out (Helleiner 2011).

Implementation of reforms (even if they are well-targeted) poses a major challenge in itself as theoretically feasible decisions may lack the practical enforcement. For instance, regulation of shadow banks is a complex agenda to tackle. The FSB objective to regulate shadow banking activities may not be a realistic one with the proliferation of shadow banking, particularly in China, as well as the difficulty in successfully identifying shadow banks. FSB, while defining shadow banks, does not include the shadow banking activities undertaken by commercial banks themselves (Claessens and Kodres 2014) in the form of, say, Structured Investment Vehicles (SIVs).

Another example of the implementation barrier can be found in the functioning of the European Central Bank (ECB). While the ECB was given the responsibility of handling monetary policy upon its formation, fiscal policy remained under the control of the individual member states. This exposed the myriad problems with the Euro zone's economic and financial set up as discrepancies in borrowing and spending habits across member nations led to a crisis in the entire region. Allowing the ECB to control the fiscal policy as well, however, is not something that can be enforced easily. For the member states, giving ECB the power to control the fiscal policy would essentially mean surrendering their sovereignty, something the individual nations would obviously be averse to doing.

Finally, at the very fundamental level, there were a lot of incentives for the mortgage borrowers, mortgage lenders, the bankers, the investors, the hedge funds, the insurance companies and even the governments (both domestic and foreign) to a certain extent, to continue with the financial order in place at the time.

As Rajan (2010:4) explains: "...each one of us did what was sensible given the incentives we faced. Despite mounting evidence that things were going wrong, all of us clung to the hope that things would work out fine, for our interest lay in that outcome." The economy in the contemporary scenario differs from the rational behaviour assumption of neoclassical macroeconomics in the sense that today it is "essential[y] monetary, innately cyclical, and subject to fundamental uncertainty" (Kates, 2011:111). He suggests that even though the stakeholders were aware of the ambiguity, they continued to make decisions as Keynes (1936:152) describes it: 'assuming that the existing state of affairs will continue indefinitely...' Although the system seemed to benefit everyone, it eventually led to the crisis. So, should the system itself be regarded as a cause and hence be discarded? This, for all practical purposes, is not a feasible or even a prudent option. The grave issues that need to be addressed are not about the capitalistic nature of the current financial system but rather "the form of free-enterprise capitalism" that is demanded (Rajan 2010:155).

4. Conclusion

Due to the inherent precarious nature of the contemporary financial order, risks shall always remain; similar incentives will generate similar behaviour for various stakeholders and a trade off would have to be made between sustained economic growth and financial stability. In such a situation, it is prudent to accept the presence of deficiencies and to work towards mitigating future risks. For instance, financial innovation that came to be identified with simply securitisation was considered to be a drain on public money. However, some scholars would argue otherwise. Rajan (2010:159) claims that a “healthy financial system” requires “competition and innovation” in order to benefit the parties concerned. He further claims that financial innovation is in fact, necessary for increasing access to financial markets and spreading of risk. Financial innovation, similar to innovations in other sectors, is an essential element of economic growth (Kates 2011).

Further research needs to be undertaken to determine the reasons why policy makers decided to focus only on some of the causes rather than addressing all the root causes. Research avenues also remain open in the political domain of reform implementation. Future studies can highlight why different countries have different levels of enforcement motivation and why certain countries choose not to learn their lesson from the biggest financial crisis that the world has had to face since the 1930s.

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Goods and Services Tax Amendment Bill:
Is India Conducive yet?

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Abstract

This research paper aims to provide an overview of the Goods and Services Tax amendment Bill which has been proposed in the Parliament, while enumerating its pros and cons and suggesting policy measures for its efficient implementation. An international viewpoint has also been taken into consideration, drawing analogies about the revenue generation structure of Goods and Services Tax from the same.

Keywords: Goods and Services Tax Amendment Bill, policy measures, efficient implementation, revenue generation structure

1. Introduction

Goods and services tax is a Value Added Tax (VAT) which will replace the current indirect tax regime and will be established as a uniform tax for all goods and services in India. The most significant tax reform in the country, the Goods and Services tax was tabled as the 122nd amendment Bill in the Parliament on 19th December 2014. It will be implemented in India from 1st April 2016. This Bill heralded the willingness of the new government to create a more transparent, synchronised and less cumbersome system of tax collection in the country.

The Goods and Services tax will have a dual structure of tax collection; both at the centre (**Central Goods and Services Tax**) and at the state (**State Goods and Services Tax**) level. This means that both Centre and the states will concurrently impose the GST on goods and services. The primary objective of the government in levying such a tax is to subsume the system of existing taxes which include an array of excise duties and a few custom duties on various goods and services. Table 1 depicts the taxes which will be absorbed under the ambit of the Goods and Services Tax.

Table 1: Taxes absorbed under Goods and Services Tax

S.No.	Subsumed under CGST	Subsumed under SGST
1.	Central Excise Duty	VAT (Value Added Tax)/ Sales tax
2.	Additional Excise Duties	Entertainment tax (unless levied by local bodies)
3.	Excise Duty Medicinal and Toiletries Preparation Act	Luxury Tax
4.	Service Tax	Taxes on lottery, betting and gambling
5.	Additional Countervailing Duty (CVD)	State Cesses and Surcharges (supply of goods and services)
6.	State Cesses and Surcharges (supply of goods and services)	Entry tax not in lieu of Octroi

CGST and SGST will be levied for intra state transactions i.e. production (and/or sale) of goods and services within the state. For interstate transactions, the government plans to promulgate a tax called **Integrated Goods and Services Tax**. Although power to charge IGST will lie with the Central government, according to recommendations of the GST Council, the tax revenues earned will be shared by both the Central and state governments. The same policy will be followed for imports as for interstate transactions and hence they will be levied with IGST.

The Bill provides that administration of goods and services tax will be the responsibility of the GST Council which will then become the apex indirect tax policy making body of the country. The GST Council would be responsible for formulating principles of implementation of the tax, norms for revenue collection and tax exemption, rules regarding the levy of IGST etc. It will include members of both Central and state governments, so that interests of all the states and of the country as a whole is accounted for. The Council will be presided over by the Finance Minister of the country. The GST Council will also be concerned with sensitive issues like introduction of special provisions for Jammu and Kashmir and other Himalayan states (According to Article 370, special rights are conferred on J&K with respect to taxation) and imposition of taxes during calamities and disasters in the country.

According to the Bill, the transition to a GST system will be immediate for majority goods, whereas some goods (Petroleum products, Tobacco, Medicinal and Toilet preparations and alcohol) will follow a gradual approach. These latter will follow a phase-wise transition to come under the purview of the Goods and Services Tax instead of an immediate adoption. The goods and services tax will not be applicable on real estate stamp duty and electricity usage.

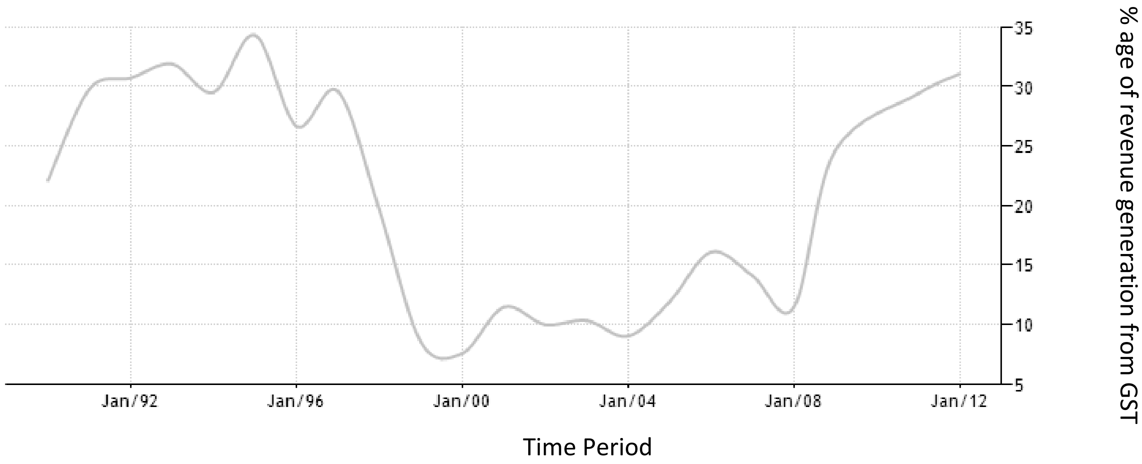
2. An International Perspective

An overview has been provided of 3 countries which fall in the 3 divisions made by World Bank on the basis of income of the country. This would provide us with a clear picture of how the Goods and Services tax has fared in terms of revenue generation in these three nations, which are representative of other countries in their division.

2.1 Sierra Leone (Low Income group)

The new Goods and Services Tax in Sierra Leone replaces several existing taxes like import sales tax, domestic sales tax, food tax etc., thereby streamlining the present system of indirect taxation and reducing cost of administration for the government and the private sector. This tax was implemented in the country on 1st January 2010. As we can infer from the Figure 1, the revenue generation from GST has eventually increased over the years, but has not reached levels which were earned by the government before GST was implemented.

Figure: 1: Tax on goods and services (Sierra Leone)

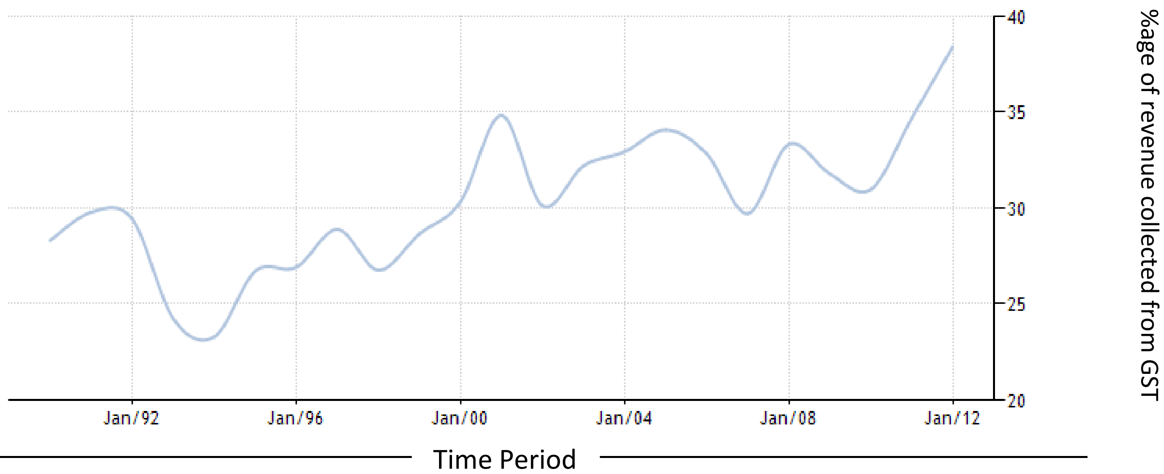


Source: *Taxes on goods and services (% of revenue) in Sierra Leone*. Retrieved January 03, 2015, from http://www.tradingeconomics.com/sierra-leone/taxes-on-goods-and-services-percent-of-revenue-wb-data.html

2.2 Pakistan (Middle Income Group)

The government of Pakistan decided to replace the Value Added Tax with the Goods and Services Tax in the year 1990. The purview of initial GST was only on production and supply of goods, which expanded to various services and further became a significant source of revenue from the year 2010. Figure 2 shows that the revenue collected from GST has progressively increased over the years.

Figure: 2Tax on goods and services (Pakistan)



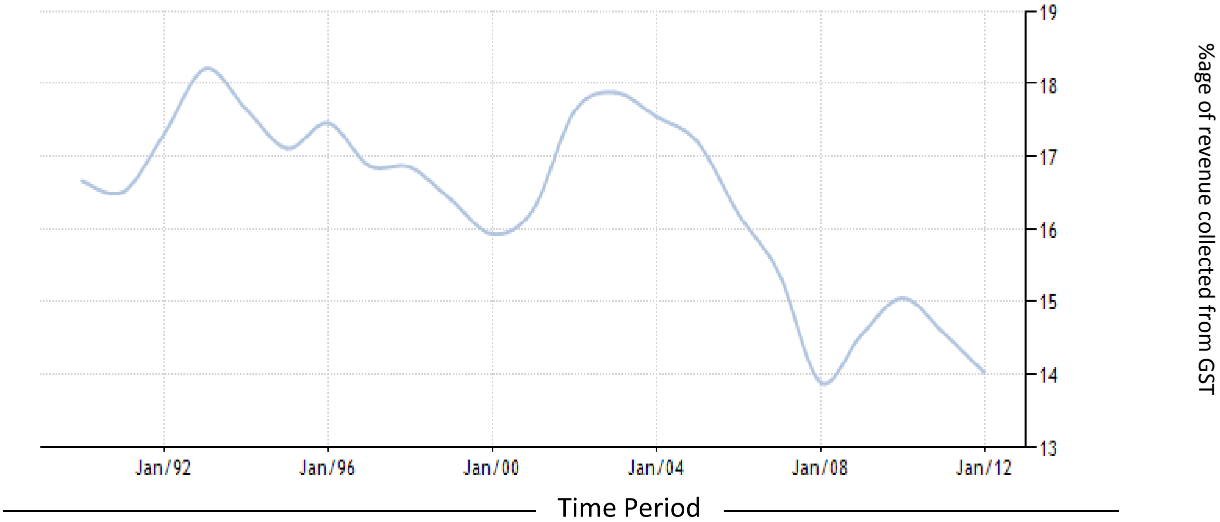
Source: Retrieved January 04, 2015, from http://www.tradingeconomics.com/pakistan/taxes-on-goods-and-services-percent-of-revenue-wb-data.html

2.3 Canada (High Income Group)

GST in Canada is a dual tax between the Centre and the states that was introduced in January 1, 1991. It is a multi-level Value Added Tax that has been divided into 3 categories:

Provincial Sales Retail Tax (PST), Harmonious Sales Tax (HST) and a separate tax for Quebec as it is a breakaway province (QST). We can interpret from Figure 3 that the revenues from GST have had erratic returns for the government. The tax on Goods in Services was measured to be 14.57% of the revenue in 2011 according to the World Bank.

Figure 3: Tax on goods and services (Canada)



Source: Retrieved on January 04, 2015, from http://www.tradingeconomics.com/canada/taxes-on-goods-and-services-percent-of-revenue-wb-data.html

3. Inference

Taking these 3 model nations, we infer that countries belonging to middle and lower income brackets collect more revenue from GST for Government Revenue Receipts; almost 33% in Sierra Leone and 39% in Pakistan. Whereas, in higher income countries like Canada less revenue is collected from GST.

3.1Advantages of Goods and Services Tax

The advantages of GST are wide ranging. Some of them as are follows:

i) Currently there are multiple indirect taxes such as CENVAT, sales tax, various excise duties and custom duties in circulation. This causes the effective tax rate to be high and also fragments the national market. The implementation of GST will ensure a single uniform taxation system in the entire country for all goods and services while making the system transparent and more effective. It will simplify India’s tax structure, broaden the tax base and reduce distortions in the economy. Full implementation of GST could lift India’s gross domestic product (GDP) growth by 0.9-1.7 percentage points, according to a study by the National Council of Applied Economic Research (NCAER).

ii) A proposition has been made in the Bill to introduce a temporary 1% tax on the transactions which take place between states where earnings would go to the state where the good has been produced, not where it was sold to. This will act as an impetus for states with high levels of outward trade and will help tackle the loss in revenue immediately after CST (Central Sales Tax) is repealed.

iii) A proposition has also been made regarding the compensation which is to be paid to the states after introduction of GST, for a period up to 5 years. The amount of compensation will be decided upon by the recommendations of the GST Council, which will ensure equal representation of interests of all states and the centre.

3.2 Challenges Faced

The challenges faced in implementation of GST will be as follows:

i) One of the major drawbacks in the proposed Bill is that there is a lot of ambiguity regarding the taxation system to be imposed on imports and exports of goods. Although the Bill proposes that IGST will be imposed on imports, but no similar treatment is proposed for exports. Moreover it is not clear if the GST will be implemented in complete isolation of the existing custom duties or commensurate with them.

ii) The Goods and Services Tax has to be implemented by both the Central and state governments. But it is an extremely difficult affair to achieve perfect cooperation and consensus on all matters regarding the Bill between all 28 states and the Centre. Even if the formation of a democratic GST Council has been proposed, its performance and decision making is contingent on agreement regarding both, interstate and Centre-state matters.

iii) It is also an imminent issue to address concerns about protection of rights of states which are comparatively less developed than others, especially in terms of infrastructure development. States with inadequate infrastructure to transport or trade in their goods cannot afford to pay the same taxes as the prosperous ones who have ample amenities for facilitation of smooth trade (intrastate, interstate and for export).

4. Policy Suggestions

There is a lot of dispute among states regarding the revenue shortfall that implementation of the Goods and Services Tax will lead to. Thus as a part of a policy suggestion, it would be better to carry out a pilot project in a few states which agree to the tax being imposed and analyse their revenue generation, before implementing it throughout the nation.

4.1 Recent Advancements: Budget 2015

The service tax will be increased to 16 % (including *Swachh Bharat* cess of 2% and higher & secondary education cess). An increase in the service tax might prove to be a burden for the consumers but it will pave the way for implementation of the goods and services tax, which is expected to be around 16-18%. The new tax norms includes online aggregators, deal sites and classified players, like Flipkart, Amazon, Snapdeal etc under its ambit. All government services will be taxable under the new budget. The 14th Finance Commission has allotted higher shares for the state governments in Central taxes by increasing the share from 32% to

42%. This will also enhance the trust factor between states and help in smoother implementation of goods and services tax. The immediate step to be taken by the Finance Minister is appointment of a new chairman for the Empowered Committee on Goods and Services Tax. The need of the hour is a robust IT system which can keep a vigilant eye on tax payments and transfer of tax revenue to various state governments.

5. Conclusion

Through the paper we have analysed the efficacy of GST in India. By drawing an analogy from the countries studied apart from India, we conclude that India can expect to see an increase in revenue from implementation of the tax and the challenges faced can be avoided by enumerating clear rules and guidelines under the tax. Analysing the advantages and disadvantages of implementation of Goods and Services Tax in India, we strongly believe that it will lead to a surge in the revenue collected by the Government of India. Hence, implementing the tax in India is a much needed policy decision which will help to bring in uniformity and transparency in the tax structure.

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Impact of Profits on the CSR Activity of a Company

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Abstract

Corporate Social Responsibility (CSR) is an indirect expense for a company which not only increases its goodwill among investors but also enhances its brand value among consumers. This study investigates the impact of the profits earned by various companies on their CSR activity. The research has been done qualitatively as well as quantitatively using the statistical tool- Hypothesis testing. The study has been performed on a data set of 30 companies which were chosen by stratified sampling from the 100 top Indian companies based on net sales for the year 2012-2013 (according to Forbes rankings). The obtained results show a positive correlation between the Profit After Tax (PAT) and the amount spent by companies on CSR. While this study only considers a single independent variable, it can also be extended to conduct further researches taking various other factors into account. This work also lays foundation for the analysis of the effect of the Companies Act (implemented in April 2014) on the PAT of the firms by taking data for the upcoming year.

Keywords*:* Corporate Social Responsibility, Profit After Tax, hypothesis, correlation

1. Introduction

Corporate Social Responsibility (CSR) refers to the way a business should be managed to bring an overall positive impact on the communities, cultures, societies and environments in which it operates (Gowda, 2013). While India has one of the oldest tradition of CSR, it is the Companies Act (announced in 2013 and implemented in 2014) that revolutionized the whole concept of CSR by making India the first country to mandate a minimum spending on corporate social responsibility initiatives (Prasad, 2014). According to this act, a company which has net worth of INR 10 billion or more or a turnover of INR 10 million or more or a net profit of INR 50 million or more during any of the three previous financial years must spend at least 2% of the average net profits on CSR activities (Ghuliani, 2013). While this act may be a boon for the 25.7% of people in rural areas and the 13.7% in urban areas living under the poverty line, it might be a bane for the companies who now have to sacrifice 2% of their profits for social welfare (Rao, 2013).

If the companies were already spending a portion of their profits on CSR, it is important to understand why the act was passed in the first place. The major reason for this could be that companies were not spending enough as compared to the profits they were earning and that there was a large disparity in the corporate sector with some companies spending disproportionately more or less on CSR compared to others. Through this study, we intend to understand whether the spending by Indian Companies on CSR activities bore a correlation with their profits.

2. Objective

To assess the correlation between the Profit after Tax (PAT) and amount spent by the company on Corporate Social Responsibility (CSR).

3. Research Methodology

Nomenclature:

R	Sample correlation coefficient
R^2	Coefficient of Determination
T	Test statistic for ρ
n	No. of sample observations
α	Upper tail area under the t distribution curve
ρ	Population Correlation coefficient
X	Independent variable (PAT)
Y	Dependent variable (Amount spent on CSR)

The study is based on data collected for 30 companies chosen by stratified sampling from the 100 top Indian companies were selected based on net sales for the year 2012-2013 (according to Forbes rankings). The companies were chosen such that the sample contains - 10 having the highest net sales, 10 having moderate net sales and 10 with the lowest net sales. This sampling method can be considered fair as it includes a range of companies with varied financial statuses. The data also includes companies from different sectors - manufacturing and services and have varied ownership status - private and public to achieve unbiased results.

The data reveals the amount of money spent on CSR by these Indian companies before the implementation of the Companies Act of 2013 and also PAT for the same year.
Microsoft Excel has been used to plot the variables and attain the R^2 value (figure-1)

4. Hypothesis Formulation

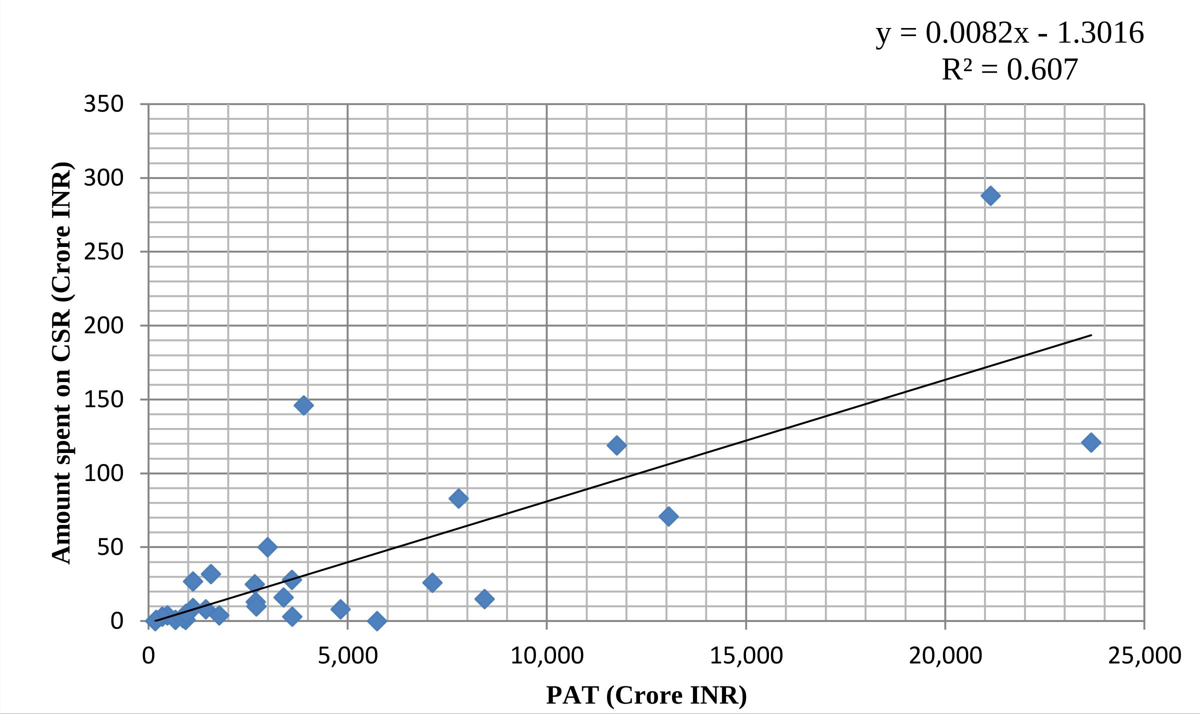
To assess the correlation between the PAT and amount spent by the company on the CSR, the following hypothesis were formulated:

<u>Null Hypothesis:</u> The amount of PAT is independent of the amount spent on CSR
i.e. $H_0: \rho = 0$ (Implicit assumption:$H_0: \rho \leq 0$)

<u>Alternative Hypothesis:</u> The amount of PAT is positively correlated to the amount spent on CSR
i.e. $H_a: \rho > 0$

5. Graph and Calculations

Figure 1: PAT and Amount spent on CSR



Source: *Forbes ranking*

Assuming that H_0 is true, the test statistic, T = $\frac{R\sqrt{n-2}}{\sqrt{1-R^2}}$ has a t-distribution with (n-2) degrees of freedom.

Conducting the test at a 100 (1-α) % significance level, the rejection region is T ≥ $t_{\alpha,n-2}$.

T = $\frac{R\sqrt{n-2}}{\sqrt{1-R^2}}$

From the graph,

R = 0.779

$R^2 = 0.607$

The test statistic is calculated under the assumption that the null hypothesis is true and is found to be:

T = $\frac{0.779\sqrt{28}}{\sqrt{1-0.607}}$ = 6.576

To achieve both reliability and precision, a confidence level of 95% was chosen i.e., α = 0.05. The rejection region was found to be:

Rejection Region: T ≥ $t_{.05,28} = 1.701$

Since calculated T lies in the rejection region, the null hypothesis is rejected at 95% confidence level. The alternative hypothesis is accepted.

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6. Conclusion

After the appropriate hypothesis testing, it was found that the PAT is positively correlated to the amount spent by the companies on CSR on an annual basis. The more the profits of a company, the more is the amount it is expected to spend on CSR activities. The statistical R value, 0.779 is indicative of the fact that the positive correlation between the two variables is moderate in strength. The coefficient of determination (R^2) was calculated to be 0.607. This implies that 60.7% of the CSR activities of a company can be theoretically predicted using the PAT amount of the company in the same year. The remaining 39.3% of the CSR amount is influenced by other factors such as but not limited to laws and regulations, ethical consumerism, globalization and market forces, social awareness and education and ethics training (Bahl, 2014).

From the data set, it was found that companies like HDFC spent only 0.08% of their PAT on CSR activities despite having moderately high profits. The reasons behind the low CSR involvement of such companies may be hindrances faced by them like lack of entrepreneurial leadership and vision, excessive focus on short term goals, inability to recognize and capitalize on opportunities, lack of innovation. At the societal level, lack of support from consumers and absence of market incentive also act as major barriers to the uptake of CSR by firms (Hallback, 2012).

On the other hand, the data revealed that JSW steels, which also had moderately high profits in the 2012-2013 period, spent a considerable 2.03% of its PAT on CSR activities. The high amount of CSR involvement of such firms can be attributed to the many advantages of CSR such as cost savings, brand differentiation, customer and employee engagement and long term sustainability goals (Reeves, 2012).

In conclusion, a moderately positive correlation can be examined between the average PAT of a company and the amount it spends on CSR initiatives, however, the CSR spending is influenced by several other factors hence weakening the relationship to a certain extent.

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Is Trade Liberalisation Pro-poor in Pakistan? Evidence from Quantile Regression Analysis

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Abstract

This paper observes the effects of trade liberalisation on poverty through its impact on the factor market, specifically in the manufacturing sector of Pakistan. A measure of trade liberalisation is created by matching the HS product codes with the Labour Force Survey's industrial categories. These industry-specific average tariffs are further used to examine the effects on industry-specific wages using the quantile regression analysis (which separately looks at the effects on different levels of wage earners). The model results point towards a very high degree of increase in wages for the poor as a result of decrease in average tariff rates. The estimates for the relatively richer workforce show a detrimental wage effect of trade liberalisation.

Keywords: Poverty alleviation, poverty alleviation through trade, poverty in manufacturing industry, quantile regression analysis of poverty, trade liberalisation

1. Introduction

The effect of trade liberalisation on poverty has been one of the most contentious issues among international economists. Opening of economies to international trade began in the post-war period and has continued ever since. With the formation of World Trade Organisation (WTO) in 1995 the pace of globalization picked up, now that the countries had an international dispute resolution forum and a set of amiable international trade laws.

The theory of trade liberalisation is linked to changes in the production mix of the country, level of specialization and income distribution effects. According to the Heckscher-Ohlin Model of trade, as an economy opens up to international trade, there are varying effects on the industrial labour composition. A very interesting feature of this model is the Stolper-Samuelson Theorem, which states that the real returns of the factors intensively used in the production of the good in which the country has comparative advantage will rise due to increased liberalisation.

However, the true nature of trade effects is often not observed due to the lack of focus on the industry level trade liberalisation. Moreover, analysis is mostly done on the basis of the country-wide average tariff rate or the trade-GDP ratios, which are flawed signals of trade liberalisation. In addition to this, the estimation of the effects is usually done on the mean wage without considering the symmetry of the wages around the central value. If wages are not symmetrically distributed around the median, then different levels of wages can be affected differently by trade. This paper aims to analyse the industry level effects of tariff reduction on different quantiles of manufacturing workforce.

The objective of this research is to address the question of the differing effects of trade liberalisation on the poor as compared to the relatively richer work force. For this purpose, the method of Quantile Regression has been applied in this analysis which separately looks at the wage earners at the lower end of distribution. To measure the phenomenon of trade liberalisation, I have used industry specific average tariff rates which suitably deal with the aforementioned problems of using trade-GDP ratios.

1.1 Literature Review

The link of trade with poverty is hard to establish because of its peculiarly indirect nature which creates scope to study, establish and test the effects of trade liberalisation on poverty. One of these brilliant theoretical aspects of this relationship is provided by Winters (2000) in his work titled '*Trade liberalisation and Poverty*' which is the single most extensively written and detailed work. Alan Winters discusses the different channels through which the opening of an economy to trade affects the level of poverty in the country. He talks about the impact of trade on wages, employment, government action, response of markets and the discrimination factor in labour markets all of which in turn affect the level of poverty. In a subsequent article (Winters, 2006), he has summed his conclusion about the effects on poverty in three main dimensions; factor markets, prices (mainly of the goods sold by the poor) and government actions towards the support in the adjustment process.

In empirical studies the measurement of trade openness is one of the most restrictive hurdles. Due to the implicit and explicit nature of trade protection used around the world, economists to this day have not agreed up on a measure of trade liberalisation which is theoretically sound while having the ease of testability.

Raihan (2008) measured the effects of trade liberalisation on the economy of Bangladesh, which started opening up in the 1990s. Using import-output and export-output ratios, he concluded that while some sectors had significantly positive effects in employment, some had negative effects. However, the results using the two indicators of trade liberalisation are not in tandem with each other raising doubts about the criteria of trade liberalisation used by him.

Before 1995, although Pakistan was already liberalizing the trade, critics opine that pre-1995 trade liberalizing was not enough to reap any substantial effects on the economic variables. Khan and Ali (1999) used the measure of Effective Exchange Rates (EER) for imports relative to Effective Exchange Rates for exports to identify the level of trade openness. They concluded that tariff reduction achieved at the end of 1997-98 must continue to ensure that the benefits of trade liberalisation are realized. However, the limitation faced in the usage of EER to measure openness is outlined by the fact that there were instances when real exports continued to decline even when the EER method showed policy shift towards export promotion.

Hussain (2008) used measures taken by Pakistan, particularly the reduction in the average tariffs to 15% from 51% in 1995, in tariff slabs and in the SROs. He further states that any transmission of benefits of trade liberalisation to poor can only be achieved through proper government action to mitigate adjustment costs. However, the indicators of liberalisation used by him were not checked for the impact on poverty while controlling other variables in an econometric setup.

There are myriads of literature on the effects on poverty in Pakistan. Different works vary in their uses of measure of trade liberalisation, method of estimation and variables. Mahmood (1999) observes the effects of trade liberalisation on poverty by asserting that trade liberalisation had started to take place from early 1980s onwards. He then compares the statistics of the period of high economic growth (1984-85 to 1987-88) with the period of low growth (1989-90 to 1993-94) and winds up his argument by opining that in the period of trade liberalisation, the poverty rate declined when the economic growth was high but began to rise when growth declined. There are two basic problems with his conclusion; firstly, although the government in 1980s claimed to have liberalized trade, the effective protection rates were high and the tariff behaviour shows an import substitution approach and secondly, without a sound econometric approach, proper linkages of poverty reduction with output growth cannot be established (since the changes are not controlled for other factors).

None of these papers looked for the industry-specific effects on industry-specific liberalisation. Salman & Javed (2011) looked at the industrial data and sector-specific trade liberalisation using the indicators of export-penetration and import-penetration ratios. They concluded that wage inequality increased as a result of trade liberalisation because the wage differential between skilled workers and unskilled workers grew as opposed to the Stolper-Sameulson theorem. This industry-specific study used import-penetration ratios and export-penetration ratios which again are misleading measures of trade liberalisation.

2. Data Construction

2.1 Data Cleaning[1]

The data used for this research is taken from the Labour Force Survey (LFS) of Pakistan for three years, 1999-00, 2003-04 and 2007-08. The initial data had more than five hundred thousand observations which had to be cleaned to meet the requirements of this analysis. The labour force as defined in the annual report of LFS was identified from the data, the data of self-employed was then removed and wages reported on monthly or weekly basis of the employed were normalized to annual figures. A dummy of the skill level of workers was created indicating workers having education level of intermediate or above as skilled. Similarly, relevant dummies were created for urban residence, marriage, provinces and gender. Two dummies for the years were also created, thereby declaring the year 1999-00 to be the base year. The nominal wages were converted into real variables.

2.2 Trade Liberalisation Variable

To measure the effects of industry level trade liberalisation, the variable measuring the degree of trade liberalisation is peculiarly created using the industry level tariff rates according to the

[1] For further details regarding the same please contact the author.

internationally accepted two-digit HS codes. However, the LFS data is not according to the HS codes which necessitated the reconciliation between the two. To do this, HS codes were matched with the industry codes (as stated in the LFS code book) according to the HS product category. The averages were first taken of the 6-digit codes to bring them onto the 2-digit level, which was then further averaged to assign them to the 9 manufacturing industry categories. Therefore, out of 97 HS codes, 76 were identified being related to the manufacturing categories in LFS. This whole process was repeated for the 3 years to match it with the data.

Table 1: Industry level tariffs over the 9 years

LFS codes	2000	2004	2008	Change over the years
31	36.92	31.12	29.66	7.26
32	29.61	19.38	17.09	12.52
33	26.22	18.07	15.09	11.14
34	25.18	16.53	14.05	11.13
35	23.36	16.64	13.63	9.72
36	31.23	20.35	20.18	11.05
37	20.84	12.80	9.48	11.35
38	28.16	16.98	14.02	14.14
39	29.52	16.34	14.41	15.12
Average	**27.90**	**18.69**	**16.40**	*11.49*

Source: Labour Force Survey, Pakistan

As evident from the table 1, there seems to be a fair amount of variation in the industry level tariffs which follow a declining trend from their values in 1999-00. The average tariff (across the manufacturing sector as a whole) has considerably fallen by 11.5% over the 9 years, with one of the industries facing a sizeable drop of 15% percent.

The industry specific average tariff rates have been assigned to the data and variables have been created by interacting them with the industry dummies to look at the effects of changes in the industry specific tariff rates on the real wage. The summary statistics of the variables of interest are presented in the table 2.

Table 2: Summary statistics for effects of changes in industry specific average tariff rates on real wage

	Variable	Obs	Mean	Std. Dev.	Min	Max
log of real wage	Lrwage	9265	10.40999	0.734381	3.05499	13.83809
average Industrial tariffs	AT	9265	20.75964	6.302398	9.483492	36.92233
	Age	9265	29.80248	12.25939	10	90
	Agesq	9265	1038.464	882.3746	100	8100
	Urban	9265	0.670804	0.469947	0	1
	Male	9265	1	0	1	1

	Married	9265	0.524879	0.499408	0	1
Provincial Dummies	Sindh	9265	0.274366	0.446218	0	1
	Punjab	9265	0.580896	0.493439	0	1
	NWFP	9265	0.12218	0.327512	0	1
	Baloch	9265	0.022558	0.148498	0	1
	Training	9265	0.132758	0.339331	0	1
year dummies	y0304	9265	0.273071	0.445561	0	1
	y0708	9265	0.517539	0.499719	0	1
Industry dummies	manu31	9265	0.117647	0.322207	0	1
	manu32	9265	0.436158	0.495934	0	1
	manu33	9265	0.075229	0.263775	0	1
	manu34	9265	0.035618	0.185346	0	1
	manu35	9265	0.073071	0.260267	0	1
	manu36	9265	0.097248	0.296311	0	1
	manu38	9265	0.093902	0.291708	0	1
	manu39	9265	0.047706	0.213156	0	1
AT*Industries	atmanu31	9265	3.735451	10.28016	0	36.92233
	atmanu32	9265	8.858146	10.56813	0	29.60939
	atmanu33	9265	1.370898	4.950733	0	26.22327
	atmanu34	9265	0.617692	3.32373	0	25.18126
	atmanu35	9265	1.207691	4.423936	0	23.35903
	atmanu36	9265	2.136088	6.626634	0	31.23361
	atmanu37	9265	0.346485	2.367663	0	20.84012
	atmanu38	9265	1.644208	5.361659	0	28.15806
	atmanu39	9265	0.842976	3.964917	0	29.51878
	Skill	9265	0.126066	0.331942	0	1

Source: Labour Force Survey, Pakistan

3. Econometric Analysis

3.1 Basic Model

After the creation of tariff variables and data cleaning, I have used a basic wage determination model to ascertain the main factors which lie behind wage differentials without any effect of trade liberalisation whatsoever. The basic model is as follows:

$$realwagei = \beta 0 + \beta 1 age + \beta 2 age2 + \gamma PROV + \varphi 1 urban + \varphi 2 male + \varphi 3 married + \varphi 4 training + \delta 5 Year_j + \Omega manu_i + \lambda Skill + \mu dist_x + ei$$

Where PROV refers to the provincial dummies, $dist_x$ represents dummy for the districts and $manu_i$ represents the different industries dummies. The predicted values of wages are used from this basic model to replace the missing values of the unreported or unemployed people to fulfil the requirement of normality, since missing out the unemployed sample would have distorted the distribution of the labour sample.

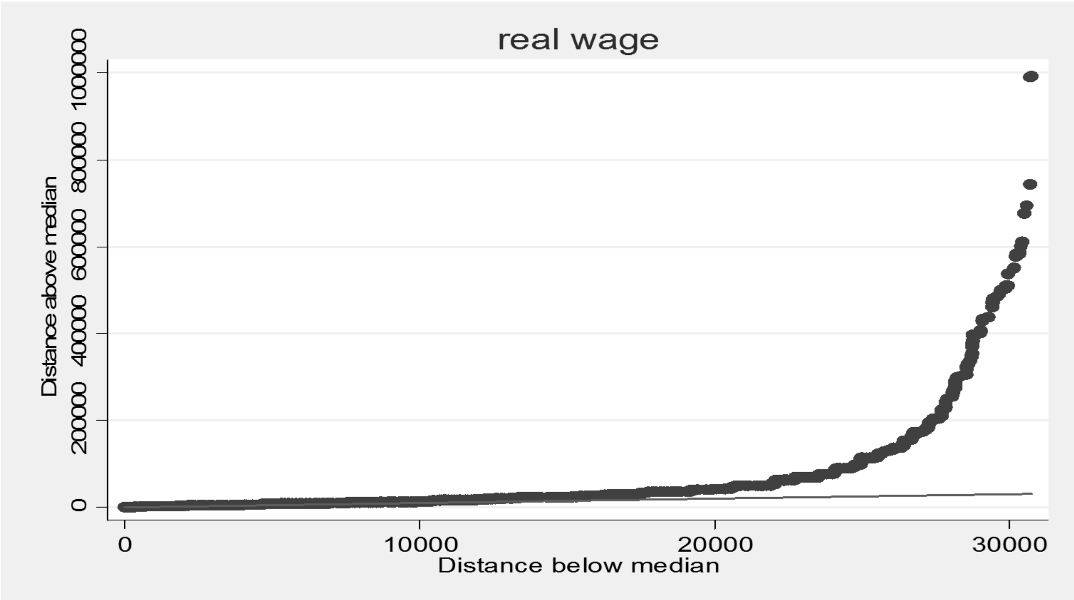
Since, one has to choose a base dummy relative to which income effects are measured, I have chosen the industry of food, beverages and tobacco (manu31) as the base industry. One reason for this choice was the lowest level of tariff reduction in this industry in Pakistan, which allows us to analyse the effects of trade relative to the comparatively least liberalized industry.

3.2 Empirical Results

Model 2 (Appendix A) reports the results of the basic model as specified above. The industrial effects of the real wages are given in comparison to the wage level of the Food, beverages and tobacco industry. The skill effect on the wages is in line with the theory and the coefficient indicates high wages of skilled workers as compared to the wages of unskilled workers which is not far from expectations, given the basis of distinction made between skilled and unskilled worker.

Model 2a (in Appendix A) contains the results of simple regression of a basic model including the interaction terms of the tariff rates and industry dummies to determine the industry level wage effects of changes in industrial tariff rates. Workforce, however, tend to show on average an ambiguous effect on wages of changes in tariffs. Moreover the need for quantile regression analysis is augmented by the presence of wage level discrepancies from the median in the symmetry plot of the real wage. As evident from fig.1, the wages which are above the median are further away from the median relative to the wages which are below the median. This can be seen on the graph by looking at the rising gap between the reference line (which is a y=x line) and the wage level.

Figure 1: Discrepancy in real wage from median



Source: Labour Force Survey, Pakistan

Model 3, in Appendix B, states the simultaneous quantile regression results which help to disentangle the mixed effects seen in the simple mean regression. I have used this method to look at the effects on the 5th, 10th, 25th, 50th and 75th quantile wage-earners. This model shows some insightful results regarding the varying effects of trade liberalisation. For the higher quantiles (relatively richer workforce) the effect of increase in tariff is positively significant for 2 out of 8 industries, while it is insignificant for others. Relative to the industry 31, the wages of 75th quantile of the workforce increases with tariff rates in Chemical & petroleum (manu35) and Base metal sector (manu37) as the tariff rates are increased. This means that the event of trade liberalisation across 9 years has reduced the wages amongst the high wage-earners in these industries. The largest effect is around 0.9% fall in wages due to a decrease in tariff rates of 1% (in manu35).

The sign of the impact changes drastically as we move towards the estimates for the 10th quantile. There are three industries with negative impact on wages with the highest impact being as high as 1.23% increase in wages for every 1% fall in average tariff rates. Moreover, for the 5th quantile which involves the bottom level wage-earners, the effect is unequivocally positive. Trade openness positively affects the wages of half of the industries under discussion, with the highest impact being around 2.3% per 1% reduction in tariff rates. All the significant effects for this quantile are large in magnitudes with the smallest being equal to one. These results point towards a significant rise in wages due to trade liberalisation for the bottom 5% of the wage-earners.

4. Conclusion

Using the simple mean regression it can be concluded that there are indistinguishable effects on industrial level wages of trade liberalisation for the male sample. This along with very high deviation from the median income made the case for a disconnected analysis for different wage quantiles. If we look at the effects across industries, another observation made from the outcomes of the study is that the industries with relatively higher rich work force have a negative trade liberalisation effect on the rich. This is evident from the fact the workforce of the industries, which have the higher proportion of their workforce coming from the last quartile (manu35's 45% of the workforce comes from top two deciles and manu37's 50% workforce consists of workers from top three deciles) lose out the most as a result of trade liberalisation (wages drop by 0.9% and 0.7% for the 75th quantile respectively). Moreover, the labour-intensive industries such as wood products, textile and apparel and handicraft tend to gain from trade liberalisation since these industries have a relatively higher proportion of the workforce coming from lower quantiles.

In such labour-intensive industries the demand for the labour has outweighed the increment of supply of labour resulting in the net improvement in wages. Correspondingly, the high-tech industries with little labour involvement such as Chemical & petroleum and Metal extraction industries have faced a decrease in demand of labour (as a result of decrease in demand of the product due to trade liberalisation) which has caused reduction in wages.

This paper shows an improvement in wages for the low wage earners as a result of trade liberalisation which on this scale, using industry level measures of trade liberalisation, has never been researched before. A mean wage analysis in this case would have combined the effects on the low-wage earners and the high-wage earners, concealing the poverty effects.

This paper was awarded the First Prize in Dr. Saroj Gupta Memorial Paper Presentation event, Econvista 2015.

APPENDIX

Appendix A

Basic Model

Variables	Model 2	Model 2a, Male
Age	0.06321	0.06965
	(14.73)**	(17.80)**
Agesq	-0.00070	-0.00077
	(12.11)**	(13.65)**
Male	0.73510	
	(11.06)**	
Urban	0.05826	0.06934
	(2.43)**	(2.79)**
Married	-0.01103	0.00481
	(0.62)	(0.34)
Training	0.09611	0.14334
	(3.11)**	(4.93)**
y0304	-0.06577	-0.05765
	(1.94)*	(2.08)**
y0708	0.00925	0.01891
	(0.29)	(0.63)
manu32	-0.07352	
	(2.28)**	
manu33	-0.04594	

	(1.58)	
manu34	-0.13240	
	(2.60)**	
manu35	0.15336	
	(4.23)**	
manu36	0.01955	
	(0.70)	
manu37	0.08617	
	(1.16)	
manu38	-0.06636	
	(1.87)*	
manu39	-0.02084	
	(0.58)	
Skill	0.57955	0.55727
	(15.14)**	(15.15)**
Sindh		0.35591
		(9.08)**
NWFP		0.79587
		(23.96)**
Baloch		0.72914
		(21.27)**
average tariff * manu32		-0.00164
		(1.49)
average tariff * manu33		-0.00257
		(1.59)
average tariff * manu34		-0.00526
		(2.48)**
average tariff * manu35		0.00950
		(4.64)**
average tariff * manu36		0.00027
		(0.25)
average tariff * manu37		0.00472
		(1.12)
average tariff * manu38		-0.00247
		(1.96)*
average tariff * manu39		-0.00144
		(0.74)
Constant	8.96042	8.82558
	(95.07)**	(146.71)**
R^2	0.36	0.30
N	10,457	9,265

* p<0.1; ** p<0.05

Appendix B

Quantile regression

Model 3, male

Variables	Q0.05	Q0.1	Q0.25	Q0.5	Q0.75
Age	0.12997	0.10765	0.07293	0.05411	0.04784
	(9.62)**	(14.85)**	(17.49)**	(25.30)**	(17.45)**
Agesq	-0.00156	-0.00129	-0.00085	-0.00060	-0.00050
	(7.88)**	(13.65)**	(16.51)**	(21.22)**	(14.14)**
Sindh	1.60700	0.63249	0.44586	0.36493	0.27492
	(2.46)**	(0.90)	(0.80)	(1.32)	(0.30)
NWFP	1.46709	0.72826	0.77311	0.94899	0.98573
	(2.40)**	(1.32)	(1.51)	(3.81)**	(1.20)
Baloch	1.87368	1.17531	0.78403	0.68394	0.59813
	(3.51)**	(1.53)	(1.55)	(2.32)**	(0.80)
Urban	0.07568	0.02429	0.03545	0.07863	0.05048
	(1.10)	(0.85)	(2.23)**	(4.99)**	(2.33)**
Married	0.00030	-0.00215	0.01958	0.02623	0.01474

	(0.00)	(0.07)	(0.80)	(2.30)**	(0.73)
Training	0.17990	0.15128	0.12411	0.12298	0.12040
	(2.63)**	(3.43)**	(4.78)**	(6.83)**	(5.44)**
y0304	-0.15261	-0.08190	-0.05442	-0.05223	-0.05629
	(2.23)**	(2.61)**	(1.98)**	(2.46)**	(2.54)**
y0708	-0.04375	-0.03882	-0.00479	0.00304	0.00653
	(0.79)	(1.70)*	(0.17)	(0.15)	(0.29)
average tariff * manu32					
	-0.01007	-0.00378	-0.00120	0.00026	-0.00051
	(4.02)**	(3.21)**	(1.35)	(0.27)	(0.40)
average tariff * manu33					
	-0.01727	-0.01227	-0.00242	0.00168	0.00350
	(3.10)**	(3.13)**	(1.13)	(1.19)	(1.51)
average tariff * manu34					
	-0.00812	-0.00564	-0.00401	-0.00324	-0.00217
	(1.81)*	(1.49)	(2.49)**	(1.71)*	(1.19)
average tariff * manu35					
	0.00178	0.00439	0.00660	0.01020	0.00907
	(0.57)	(1.64)	(2.59)**	(5.77)**	(3.14)**
average tariff * manu36					
	-0.00440	-0.00282	-0.00132	-0.00013	-0.00039
	(1.44)	(1.41)	(0.85)	(0.11)	(0.25)
average tariff * manu37					
	-0.01457	-0.00304	0.00445	0.00887	0.00733
	(1.20)	(0.53)	(0.83)	(3.82)**	(2.35)**
average tariff * manu38					
	-0.02077	-0.00489	-0.00189	0.00147	0.00037
	(3.65)**	(1.39)	(1.00)	(1.20)	(0.24)
average tariff * manu39					
	-0.02326	-0.01184	-0.00224	-0.00003	0.00210
	(2.83)**	(2.50)**	(0.89)	(0.02)	(0.73)
Skill	0.32251	0.32742	0.38154	0.52397	0.77301
	(7.72)**	(10.36)**	(19.24)**	(20.95)**	(23.84)**
Constant	6.02144	7.39094	8.49200	9.04616	9.36512
	(8.83)**	(11.54)**	(17.68)**	(42.14)**	(11.24)**

* $p<0.1$; ** $p<0.05$

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An Interview with Prof. Jayati Ghosh

Jayati Ghosh is a professor at the Centre for Economic Studies and Planning, Jawaharlal Nehru University. She is the Executive Secretary of International Development Economics Associates (IDEAS - www.networkideas.org), an international network of heterodox development economists and Trustee of Economic Research Foundation (www.macroscan.org). She was conferred the ILO Decent Work Research Prize in 2011. She has authored and co-edited several books, most notably 'Never Done and Poorly Paid: Women's Work in Globalising India'.

Professor Jayati Ghosh spoke to two students of the Economics Department about the glamour of India’s Industrial Policy, the hidden face of ‘Make in India’, the invisibility of women’s work, the degrading quality of our Human Capital and much more.

Excerpts from the interview:

A*: Our first question relates to the phenomenon of ‘The Missing Middle’. It is argued that there is a conspicuous absence of both employment and production in Medium Scale Enterprises. Also, the productivity level in these enterprises is very high. Then, do you think that we should push our labour force into SMEs and if so how do you think we should achieve this?*

JG: This ‘missing middle’ phenomenon that became very popular in the 1980s and 1990s is a misconception; it is not true with respect to the past decade. The SMEs have proliferated majorly but the size is of little importance. What has to be considered is that the productivity is very low in SMEs. This becomes important because more than half of the workforce is employed here which is informal. Hence, the debate is not about increasing the size of individual enterprises but about increasing productivity. The major failure of our approach to manufacturing is complete neglect of SMEs. Our approach in the past has been to set aside certain products for SMEs but policy decision is tantamount to neglect as it doesn’t particularly incentivize or provide access to resources for the potential SME producer.

Firstly, the major problem is that the informal sector gets only 2% of bank credit despite employing 97% of the workforce. Bank credit is completely denied even when the activity can be profitable. Secondly, there is no infrastructure, no access to new technology and hence no possibility of upgradation as well. Aggregate productivity can easily be increased by increasing productivity at the bottom by adopting new technology, which is readily available, enhancing the skill-set which is also easy enough with respect to the workforce required in SMEs, but it is not being done even in the national capital.

A: *However, entrepreneurs seem to be suspicious about entering the segment of medium enterprises due to excessive regulation and loss of flexibility in labour employment which act like barriers and hence, the need to do away with such regulations.*

JG: This view is a fallacy because a fruit vendor, who comes under the informal sector, is regulated too, that is, has to pay a fee for the space occupied on a street/market to the local authority or the police, which adds to the cost.

S: *Is the 'Make in India' policy an answer to the problems of the small enterprises discussed above?*

JG: 'Make in India' campaign is a mere photo opportunity like most other government initiatives; it's just a bluff. The government hasn't made any substantial or drastic policy suggestions that will change the situation of small enterprises.

There are two levels here. One, the extent to which we should orient production to the domestic market rather than the global market. The second is that how important is labour legislation in making India an attractive place.

First is that India is not only a conducive place for production but can also provide a huge market. That is how all the companies wanting to come to India are looking at us. Also this market can be met by domestic production. The potential for relying on the domestic market is huge and we should find more ways of becoming competitive. Second point on labour, currently in registered manufacturing labour costs account for 2.4% of total costs. So even if you crack down you make zero difference and in terms of relative costs it's a small drop in a big ocean. The costs in India are high because of other factors such as bad infrastructure, absence of credit, poor utilities functioning, power cuts, etcetera. So cutting labour costs won't make an iota of difference.

S: *In this case why is there such an outcry over inflexibility of labour laws?*

JG: I believe, the Government is trying to send a signal to both big international and national businesses that we realize it is not going to affect your costs much, but we are effectively telling you that if you have any issues with workers we will be on your side. Since production process requires disciplined workforce we will be with you in whatever way you define discipline. In case of a contradiction between you and the workers we will stand by you. But India is already much deregulated, 97% of workforce is in the informal sector and to take away labour rights of the already very few formal workers is to assure the big business of being behind them always.

A: *There is talk of another kind of 'missing middle'; the jump from agriculture to service sector that the Indian Economy has witnessed. Having looked at the downside of 'Make in India' campaign, what are the alternatives that uphold labour rights but also promote industrialization?*

JG: To sustain and promote industrialization we must have some broad and structural policy changes. So there is a need for infrastructural policy and industrial policy. These just exist on paper and there aren't many changes on the ground. Minimum infrastructure is necessary; proper roads, transport, electricity. Also minimum credit, across the board, not just to big business is required. Second point is that this minimum infrastructure ought to be provided through public expenditure. This is where Make in India also fails, it relies on PPP. The private parties just don't finish the work once the government initiates it. The 11th plan was the first big PPP plan. Only 22% of these PPP projects could be completed and they had to spend a lot too, to attract private players and instead if the government had gone alone then they would have had double the number of roads.

A: *But the government will then ask where the money to do that comes from?*

JG: The same way they spend on PPP; they borrow. They can set up a special purpose vehicle, like the National Highway Development Corporation; let it borrow. It's not a big deal. This is how China did it. Take the example of warehousing. India is waiting for Walmart to come and do it. What is so difficult about cold storage? It's not rocket science. But the government refuses to build cold storage. This government, like the previous one, is shirking away from public investment and I don't see any positive change if this does not happen.

The second is the sectoral, which is the broad. Pretty much every country that industrialized successfully has concentrated on certain sectors that it sees as winning sectors. In Make in India the government claims to identify and focus on certain sectors. Currently the number stands at 34 with a possibility of adding more. Now this is a large number and what exactly the government proposes to do after identifying them is not clear. But usually a cluster of policies is made. So if you want to develop a particular thing, either place or sector you will have to think of a range of policies in terms of access to technology for small producers, credit, infrastructure and marketing. So the policy has to be focused on that place or sector. The industrial clusters found today; Ludhiana, et cetera were a result of such planning: create a basic infrastructure and this creates the momentum for more and more entrepreneurs to manufacture.

S: *Your work on unpaid work and unrecognized, unidentified paid work especially by women, is very interesting. If we now finally recognize and identify such work, how do we value it? Should we incorporate it in the GDP?*

JG: Firstly there is some good news on this front. The International Conference of Labour Statisticians in December 2013 broadened the definition of work, which includes all of the unpaid work we are talking about. And our national statistical system has agreed. They have decided to introduce surveys. There were supposed to start it this year but apparently the working group hasn't given full details but they will start soon and the data will add to the NSSO.

With respect to the valuation problem there are two sides to it. (Prof) Indira Hirway is on one side of it and I am on the other. Indira believes it should be included in the GDP, at least in a satellite account so that one gets a sense of its value. I am against it because I believe that firstly, it reduces our recognition of the extent to which unpaid work is subsidizing paid work. Secondly, it will punish the groups that are forced to do it. There is obviously more unpaid work in the poorer households. Take the example of my maid. She does all the household work here and performs the same work at her own home, which is unpaid. Therefore, people belonging to the lower income group have to do a lot more unpaid work.

And if one starts valuing it they all become richer. And the economy as a whole is 20% richer. The third reason is the productivity indicator. We value total productivity as GDP divided by total workers. But that includes only conventionally defined workers. But I believe we should add the unpaid workers too. And that will give us the true sense of productivity.

S: *The Annual Survey of Education Report which seriously casts doubt on the education standards that India has, states that the quality is still lacking. So what can you say about the human capital that we are trying to build with the education standards in our country today?*

JG: Firstly we have to surely spend more on education. I think apart from Pakistan there is no other country, which spends less than us on education as a percentage of GDP. Any country that has even remotely developed and surely any country with our level of per capita income has spent double the amount we do on public education. Hence, we just aren't spending enough. Also, we can't get quality without any spending. We can't ask a single woman to go and teach a group of fifty children of different ages together. So we have to specify norms and guidelines and this is the one good thing the Right to Education Act did. It specified as to how a school should be, having the following teachers, classes, etc. This is achieved when we spend money. This is the critical point. And quality is closely linked to money. This is also not a public private debate. Having said that, it's not enough. In fact when I was part of the National Knowledge Commission and we were looking at school education specifically we made a series of recommendations. One of them was that there has to be greater decentralization of school management. First, teachers should be hired by the schools, not as a part of a teacher cadre where the teachers can avoid the rural schools. So if a teacher is hired to a school, they know they are to teach in that school and therefore have a stake. You can then have School Management Committees with stakeholders that include parents, people from the municipalities or *panchayats* and others who have a say in the way the school is run. Another recommendation was that the syllabus that is taught in the schools to be more flexible and accommodating of the particular situations. In fact we even suggested having different school timings because it's absurd to open schools in the hilly regions during winters. So in such a situation, there could be a shortened summer vacation. Again these recommendations aren't impossible to accept. But school education has been neglected majorly which causes quality issues and is further compounded by leaving it to the private sector which is no better.

A: *While we are discussing education, 'Health' does not seem to be fairing any better…*

JG: Same problem, we spend 1% of the GDP on Health, no other country spends as less as we do, we spend even less than Pakistan.

A: *Even if we were to talk about a hypothetical situation where we are increasing spending on health, our doctors are not excited about serving at Primary Health Centres in villages. Is there a way to get over this cultural mindset?*

JG: The Thailand experience is very interesting. Under Thaksin, and this is one of the reasons why he is still so popular, he introduced a new scheme called the Forty Two Baht

Scheme which everyone had access to; you just had to pay 42 baht a year. Then he set up a system where the rural health centers were given more money and doctors who went to rural health centers got 25% more salary. So this led to a massive impact and therefore, I would argue that we need to provide incentive. So currently it's like a punishment; the doctors have to go to rural places for 2 years, there are no facilities and it's terrible. So make the facilities better, give them more salaries then you will find people queuing up.

*Interviewed by **Aarushi Kalra** and **Sagarika**; transcript prepared by **Pranava Kadiyala**, students of the Economics Department, LSR.*

The interview was conducted on 21st January 2015.

An Interview with Prof. Jean Drèze

Jean Drèze is an Indian economist and activist who has been working on issues related to development for several years. He played an instrumental role in drafting the National Rural Employment Guarantee Act. Currently he is a visiting professor at the Delhi School of Economics and Ranchi University. His most recent book, titled 'An Uncertain Glory : India and its Contradictions', co-authored by Professor Amartya Sen is one among many of his important works on the development process in India. He is one of the few Indian economists who can claim to have worked at the grassroots as much as he has influenced policy making in India.

Students of the Department of Economics interviewed Professor Jean Drèze over e-mail where he answered a few pertinent questions about the changing course of policies in India and about the pedagogy of Economics as a discipline.

S: *In an article you wrote in 2002, titled "On Research and Action" you emphasized "how research and action belong to a common cause". As students of economics, this approach becomes even more important. What are your thoughts on the perception and pedagogy of Economics as a discipline today and do you see the academia bridging this gap that exists between research and action?*

JD: I think that generally, far from bridging the gap between research and action, academia widens it. The academic culture tends to be hostile to any involvement in action, partly due to a common confusion between objectivity and neutrality. But it does not have to be that way - nothing prevents anyone from taking an integrated view of research and action. Just to illustrate, a professor of labour economics who believes in the need for a national minimum wage can be part of collective movements for minimum wage legislation. This should not prevent him or her from teaching the economics of minimum wages, including arguments against minimum wages, in a professional manner. Personally I would much rather be taught by this sort of person than by someone who just writes theoretical papers on minimum wages to get a promotion.

S: *The new government has promised a lot in terms of its health policy, especially by mooting the Right to Health in the draft National Health Policy. However, the recent budgetary cuts in the health sector raise some concerns. How can the common people, whose out-of-pocket expenditure continues to rise on private healthcare, seek to deal with this outlook of the government on health? Also, given these, how challenging will it be for the government to ensure the actualisation of this Right to Health?*

JD: Guaranteeing the right to health is an enormous challenge and I doubt that the government has an inkling of what it takes, whatever rosy statements it may have made in the draft of National Health Policy. In fact, the idea runs counter to the basic economic philosophy of the government, which is to support business and let people fend for themselves. That would be a disastrous approach in the field of health, as we know from elementary economics as well as from considerable experience around the world. So far, there is no sign of any radical action in the direction of universal health care, whether it is through public provision or social insurance. Of course, this apathy is not immutable, but it will take a great deal of democratic engagement to challenge it.

S: *There are several apprehensions regarding the dilution faced by MGNREGA today, the importance of which you have articulated in several writings of yours. What are your thoughts on this, given that this act ensured a right to work for people. Are we taking two steps backward?*

JD: The dilution of NREGA began around the end of the UPA-2 government, but intensified sharply under the new government. The basic problem, as I see it, is that this is a business-run government, and that employers tend to be hostile to NREGA, for obvious reasons. The government may hesitate to repeal or even amend NREGA, but it can easily undermine the programme, for instance by imposing expenditure caps or holding wages down. The only hope lies in countervailing pressure from workers' organisations, opposition parties and state governments.

S: *In your book, 'An Uncertain Glory' co-authored by Professor Amartya Sen, you have emphasized the role of a functional democracy in achieving inclusive development. The media being recognised as the fourth pillar of democracy which in recent times seems to be influenced by some vested interests and biases, how do you suggest that the poor and the voiceless assert their demand for their rights?*

JD: There is no other way than to use all democratic means available, including the media, the courts, electoral politics, cultural programmes and street action. As far as the media is concerned, it is true that mainstream media are largely business-sponsored, but there is also a growing space for independent voices using the internet, social media and related means. I think that there are vast possibilities for making better use of the mass media and other democratic institutions to give a voice to the unprivileged.

Interviewed by ***Sagarika****, a final year student at the Economics Department, LSR.*

The interview was conducted on 11th January 2015.

An Interview with Dr. Pulapre Balakrishanan

Pulapre Balakrishnan is an Indian economist and educationalist. He is currently a professor at Centre for Development Studies, Thiruvananthapuram. He has written extensively on the inflationary process in the Indian economy, Indian agriculture, productivity growth in manufacturing among several other things. He has made important contributions in the analysis of the Indian economy in the form of several scholarly articles and books like 'Pricing and Inflation in India', 'Economic Growth in India: History and Prospect' and 'Politics trumps Economics'.

Students of the Economics department engaged in an insightful conversation with Dr. Pulapre Balakrishnan. Some of the topics discussed included development of India's agricultural and manufacturing sectors, the education sector in the country and appropriate policy interventions.

Excerpts from the interview:

A: *We'd like to begin with the manufacturing sector, which has recently been in the news because of the government's new campaign, 'Make in India'. What are your thoughts on this campaign?*

PB: I think it's a very good idea. However, it's not clear what exactly Mr. Modi had in mind. Let's examine this from the supply side and the demand side. From the supply side, was this a call to the rest of the world to come and make in India or was it a call for Indians to make in India? If this call is for Indians to make in India, then policy interventions need to be slightly different. You need producer services which are really spread across the population. In terms of numbers, MSMEs constitute the bulk of manufacturing and they need producer services on a huge scale, which are different from those needed by large multinationals. Besides, factors like the business climate and ease of doing business are important. But there are also producer services which have nothing to do with institutions or rules, like provision of *bijli, paani* and waste management- this requires public investment.

The demand side concern is of course the point Raghuram Rajan has correctly made. Once you settle the question of who makes in India, there is still the question of who you sell to. The world is slowing, so it is not obvious that India would be able to sell to the rest of the world. That's why you need to think of domestic demand. So Make in India is a good idea but you need to look at it carefully from both the supply side and the demand side.

A: *Now that we've talked about how the government is promoting the manufacturing sector, let's look at agriculture for a bit. You've repeatedly pointed out in your work that growth in agriculture significantly affects overall growth and that a large population depends on it. How do you think the new regime at the Centre affects agriculture?*

PB: I must make it very clear that I don't see anything in the new regime that addresses agriculture seriously. I can't say I saw too much of it in the previous regime but I see nothing in the new one and I think that's one of their weaknesses. Something which people don't know is that in the Nehru era, agriculture not only grew very fast but the relative price of agriculture declined. If the relative price of agriculture declines, demand for agriculture from outside agriculture increases. However, today, food is very expensive in India. A lot of people raise their eyebrows when I say this. One indicator would be the share of household budget that is spent on food.

The average expenditure in India on food is around 50% while in China it is 20%. That's a big difference, right? The lower the share of household budget that a household has to spend on food, the more the share available to spend on manufactures- that's where the demand for manufactures come from. Food is not just a matter of agricultural growth but agriculture growth at least at a steady or declining price. So you'd want agricultural growth with the supply curve shifting outward for a given demand curve and relative price will fall- that is a challenge. The UPA actually went the other way perhaps as a deliberate strategy because they believed if you shift the terms of trade, the rural sector will be richer therefore the demand for manufacturing will rise but that didn't work. In fact, the relative price of food, the real price of food to the general price level, has risen by about 85% from 1991 to 2010, which is astonishing. Contrast this to the golden age of capitalism in the western world- the relative price of food between 1945 and 1973 declined by 75%! 75% in a part of the world that is already so rich! So this is something that we completely don't take seriously in India.

***L:** If the supply curve is shifting and the price is going down, isn't the income of agriculture-dependent population going down?*

PB: Not necessarily so. If our productivity rises, the income distribution is shifting towards the industrial sector but the agriculture sector is becoming richer. It is the relative price which is shifting. One thing is very clear - the bulk of the agricultural population has to be moved out of agriculture to non-agriculture even if it is in the rural areas. That is possible only if there is a demand for that kind of production, which is intrinsically linked to the price of food. Unless the price of food declines, demand will not rise.

***L:** Sir, we'd like to discuss other factors integral to development like education and health. Taking off from your recent article about higher education in India, you spoke about how there is a lack of comprehensive research in these institutions. So what do you think needs to be done about this?*

PB: I have made some proposals- for example; the incentive structure for teachers must be altered. Then, teachers' promotions will be linked to research. Now I haven't worked out every element of this scheme. This said, I'd also like to mention that the amount of teaching that is expected of teachers in our country is unreasonably high- many times the global requirement.

***L:** Yes, I recently attended a talk by Amartya Sen, and he said that when he used to teach at Cambridge he used to take 2 classes in a week and when he joined Jadavpur, he used to take 28 classes in a week!*

***S:** You have written about how a lot of economic policy in India has been outward looking instead of inward looking. Do you think our economic policy since 1991 has been consistently advancing the changes that took place in lieu of the reforms? And do you think that the reforms were done in a manner that could prove beneficial for us? Are we facing the shortcomings of the liberalisation process that unfolded in 1991?*

PB: One of the immediate triggers for the 1991 reforms was that the balance of payments was in a bad shape. We just didn't have money. So it is natural that the reforms would address the external sector. And looking at the external sector surely means looking at the rest of the world also. Note that I don't mean that the rest of the world *only*, but the rest of the world *also*. It is very important. And to some extent you've got to grant that the reforms have been reasonably successful. Since, 1991, we have not had a balance of payments crisis. It is the longest run the economy has had in the past 50 years without such a crisis. So surely something has been done right.

However, the foreign capital movements have been liberal and there are some problems with that. External commercial borrowings by Indian corporates could go overboard because the rate of interest is higher in India. I think all of this is allowed as a part of certain ideology that you want to minimise your distance with the rest of the world- but should you take yourself closer to the rest of the world only in terms of capital flows, or should you take yourself closer to the rest of the world, in terms of food, better quality of education, better infrastructure, is a question that cannot be understated. I don't think enough is being done on that. There is a nice quip that China's competitive advantage doesn't lie in cheap wages, it lies in its infrastructure. Indians have such a problem even in shipping their stuff out, reaching the ports, and they go to the ports and they say "*kal aa jaao*" and you go *kal* and they say "*parson aa jao*"; nothing is set out to you and you don't know when your shipment is going out! So, yes, I would say that by and large there is an obsession with getting closer to the rest of the world in a certain sense.

The obsession is reflected by Make in India to some extent, right? This ties in with the question you first asked me. The fact is that to be competitive in the global scenario, you have to have a robust domestic economy, part of which is effective infrastructure. By the way, part of your competitiveness comes from the scale that you introduce- your scale of production is higher, you can incur less fixed costs, the price of your product will be less per unit of output. Do you agree? Therefore, the larger your domestic market, technically, the more competitive you will be globally. You should therefore think about the domestic market. You think about increasing domestic demand, and as a part of the process, you export also, right? You can't do that just by opening your economy; that does not mean you will become a great trader. That is the kind of mistake that the 1991 reforms made. And it dealt with the balance of payments problem, in quite an effective way- we haven't had a balance of payments crisis in 25 years; that has to be acknowledged.

But, you can go check the data for yourself. The manufacturing balance of trade is in deficit. In manufacturing, India imports more than it exports. So the reforms of 1991 were largely targeted at manufacturing, and if you believe that manufacturing competitiveness will rise just because tariff rates are lower and there is no industrial licensing, you're really mistaken. The balance of trade has not largely been negative for a long time, it turned negative only recently. So the long term success of the reforms of 1991 in turning around manufacturing has to be looked into. But it's certainly managed to release the Balance of Payments constraint- foreign exchange is not a problem, but there are some things that could be managed better.

*Interviewed by **Anuradha Rao**, **Lavanya Garg** and **Sagarika**; transcript prepared by Anuradha Rao, Lavanya Garg and **Poorva**, students at the Economics Department, LSR.*

The interview was conducted on 14th January 2015.

Book Review

The Worldly Philosophers
The Lives, Times and Ideas of Great Economic Thinkers

Author: Robert L. Heilbroner

"Economic Analysis by itself cannot provide a torch that lights our way into the future, but economic vision could become the source of awareness of ways by which a capitalist structure can broaden its motivations, increase its flexibility and develop its social responsibility." – R. L. Heilbroner

These lines by the author in the concluding chapter of the book, added in 1992 in its 7th edition, succinctly capture the need to read this book and understand the history of economic thought. Our generation of students of economics are introduced to economics as a science of determining the elusive market equilibrium and the ever-unbalanced balance of payments. In this search for a universal answer we lose sight of men as social entities who are a product of the society they live in and interact accordingly. This book first exposed me to the development of economics over time from a philosophy to a scientific analysis of human market behaviour, across ages, through different political setups and emergence of the concept of a market.

Robert L. Heilbroner was an eminent economist who, in this book, condensed the learnings of his three areas of interest: history, philosophy and economics. While still a graduation student the author sought to embark upon this remarkable and impossible project, which has sold over two million copies and has convinced many chance readers to take up a career of research and enter our tumultuous world of economics.

The book is majorly a biographical sketch of the greatest economic thinkers with a superfluous discussion on their philosophy of the 'worldly affairs', of their time. Narrating in a chronological fashion, we start the journey from the early ages when the idea of profit was blasphemous and the absence of the abstract concept of land, labour and capital made it impossible for a market to exist as it does today. We progress to Adam Smith's view of society as a great family, to Ricardo and Malthus' perception of it as an internally divided camp; from the crazy experiments of utopian socialists where Robert Owen built his 'New Harmony' and Fourier waited for a capitalist to finance him to solve all problems of the world, to J. S. Mill's view of capitalism progressing eventually to benign socialism; from Marx predicting the apocalypse of capitalism, to the other underground economists of the Victorian world who showed how colonies became the proletariat's proletariat; from Edgeworth's attempt to dehumanise political economy to cold mathematics, to Veblan's world of robber baron's and his aloof observations of the savage fight over accumulation in early twentieth century; finally from Keynes' dismantling of classical economics and Schumpeter's insight into technological progress being a source of profits, to the final question our present world faces – The end of Worldly Philosophy?

It captures the attempt of every philosopher to understand how the capitalist society works. With its easy prose and simplified explanations it never becomes too involved for novices of economics, but is still an essential read for seasoned students because its emphasis on economics, as a philosophy borne out of societal conditions, shows how each of our revered maestros came with a theory which may seem ridiculous today but aptly concretised the world in which they lived. It exposes us to the hollowness of economic analysis without an eventual economic vision. The book is invaluable and the author ends with a true gift to all pursuers of economics: a fitting epilogue recommending books for further reading in economics to everyone interested.

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Econvista Theme “Emerging Economies: Trade, Stability and Inclusion”: A Note

The annual students’ symposium of the Department of Economics, Lady Shri Ram College - Econvista 2015 was themed “Emerging Economies: Trade, Stability and Inclusion”. This theme was carefully chosen to engage in the discourse around emerging economies today.

According to the hegemonic stability theory, the presence of a liberal dominant power is imperative to sustain an open world economy that benefits all countries. The role of a ‘hegemon’ was initially essayed by Great Britain, till the early 20^{th} Century, and by the U.S. post the Second World War. The U.S. carried out its hegemon duties reasonably well; the Bretton Woods system being a case in point. However, this was only up until the point where it became a ‘predatory hegemon’ post which, it started misusing its position of authority for national interests. This is partly the reason why the long-standing, unchallenged U.S. dominance has started disintegrating over the past few decades (stall of the Doha Round was a case in point) with the phenomenon of emergence of smaller yet resolute economies. In the contemporary scenario, one does not see a single, dominant nation but rather fancies discussing the prospects and success stories of these myriad nations sprouting up on the global economic map and commonly referred to as ‘Emerging Economies’. Most east and south-east Asian economies have regularly been categorised under this head.

Beginning with the Asian Miracle, one saw the birth of the four Asian Tigers with their export-led growth and focus on rapid industrialisation in the 1970s. While Asia, in general, and Southeast Asia, in particular, continues to show promise, the dynamics of development have changed. With the world economy still vulnerable and demand near-absent, most emerging markets are re-thinking their export-led growth models. The focus, for instance in case of India, should ideally be to look inwards and to cater to internal demand. Trade, nonetheless, has been an imperative impetus towards the establishment of present-day emerging economies. Export of IT services, also known as “knowledge-intensive” trade, by India has been a major contributor to the growth of the country. A trend of decline in protectionism and a greater affinity towards open trade is evident from the proliferation of multilateral and regional trade agreements. For instance, treaties such as the South Asian Free Trade Area Agreement, which was ratified by India, Pakistan and Afghanistan in recent years, are being enacted to this effect. Adding to this, there have been certain cultural and educational engagements between nations like Sri Lanka-India, which have revived especially after Mr. Sirisena took over as the Sri Lankan President, and India-Bhutan. For instance, India has enabled Sri Lanka to participate in the Nalanda University Project, India. Also, various scholarships have been installed by the Government of India to facilitate Bhutanese students to pursue higher studies in India. In fact, India continues to be the biggest trade and development partner for Bhutan.

Stability, financial or political, in these economies is a more complex area of interest. A common ground in terms of economic (in)stability can be seen in the form of the Asian Crisis of 1997-98 that severely affected most nations in the region. The event reflected the notorious trade-off between sustained growth and financial stability. However on the positive side, it also highlighted the tenacity of emerging economies that were able to quickly recover from the crisis and restore financial order. Political stability, on the other hand, is harder to generalise with different economies being exposed to one form of political turmoil or the other at different points in time. Brazil, a nation plagued by the persistent corruption problem, is battling super high inflation levels which have produced widespread discontentment among people. Russia, too, has experienced its share of protests and upheavals, time and again, on several political and social accounts. Currently, embroiled in the Crimean issue, the country is also trying to avoid a currency crisis. Pakistan is an example of an emerging economy that has been particularly volatile in terms of the political situation of the country. Terrorism and the ensuing instability of such nefarious acts have long prevented the country from breaking away its shackles to realise its true potential. Moreover, national border disputes, such as those between India and China, have often led to strained foreign relations. This is one area which needs mutual effort on the part of the concerned countries to ensure a collectively beneficial milieu.

The term ‘inclusion’ can be seen to have two connotations. Firstly, it denotes inclusion of the emerging economies into the global powers; it hints at their ‘emergence’ in the global hierarchy. The Human Development Report 2013 mentions this phenomenon as “The rise of the south”. Secondly, ‘inclusion’ can refer to the process of prioritising inclusive growth in the emerging economies. Inclusive growth would imply that every section of the society, particularly the marginalised communities, get to benefit from these high GDPs. The addition of every strata of society in the process of growth is essential for holistic development. For instance, currently the emerging economies are characterised by high unemployment and low per capita incomes.

Despite the impressive rates of growth, most emerging markets rank abysmally low in most of the credible social indices and indicators. Essentially, the all-important welfare aspect cannot be shunned; inequality is a pertinent issue and cannot be ignored in the process of achieving economic prosperity. Inequality is a pressing concern in the domain of growth and other macroeconomic outcomes, in all corners of the globe. To put things into perspective, one can think of the role inequality played in creating the disaffection that underlies much of the unrest in the Middle East, in 2011. A double-digit GDP growth in a nation holds less meaning if the people of the land cannot be seen to reap the benefits of this mammoth ‘progress’, in terms of education, healthcare, employment and other forms of social security. Empirical evidence shows that most emerging markets have a long way to go in this respect.

Nevertheless, tied by a shared economic history and economic future, these economies are strengthening their trade and strategic relations. This in turn has improved the scope for social, political and economic stability in these countries. With this economic scenario, the economic priorities of the emerging economies are shifting towards inclusive growth.

Contributed by:
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Batch of 2015