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This year's journal is the result of the combined efforts of all the authors and proactive members of the Editorial Board.

First and foremost, we would like to thank Dr Deb Kusum Das for his expert guidance and valuable suggestions as the Staff Advisor for the Journal. We thank Dr Mihir Pandey and Ms Apoorva Gupta for constantly engaging with the Editorial Board and helping us in all ways that they could. We would like to express our sincere gratitude to Dr Parthasarathi Shome for taking out time from his busy schedule and giving us a chance to interview him. It was an enriching experience for us to engage with him and deliberate upon contemporary issues about our economy. We heartily thank Professor Vudayagi Balasubramanyam, Professor Emeritus, Lancaster University for his esteemed contribution to this year's edition of our Journal in the form of a special article. Our sincere thanks to our Journal's ex-editor Namita Goel, who was the go-to person for all our queries. The significance of her constructive criticism and advice cannot be diminished.

Granted that we are constrained to publish only selected entries, we are obliged to all the authors for their contributions.

From the commencement of this year's Journal activities, the whole Editorial Team has worked hard with cohesion and passion. A huge credit goes to them.

On behalf of the Editorial Board,

Prashant Kumar
Maajid Mehaboob Chakkarathodi

Journal of the ECONOMICS SOCIETY 2016-17

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STAFF ADVISOR'S NOTE

Dr. Deb Kusum Das dkd_ramjas@yahoo.com
Staff Advisor
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It gives me immense pleasure to note that the department journal is now a sustainable product and the flagship activity of the Economics Society. The journal brings together a collage of write-ups on economics from within and outside the classrooms of Ramjas economics. Over the years due to the commitment shown by the editorial team, the journal now is a quality undergraduate journal.

I would like to flag off through this short write up on how it is essential that vast majority of students come forward and take part in the various activities of the economics society. I have often noticed in my long span of association as staff advisor with economics society, that enthusiasm for economics society is very high when one is in first year and gradually this declines by the end of second year and remains out of bounds in third year. Students seem to miss the point that knowledge shared outside classroom and experience gained in activities of economics society remain the most cherished part of Ramjas days after one has left college. The society is managed by students to further their own stakes in the study of economics and offers platforms like interacting with economists, policy makers, academic scholars, writers and this shapes one's understanding of issues and aspects connected with economics.

The students in Ramjas are fortunate that the department offers research grant to undertake studies within the subject matter of economics and economic interactions with politics and sociology to gain insights into how "*principles of economics*" actually work in real zones. The ability to understand ground realities by talking to various stakeholders (read surveys) often provides a firsthand knowledge of primary data and thus shapes the understanding of economic tools which are taught in classrooms. These research reports when compiled after hours of work are the X Factor, when filling forms of higher study in leading economics institutions of the world (LSE, Oxford and Cambridge). This demarcates between a student who is good and one who is worthy of admission with funding.

The second aspect of Ramjas Economics society is the journal which allows you to showcase your ability to write an academic article, journalistic brief on why GDP may go wrong or even a book review. It gives that extra edge to all those who before they smile in their graduation cap already know a thing or two about how to pursue research write up or a debate on an economic issue of importance.

Participating in activities of economics society also offers you other than scholarly pursuit- the power of organizing and managing events- which tests your leadership skills as well as interpersonal abilities within a group. Many of you fancy studying economics to only market products in the future. Organising what is popular in the name of economics activities- understanding the share market, doing a case study or even aspects of business need smart knowledge of economics- includes both classroom stuff and engaging the internet. However despite being the popular activities and attracting the majority, they don't seem to engage one's mind on a long term perspective and often end up experiencing a momentary high in college life.

To end, what is perhaps required is new and fresh thinking on parts of both stakeholders- teachers and students to carve out a new life for the economics society. The society needs to stand up to the times it addresses as well as keep students aware of the potential of this institution to create, develop and share Knowledge Economics and keep stakeholders happy.

EDITORS' NOTE

"ONE-SOUTH-ASIA"

SOUTH ASIAN TRADE: PRESENT AND POTENTIAL

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This edition of 2016-17 is the third in the series since we started afresh three years back. Over the years the journal has turned into an unceasing venture aimed at spreading the subject knowledge of economics. As with the past attempts, we have given the best of our efforts to sustain the quality that our ardent readers expect from us. We thank our readers for appreciating our previous editions and we hope that you will receive this edition with the same zest.

The year gone by was the landmark centennial year of our college. It was destined to be historic not only for the institution but more so for our Department of Economics. Apart from the centenary celebrations, the department was all set to host kindled minds not only from across the nation but six neighbouring South Asian countries for the 13th edition of the South Asian Economics Students' Meet (SAESM). Unfortunately, the event that was ordained to be a platform for the future ambassadors of the region had to be cancelled and later hosted in Nepal due to strained ties between two major nations of the region.

The cancellation of SAESM served as a grim reminder for us all; despite real concerns, if we do not clear the present roadblocks, then the future generations will stand disadvantaged. People to people contact through exchange programs and academic events create social capital, which is as important as physical capital to usher in economic progress. Stumbling relations are not only detrimental to peaceful co-existence of countries but also prevents the realisation of economic gains.

Hence, we at the editorial board decided to pen a piece on the potential of co-operation in South Asia - particularly in trade and commerce – to vouch for improved relations in the region and provide some food for thought for our avid readers.

South Asia, a region traversing Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka is home to 1.749 billion people and constitutes one-fourth of the world population that boasts a shared history, culture and geography. The region has achieved a laudable average growth rate of 6% for the past two decades. Maintaining this impressive growth rate, however, requires market integration to ensure the free flow of goods, services, and capital across borders (Asian Development Bank 2013).

Nature has endowed our region with quintessential geography and resources galore for trade. It has a strategic location for global trade, and few geographical barriers exist with cities located at short distances. Notwithstanding the shared history, culture, and geography, South Asia is one of the least economically cohesive regions in the world in terms of intraregional trade in goods, capital and ideas (World Bank 2006). With greater cooperation, the region can justify its developmental potential and contribute to global development arena as it occupies its locale in the Asian century. Let us delve into the present state of trade relations in the region, and the untapped potential waiting to be realised.

1. PRESENT: A STATE OF UNDERUTILISATION

South Asia is currently the fastest growing region in the world, but intra-regional trade and co-operation have straggled behind the region's growing global trade ties, with geopolitics and mistrust hampering the integration process. It stands as one of the least integrated regions in terms of trade, infrastructure, water, and energy cooperation. Regional initiatives like South Asian Association for Regional Cooperation's (SAARC) corollary, that is, the agreement on the South Asian Free Trade Area (SAFTA), and other bilateral agreements, have ensured some progress, but the growth is far below the region's potential. This is exemplified in the comparative regional trade growth over the last quarter century. The slow progression is illustrated by the comparative regional trade growth over the last quarter century. The share of intra-regional trade in South Asia lies at 5% of the total trade of the region, clocking a sluggish 2% increase in 25 years. Comparatively, ASEAN's intra-regional trade share has advanced from 17% to 25%, and ASEAN +3 has thrived from 38% to 45% in a relatively shorter span.

A multitude of factors such as tariff and non-tariff barriers, poor infrastructure, lack of awareness among stakeholders, lack of political will, and low levels of investment, among others impede the potential trade in the region. The most significant stumbling blocks today are the non-tariff barriers (NTBs). NTBs can range from formal restrictions on the trade like quotas and sanctions to administrative bottlenecks, inefficient customs procedures, and standards-compliance hurdles that encompass everything from strict packaging and sanitary requirements, to the multiple weighing of consignments at the border. These barriers distort the regional market and create a loss to region's welfare.

2. POTENTIAL: FROM UNDERUTILIZATION TO OPTIMIZATION

The present state of economic and trade affairs significantly underutilises the trade potential in South Asia. There remains a paucity of jobs while the population, particularly that of the young is multiplying. Though the overall unemployment rate is 4%, but the youth unemployment rate is 10%. The region is home to more than 40% of the world's poor, where 400 million people still live in poverty. Greater and improved co-operation, along with regional economic integration can alleviate poverty and bring about shared growth for the region as well as the world.

The region cannot afford a perennial disconnection as history illustrates the gains from closer integration of the area. In the past, Grand Truck Road ensured seamless connectivity between Kabul in Afghanistan to Chittagong in Bangladesh. The route exists even today, but the odyssey has changed as both people and goods prefer sea or air routes. Silk route trade changed the world and established South Asia as one of the most prosperous regions of the bygone era. These archetypes bring out the early proof for what is established now: Production can be boosted by greater regional integration, which can lower and stabilise prices. It can also provide an impetus for regional value chains. Deeper integration is vital for landlocked regions like Nepal, Bhutan, Afghanistan, as they need access to global markets and each other.

The countries in the region can complement each other in solving the problems that confront this part of the world. Following are the prime areas where cooperation by sharing resources can bring greater welfare to the region.

2.1 ENERGY SHARING

The Himalayas, also entitled the water tower of Asia, possesses enough hydropower potential to supply the entire region with power. If transit is allowed through Afghanistan, Pakistan and India can provide a major import market for countries such as Tajikistan and the Kyrgyz Republic where hydropower resources are in excess. Thus, power trade with Central Asia offers vast opportunities. Intra-regional complementarities are essential for successful coexistence because in summer when India and Bangladesh have the biggest demand for electricity to cope with the heat, the rivers in Nepal and Bhutan are full of water. Energy sharing is meagre in South Asia if judged by its potential. Less than 20% of hydropower potential (325,000 MW) is harnessed. As per a World Bank study, unimpeded electricity trade provision could extricate $9 billion per year in power supply costs in South Asia, and reduce carbon emissions as a bulk of this energy would come from renewable Himalayan hydrological resources. Thus, by developing hydropower potential, constructing trans-border transmission lines, and eventually fostering a regional energy market, electricity can be made available, affordable and accessible to a swarm of energy starved businesses and people living in the dark in South Asia.

2.2 SHARING GOODS AND SERVICES

Europe, North America, and, in a lower degree, East Asia are the cynosure of trade for South Asian countries comprising 95% of the trade share. The lack of intra-regional trade has, in turn, prevented the region – with some of the poorest areas in the world – from fetching the wealth in its backyard. Contrastingly, the share of inter-regional trade in ASEAN stands at 25%.

Owing to restricted transport connectivity, complicated logistics, and regulatory hitches, it costs higher to trade within South Asia than between South Asia and other regions. For instance, despite being neighbours, the trade costs between India and Pakistan is 20% more than what it costs for India to trade with Brazil, which is located 9000 miles away.

In spite of efforts aimed at reducing tariffs, there is a disparity between the price of exported goods and price paid by the importer, predominantly arising from high transportation costs. The region can potentially gain 8 percent of GDP through trade facilitation, which is almost double the global average.

Addressing the issues of serpentine market routes, thronged border crossings, trade agreement and poor transportation infrastructure can spur intra-regional trade. Doing away with these trade barriers can boost trade between India and Pakistan from less than $3 billion to more than $20 billion. Similarly, Bangladesh's exports to India can grow by an astounding 300%.

The basic structure of the South Asian economy has evolved significantly from the 1970s when agriculture held a dominant share of GDP. Since then, the services sector has grown swiftly and presently adds up to more than half the region's economy. Thus, South Asia's services sector is likely to become the harbinger of the region's growth paradigm (Nabi et al. 2010). A significant barrier to trade in services is the absence of smooth movement of skilled workers and professionals - doctors, accountants, engineers, consultants, etc. - across countries in the region.

3. WAY FORWARD: FROM EXACERBATION TO AMELIORATION

The present state of affairs and the unrealised potential of intra-regional trade bespeaks the need for steps to boost the under par economic relations in the South Asian region. The following steps might ensure a wealthier and prosperous South Asia:

3.1 WORKING OUT AN IMPROVED FREE TRADE AGREEMENT

A genuine free trade agreement can help us realise the potential of demography and demand of 1.749 billion people. The presence of many 'sensitive lists' in the agreement on South Asian Free Trade Area (SAFTA) permits countries to levy a high tariff on goods coming from outside. A meshed market can unlock a robust dynamic by enchanting large and small investors, causing further market expansion. Furthermore, as countries and sub-regions begin to specialise, a more efficient and robust distribution of production process across the region can be attained. As per simulation estimates, a well-operating SAFTA and lower trade costs can lead to a 250 percent spur in intra-regional trade.

3.2 REMOVING REAL AND PERCEIVED NTBS

Statutory controls, through non-tariff measures (NTMs), are imposed on imports by countries to safeguard the health and safety of its people. However, these NTMs can transform into non-tariff barriers (NTBs) if they impede trade more than what is essential. It can also result from discrimination between domestic and foreign goods by imposing measures only on imports, and not on local products.

Non-tariff barriers also include over-regulation to ensure quality and safety of imported goods, environmental protection and animal and plant health, commonly known as Sanitary and phytosanitary (SPS) measures. Formal restrictions on the trade like quotas and sanctions, and other impediments like administrative bottlenecks, inefficient customs procedures, among others contribute to NTBs. These restrictions need to be urgently addressed to bridge the trust deficit in the region and to wipe off the misperceptions. Doing so would significantly reduce the non-quantitative costs of trade, which are quite high. A mechanism can be built that collates complaints, resolves disputes transparently in a multi-country setting, which would build trust between trading partners.

3.3 PROMOTING PRIVATE INVESTMENT IN THE REGION

The complementarity between trade and investment can be realised through encouraging private investment, along with intra-regional investment. Promoting intra-regional investment can increase intra-regional trade as investment and trade are inextricably linked. In our region, intra-regional investment is even lower than intra-regional trade, due to which the investment to trade linkages like regional value chains are absent. Contrastingly, intra-regional investment is over 17 percent of total foreign direct investment (FDI) in the ASEAN region. A clue can be taken from ASEAN countries to make our region favourable for foreign investment. Foreign investors should be granted fair and equitable treatment as unequal treatment of foreign and domestic investors is an issue in South Asia. An agreement along the lines of ASEAN Comprehensive Investment Agreement (ACIA) can be worked out that protects the interests and funds of foreign investors. Furthermore, to take maximum advantage of regional investment framework, each South Asian country can collectively undertake reforms to improve its investment climate.

3.4 LIBERALIZING SERVICES

Encouraging the trade in services such as tourism, healthcare, education, consultancy, information technology, etc. will lead to an increase in total trade on the one hand, and on the other, it can build people-to-people contact which is necessary to reduce the trust deficit in the region. Measures like easing visa rules and regulations, granting multiple entry visas, etc. can have a significant impact. Tourism can be promoted as well. Medical and cultural tourism would also help in building cross-border ties. Exchange programs and regional conferences and summits, through educational institutions, can engross the region's youth, which accounts for 45 percent of the population. Educational exchanges reduce misperceptions and produce social capital by catalysing future ambassadors for the noble cause of South Asian integration.

3.5 IMPROVING CONNECTIVITY

The costs of intra-regional trade are so high that intra-regional trade is less competitive than the inter-regional trade. A multi-faceted approach is needed to address connectivity concerns. Measures like intra-regional highways, rail routes, integrated and modern IT-enabled check posts, cargo handling and storage facilities, among others, can go a very long way in boosting intra-regional trade. Additionally, marketplaces (haats) can be promoted in border areas for the benefit of small and medium enterprises in the region.

The fact that our region is home to 40 percent of the world poor is unacceptable and unaffordable as we are endowed with the required natural resources, talent and know-how to solve these problems. As per historians, this very region accounted for 23 percent of global economic output when the British arrived here in the 17th century. As the famous saying goes: 'History repeats itself,' so after two tumultuous centuries, the long arc of history is again inclining for the Asian century. Today, it is not only China or ASEAN that propels global growth, but also our region which is the fastest growing region in the world.

Contemplating the hydropower potential of Nepal and Bhutan, the textiles of Bangladesh, the resource corridors of Afghanistan and Sri Lanka, light manufacturing from Pakistan, the Information technology and services sector of India, and tourism from Maldives, the South Asian region ticks most of the boxes in terms of prerequisites for a flourishing intra-regional trade.

However, we all need to be patient while acknowledging the fact that regional integration is a long-drawn-out process and it is progressive in nature. The gap between intentions and implementation may hold back the process, but with ample trust and political good will, we can not only dream of but also realise 'OneSouthAsia.'

Awaiting a constructive solution to the disputes in the region, we would like our readers to ponder the great possibilities that co-operation can unleash. Such are the degree of possibilities and complexities of regional co-operation that many aspects have not been covered here and we would encourage you all to explore into those facets of South Asian relations.

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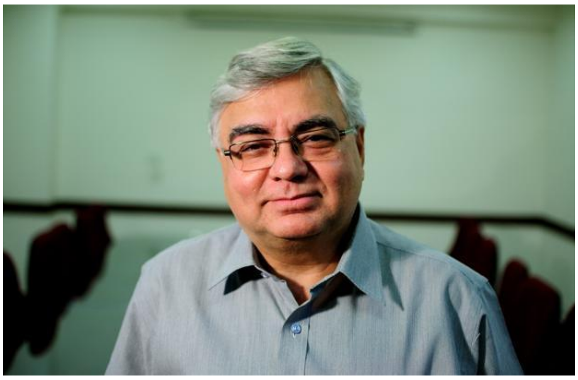
AN INTERVIEW

WITH DR. PARTHASARATHI SHOME



Dr. Shome is the Chairman, International Tax Research and Analysis Foundation (ITRAF), Bengaluru. Prior to that he was Adviser to the Indian Finance Minister, and Chief Economist, Her Majesty's Revenue and Customs (HMRC), United Kingdom. Earlier he was Chief of Tax Policy, International Monetary Fund (IMF). He was Chairman, Expert Committee on General Anti-Avoidance Rules (GAAR), Government of India, July-October 2012 and Director and Chief Executive of Indian Council for Research on International Economic Relations (ICRIER), New Delhi (2011-12). He has also received the highest civilian honour of the Brazilian Government for his contribution to Brazil's tax reform.

In your book, *Development and Taxation: 60 Critical Commentaries, Academic Foundation* (2016) you have mentioned about the limitations in GDP estimation. It doesn't capture data about the unorganised sector accurately, yet it is considered and quoted as an important measure of the economic progress of a nation. We saw how due to these limitations in GDP estimation, the 2016 Q4 growth rate turned out to be 7%, despite demonetization. What is your opinion on it?

For the GDP, economic activity is measured using statistical tools for the manufacturing, mining or quarrying industries, etc. For sectors like agriculture, it is estimated by observation rather than statistical methods, for e.g. by considering the quantity of crop production through bushels of corn gathered, etc. Also, the value generated by the underground economy can escape as it is not reflected in either statistics or observation. So, whatever has been captured by statistics or has been a part of the economy in a measurable manner gets accounted. It could be said that the overall actual GDP but not its growth rate is much higher than what we measure or report. Our attempts have been to compute the real size of GDP of our country, which is a challenge for our kind of economy, where not everything is reported or disclosed.

The most recent challenge to this end could be seen coming up in the pre-budget economic survey wherein they have tried to improve the reporting on the manufacturing sector. Instead of using the Index of Industrial Production from which manufacturing is usually estimated, the business concerns' directly quoted value of economic activity for their concerns is being used. The issue is that while this has been done for the last two years by expanding the sample of businesses, but no full adjustments have been made for the previous years. Also, the previous years' GDP numbers have been calculated using an older base while the last two years' numbers have followed a newer method of estimation. Hence, suddenly, you see a jump in the GDP figures. There should have been some adjustments for previous years also.

The authorities claim that demonetization was required because of increasing tax evasion. What do you think is the primary reason behind Indian taxpayers' willful non-compliance to tax rules? How can authorities promote voluntary compliance to tax rules? In your "Ease of doing business" essay, you quoted that India is ranked 172 (out of 190) regarding ease of paying taxes, so do you think that these legal bottlenecks result into this non-compliance, or is it the general attitude of Indian taxpayers?

I think both causes are equally reasonable. The confidence of an individual on the social contract in a society reflects the tax payment behaviour of that society. We can say that in India, the masses do not repose that kind of faith on this social contract, but this was not always true because when we were children, this tax evasion behaviour was not that prominent. With the passage of time, tax evasion escalated, and little was done societally to restore the old ways. It was also reflected in the deteriorating behaviour of tax officials because the tax laws became so complicated that tax officials took advantage of the complexities and interpreted the laws in complex ways and therefore pressed the taxpayers to pay more than what the taxpayer thought to be justified as per the same law. The tax officers also did this because there was a lot of pressure on them to collect the tax. Instead of tax collection being accepted as a reflection of what is collectable given the cycle of the economy (low tax collection when the economy is at a trough and vice-versa), the authorities for some reasons had fixed point tax collection revenue targets. So, the officers were bound to collect tax irrespective of the state of the economy. Hence, tax evasion escalated through the behaviour of hiding incomes. It was all a chain reaction.

In your book, Development and Taxation, you have pointed towards the watering down of GST provisions to accommodate individual states' interests. So, do you think that this dilution was inevitable in a quasi-federal economy like India to arrive at a consensus?

To the extent that it has been diluted, it was not essential. Of course, in a complex political structure like that of our country, we can expect that the center-state relations and its impact on the tax structure comprising both levels are not going to be straightforward. But, in my opinion, what happened towards the end was a series of compromises between the centre and the states to bring out the GST in some form or the other. The settlement resulted in five different tax rates, exemptions, and almost half of the input variety commodities being excluded from the base. This means input tax credit cannot be claimed for nearly half of input commodities since they have been excluded from the base. This will result into cascading of taxes. So, a structure cannot be called a good one where half of the inputs do not come in for credit at all. The point is to go from the value-added tax at the state level, combined with excise duty and service tax at the centre to a GST where everything is comprehensive and consolidated. The goal must be to make the life of tax paying businesses easier; otherwise, our ranking will not improve from the 172nd position in ease of paying taxes index. We must wait and see if GST improves our position. But, in my judgement, the current proposed structure of GST is not at all a simplified structure.

I don't agree with the proposition that a trade-off between harmonised tax structure and fiscal autonomy of the states exists. Harmonised structure can result from the give and take between centre and states. GST formulation has taken so long due to continuous dialogue between the two, and the centre could not impose it on states. The fact that centre could not impose it on states shows how much powerful the states together can be.

The government has proposed to reduce the corporate tax rate for MSMEs to 25% from 30% previously. However, just 3% of the MSMEs are registered as limited companies, and the rest are family owned businesses and are thus either partnerships or sole proprietorships. Do you think that a 5% tax cut will incentivize them to become limited companies? Do you believe that such

unregistered companies are one of the reasons behind tax revenue loss as they don't lie under the purview of corporate income tax?

The point is that something had to be done to reduce the tax rate. In our country, the corporate tax rates are somewhat higher than most of the other countries, except for the United States. To encourage MSMEs to become a part of the formal corporate structure, we need to have tax rates which they believe are like that of the rest of the world. From this point of view, I think it was a necessary measure. But despite this, I do not believe that the registration of MSMEs as limited companies will improve drastically. To bring about total conversion, the tax evasion behaviour and philosophy of staying beyond the purview of the tax administration as well as the cultural notions associated with these ideas would have to change. The change will accelerate only when a few MSMEs convert into limited companies and start paying taxes, thereby reaping the benefits of the reduced tax rate, and share this experience with those who still operate as partnerships or sole proprietorships. This would lead to an accelerated rate of conversion. Nevertheless, it was a necessary measure because our numbers have been high, even higher than most advanced countries.

No, I don't believe that unregistered companies are the prime reason for tax revenue loss because a significant proportion of registered companies also do not file tax returns. Along with this conversion of non-limited companies into limited companies, we need to ensure that they file the tax return. Thus, there is still a long way to go, and this is only the first step. The tax administration should also remove the environment of fear to incentivize them to get registered. If the tax administrators take punitive measures for non-filing of returns previously and go for retrospective action, then the whole policy will fail. So, this is also a major issue that we must face.

India accepted most of the BEPS recommendations and began to implement those in a phased manner, but the government has taken a defensive stand on Action 14- Dispute Resolution. The Indian Government decided not to be a part of the mandatory and binding arbitration process on the grounds of sovereignty. Is the concern justified and what would be its overall impact?

In my opinion, one of the biggest lacunae in Indian international taxation is our stringent attitude towards international dispute resolution, especially concerning the MNCs. We claim to be the final authorities in settlement of disputes, and we have refused to accept the resolutions from International Court of Justice. The result has been that our disputes far outweigh the total number of disputes in the rest of the world together. I think we should have accepted the international dispute resolution decisions because we lack in a systematised legal wherewithal to resolve our disputes at a steady pace.

To say that a company should first exhaust all its options within India doesn't make sense to me because there is no termination of this process. The whole point is that how can one wait for long durations just to get a court hearing? The policymakers need to keep themselves abreast with how the tax administration and administrators move strategically. They also need to take well thought out independent decisions after careful analysis. The government has been persistently emphasising upon increased productivity and manufacturing, but such decisions thwart the economic activity because of litigations.

So, India's position to this end was erroneous because other countries accept such provisions if they feel that they would be unable to resolve disputes at home.

You have laid special focus on the role of education to prevent India's demographic dividend from degenerating into demographic disaster. In one of your essays, you have also advocated a move away from rote learning to a learning that allows an individual to think freely and innovate. How can we ensure this in our educational institutions and what would be your message to our ardent readers?

I think we can achieve it. When I was in school, we wouldn't dare to question our professors, but now the things have changed drastically. Today's youth are much more confident, they read different things, and the manner of communication also has improved and broadened. So, the entire environment has changed a bit lately, and rote learning has indeed gone down. However, apart from the best educational institutions, rote learning still exists in the rest. To be honest, we don't have the resources to give individual attention, but I also feel where there are resources often the teachers do not give the time. Therefore, I think the incidence of rote learning must go down even in the average institutions. We need to promote innovation and give much more projects and assignments, and teachers should appreciate differentiated products of students. Everyone in school or college gets some degree and goes to the next level, but the growth in intelligence level happens only to 5-10 % of the student population. So, in that case, we cannot have a demographic dividend. Whereas in other advanced countries some 30% get an education that increases their intellectual capability and others become technicians. But there are clear signs of change as technical or skill enhancing education is being provided because everyone cannot become a scholar. I think it must become part of the society for demographics to change entirely towards high productivity. So, I believe the infrastructure should be set up to shift to learning and application and from there take the society to innovation.

Dr. Shome was interviewed by members of the editorial board – Prashant Kumar, Purushottam Mohanty and Vinayak Khanna – at ASSOCHAM House on 17 March, 2017. The interview was verbatim by Shreya Mittal and Rishith Gupta.

SPECIAL ARTICLE

WHY DO INDIAN FIRMS GO ABROAD?

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1. INTRODUCTION

In recent years India and China have not only liberalised their FDI regimes, but also emerged as investors abroad. Although the volume of India's investments is much lower than that of China, the composition of India's FDI, centered on manufactures and services, its heavy presence in the developed countries, its method of entry into foreign markets based on acquisitions principally the UK and the US, sets it apart from the other emerging economy investors It is these characteristics of India's investments that require analysis. This paper argues that it is the unique managerial abilities possessed by Indian firms that account for the sort of investments they have undertaken .

2. SIZE AND PATTERN OF INDIA'S INVESTMENTS ABROAD

The total stock of India's FDI increased from a meagre $124 million in the year 1990 to $ 111,257 million in 2011 with a share of 3% in the total ODI stock of the developing countries (Table 1).

Countries	1981	1985	1990	1995	2000	2005	2006	2007	2008	2009	2010	2011
China	39	900	4,455	17,768	27,768	57,206	73,330	95,799	147,949	229,600	297,600	**365,981**
India	**80**	**93**	**124**	**495**	**1,733**	**9,741**	**27,036**	**44,080**	**62,451**	**77,207**	**92407**	**111257**

Table 1 - Stock of China and India's ODI ($ Million)
Source - UNCTAD

India's ODI is significantly different from that of China in its composition-whereas a large proportion of China's investments is in oil and raw materials, India's investments are in manufacturing and services (Table 2).

	INDIA				CHINA			
	2000/01 to 2006/07 (Billion $)	**% share of total**	**2008/09 to 2011/12 (Billion $)**	**% share of total**	**2004 to 2007 (Billion $)**	**% share of total**	**2008 to 2010 (Billion $)**	**% share of total**
Primary Sector	1.06	0.64	4.94	8.53	16.93	26.0	25.93	**14.30**
Secondary Sector	10.98	43.46	25.96	45.00	6.06	9.0	14.18	**7.83**
Tertiary Sector	13.22	52.00	26.93	46.54	42.34	65.0	141.14	**77.87**
Total	**25.26**		**57.86**		**65.43**		**181.24**	

Table 2 – China and India ODI
Source - UNCTAD

Third, more than 50 per cent of India's ODI is in the developed economies while more than 75% of China's ODI is in the developing economies.

By the end of the year 2008 India was the second largest investor in the UK, next only to the US (Figure 2).

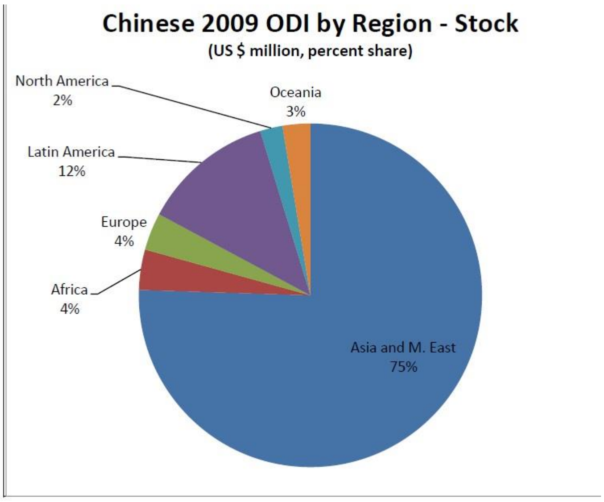

Figure 1

Source – The Economist, 2009

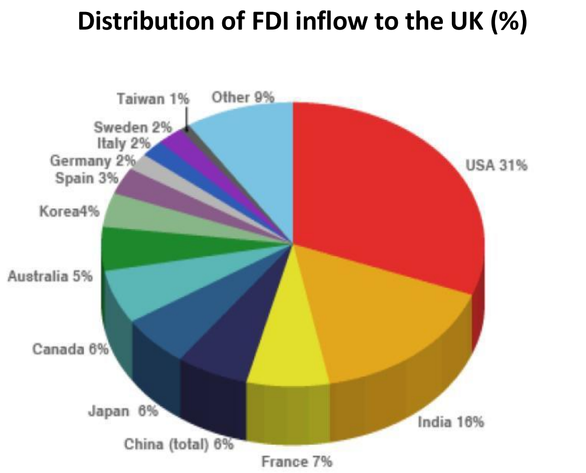

Figure 2

Source – The Economist, 2009

Fourthly, the growth of India's ODI is mostly through acquisitions (Figure3) 1n the year ending in August 2010 India was second in the list of the ten most acquisitive nations, with a share of 24% of cross-border M&A transactions originating from emerging economies. (Wagstyl, 2010). Over the years 2000-2009 Indian firms accounted for 1347 mergers and acquisitions amounting to $72 billion (Table 3).

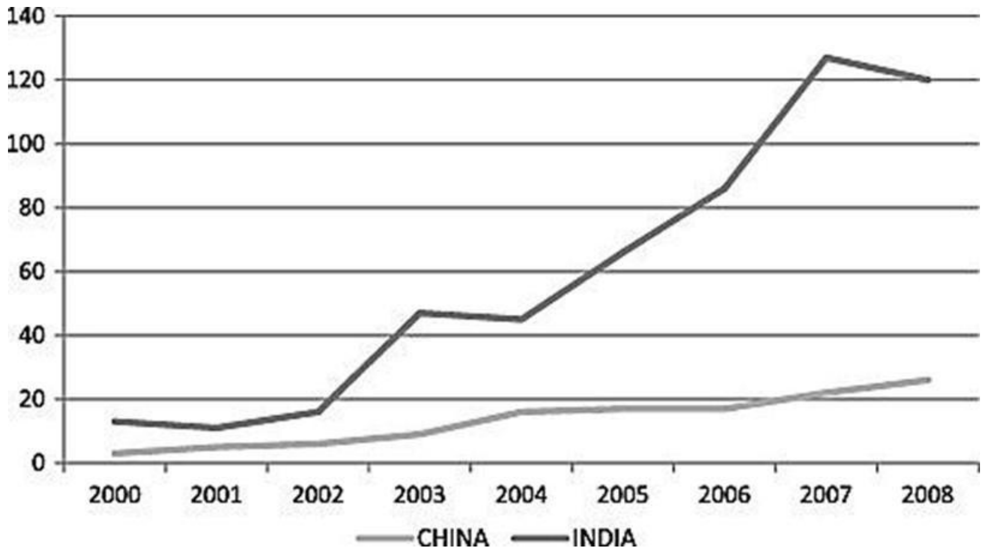

Figure 3 - Acquisitions by India and China
Source - DeBeule and Duanmu (2012)

Countries	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
USA	22	12	9	17	20	35	43	62	76	27	**323**
UK	5	2	8	11	7	16	26	20	36	12	**143**
USA+UK	27	14	17	28	27	51	69	82	112	39	**466**
Canada	0	0	0	0	0	2	5	9	7	9	**32**
Others	34	29	34	52	47	91	111	112	198	141	**849**
TOTAL	**61**	**43**	**51**	**80**	**74**	**144**	**185**	**203**	**317**	**189**	**1,347**

Table 3 - Geographic Distribution of cross-border Merger & Acquisition Purchases by Indian Companies, 2000-2009
Source - Thomson One Banker (2010)

Tetley Tea, Jaguar and Land Rover, Corus steel (all acquired by Tata's) Whyte and Mackay, the Scottish distillery firm acquired by Mallya the Indian entrepreneur, and a number of investments in software have all figured prominently in the media.

3. TRADITIONAL EXPLANATIONS

Firms invest abroad to exploit their monopoly over advantages(O) especially so when market imperfections and institutional factors deny them the options of exporting the products or licensing the advantages they possess to foreign entities. This insight of Stephen Hymer (1976) has been discussed and elaborated to include choice of locations (L) for investments abroad and ways and means of guarding ones monopolistic advantages from predators (I). These three aspects of FDI are clubbed together and referred to as the OLI paradigm or the eclectic theory of FDI (Dunning, 1993).

The latest tests of the OLI theory relate to ODI from India and China (Pradhan 2011, Buckley et.al, 2007; Kumar, 2007 & Nunnenkamp et.al, 2010). The pioneering studies relating to India are those by

Jayaprakash Pradhan who has (2008, 2011, 2004) painstakingly put together a set of data from a number of sources including the media and unpublished data from government sources. His data set relates to ODI undertaken by 2155 firms with the extent of ODI measured as the stock of ODI equity held abroad by each of the firms as a percentage of their net worth for the 10 year period 1990-91 to 2000-01.

Pradhan's analysis suggests that high labour productivity, R and D expenditures, managerial skills as defined above, exports and the post 1991 liberalisation measures are all features of Indian manufacturing firms to go abroad. It is arguable whether or not these results endorse the proposition that Indian firms venturing abroad possess ownership advantages of the sort that the OLI theory emphasizes. High labour productivity of the Indian manufacturing firms flows from the relatively high capital intensity of their production process and their heavy presence in industries that are typically capital intensive. These two features of Indian manufacturing are mostly a consequence of the pre liberalization import substituting industrialisation (ISI) era that is extensively noted in the literature (Bhagwati & Desai, 1970, Panagariya, 2008). In fact, most sub groups in the Indian manufacturing sector are much more capital intensive than comparable industry groups in China (Balasubramanyam and Sapsford, 2007)

On top of the list of variables included in Pradhans' analysis of ODI by Indian firms is managerial skills. Indeed, managerial expertise of Indian firms is an ownership advantage that influences firms to go abroad. But managerial abilities that consist of a variety of attributes are not easily quantifiable. Pradhan quantifies it by regressing profits per unit of assets of firms on age, size, R and D, royalties paid for imported know how, sales expenditures and a set of dummy variables for type and ownership of industries and sectors. The estimated level of profits is deducted from the actual to arrive at returns to managerial expertise. This is an ingenious method of estimating managerial skills, something that is inherent in managers, which includes entrepreneurial skills unrelated to factors that characterize the firm. There may, however, be one problem with the measure; it may merely reflect total returns to capital, say value added net of wages. If the wage rate is low or the level of employment is low the residual after deducting wages from value added would be high. Put another way high profits may not be due to a high rate of return to managerial ingenuity but just total returns to ownership of capital, unearned income in Marxist terminology.

Managerial talents including organisational abilities are captured in the 'A' term (indicator of total factor productivity) in the estimated Cobb-Douglas type of production functions subject to constant returns to scale. Available estimates of total factor productivity growth in the Indian economy show that it hasn't increased by much in the post liberalization period (Deb Kusum et.al, 2010; Goldar and Kumari, 2002, Sen, 2007). Goldar and Kumar's study records a decline in the annual rate of growth of total factor productivity of Indian manufacturing sector in the post liberalization period compared with that during the pre- liberalization period. They attribute this decline to low capacity utilization in Indian manufacturing firms in general. Yet another study (Mukherjee & Majumdar, 2007) that provides a detailed analysis of technical change in Indian organised manufacturing industry from the year 1980 to the year 2000 arrives at a similar conclusion.

The absence of technical efficiency in the case of most manufacturing firms shouldn't be regarded as the absence of managerial talent required to increase productivity of inputs. It is just that in the presence of rigid labour laws and a bureaucracy intent on stifling initiative managers may have opted for maximising profits through adding capital to the production process.

The statistical results referred to earlier suggest that firms with large profits tend to go abroad. But not all firms with large profits may be able to do so. Indeed, it is likely that some if not many of the firms that have invested abroad may have raised funds for investment in international capital markets.†

Those Indian firms that have ventured abroad not only enjoy large profits but also a unique ownership advantage that can be termed entrepreneurship that includes managerial efficiency but is much more comprehensive and extends to risk taking, forecasting and identification of new markets to name only a few of the attributes of entrepreneurship. Indian firms may be unique amongst the firms of the emerging economies in this respect. A number of these unique attributes of firms that cannot be adequately captured in regression equations may explain the sort of investments and locales that Indian firms venturing abroad have opted for.

4. THE UNIQUE ATTRIBUTES OF INDIAN FIRMS THAT GO ABROAD

It is impossible to generalise on the factors that influence firms to go abroad (Ramamurti 2008, Athreye and Sayeed 2013, Athukorala, 2009). Most firms from emerging markets invest abroad to acquire technological capabilities- this is the so called asset seeking motive for ODI. The acquisition of existing firms does require managerial efficiency, but it is not the kind that is referred to in the statistical studies. The skills that are essential for asset seeking ODI include identification of the nature and productivity of the assets that the targeted firms possess, the market potential of these firms, risks involved in operating abroad and above all the ability to manage operations in a foreign locale.

Additionally the acquired firms may have to be revived, they may possess production oriented advantages but may be ailing because of their inability to explore and develop markets. Indian managers seem to possess these sorts of skills. For the Indian entrepreneurs that were unshackled from the dirigiste economic regime during the 1990s, investing abroad and participating fully in the fast growing global economy was a challenge that had to be met. To use an expression coined by Keynes "animal spirits" of entrepreneurs, for long locked up by the dirigiste economic policies of the pre-liberalisation era, were released and there was a spontaneous urge to act on the part of entrepreneurs.[1] It is such entrepreneurial talent that seems to have led several Indian firms, most notably Tata's, to raise the capital required for their investments abroad in international capital markets. In the words of Nathaniel Leff (1979) "*entrepreneurship may reflect superior information, more importantly imagination, which subjectively reduces the risks and uncertainties of new opportunities, which are ignored or rejected by other investors*"

Studies on entrepreneurship classify entrepreneurship into two broad groups- necessity entrepreneurship and opportunity entrepreneurship (Koster & Raj, 2008). The former is said to come into play when employment opportunities deteriorate and job seekers are forced to establish production facilities on their own. Opportunity based entrepreneurship occurs when firms explore ways and means of capturing new markets. Indian firms venturing abroad in the post liberalisation era may belong to the opportune based class or Schumpeterian entrepreneurs.

The entrepreneurial instincts and expertise of Indian firms is to be traced to several unique features of the Indian economy, Foremost of these is the inheritance from history. India has had a long history of business entrepreneurship marked by its caste and community orientation. Foremost amongst these groups are the Banias and the Marwaris, primarily merchants and money lenders with a prominent role in financing India's foreign trade during the British colonial era. The Parsis who had no religious affiliation with either the Hindus or the Muslims were in a class of their own. They provided a link between the British and the Indian business houses.

[1] The purchase of Blackburn Rovers, a football club in the North of England, by Venkys (an Indian firm in the poultry business) can only be attributed to the animal spirits of Venkys' managers, not to their knowledge of soccer.

Harish Damodaran (2008), in a study of India's business classes, captures the special relationship of the Parsis with the British; "*being part of neither the Hindu nor Muslim mainstream, nursing no political ambition and exposed to commercial influences because of their proximity to the ports of Bharuch, Surat, and Daman, the Parsis seemed ideal for recruitment as native brokers, agents and shippers*" (Damadoran, 2008, p.14). Their business ties with the British East India Company were extensive stretching to participation in the lucrative opium trade with China in the 19 century.

Business interests of both the Parsis and the Banias were in global markets for cotton, tea, silk and other raw materials. A feature of Indian business enterprises during the colonial period was the ability of the Indian businessmen to move with ease between two cultures- the Indian and the European. As Tirthankar Roy (2011) writes "*the Indians moved between the informal world of community norms and the formal world of corporate law and legality than the Europeans, They straddled both spheres successfully, and used it to great advantage in undercutting European cartels"*

Second factor that has contributed to the development of entrepreneurial talent amongst Indian firm is the existence of business groups, mostly of the family orientation. Three quarters of the number of foreign acquisitions estimated at 1347 during the period 2000-2008 are reported to be undertaken by group affiliated firms as opposed to stand alone firms. This reflects the superior advantage enjoyed by business groups over standalone firms that enable them to efficiently internalize market externalities. (Pradhan, 2010, Khanna and Palepu, 1997, Khanna and Yateh, 2007). Group oriented firms are not unique to India, they exist in other emerging economies too, but the family orientation of the Indian groups may be a feature of Indian business houses. The units that form the groups produce diversified products and services, but they all share risks, draw on a pool of finance and information and invest in training of labour and management. Groups make up for the absence of developed capital markets and institutions of the sort that facilitate risk taking and planning in developed countries.

A third factor that has contributed to the entrepreneurial skills of Indian business is the system of education, unique to India, from historic times to the present day. As Tirthankar Roy (2011) notes, the education system in India during the colonial days was caste driven- *"the historical pattern of demand for education at all levels was biased towards certain castes and communities because these people had an inherited association with literate services. Groups that had contact with scribal professions, medicine, teaching, and priesthood, in the pre-colonial times, entered education, medicine and public administration in the colonial times. These classes and castes eagerly used the new schools and colleges, while other classes and castes entered schools on a smaller scale, and dropped out more readily. The correlation between family history of literate services, preference for service professions, and thus, preference for education, was especially close in the three port cities – Madras, Bombay, and Calcutta".* The education system was caste based and dominated by those who wished to enter the professions. It was thus that the elite caste groups advanced from primary to higher education and the system catered to their needs and primary education for the population in general was ignored. It is the caste based education, primarily oriented towards the civil service and the professions, which laid the base for the growth of the services economy and software in the services group, which is one of India's major investors abroad.

A fourth factor that has contributed to the growth of managerial expertise of the Indian business houses is the presence of India's diaspora in the UK and the US. Available data for the later part of the last decade shows that there were 1.6 million Indians in the UK accounting for 1.8% of total population of the country and in the US there were 2.8 million Indians accounting for 0.9% of US population. The professionals in both the US and the UKs act as what Devesh Kapur (2010) refers to as "reputational intermediaries"; they intermediate between foreign and Indian firms... Many of the diaspora are also what Jagdish Bhagwati (1974) refers to as “to and fro migrants,” they traverse between India and the countries of their residence frequently and they have business interests in both countries. All of this enhances the managerial expertise of Indian business firms especially so in the service sector components of the economy such as finance, market intelligence and the software industry.

There may be two other explanations for this spectacular growth of Indian investments abroad. First it may be easier to operate in the business environment abroad than home. Recent reports in the media note the frustrations of Indian businessmen with the slow moving government regulatory system, even on the part of those, known as the bollygarchs, who had built up a working relationship with the bureaucrats (Crabtree, 2012).

Second, the attraction of foreign markets in the presence of a fairly lucrative domestic market in India has echoes of Britain’s experience during the second half of the 19th century. During the period 1870-1914 Britain exported substantial volumes of portfolio capital mostly to the colonies, the total stock of British capital abroad in the year 1914 is estimated at $20 billion. These exports of capital occurred although there was unemployment at home and a substantial deficit in the trade balance. The recipients of Britain’s investments abroad were the colonies, they serviced the borrowings with their export earnings and Britain paid for its imports of raw materials from the colonies with these returns to its investments abroad. This scenario, revisited during the 1980s, aroused considerable debate between those who attributed Britain’s capital exports to differences in rates of return and risk between domestic equities and foreign bonds (Temin, 1987) and those who attributed it to various sorts of imperfections in the domestic markets (Pollard, 1985; Balasubramanyam, 1989). The imperfections in the British domestic market that led to capital exports included structural rigidities, trade union power, and unwillingness to change occupations quickly. These sorts of imperfections and rigidities seem to be a feature of the present day Indian economy too and may account for the growth of odd British Indian firms.

In sum, the sort of skills Indian entrepreneurs possess that serves them well in their quest for investment locales abroad are an inheritance from the country’s history - entrepreneurial and business skills from the colonial days and the engineering and human skills form the more recent past - the post-independence years. These skills were locked up during the days of the license Raj that lasted for more than three decades until the year 1991. The economic liberalisation measures let the genie out of the bottle. They liberated the entrepreneurs from the sort of dull and dreary chores of coping with rules and regulations and provided an environment for risk taking and facing the challenges posed by competitive markets in a globalised world.

5. CONCLUSIONS

Outward FDI from India, for reasons of history and the evolution of India’s economic policies over the years, is unique and distinct from that of other emerging economies. This paper argues that the most significant reason for the growth of India’s outward FDI is her inheritance of a gifted entrepreneurial class of businessmen. The paper discusses the roots of the entrepreneurial class and the economic and social factors that have endowed them with the sort of entrepreneurial abilities that firms in other emerging economies do not possess.. The abolition of rules, regulations and restraints on entrepreneurship during the 1990s unleashed the animal spirits of the entrepreneurs and their desire to participate in the global economy through trade and investment. The sort of ownership advantages Indian firms investing abroad possess is in the domain of organisation, identification of investment and market opportunities and entrepreneurial talent that enables them to operate in international markets. These and other attributes identified in the paper cannot be easily quantified. Further research in this sphere has to be based on case studies.

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IS NORDIC MODEL THE WAY FORWARD FOR SUSTAINED DEVELOPMENT?

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ABSTRACT

In this paper, we begin by giving an introduction to the Nordic Model and analyse its salient features. Then we consider the various underlying factors for the emergence and success of the Nordic model. We also compare the Nordics with some 'free market economies' and 'socialist economies'. In the end, the paper will then discuss the challenges faced by the Nordics and look at the sustainability of this model in addressing the most pressing issue of economic and social inequality.

LITERATURE REVIEW

The International Monetary Fund published a report (IMF Country Report No. 13/274) on September 2013. The key issues discussed in the IMF report are related to the strengths and challenges of the Nordic Model which were highlighted in the 2008 sub-prime global financial crises. The slowing trade and financial tensions brought a deep recession to the Nordic region as well but the recovery was very fast in this region, and it attracted safe-haven flows which contributed to the stabilisation of the situation. The Nordic region is susceptible to similar financial risks as the households there are under debt as well, the loan-to-value (LTV) ratio is very high, and households don't have sufficient liquid assets to cover their debt (IMF 2013).

The working paper no. 41, June 2009, published by the Hertie School of Governance talks about the idiosyncratic characteristic of the Nordics and the history of evolution of the current status quo of the welfare state in the Nordic region.

"The age of social democracy; Norway and Sweden in the twentieth century" by Francis Sejersted talks about the political economy of the two major Nordics in twentieth century and how the modernization project developed in Europe and was not sustained, how the Nordics provided a solution to the crises brought by the modernization project by finding a middle ground between the two totalitarian regimes.

All the charts and graphs have been made by data retrieved from World Bank Open Data Source and United Nations Development Program Report.

1. INTRODUCTION

In the present times, we are faced with staggering inequalities in income and wealth, highly unequal social indicators of well-being and differing policies of governance. The world experienced huge economic developments in the past century, but that has been accompanied by enormous inequalities, both inter-country as well as intra-country, which has led to a double hit for people, especially those belonging to lower strata and living in poor countries. This has led to a situation where per capita incomes are increasing, but there has been stagnation in the social indicators of economic welfare which has contributed to the surmounting inequalities.

Hence, the field of development economics has been looking for an exact recipe, more formally a model, which can be adopted by developing countries to attain an appropriate level of development, accompanied by a minimal level of social and economic inequality. Over the past century, there have been two extreme set of policies adopted by various nations. One end is the 'free-market or capitalistic economies' where the policies mainly focus on achieving economic efficiency and increasing per capita income without any consideration of inequalities created, whereas the other extreme is the 'socialist economies' where policies focus on eradicating inequalities through equitable distribution of income and improving socio-economic welfare indicators. In recent times, it seems that some countries have found a third set of policy. Today, the Nordics, which comprise of Denmark, Finland, Iceland, Sweden and Norway, cluster at the top of league tables of everything, from economic competitiveness to social health to happiness. The reason could be attributed to their idiosyncratic policies which included features of both the extremes, giving rise to what is popularly known as 'Nordic Model'.

Formally, we can define the Nordic Model as a model which combines both the features of capitalism, such as the market economy and economic efficiency along with the social benefits which are a key feature of socialism.

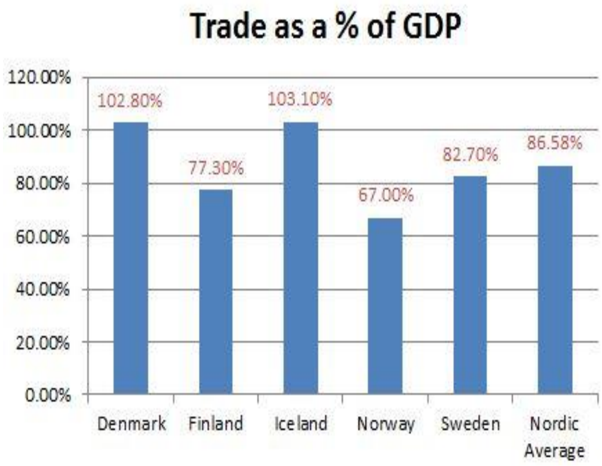
2. BREAKING DOWN THE NORDIC MODEL

2.1 FREE MARKET MECHANISM

A free market mechanism is one where there is minimal government intervention to change the market forces, the market forces of demand and supply equilibrate themselves freely, and there is full price realisation. The government intervention in the form of licensing, quotas, subsidies is minimal or non-existent. The proponents of this mechanism believe that the government intervention in this form will lead to a loss in efficiency. In this mechanism there are no restrictions on trade as well i.e. the economies are not all closed and are open to trade.

Trade

One of the main features of any free market economy is the trade, and the Nordics are no exception to it. The Nordic countries have a bustling trading activity, as is evidenced by a high trade as a percentage of GDP ratio. For two of the Nordic countries, Iceland and Denmark, the trade done in a single year is more than their GDP (UNDP, 2013). Also, the Nordics rank within the top 35 countries in the world in the Index of Economic Freedom, 2016, further asserting the presence of a free market mechanism in these countries.



Source – World Bank Data: World Development Indicators

Index of Economic Freedom, 2016		
Countries	**Index**	**Ranking**
Denmark	75.3	12
Finland	72.6	24
Iceland	73.3	20
Norway	70.8	32
Sweden	72	26

Source – The Heritage Foundation

Income Level

The Nordic countries experience one of the high levels of per capita incomes in the world. As can be seen from the table below, the Nordic countries rank within the top 30 in the world in terms of per capita income. Amongst the Nordics, Norway has the highest level of per capita income with $69,296 and is ranked 8th in the world. Overall, the Nordics earn more than the four times the world average of $10,057.

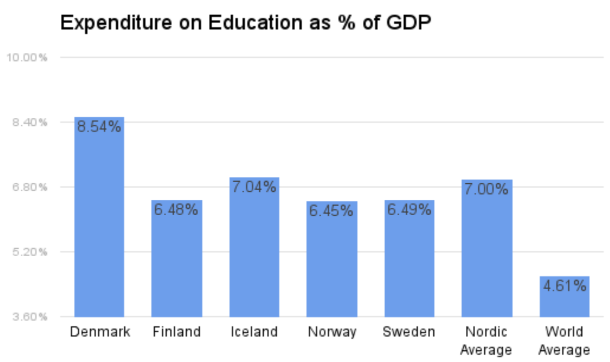
Per Capita Income, 2015		
Countries	**Per Capita Income ($)**	**Rankings**
Denmark	46603	23
Finland	41813	29
Iceland	48070	20
Norway	69296	8
Sweden	49678	17

Source – World Bank Data: World Development Indicators

2.2 WELFARE STATE

A welfare state is based on the principles of equality of opportunity, equitable distribution of wealth and public responsibility for those unable to avail themselves of the minimal provisions of a good life. It is a form of government in which the government plays a key role in ensuring the basic rights of the citizens such as universal health care and education. This is executed by a high amount of public sector expenditure which is funded by taxes which are redistributive in nature. The Nordic countries constitute an example of a modern welfare state.

Education



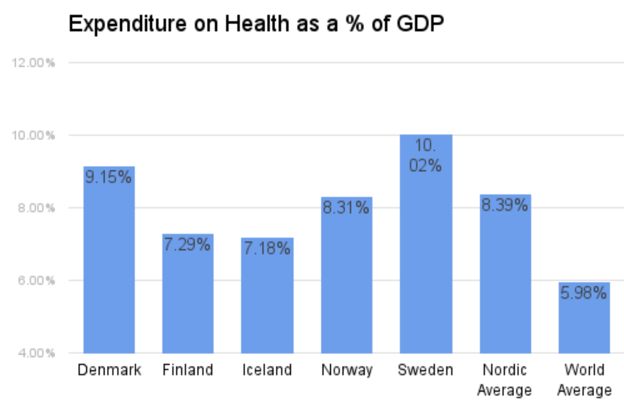
Source – World Bank Data: World Development Indicators (2014)

The expenditure by the government on education constitutes an important part of any welfare state. As per the World Bank data for the year 2011, the Nordic countries' average government expenditure on education stands at 7% of GDP, which is considerably higher than the world average of 4.62%. Amongst the Nordics, Denmark spends the most on education (8.54%), followed by Iceland, Sweden, Finland and Norway respectively. The Nordic countries' education expenditure tends to be one of the highest in the world. This is also supplemented by the fact that these countries score the highest ranks in the Education Index.

Countries	Education Index, 2014
Denmark	0.924
Finland	0.817
Iceland	0.853
Norway	0.907
Sweden	0.842

Source – Human Development Report, UNDP (2014)

Health



Source – World Bank Data: World Development Indicators (2014)

The expenditure on health by the government constitutes another important component of the welfare state. As per the World Bank data 2014, the average government expenditure on health by the Nordic countries stands at 8.39% of GDP vis-a-vis the world average of 5.98%. It can be seen that Sweden spends the most on health amongst the Nordics while

Iceland spends the least. This is supported by the fact that the people in Nordic countries are very healthy, with the average life expectancy at birth of Nordic people being 81.48 years.

Countries	Life Expectancy at Birth, 2014
Denmark	80.2
Finland	80.8
Iceland	82.6
Norway	81.6
Sweden	82.2

Source – Human Development Report, UNDP (2014)

Taxation

The Nordic countries are one of the highly taxed economies in the world. The Individual Income Tax rates average a whopping 51% in the Nordic countries. Sweden tends to be most highly taxed amongst the Nordics, with the income tax rate hovering around 57% in the year 2015. It is from these tax revenues the Nordic governments are able to finance their high welfare expenditure.

Tax Rates, 2015			
Countries	**Individual**	**Corporate**	**Indirect**
Denmark	55.41%	23.5%	25%
Finland	52.35%	20%	24%
Iceland	46.24%	20%	24%
Norway	47.2%	27%	25%
Sweden	57%	22%	25%
Nordic Average	**51.64%**	**22.5%**	**24.6%**

Source – KPMG Global Data

Inequality

One of the most important challenges the world faces today is of income and wealth inequality. Rising per capita incomes are usually accompanied by income disparities as seen in most of the developed countries. However, the Nordics present a very encouraging scenario. The Nordics are one of the very few countries in the world which experience low-income disparities with reasonably high levels of income. As evidenced from the Gini coefficient for the year 2012, these countries have very low-income inequalities, thus ensuring a reasonable level of equity in the economy.

Gini Coefficient, 2012	
Countries	**Index**
Denmark	0.291
Finland	0.271
Iceland	0.269
Norway	0.259
Sweden	0.273

Source – World Bank Data: World Development Indicators (2014)

3. EVOLUTION OF THE NORDIC MODEL: HOW THE MODEL CAME INTO EXISTENCE?

To study the Nordic model we need first trace how it evolved over the centuries and how it came into being in its present form. Sweden was one of the great powers in seventeenth century Europe but this power status was just a memory in the twentieth century, and Sweden had developed new ambitions for itself, the ambition of becoming the greatest economic and industrial power in Europe. Conny Mithahander calls this ambition as "a new, forward-looking and benign great power dream: the vision of Sweden as a cutting edge industrial and economic world power." (Mithahander, 2000). A parallel can be drawn to

Norway's history where Norway was never a power, and one would have to go back to middle ages to call Norway a power, developed similar dreams of becoming an economic power in the early twentieth century. There was a sense of economic nationalism in both the countries, a nationalism linked to industrialisation and economic development. This economic nationalism was the common tendency in Europe at the time of early twentieth century. The German historian Hans-Ulrich Wehler calls this as "Wirthschaftsnationalismus als Entwicklungsideologie" which translates to "Economic nationalism as a developmental ideology" (Wehler, 1974). This whole concept of economic nationalism was called the "new working day" in Norway and was more generally referred to as "Modernization Project" in whole Europe. The modernization project was based on four pillars, namely, "*economic liberation*", "*economic development through technological progress*", "*differentiation process*", "*consolidation of the nation state*" (Sejersted, 2011).

Firstly the idea of "*economic liberation*" means the liberation of people from oppressive institutions of feudal and semi-feudal modes of production by democratic institutions and making economic freedom a universal right, the whole idea of economic liberation was complimented by the idea of basic human rights, since a liberation from oppressive economic institutions would also mean a hope of basic human rights. In the twentieth century, Europe was not associated with dismantling and liquidating old economic institutions but with building and expanding society's horizon (Christoffersen, 1999). But since economic liberation involved freedom from oppressive economic institutions economic liberation should be associated with the idea of decimating old economic regimes. There is a paradox in this idea of "economic liberation" since it involved forming of specific economic institutions which may or may not be formed democratically , and the struggle to form an ideal modern society may harm the freedom of the people, so this pillar of modernization may very well lead to Hitler's or Stalin's fascist totalitarian state (Sejersted, 2011).

The second pillar of modernization was *"economic development through technical progress".* For economic development to be sustainable and not lead to stagnation there was an urgent need for long sustained technological progress and for that the state needed to sponsor this technical progress, along with a protection to technological innovation through the means of intellectual property rights, without which there won't be any incentive for private players to lead innovation. This formed the problem of producing important institutions which would form the foundation for this targeted technological and economic development. This innovation led economy would lead people out of poverty and oppressive nature of work.

The third pillar of the modernization project was the *"differentiation process*", which involved the formation of different strata within the society and the fragmentation of a homogenous society, where different fragments work in different spheres for economic development and in this process of economic development these different fragments will be interdependent on one other. We'll see that it was this fragmentation of society that went down and the homogenous society exists in the current balanced Nordic model approach.

The fourth pillar of the modernization project was the "*consolidation of the nation state*", this process involved building up a nation-state framework with the society and developing a sense of nationalism within all the sections of society and building up of national infrastructure, and all the sections of society were embedded with a sense of nationalism which somehow was to counterbalance the differentiation process of the third pillar. Nationalism and Modernization go hand in hand. The growth of working class is an example of consolidation of nation state interacting with differentiation since the working group can many times be considered as a nation within a nation with a self-identity and a sense of economic nationalism.

This modernization project did not sustain for a long time and at the threshold of the twentieth century when it had come half way it hit a social crisis. The way forward was problematic, industrialisation led to many problems such as pollution and was breaking down the boundary of nation-state formed in the fourth pillar of modernization. The individual was pulled by competing loyalties, the social integration was threatened at a national level, and there were signs of social disintegration. There was a growing demand for equitable distribution of wealth and income at both national and international level. The national boundaries were challenged by the advances in globalisation and economies were forced to embrace globalisation as a phenomenon and were forced to open themselves up. This scenario is interpreted by many as a completion of modernization project or as a U-turn from the modernization project.

Now, this crisis in the modernization project was solved by the Nordic solution, these countries were small and were culturally homogenous, so it was very easy to develop a "*mixed*" economy. It was not difficult to accommodate any conflict developed through the interaction of "differentiation process" and "consolidation of nation state" in modernization process. These countries were successful in avoiding both extreme sets of fascist and communist policies by modifying and manipulating capitalism according to their needs by eliminating the unattractive parts of capitalism, so the Nordics provided an attractive solution for the problems posed by modernism than did the two totalitarian movements. Due to small size and homogeneity of the population, these countries were able to accommodate any class struggle among nobles and peasantry without any revolt which may have gained fire due to increasing oppression and inequality.

This success of Nordics can be attributed to the huge influence of the Social Democratic Party, which formed the government in the early twentieth century. After the formation of the government by social democrats, these countries saw an increase in the formation of labour unions, cooperative societies, and extension of social benefits to broad groups. This was referred to as the golden period of the welfare state. After this, in 1950-80 the welfare model was extended to include universal education, health care, pension plans, and other social benefits for the citizens by expanding the public sector expenditures towards these issues. After the golden period came the period of economic crisis. It had to be dealt with by focus of increasing competitiveness of these countries around the world, tightening of fiscal policy and increased exports (Alestalo, 2009). The result is that these countries have now emerged as the hub of social welfare mechanism and an advocate of free market policies for growth and development.

Since the population of Nordics was very small, any set of policies benefitted a major chunk of the population and were easily accepted without any resistance, and since these countries had small populations, any wrong decision did not affect a large set of people and damage control could easily be done. These features possessed by a country often proves to be an advantage for it irrespective of any set of policies it chooses to follow. So having a small, homogeneous, and inequality free population helped Nordics to experiment with their policies.

4. FEATURES OF THE WELFARE STATE NORDIC MODEL

4.1 STATENESS

The Nordic or the Scandinavian model is based on an extensive role of the state in the economy through welfare services. In the Nordic model, the relation between the state and citizens is of utmost importance and is positive in connotation rather being coercive apparatus of oppression in the hands of ruling class. The state does not send "rain and the sunshine from above" (Marx, 1852). The state simply weakens the role of intermediary structures such as church and voluntary organisations and strengthens the role of social citizenship and relatively uniform and integrated institutions. The relation between the decision makers and those who are affected by these decisions is intimate in these countries because most of the decisions are taken at the municipal level. "The difference between public and private, so crucial in many debates in the Anglo-American countries, was of minor importance in the Scandinavian countries. For example, until recently it has been considered legitimate for the state to collect and publish records of individual citizens. It is probably no accident that Sweden and Finland have the oldest population statistics in the world." (Allardt, 1986).

4.2 UNIVERSALISM

In the Nordic model, the principle of universalism targets everyone, and there is no special attention given to haves or have-nots, i.e. all the benefits are extended to all the classes of the society and not just the lower classes. This idea is in sharp contrast to the majority of mixed economies prevailing in the world today where any kind of welfare services are usually extended to the lower strata and not the upper strata. Over the time this is expected to erode the class structure all together. In short: "All benefit: all are dependent; and all will presumably feel obliged to pay" (Esping-Andersen, 1990). This principle has successfully been able to contain any kind of resistance that would have taken birth had these social benefits were only for the lower strata. Another argument from the economic point of view, in favour of universalism, is that it helps in stabilising the effects of business cycles. For example, during recessions, households earn less due to pay cuts, but mechanisms like progressive taxation ensure that they also pay less to the state. At the same time, the benefits that they receive from the state are not tampered with, thereby leaving the individual economic units in a much better condition than they would be in the absence of universal social rights (Danson, 2012).

4.3 EQUALITY

A striking feature of Nordic countries is that these countries have fairly small size, income and gender differences. The route to the current society was paved through decimating any kind of class inequalities prevalent, through strengthening the position of the peasantry, weakening the position of the landlords, and with the peaceful and rather easy access to the working class to the parliamentary system and labour market negotiations. This is evident through small income differences and non-existent poverty (Ringen & Uusitalo, 1992). The state share a great part of the responsibilities for childcare and care of the old and disabled and the employment rates of women are high, the gender differences play a lesser role in the Nordic countries (Lewis 1992). Through this mechanism the Nordic men are freed from the "tyranny of labour market", and Nordic women are freed from the “tyranny of family restrictions” (Alestalo & Flora 1994).

4.4 INDIVIDUAL AUTONOMY AND SOCIAL TRUST COHESION

Trust and social cohesion play an important role in the smooth functioning of society. While many people associate closely knit, highly interdependent societies to be a necessary factor for social trust, Nordic countries defy that rule. Despite being highly individualistic societies, they also endorse social trust, not only among family members but also the members of the society including government institutions (Delhey & Newton, 2012). The economic advantage of social trust and cohesion is the reduction in transaction costs. When people trust each other and the law, deals materialise faster, conflicts get sorted without significant expenditure on litigation and other legal procedures.

5. SUCCESS OF NORDIC MODEL: CONDUCIVE TO GOOD ECONOMIC PERFORMANCE

Traditional economics has always argued that a large amount of losses in efficiency is caused by high taxation and generous social contributions along with the role of labour unions and wage coordination. The Nordic exception has puzzled the traditional economists where the prevalence of high redistributional taxes along with strong labour unions has been conducive to economic growth rather than to be a hindrance to it. There have been some efficiency losses caused by such a huge welfare state, but there are other factors that have made up for such disadvantages. The factors that have made up for such disadvantages can be divided into three categories. The first category is of "institutional factors" such as corruption free public and private sector, political and economic freedom, well-defined property rights, a trusted judicial and legal infrastructure, and good health and education standards. The second category of factors are a direct result of economic policies adopted such as openness to trade and factor mobility, a tax system favourable to labour supply, accumulation and entrepreneurship, and a good infrastructure for transport and communication. The third category is of exogenous factors such as climate, geographical location, the endowment of natural resources, social attitudes (which are not purely exogenous and are partly formed by institutional factors but a portion of social attitudes can be considered as exogenous), religion, culture, etc. Here, we would like to concentrate on the second category of factors that are growth-enhancing economic policies. Nordics for after facing an economic crisis after the golden period of the welfare state has been a supporter of free trade in commodities except agricultural commodities which has led to a structural change in their production basket and has led to a high degree of specialisation in goods in which they have a comparative advantage. The Nordics have also been open to immigration of specialists and entrepreneurs with specific technical and commercial which they will have to if they want to sustain their economic regime since a good health infrastructure has led to an ageing population which is retiring, and labour force is decreasing. The state in the Nordic model does not intervene with the business sector, and the existence of a free enterprise is a commonplace. The labour unions are politically influential but have not gone against these policies, nor have they resisted the introduction of new techniques or off-shoring of activities which have led to productivity improvements and displacement of labour. So this cooperation from labour unions towards a free enterprise has been a result of a huge welfare state which spends a lot on unemployment benefits, post retirement pension schemes, welfare expenditure, etc. These policies concentrated on the welfare of the proletariat have been able to contain any opposition from the labour unions, and hence there is a simultaneous existence of labour unions along with free enterprise. Also, such high spending on welfare offsets any negative effects of high taxes. Also, such policies of unemployment benefits and pensions schemes encourage labour force participation since people won't be entitled to such benefits if they are not a part of the labour force. Such policies have been conducive to economic growth since these policies have led to increased labour force participation and increased labour force productivity.

Economic growth is only to a limited extent achieved via pure accumulation of factors of production. More important are the effects of technical change and reallocation of factors in response to changes in the international pattern of specialisation. International trade and technical progress can lead to increased welfare only by way of structural change, a process with winners and losers. A new competition has the consequence that some workplaces are closed down, jobs are lost, and labour is displaced. The economic argument in favour of free trade and open markets is not that there are no losers, only that the winners have so much to gain that they can – in principle – compensate the losers. Such compensation, however, is not always achieved in practice. Thus, potential losers in many countries have used political and union power to create barriers to new competition by way of tight labour market regulation with strict job protection, tariff and non-tariff protectionism, government subsidies or public monopolies. The Nordic model can be regarded as a way of generating political support for growth-enhancing technical change, free trade and open markets by creating a number of systems through which the winners from structural transformation at least to some extent compensate the losers. Solidaristic wage setting, active labour market policies, redistribution of income via tax-transfer schemes, comprehensive and generous unemployment insurance schemes and other elements of social protection can all be regarded as ingredients in such compensation mechanisms.

6. CHALLENGES FACED BY THE NORDIC MODEL: IS IT SUSTAINABLE?

There are a number of challenges that the Nordics are about to face which are a result of the policies that they have been following since the start of the twentieth century.

6.1. RISING COST OF WELFARE SERVICES

The costs of providing the welfare services have been increasing in the Nordics, the primary reason for this increase in costs is the increase in labour productivity. The welfare services are labour intensive, and capital cannot replace labour in these services, and hence when overall labour productivity increases wages, these services become costly. This is known as "Baumol's Law" (Andersen, 2004). The costs will be ever increasing because as the material standards of living increases in the country, the quality of services that have to be provided will increase, and when multiplied by increased labour costs will have a double effect on welfare expenditure. There is no hope of welfare expenditure decreasing in the near future. Increasing taxation is not the solution to the problem because the taxes are already very high in the Nordics and if they increase taxes then the labour supply will decrease and Nordics can't afford to lose labour force participation since in a major portion of the population in Nordics is old and retired. This increasing expenditure without any source of revenue can lead the government in debts and can cause serious economic crises.

6.2. AGEING POPULATION AND DECREASING LABOUR FORCE

The figure given below is a typical social contract between a citizen and the state in the Nordics. The social contract shows that the state supports a citizen in his early years through child care benefits to the mother, through free health services and free education services, then when the child becomes a tax paying working adult he/ she contributes to the tax revenue of the government, and then again when the citizen becomes old and retires from the labour force, he/she receives pensions and other old-age benefits from the state. The problem with such a social contract is that, during the past century excellent welfare benefits has increased the quality of life in the Nordics and has increased the average life expectancy of the people living in the Nordics, this has resulted in a large old age population currently in the Nordics, so the increase in expenditure on old age support is far more than the increase in tax revenue over the years. One could argue that since the majority of the population is old, there is less expenditure on the younger age side of the social contract. But that is not so, the increase in the old age support far outstrips the decrease in young age support. Also having a very small proportion of young age population is not very healthy for an economy because this decreases the future labour force, and hence future production capabilities of the economy.

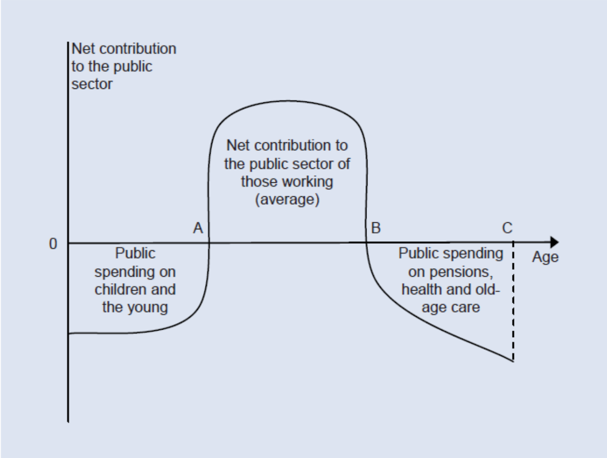
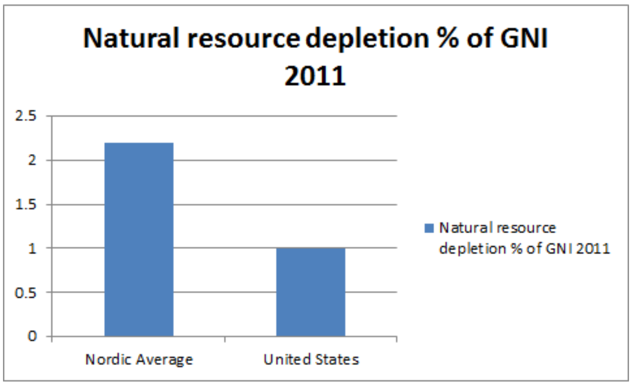


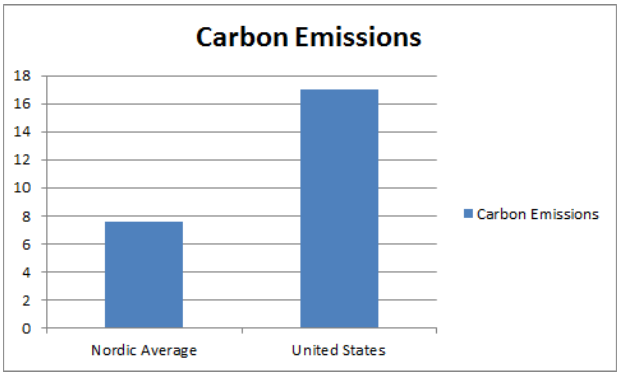
Figure 1.1
The social contract
Net contributions to the public sector over the life cycle or as a function of age.

Source – Andersen, T.M. (2007)

6.3. ENVIRONMENTAL SUSTAINABILITY

One would expect that Nordics will have an environmentally sustainable economy since the state is involved a lot in the production of welfare services, but this is not the case. The state has minimalized its role in forming regulations that control environmental damage. In Norway, the natural resource depletion as a percentage of GNI is very high and is around 9% whereas it is just 1% in the United States. The Nordic average for the same is 2.2%. Carbon emissions are in control in Nordics as compared to other nations being at an average of 7.6% whereas it is 17% in the United States.

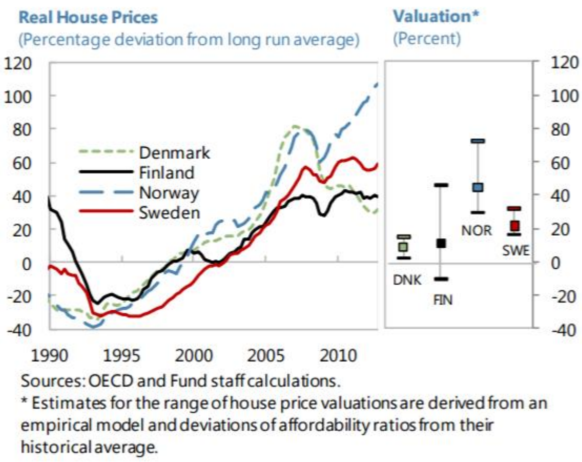




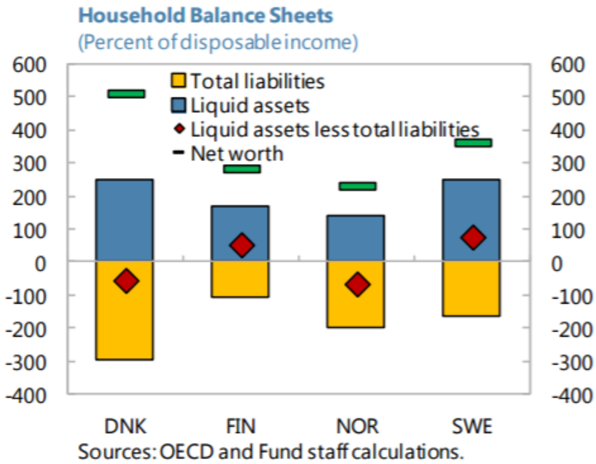
Source – Human Development Report, UNDP (2014)

6.4. THE HOUSEHOLD DEBT AND HOUSING PRICE CHALLENGE

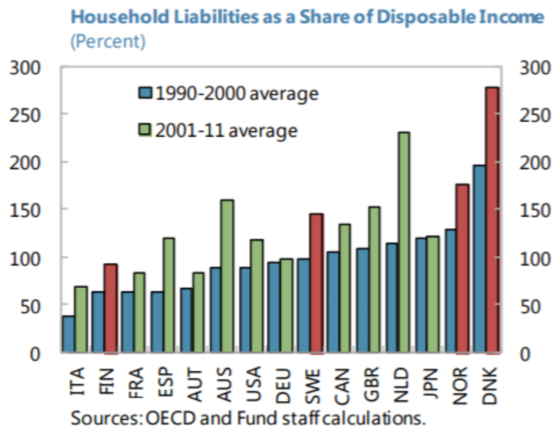
Household prices in the Nordic region are rising since the mid-1990s and rose till 2007 and became divergent after 2007. Housing prices have risen by more than 120% on average between 1995 and 2007. After 2007 the housing price has been decreasing in Denmark, whereas they are increasing in Norway and somewhat stable in Sweden and Finland. The reason for the price correction in Denmark is the construction boom which increased the housing supply exponentially and hence decreasing the prices of houses. The Norwegian housing market is characterised by supply shortage of units, and hence the price has been on the hike there. These supply shortages are due to stringent zoning restrictions and construction requirements, as well as strict rent control legislation in some countries. These structural rigidities in housing mean that demand continues to outstrip supply.



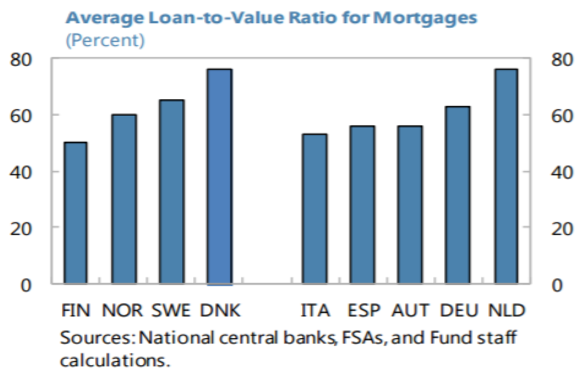
The household debt which is a problem in most of the free market capitalistic economies is a problem for the Nordics as well; most of the households don't own liquid assets that will cover their housing debt.



This increase in housing debt is attributed to increasing housing prices and very easy access to credit. The household liabilities to disposable income ratio are highest in Denmark and Norway among the OECD nations.



The risk from the household sector is even higher since the LTV ratio i.e. the Loan to Value ratio is higher for Nordics as compared to other OECD nations.



These risks are a starting signal of the household debt crisis, and the Nordic state needs to address these issues to contain any financial crises which could hurt the free market capitalistic side of the economy they have developed over the years.

6.5. IMMIGRATION

The success of the Nordic model is many times attributed to the homogeneous society and the social trust that is existent in the society. This characteristic of the Nordics is in danger as the demographic changes take place. Now that the population is growing old in the Nordic region, the labour force that they have is decreasing, and this decrease in the labour force will cause an increase in wage rates. This will increase the costs of both public and private sector, and the economy will be forced to accept immigrants. Now, that there will be a huge influx of immigrants in the Nordics in coming years there won't be any homogeneous society, and this will be a threat to the social trust and cohesion, Nordics will be required to develop an extensive legal infrastructure where they have been saving for quite a long time. Also, the welfare state in these countries is also supposed to cater to the immigrants, and this will put extra pressure on the government finances.

7. ECONOMETRIC ANALYSIS

7.1 METHODOLOGY

In this paper, we try to assess the claim put forward by the Nordic model that an economy needs a balance of both a welfare state and economic freedom to achieve economic development. We try to do this by using various proxies for these variables. So, the claim is that economic development is a function of both these variables and for economic development we use HDI as a proxy as it is a robust measure of economic development, for a welfare state we use government expenditure (% GDP) since more the government expenditure more is the welfare of the citizens in the economy, and for economic freedom we use Index of economic freedom published by the Heritage foundation. The Index of Economic Freedom focuses on four key aspects of the economic environment over which governments typically exercise policy control: The rule of law, Government size, Regulatory efficiency, and Market openness. In assessing conditions in these four categories, the Index measures ten specific components of economic freedom, each of which is graded on a scale from 0 to 100. Scores on these 10 components of economic freedom, which are calculated from a number of sub-variables, are equally weighted and averaged to produce an overall economic freedom score for each economy.

We propose the following model to assess the claim of Nordics,

$HDI = \beta_1 + \beta_2 G_i + \beta_3 F_i$

HDI = Human Development Index Source: UNDP 2014

G_i = Government Expenditure (% GDP) Source: World Bank Data Bank

F_i = Index of Economic Freedom Source: Heritage Foundation

Variable	Source
HDI	Human Development Index Source: UNDP 2014
G_i	Government Expenditure (% GDP) Source: World Bank Databank 2014
F_i	Index of Economic Freedom Source: Heritage Foundation 2014

Now, we fit this regression in Gretl using ordinary least squares method for the cross-sectional data model estimation for 173 countries for the year 2014. The reason for choosing cross-sectional data for 173 countries is that this will assess the claim at the world wide level that these two factors affect the economic development in any economy and economies lagging in any of these two aspects are expected to have low economic development as compared to the others at any point of time.

7.2. HYPOTHESIS

$HDI = \beta_1 + \beta_2 G_i + \beta_3 F_i + e_i$

Through this model, we try to test the following hypothesis,

H1: Government Expenditure (% GDP) of country "i" has a significant impact on the Human Development Index of that country

H2: Degree of Economic Freedom of country "i" has a significant impact on the Human Development Index of that country

Hypothesis	**Null Hypothesis**	**Alternate Hypothesis**
H1	$\beta_2 = 0$	$\beta_2 \neq 0$
H2	$\beta_3 = 0$	$\beta_3 \neq 0$

7.3. RESULTS OF THE REGRESSION

```
Model 5: OLS, using observations 1-173
Dependent variable: HDI

                     coefficient   std. error   t-ratio   p-value
  ----------------------------------------------------------------
  const              -0.0525646   0.0531759    -0.9885   0.3243
  Score               0.00987051  0.000792519  12.45     1.02e-025 ***
  GovtExpenditureo~   0.00427782  0.000600920   7.119    2.93e-011 ***

Mean dependent var   0.693994   S.D. dependent var   0.155923
Sum squared resid    1.899461   S.E. of regression   0.105704
R-squared            0.545765   Adjusted R-squared   0.540421
F(2, 170)            102.1280   P-value(F)           7.39e-30
Log-likelihood       144.7875   Akaike criterion    -283.5750
Schwarz criterion   -274.1152   Hannan-Quinn        -279.7372
```

Hypothesis	**Null Hypothesis**	**Alternate Hypothesis**	**Rejected/ Not Rejected**
H1	$\beta_2 = 0$	$\beta_2 \neq 0$	Rejected
H2	$\beta_3 = 0$	$\beta_3 \neq 0$	Rejected

Given above is a screenshot of the results obtained by fitting the model in Gretl. So, we can see that both the variables i.e. Index of economic freedom and Government expenditure (% GDP) are found to be significant since they have very low p-values and high t-ratios. The Adjusted R- square of the fitted regression is 0.54 which shows that around 54% of the variation in HDI can be explained by variations in the independent variables. The p-value of F statistic is also very small, and hence the overall model is also significant. So the claim of Nordics that both the variables affect the economic development seems valid.

7.4. LIMITATIONS OF THE REGRESSION EXERCISE AND FUTURE WORK

There are several limitations in the regression exercise that we have performed. Firstly, we have regressed HDI on just two variables which have given us a 54% R-squared, and we haven't included several other variables which might affect the human development in the economy. Next, we have just conducted a cross-sectional analysis of 173 countries, and hence we have not taken into account the past variables which might affect the economic development, a robust analysis would be to conduct a panel data regression of these countries to assess the claim. Also, we have not considered the lagged variables because the effect of both government expenditure on various welfare services as well as various decisions taken by any government to increase the economic freedom will show its effect with some time lag in the economy. We have used government expenditure (% GDP) as a proxy for welfare services provided by the state, but this also includes expenditure made by the government on non-welfare services such as government consumption, defence expenditure, etc. A better proxy would be to include expenditure just on various welfare services which would involve identifying various welfare services such as health, education, retirement benefits etc. and then calculating expenditure on them, but this the major roadblock in this process is the lack of availability of data. In future, we intend to find more variables that affect the economic development and include them in our regression analysis and also try to find a better proxy variable for the welfare services provided by the state. Also, the future work in this analysis would include doing two sets of panel data regressions where one would be for all the 173 countries which would assess the claim if all these variables have been affecting economic development for the countries over time, and the next panel data analysis would be only for the five Nordic nations which would show if these variables have been significantly affecting economic development for these countries where this model has been used and this would in true sense assess the claim of Nordic countries.

8. CONCLUSION

Overall, the Nordic Model has been quite successful in maintaining a balance between efficiency and equity. The combination of free markets and a welfare state has proved to be a big positive for these countries in achieving growth and development. Looking at the various indicators of economic and social well-being, one can find the Nordic countries to be at the top of everything. The Nordics have shown the world that high per capita incomes can be sustained with low-income disparities. A higher public expenditure by the government on various welfare schemes has improved the social welfare of its citizens.

At the same time, there are certain challenges that pose a serious threat to the stability of this model. The looming presence of an ageing labour force coupled with a rising cost of welfare services and high immigration will threaten the sustainability of this model. The countries will have to find a way to get around these issues without compromising on the growth process. As we have seen, the Nordics have proved time and again that their unique mode of development has safeguarded the economic and social wellbeing of the people in times of adversities. It is no wonder that the citizens of these countries are ranked as the happiest people in the world. The model proves to be a game changer in the way economies approach the process of development, thus making it the most suitable model for the developing nations to achieve sustainable growth and development.

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NEOLIBERALISM IN THE LABOUR MARKET

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Neoliberalism is a theory of political economy that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework, characterised by strong private property rights, free markets and free trade (Harvey 2005). Here, the role of the state is minimised to create and maintain an institutional framework appropriate to such practices. The role of the state is partly defensive and partly promotive, and by no means an exclusive promoter. The power to choose both the means and ends of a production process has been handed from the state to the private hands (Heilbroner, 1985). State power used to maintain law and order in the country is important for the preservation of the market mechanism. Only those activities which can result in monetary losses if carried out by private enterprises (i.e. building of railways, canals, highways, etc.) are undertaken by the state (Heilbroner, 1985).

The rise of neoliberalism is particularly associated with Ronald Reagan (1980) and Margaret Thatcher (1979). Thatcher took to a privatisation drive which facilitated the sale of several state assets to the private sector, while Reagan announced a supply side oriented Programme for Economic Recovery and reduced marginal tax rates considerably.

Neoliberalism manifests itself as a concrete set of public policies in the form of Deregulation, Privatisation and Liberalisation. Sectors regulated by the state must be freed from state interference and run by the private sector (Manfred B. Steger and Ravi K. Roy 2010). Competition, among individual firms, must be seen as key and can eliminate bureaucratic red tape, increase efficiency and productivity, and reduce costs of the commodities traded. Free mobility of capital is central to neoliberalism, and any barriers to its movement have to be removed (Harvey, 2005). This flexibility extends to the labour market too, and neoliberalism necessitates anti-unionisation of labour to enhance productivity and mobility. Here, the task of labour discipline and command is handed by the state to the employers, who carry on the indispensable task of labour exploitation. Since labour has the freedom to leave, it can at any time, appeal to the court if the wage contract is abrogated.

However, labour itself is relatively free under the dispensation of the market (Heilbroner, 1985). If the state interferes and imposes several labour regulations and laws, then the market mechanism cannot function efficiently and reduces labour productivity (Sofi & Sharma, 2015). An example of this can be observed in India, where Chapter V-B of the Industrial Disputes Act (IDA), 1947 requires that firms employing 100 or more workers obtain government permission for layoffs, retrenchment, and closures. These highly rigid laws restrict labour mobility and affect industrial performance, output, investment and employment expansion (Besley & Burgess, 2002). The nuances of neoliberalism ascertaining the importance of market mechanism are violated as these heavy restrictions have minimised labour flexibility in the production process.

It is believed that employers have to go through a lengthy procedure to finally get the permission required to dismiss workers (Bhattacharjea, 2006). Further, under Section 25-F of the IDA, an employer employing more than 100 workers has to pay a "severance cost" besides issuing a formal notice (to the workers) in the event of a layoff or retrenchment. Retrenchment or closure without the government's notice involves a penalty, which includes a fee, and at times prison sentence for the employer. There are several laws apart from the IDA that promotes inflexibility. There are also more than 50 state level labour laws relating to job security.

Apart from these, there are laws which allow for the easy formation of labour unions, in the name of liberty of labourers. Trade unions are regulated under the Trade Union Act (TUA) 1926, which allow even seven workers to register for a trade union and be a part of the bargaining negotiations. However, this is not consistent with the neoliberal principle of anti-unionisation of labourers (Steger & Roy, 2010). Moreover, because of increased unionisation, the number of strikes increase, thereby hindering the production process and further affecting industrial performance and TFP (Sofi & Sharma, 2015). These restrictive labour laws greatly limit quick hire and fire, and thus even if a labourer is not productive, they would remain a part of the production process, even when the contribution is meagre.

All these rigidities demand deregulation in the labour market and claim that free market outcomes are efficient and Pareto optimal. Market forces result in employment of resources at market clearing prices, which in turn lead to both efficiency (full employment) and equity (prices are equal to marginal costs) (Das, Choudhury & Singh, 2015).

But in recent times, there have been an enormous number of cases where labour contracts are violated, and the employer retrenches the labourer without prior notice. A majority of such cases are lying pending in the court or are being ruled in favour of the employers. Employers have found loopholes within this rigid, inflexible system and the emergence of contract workers has provided the much-needed flexibility. This constitutes a *Reform by Stealth,* in the labour market (Bardhan, 2010).

These restrictions have been worked around by the employers, by using contract workers- These are primarily labourers, who are hired for a small duration of time and can be hired and fired easily unlike permanent workers. Contract workers are employed and regulated under the Contract Labour Act (CLA), 1970. According to the law, the contract worker would be given the same wage as the permanent worker he/she is hired in lieu of. The CLA itself works to regulate as well as abolish contract labour, but of late due to this flexibility, employers can circumvent the rigidities in the labour market. Furthermore, there have been many cases where the court ruled in favour of the employer, where there was a conflict in the use of contract workers in the production process (Steel Authority of India v. National Union Water Front Workers AIR 2001 3527).

Even though the state has placed restrictions on the movement of labour in the production process, reforms have still found a way into the system. Reforms, though not mandated by the state, have evolved through an organic change in the market and have worked to the advantage of the employers. Thus, arguments suggesting that the Indian labour market is rigid and inflexible can be discredited.

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SOCIO-ECONOMIC ANALYSIS OF STREET VENDORS IN DELHI

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Following is a detailed summary of a primary survey based research project conducted under the Department of Economics, Ramjas College.

Street vending forms an integral part of the urban economy as well as the informal sector in India. It is also a significant source of employment for the poor since it requires little financial input. Street vending appeals to individuals who seek basic survival, as the barriers to entry into this occupation are virtually non-existent. Limited start-up costs and flexible working hours for the workers are some of the various factors that make street vending an attractive occupation, especially for those who cannot be absorbed by the formal sector. Even though street vending can be an easy profession to start with, surviving as a street vendor demands a certain level of skill as it includes not only withstanding atrocities created for them by the authorities but also competition among the vendors for space on the street and access to customers. Given this background, the research paper studies the socio-economic profile of the street vendors in Delhi, through a primary survey. The study was carried out from November 2015 to January 2016.

The study was conducted in parts of Delhi, namely Kamla Nagar and Chandni Chowk wherein 30 vendors from each market were surveyed with the help of a comprehensive questionnaire, and necessary implications were drawn from the respective responses. The study intends to throw light upon its objectives, namely, (i) Socio-economic analysis of these vendors (ii) to what extent the implementation of government schemes has been successful in protecting their rights (iii) Difficulties/problems that could be mitigated in case street vendors are legalised. According to the survey, the age distribution of street vendors widely varied from the youngest being 17 years and the oldest being 55 years. A significant number of street vendors lie in the categories of 25-30 and 20-25 years, constituting 26.67% and 16.67% respectively. On average 3-4 members are dependent on each street vendor. The street vendors shoulder heavy responsibilities by providing their dependent members with education, health care, food, to all sorts of necessary requirements.

As per the survey, street vending is a male dominated occupation as only 5 out of 60 vendors surveyed were females. There are a few reasons for this biasedness. Firstly, women get demotivated by the arrogant behaviour and abusive language used by the government authorities as well as the shopkeepers. Secondly, they do not feel safe to work as vendors due to long late working hours in this occupation. On the other hand, no disparity in the earning of male and female vendors was observed.According to the survey, migration of the street vendors is highly prevalent. 65% of the vendors have migrated from their respective places to Delhi. 46.16% have migrated from Bihar, 43.59% are from Uttar Pradesh constituting the highest percentages, rest coming from Gujarat, Rajasthan and Madhya Pradesh. This highlights the fact that a major chunk of the vendors have migrated from backward and densely populated regions. The vendors gave various reasons for the same. These include lack of job opportunities and availability of only seasonal work in native states, keeping them unemployed for the major part of the year, and, insufficient earnings from any source of work they're engaged in. Farming, an important source of subsistence for migrants back in their native states, suffers from a problem of disguised unemployment. The presence of minimal or no entry barriers in metropolitan cities like Delhi attracts individuals. The implication of migration is that it leads to overcrowding and congestion. Migrated vendors also pay a high social cost in terms of staying away from their families. Also, 91.67% of the total vendors resort to doctors (preferably government doctors) for treatment whereas 8.33% prefer self-medication. The justification for self-medication was the lack of affordability and opportunity cost of waiting and consulting a doctor, which hampers their day's earnings. Survey further focused on finding out whether street vendors have access to clean water and clean toilets (sulabh souchalya). 80% of the vendors have access to both the facilities, 10% of them access to either of the two facilities and the rest 10% have access to none. In many cases, there were common toilets shared among many people. This highlights the lack of accessibility and affordability of basic amenities by a small segment of the vendors.

The paper looks into the broad concept of exploitation, narrowing it down to a particular mode of exploitation- the collection of *hafta*. *Hafta* is the protection money collected periodically by government officials and is an illegal and unauthorised activity. This amount ranges widely from vendor to vendor with no regularity in payment. On an average, street vendors spend 20% of their expenditure on *hafta*. They are forced to pay *hafta*, else facing eviction from the roads and from outside the brick and mortar stores and a take away of their belongings, resulting in huge losses. Besides, even after the collection of *hafta*, the authorities provide no assurance or guarantee for their protection. While surveying, we found that majority of the stationary vendors such as those selling clothes and accessories suffered from this problem. This is because when the official authorities came for the routine collection of *hafta*, it was difficult for them to escape paying due to their inability to move from place to place. In contrast to this, peripatetic and mobile vendors were able to escape from paying *hafta* by moving from place to place.

Furthermore, 38.3% of the vendors surveyed, take loans to fund their financial requirements. Out of the vendors who take loans, 91.67% acquire loans from the informal sector such as moneylenders, friends, etc. The reason for choosing money lenders over formal sector is the requirement of massive paperwork which the vendors are reluctant to fulfil due to the lack of sufficient education to do the paperwork or being illiterate. Another reason given by the vendors was their inability to fulfil collateral requirements due to their fluctuating and unstable income. In contrast, out of the total vendors who save (75%), 74% save in the formal sector and the rest send the money back to homes. The proportion of street vendors saving and taking loans from formal and informal sectors indicate that even though there is financial inclusion, it is not complete since the savings are deposited in the formal sector, but loans are majorly taken from the informal sector. Hence, it can be said that there is a partial financial inclusion prevalent in the economic system with respect to street vendors.

Besides, the study also focuses on their income and expenditure patterns. The average earnings of the vendors were Rs 10474.58, with the minimum being Rs 5000 and maximum being Rs 27500. The average earnings of street vendors per day were Rs 349.1356 with the minimum being Rs 167 sand maximum being Rs 917. The per day earning when compared with the minimum wages for unskilled workers in scheduled employments under Minimum Wages Act 1948 in Delhi which is Rs 311 (as on 31.12.2013)[2]showed that 50.85% of the vendors earn less than the minimum wage and 49.15% of the vendors earn above Rs 311. This implies that nearly half of the street vendors surveyed were not earning minimum wages, providing a rationale for government intervention in the urban informal sector. Moreover, 35% of the vendors are below the poverty line[3] which indicates that these vendors fail to maintain an adequate living standard for a comfortable lifestyle.

[2] http://www.delhistat.com/table/labourandworkforce/380987/minimumwages19912014/19325/912109/data.aspx

[3]Poverty line estimate for the year 2011-12 for urban areas is Rs.1134.
http://delhi.gov.in/wps/wcm/connect/b7472d8048d8ef7ca95bf97a2b587979/ESD+2014-15+-+Ch-20.pdf

Besides, organised retailing comprises mainly of modern retailing, including busy shopping malls, brick and mortar stores and huge complexes, offering a large variety of products in terms of quality, and value for money. From the survey, it was observed that 94.73% of the vendors claimed no change in their sales, as the products available with them differed from those available with the shops, especially in the case of handmade products. This implies that harmony of street vendors and organised markets can exist**,** wherein different strata of the society are catered to.

The government of India has taken two initiatives for the upliftment and regularisation of street vendors. The paper, through its qualitative primary survey, tries to find out the success of the two schemes in the survey area. These are Street Vendors Act, 2014 and National Policy on Urban Street Vendors, 2009. As per the survey, only 9 out of 60 vendors were aware of the first policy, constituting 15% of the total vendors. Newspapers, radio and television, are the sources which created awareness among these vendors. On the other hand, 10 out of 60 vendors were aware of the other policy, constituting 16.67% of the total vendors. The sources which created awareness remain the same as mentioned above. There is no supportive environment for them to carry out their activities and these areas are congested and overcrowded. Street vendors are not legalised and have not been provided with legitimate street/ hawking zones. The prevailing condition of these vendors suggest that the initiatives were not properly implemented in Kamla Nagar and Chandni Chowk as they are still harassed by government authorities and are not protected and provided with livelihood rights.

Of the various problems faced by the street vendors, the majority of them are stimulated from illegalised. The excessively abrupt and harassing behaviour of the authorities and Vyapar Mandal only makes their condition miserable and worse. Therefore, consistent negotiations with police and MCD almost results in nothing but a constant fear of confiscation of their products and eviction. The absence of unions or associations among vendors also strengthens the exploitative activities carried out by the authorities against the vendors. This occupation carried out on the roadside is highly dependent on weather condition. Any uncertain, unfavourable change in weather ruins their day's sales and eventually their earnings.

Considering the various problems faced by the vendors, the study gives some suggestions to improve the Street Vendors' livelihood. First, vending license and proof of identity can be provided to carry out vending in specific areas. This will remove the fear of eviction and confiscation of goods. Second, authorities should charge a fixed amount periodically in the form of license fee with proper receipt instead of having vendors pay in the form of bribes. A collection of a monthly license fee will also stop the leakage in the form of *hafta.* As a result, the government will get an extra source of revenue to be circulated in the economy. Third, vendors can be clubbed together in small groups like self- help groups (SHGs among women in rural areas) for loan and credit facilities from banks, increasing their acceptability. The attempt can be towards forming SHGs to create a financial interface between the vendors and formal sector financial institutions to gain access to larger credit not only for income generation but also for housing, education, health, etc. (Bhowmik, n.d.). This might increase the percentage of vendors taking loans from the formal sector which will, in turn, solve the problem of partial financial inclusion. Fourth, the government can evolve a mechanism to listen to the grievances of the vendors. A street vendor *'mitra'* (like "*Vikas Mitra*" in Bihar (Kumar & Somanathan, 2015) can be appointed who would act as a linkage between the government and the street vendors. The street vendor *'mitra'* can look into the effective implementation of the policies. Fifth, providing street lights and affordable as well as well-regulated electricity would make the streets safer for everyone and support street vending (Szakonyi, & Urpelainen, 2016). Permanent built structures and storage facilities would help vendors protect their goods from spoilage and unfavourable weather. Provision of permanent build structures and street lights would also increase the participation of women in vending by making them feel safe and secure. Sixth, street vendors are in the best position to identify the sources of vulnerability in the sector, and they can have participation in designing and implementing measures to address them. Garbage disposable dustbins should be installed in all vending areas so as to keep the areas hygienic.

Hence, the preceding analysis of the socio-economic conditions of the street vendors throws light on the various issues pertaining to this occupation. The vendors provide a wide array of goods and commodities to the urban populace at reasonable prices and convenient locations.[6] As the cost of creating jobs in street vending is very low, it needs to be integrated into the context of the overall macro economy and efforts must be made to remove the hindrances in the functioning of the street vending which would pave the way for their betterment.

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FINANCIAL INCLUSION – A POLICY ANALYSIS ACROSS THE STATES OF INDIA

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1. INTRODUCTION

The consensus is that financial development acts as a stimulus for the overall growth and development of an individual. Financial inclusion helps in breaking the shackles of financial deprivation by providing a linkage between people and the financial mainstream of the economy. Further, by bringing low-income groups within the perimeter of the formal banking sector; it protects their financial wealth and other resources in exigent circumstances. Financial inclusion also mitigates the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit. (RBI Assessment Report, 2013)

In fact, various policies which were a precursor to the huge step of recent Demonetization drive in November 2016 by the Prime Minister of India were aimed at pushing for more inclusion and penetration of e-banking via Point of Sales Machines, Banking Correspondents (BC), and promoting e-wallets and e-banking.

International comparison underscores the fact that India has not performed satisfactorily well as compared to its contemporaries. It has been ranked even below Kenya as per the Brookings Financial & Digital Inclusion Project (FDIP) Report, 2015. 51.4% of Indian farmer households are financially excluded from both formal and/or informal sources (RBI, 2013)[4]. Even a small country like Mauritius has over 210 ATMs per 1000 kilometres as compared to only 25 in India. It is a reflection of under-penetration of formal banking facilities in most parts of the country.

This paper analyses the aggravated problem by studying the direct and/or indirect impact of myriad factors on the level of countrywide financial inclusion. By regression analyses thus conducted, the review of existing policies has been made, and further suggestions have been recommended to ameliorate the present situation.

Definition of Financial Inclusion

Financial inclusion can be broadly defined as an economic state where individuals and firms are not denied access to basic financial services based on motivations other than efficiency criteria. (International Monetary Fund (IMF) Working Paper, 2014)

Committee on Financial Inclusion, chaired by Dr Raghuram G. Rajan, defines Financial Inclusion as universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products.

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way. (World Bank)[5]

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[4] Speech delivered by Bhaskhar, P.V. (2013). Executive Director, RBI at the MFIN and Access-Assist Summit. Retrieved from - https://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=862
[5] World Bank. Financial Inclusion Overview. (2016) Retrieved from - http://www.worldbank.org/en/topic/financialinclusion/overview

Global and national level policymakers have been embracing financial inclusion as a tool to propagate sustainable long-term economic growth.

The remainder of the paper is structured as follows: Section II gives a review of the literature regarding the evolution of financial inclusion. Section III outlines the methodology and description of the model used for analysis. Section IV summarises the findings and results. Section V lays down the suggestive policies that are required. Section VI provides the concluding remarks.

2. LITERATURE REVIEW

Historical Genesis

The concept of examining financial access became important immediately after the results of the All India Rural Credit Survey conducted in 1950 which highlighted that farmers relied heavily on money-lenders in the year 1951-52. The condition of urban areas with a large number of bank branches relative to rural areas continued in the country until RBI started financial inclusion growth model in the 2000s.

With the nationalisation of banks in 1969, the government aimed to extend financial services to rural India. This rapid expansion led to an increased lending in the 'priority sector' areas. Also, the government established Regional Rural Banks (RRBs) in the 1970s. These banks introduced services specifically designed for the rural population. In addition to this, the National Bank for Agriculture and Rural Development (NABARD) was established in 1982 to deal with all matters related to agriculture and rural development.

In true sense, financial inclusion gained momentum in India since 2005-06 when the Reserve Bank of India (RBI) in its Annual Policy stressed upon the banking practices that hampered financial inclusion of the masses. RBI has initiated a series of reforms and urged banks to promote financial services among the low-income groups and to provide a basic no-frills banking account with nil or very minimal balance or charge to enhance financial inclusion.

In 2006, another major step taken by RBI was to allow banks to engage BCs and business facilitators (BFs) as intermediaries for providing financial services, especially in rural areas. With the help of Business Correspondent model, banks have been able to provide doorstep delivery of services in the rural areas.

In the financial year 2007-08, two funds-Financial Inclusion Fund and Financial Inclusion Technology Fund were initiated.

Select Studies

PAPER NAME	AUTHOR NAME	OVERVIEW OF THE PAPER
Financial Inclusion, Vulnerability and Mental models: Study of low-income area of Mexico City	Max Nino, James Copestake (2008)	Empirical study based on Qualitative, Quantitative and Cognitive Models confirming the significance of individual's resources, socio-economic variables and socialised learning in use of financial services
Measuring Financial Inclusion: Explaining Variation in Use of Financial Services across and within Countries	Asli Demirgïlc-Kunt, Leora Klapper (2013)	Highlights market dysfunctionalities and focusses on impediments resulting in exclusion of 50% world population with reference to Global Findex Data
Status of Financial Inclusion, Regulation, and Education in India	Abheek Barua, Rajat Kathuria, Neha Malik (2016)	Suggests the paradigm shift in India's financial inclusion agenda from traditional credit services to a more holistic approach for provision of financial products. It emphasises the critical role of regulation in achieving progress through strong banking network, Microfinance institutions, Aadhaar.

Understanding Financial Abandoning from micro perspective: Policy responses to promote inclusion in India	M. Mahadeva (2009)	Elucidates the ignored demand side factors & shortfall of measures taken up by administrative units to explain financial exclusion and focusses on latent potential of existing institutions and Self -help groups (SHGs) to improve inclusion.
Financial Inclusion in India: Select Issues	Charan Singh (2014)	Theoretical analysis of efficient utilisation of in-hand resources like Fair Price Shops, Banking Technologies, Mobile phones, BCs and India Post Office thereby making it more compatible with the rural population needs along with interest of formal sector and augmenting the situation of financial inclusion in India.

Table 1. Source – Self-compiled

3. RESEARCH METHODOLOGY

For the Panel Data Analysis of Secondary data, the diversified sample of size 78 (26 Indian States over 3 years) has been primarily compiled from RBI Reports of 2013, 2014, 2015 and India Stat Data files of 2013, 2014 and 2015.

Multiple Linear Regression Analysis has been performed to determine the relationship between the explained and explanatory variables pertaining to Financial Inclusion. Result analysis is largely based on the significant findings from the regression equations, and conclusive recommendations have been provided thereafter.

Software Package for Social Sciences (SPSS) has been used to conduct the econometric analysis and Microsoft Excel for pictorial representations and presenting the tabular information.

About The Model

To study the reasons behind India's backwardness in Financial Inclusion from years 2012-13 to 2014-15 and to provide the suggestive policies for the same, the regression analysis is based on the following model:-

DEPENDENT VARIABLE	ABBREVIATION	VARIABLE DESCRIPTION
Per Capita Deposit Accounts[6]	Y_1	Indicator of number of Deposit Accounts in Scheduled Commercial Banks[7] (SCBs) Per Person Per State
Per Capita Credit Accounts	Y_2	Indicator of number of Credit Accounts in SCBs Per Person Per State

Table 2 – Regression Variables

Source- RBI Reports March 2013, 2014, 2015

[6] Deposit Accounts includes savings & term deposits and excludes current account deposits
[7] Includes Public Sector banks, Private sector Banks and Foreign Banks

INDEPENDENT VARIABLE	ABBREVIATION	VARIABLE DESCRIPTION
Rate of Growth of Population (%)[8]	ROGPop	Percentage Change in Population Base per Year per State
No. ATMs per 1000 km^2	ATMKm	Geographical Penetration of ATM services of SCBs per 1000 sq. km for a State
No. ATMs per 1,00,000 people	ATMPop	Per Capita availability of ATM services (per 1,00,000 people) of SCBs for a State
No. of Reporting Offices per 1000 km^2	ROKm	Geographical Penetration of Reporting Offices of SCBs per 1000 sq. km for a State
No. of Reporting Offices per 1,00,000 people	ROPop	Per Capita Availability of Reporting Offices (per 1,00,000 people) of SCBs for a State
Govt. expenditure to GSDP (%)	GE	Share of Govt expenditure (including capital and revenue) in GSDP of a State; proxy for developing financial infrastructure
Log Per Capita NSDP at Factor Cost	NSDP	Growth rate of Per Capita Income per State; proxy for indicating overall economic health of a State
No. of SHGs linked to bank loans	SHGs	Accessibility of banking services to small & marginalised groups in a State; proxy for indicating Credit Availability to Rural and Lower Strata of Society
Literacy Rate[9] (%)	LR	Percentage of adult population in a State who can read and write; proxy to indicate financial literacy
Base rates for lending[10] (%)	BR	Minimum Rate set by RBI below which SCBs are not allowed to lend to its customers; proxy for Cost of Formal Borrowings from commercial banks
Year 2014	Y2014	To study the progress of financial inclusion of states in comparison to 2012-13[11] (Reference Category)
Year 2015	Y2015	To study the progress of financial inclusion of states in comparison to 2012-13 (Reference Category)
State Dummies (SD)	DState	To control for inter-state disparities and study the progress of financial inclusion relative to Kerala[12] (Reference Category)

Table 3. Source - RBI Reports March 2013, 2014, 2015; India Stat Data Files 2012-13, 2013-14, 2014-15

[8] Estimated from population prediction data from India Stat
[9] Data is of 2011 as stated in Census 2011
[10] Minimum base rate of Public Sector banks for the fourth quarter of FY 2013,14,15
[11] Taken as the base category because the year marked the inclusion of 'widening the financial coverage' as a primary policy goal
[12] Taken as the base category because Kerala has one of the highest Financial Inclusion Score as per the CRISIL Index 2015

4. SUMMARY STATISTICS

a) <u>MODEL 1:</u> Y = f (X variables including Time Dummies, State Dummies)

DEPENDENT VARIABLE	Significant INDEPENDENT VARIABLE	BETA Coefficients	STD. 9Error	t-Stat	P-value[13]
Y_1	Constant	-1.099	0.276	-3.982	0
	ATMKm	0.007	0.002	3.385	0.002
	ATMPop	-0.018	0.008	-2.225	0.031
	ROKm	-0.015	0.005	-2.739	0.009
	ROPop	0.074	0.023	3.192	0.003
	LR	0.028	0.006	4.95	0
	Y2014	0.102	0.025	4.094	0
	Y2015	0.24	0.035	6.836	0
	Dummy Assam	-0.449	0.183	-2.451	0.019
	Dummy Gujarat	-0.486	0.226	-2.151	0.037
	Dummy Haryana	-0.277	0.136	-2.041	0.048
	Dummy Himachal Pradesh	-0.864	0.396	-2.182	0.035
	Dummy Madhya Pradesh	-0.459	0.196	-2.344	0.024
	Dummy Manipur	-0.742	0.25	-2.964	0.005
	Dummy Meghalaya	-0.808	0.272	-2.972	0.005
	Dummy Mizoram	-1.36	0.4	-3.405	0.001
	Dummy Nagaland	-0.938	0.251	-3.741	0.001
	Dummy Rajasthan	-0.496	0.201	-2.472	0.018
	Dummy Sikkim	-0.942	0.366	-2.576	0.014
	Dummy Tripura	-0.66	0.247	-2.671	0.011
	Dummy Uttarakhand	-0.684	0.304	-2.247	0.03
Y_2	Constant	-.297	.034	-8.707	.000
	ATMKm	.001	.000	3.457	.001

[13] Significance of variables based on 5% level of significance

	ROKm	-.001	.001	-2.227	.031
	ROPop	.006	.003	2.117	.040
	SHGs	-6.957E-08	.000	-2.200	.033
	LR	.006	.001	8.472	.000
	Dummy Andhra	.121	.028	4.369	.000
	Dummy Assam	-.074	.023	-3.260	.002
	Dummy Goa	-.149	.042	-3.528	.001
	Dummy Gujarat	-.122	.028	-4.353	.000
	Dummy Haryana	-.092	.017	-5.501	.000
	Dummy Himachal Pradesh	-.154	.049	-3.152	.003
	Dummy Jharkhand	-.046	.019	-2.506	.016
	Dummy Madhya Pradesh	-.073	.024	-3.003	.004
	Dummy Manipur	-.132	.031	-4.272	.000
	Dummy Meghalaya	-.107	.034	-3.172	.003
	Dummy Mizoram	-.190	.049	-3.836	.000
	Dummy Nagaland	-.130	.031	-4.179	.000
	Dummy Punjab	-.073	.017	-4.357	.000
	Dummy Rajasthan	-.050	.025	-2.022	.050
	Dummy Sikkim	-.165	.045	-3.640	.001
	Dummy Tamil	.198	.024	8.254	.000
	Dummy Tripura	-.112	.031	-3.683	.001
	Dummy Uttar	-.044	.007	-6.100	.000
	Dummy Uttarakhand	-.127	.038	-3.380	.002

Table 4. Source - Self-compiled from regression analysis

Model 1 infers that ATMKm, ROPop and LR are significant positive explicators of Per Capita Deposit and Credit Accounts. While ATMs and reporting Offices of banking institutions are the supply side factors that increase the accessibility of banking services, the literacy rate is a demand side factor indicating that well-educated people are driven towards the ease of transacting through banks.

The same significant states for both deposits and credits have negative coefficients highlighting that they lag behind Kerala regarding absolute coverage of the population in the banking system.

b) MODEL 2: Y = f (X Variables, State Dummies, X*State Dummy)

Dependent Variable	Model Description	Adjusted R^2	F-Stat	Sig. X	Sig. State D	Sig. Interactive D
Y_1	*X+ SD + LR*SD*	0.992	275.781	7	5	8
	*X+ SD + SHGs*SD*	0.995	294.691	7	18	4
	*X+ SD+ ROGPop*SD + SHGs*SD*	0.998	473.895	8	4	11
Y_2	*X+ SD + ATMKm*SD*	0.999	1916.119	5	8	9
	*X+ SD + ATMPop*SD*	0.999	1882.551	5	8	9
	*X+ SD+ ROKm*SD + SHGs*SD*	1	20311.072	7	17	13

Table 5. Source - Self-compiled from regression analysis

Regression analysis of Model 2 provides a commonality of the noteworthy interactive impact of ROPop, ATMKm and SHGs on explained variables at 5% level. Adding the interactive impact of quantitative variables with states has led to a surge in the number of significant State dummies indicating that the partial effects strongly explain the disparities in States relative to Kerala. Both the time dummies are significant indicating that inclusion has increased from 2013 in all the states though marginally only with coefficients ranging between 0 and 0.03.

c) MODEL 3: Y = f (X Variables, X*StateDummy)

Dependent Variable	Model Description	Adjusted R^2	F-Stat	Sig. X	Sig. Interactive D	Sig. Interactive State
Y_1	*X + LR*SD*	0.992	275.78	7	13	Assam, Guj, Haryana, HP, MP, Manipur, Meghalaya, Mizoram, Nagaland, Rajasthan, Sikkim, Tripura, UK
	*X + ATMKm*SD*	0.995	484.78	4	17	Andhra, Arunachal, Assam, Guj, Haryana, HP, JK, Jharkhand, Karnataka, MP, Maharashtra, Manipur, Odisha, Sikkim, TN, Tripura, UK

	*X + ATMPop*SD*	0.995	483.34	5	16	Andhra, Arunachal, Assam, Guj, Haryana, HP, JK, Jharkhand, Karnataka, MP, Maharashtra, Manipur, Odisha, Sikkim, TN, Tripura, UK
	*X + NSDP*SD*	0.992	274.98	7	11	Assam, HP, MP, Manipur, Meghalaya, Mizoram, Nagaland, Rajasthan, Sikkim, Tripura, UK
	*X + GE*SD*	0.996	489.79	5	18	Arunachal, Assam, Bihar, Guj, Haryana, HP, JK, Jharkhand, MP, Manipur, Meghalaya, Mizoram, Nagaland, Odisha, Rajasthan, Sikkim, Tripura, UP, UK
	*X + BR*SD*	0.993	287.42	6	10	Guj, HP, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, UK
Y_2	*X + LR*SD*	0.996	539.77	5	19	Andhra, Assam, Goa, Guj, Haryana, HP, Jharkhand, MP, Manipur, Meghalaya, Mizoram, Nagaland, Punjab, Rajasthan, Sikkim, TN, Tripura, UP, UK
	*X + ROGPop*SD*	0.993	284.66	3	23	Arunachal, Assam, Bihar, Goa, Guj, Haryana, HP, JK, Jharkhand, Karnataka, MP, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Odisha, Punjab, Rajasthan, Sikkim, Tripura, UP, UK
	*X + ATMKm*SD*	0.988	180.97	3	20	Andhra, Arunachal, Assam, Guj, HP, JK, Jharkhand, Karnataka, MP, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Odisha, Rajasthan, Sikkim, TN, Tripura, UK
	*X + ATMPop*SD*	0.989	190.36	3	20	Andhra, Arunachal, Assam, Guj, HP, JK, Jharkhand, Karnataka, MP, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Odisha, Rajasthan, Sikkim, TN, Tripura, UK
	*X + GE*SD*	0.996	607.78	2	23	Arunachal, Assam, Bihar, Goa, Guj, Haryana, HP, JK, Jharkhand, Karnataka, MP, Manipur, Meghalaya, Mizoram, Nagaland, Odisha, Punjab, Rajasthan, Sikkim, TN, Tripura, UP, UK
	*X + BR*SD*	0.997	722.1	3	22	Arunachal, Assam, Bihar, Goa, Guj, Haryana, HP, JK, Jharkhand, MP, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Odisha, Punjab, Rajasthan, Sikkim, UP, UK

Table 6. Source: Self-compiled from regression analysis

Considering the explanatory powers of X variables along with the interactive dummy effects, the empirical results turn out to be quite fruitful in terms of higher adjusted R^2 and significant F-statistic. States like Andhra Pradesh, Arunachal Pradesh, Gujarat, Haryana, Himachal Pradesh, J&K, Madhya Pradesh, Manipur, Nagaland, Sikkim and Uttarakhand significantly differ from Kerala on the grounds of ATMs accessibility. Government expenditure to State proportion and Base rates for lending provide an important dimension to Financial Inclusion study.

Deductions from the intersection of the above three models narrows down the significant explanatory variables to **ATMKm, ATMPop, ROKm, ROPop and LR** signifying that foremost it's the proximity and coverage of banking institutions that help in progress. A balance between the supply and demand side factors is a must to be maintained for effective policy implementation.

Amongst the states, **Andhra Pradesh, Jharkhand, Manipur, Nagaland and Rajasthan** have significant disparities relative to Kerala after controlling for all the state effects and discretions. Kerala outperforms every state from every region of India acting as a quintessential example.

Looking into the partial effects through interactive dummies across states, **Assam, Gujarat, Madhya Pradesh, Manipur, Tripura and Uttarakhand struggle behind Kerala** in financial penetration because of the prominence of factors like SHGs, ATMs, Literacy level, Population growth, etc.

Apart from the above-highlighted indicators, 'Priority Sector Lending' by banks has also majorly explained the increase in financial inclusion from 2013 to 2014. Such advances expand the horizons of inclusion to farmers and small workers, preventing them from falling into the vicious debt traps of informal lending sources.

Tamil Nadu, Andhra Pradesh and Kerala are the top 3 states in the respective order that have witnessed maximum priority sector lending accounts aiding the people for setting up small businesses, indulging in agriculture and allied activities, accessing loans for myriad needs.

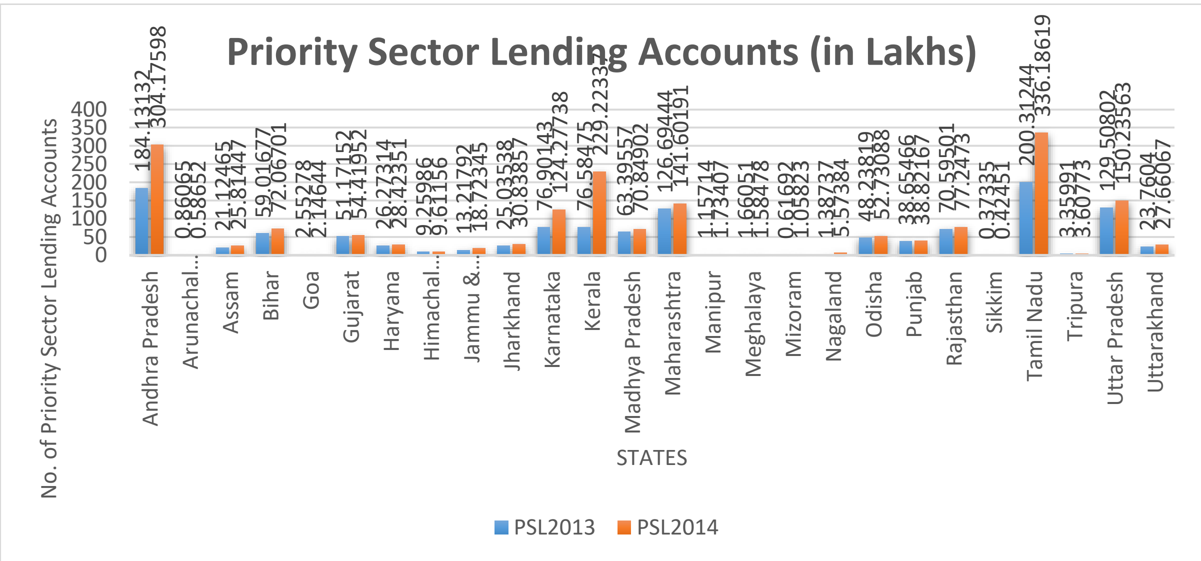

Figure 1 - Priority Sector Lending Accounts in states for years 2012-13 and 2013-14
Source - Financial Inclusion and Development Department, RBI[14]

[14] Database on Indian Economy. RBI Data Warehouse. Retrieved from - https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications#!4

5. POLICY RECOMMENDATIONS

Between the period of 2011-14, 53% of adults are reported to have a bank account, which is an 18% increase from 2011 (Global Findex 2014). However, a great inequality prevails within the nation, with 56% of the adults unbanked in poorest 40% of the population (The Little Data Book on Financial Inclusion 2015, World Bank). Another problem for Indian banking system besides the narrow account penetration is a lack of usage of existing accounts.

Due to its limited reach and minimal impact, Swabimann plan was a disappointing policy. In 2013, Pradhan Mantri Jan Dhan Yojana (PMJDY) was launched. The main problem of PMJDY which though provided inclusion to the rural sector (99.8 million accounts as on 1/7/2015) was that 51.4% of them were zero balance accounts. (GOI PMJDY Progress Report[15])

Some of the existing issues with policies taken so far include:

Banking Correspondents

Despite the efforts of the introduction of BC to act as a link between the banks and people in remote areas, the strategy has not given fruitful results due to lack lustrous branding of Banking Correspondents because of low incentive and compensation structure and preferences for brick and mortar branch by the rural economy.

Post Offices

Though Post Offices have played a pivotal role in extending financial services, the potential benefits which can be reaped from the existing infrastructure of Post Offices has not been exploited hitherto. The major bottlenecks remain an acute shortage of workforce which does not commensurate with the quantum of services that Post Offices intend to provide. Additionally, though out of 1.54 lakh Post Offices, 1.39 Lakh is in rural areas [16], the rural population still depends on informal sources of lending, as post offices do not provide such services. Presently, there isn't any mechanism by which post offices can perform core banking services including lending.

Mobile Banking

Despite similar literacy rates and stronger banking structure than countries like Uganda and Kenya, India has failed to witness a revolution in mobile banking which was rather visible in countries like Kenya where 70% of its adult population has mobile bank accounts.[17]

Literacy Programs

Informal borrowing is still an important issue: 12.6% adults (% age 15+) borrowed from money lenders; and 32.3% from friends and relatives (Global Findex 2014). This visibly shows a lack of attitudinal shift of people and various literacy programs like Financial Literacy through audio and visual-Doordarshan and established credit counselling centres have not performed satisfactorily.

Based on our findings from Quantitative models that we mentioned above, we hereby discuss some Policy recommendations that we believe should be undertaken to enhance Financial Inclusion are mentioned below.

Anganwadi System[18]

India has an estimated 1.053 million Anganwadi centres[19]. Adding one more dimension of pecuniary

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[15] Pradhan Mantri Jan Dhan Yojana. Retrieved from https://www.pmjdy.gov.in/ArchiveFile/2015/7/01.07.2015.pdf

[16] https://www.telegraphindia.com/1160601/jsp/frontpage/story_88779.jsp#.WNiXgG-GPIU

[17] Singh, C., Mittal, A., Garg, R., Goenka, A., Goud, R.P., Ram, K, & Kumar, U. (2014). Financial Inclusion in India: Select Issues. IIM Bangalore Research Paper, (474).

[18] Anganwadi is a government sponsored child-care and mother-care center which takes care of women by providing them employment training, nutritional and health needs especially in pre-natal and post-natal period.

[19] http://aanganwadi.org/index.php

needs will prove to have a magnanimous impact. Making women financially independent by endowing them with necessary education related to banking services will improve their lives. Anganwadi workers can be given basic banking training which will give them the opportunity to act as a BC. By this way, the existing infrastructure and personnel can be used to overcome the barriers of lack of physical presence of banks and also ensure last-mile delivery as promised by BCs. Setting up of kiosks or account opening desks will relieve women from the pain of physical mobility to banks and will also allow them to make informed decisions viz. usage of credit, availing benefits of subsidies and other insurance policies directly which the government rolls out time to time.

The Role of Priority Sector Advances

India has witnessed a peculiar behaviour of a spike of over 40% in farmers' suicidal rates even after an overall increase in a number of priority sector lending accounts especially in states like Maharashtra, Andhra Pradesh and Karnataka[20]. One of the prime causes of suicides has been mounting debt burdens. All this points out to the fact that there have been significant recognition lags in addressing the needs of rural people. More diversified, qualitative and quantitative loans through banks are required to prevent the farmers from falling into informal interest rates web and help people to shift to new avenues like industries, self - employed businesses, retail trade, export activities, etc.

Financial Literacy and Demographic Dividend

With India nearing its demographic dividend window, majority population will be joining the workforce. Thus, there is a need to educate a forthcoming generation of financial independence and related services like- Provident Funds, Insurance Cover and Direct Benefit Transfer Schemes. Thus, by the time they enter jobs, they will know the importance of bank accounts and will be able to operate them without any external help. This is very important as a dearth of technical know-how and myths regarding banking services are a serious impediment in the opening of bank accounts in India.

Online Transaction Insurance

Penetration of technology often comes with significant risks and costs. One of the main reasons of high currency to cash ratio in India is the risk of online frauds that compel people to resort to safer options like cash. Setting up of Cyber Cells is not proving to be of significance as it is unable to cope with mass hacking and other ways of cyber fraud. Thus, establishing an online transaction Insurance Fund is one way to incentivize people to go for banking services and after that cashless transactions.

Mobile Money - A new dimension

With a large proportion of the population working on daily wage basis and the absence of a dense network of ATMs and reporting offices, it becomes an onerous task for the workers to forgo a day wage to go the bank. India is amongst the top countries with respect to the number of mobile users which can be used to overcome this barrier. India has been doing exceptionally well in bringing large masses under the usage of mobile handsets; private players playing an illustrious role. Ease of doing transactions through mobile applications, enabling SMS banking for non-smart phone mobile users., etc. can go a long way in ensuring one-click transactions and tapping this potential of mobile phones. There is a need to aware the rural sector about such innovations and give them the elementary knowledge of its operations which will help build their credibility in these mobile wallets. Informative sessions in panchayats and fair price shops can help in imparting this much-required information. Mobile companies and operators should be brought into the picture by having required digital banking applications pre-installed in all handsets and

[20] Tiwary, D. (2016). *Farmer suicides up 40 per cent in a year, Karnataka shows sharpest spike*. Retrieved from - http://indianexpress.com/article/india/india-news-india/farmer-suicide-case-in-india-crop-failure-drought-dry-zones-indian-monsoon-2984125/

customising the tariffs in such a way that these applications run without internet data usage.

Innovations in Currency

Paving the way for e-cash: Government can opt for e-currency as a tool to promote e-banking and digital transactions. This can be a game changer as the reach will be vast, even to remote areas with basic telecommunication services. This will not only reduce the cost of holding cash and promote cashless transactions but also incentivize people to open their bank accounts to avail these benefits.

Offline Branch Transactions

Rural Bank branches are majorly affected due to poor internet connectivity. Bank servers being down most of the time with the lack of branches available in close proximity acts as a disincentive to be part of the formal structure. It not only increases the shoe-leather cost due to repeated visits but also amplifies the time cost. To overcome this problem, a mechanism could be worked out whereby a specified amount of money could be deposited/withdrawn/borrowed from the branches by doing the required official entries in offline mode. This will allow the banks to work even in no connectivity and provide uninterrupted service.

Need for more Research

Advanced models which include qualitative variables like gender, behavioural aspects and cognitive models need to be incorporated to understand the reasons behind low financial inclusion fully. This would prompt the policy makers to tackle it in the most effective manner and roll out plans targeting specific variables rather than a unified macro policy.

6. CONCLUSION

A farmer committing suicide because of high debt, poor woman oblivious to being able to own a bank account, worker unable in mobilising his savings and other such examples point out a common theme of relevance- the need for Money; the need for Formal Institutional reach and hence, the utmost need for Financial Inclusion in India.

The econometric analysis carried out in the paper confirms the importance of ATMs per 1000 km^2, ATMs per 1, 00,000 people, Reporting offices per 1000 Km^2, Reporting offices per 1,00,000 people and Literacy rate in augmenting financial inclusion in India. The analysis depicts that Kerala (a best-performing state in financial inclusion) outperforms Assam, Gujarat, Madhya Pradesh, Manipur, Tripura and Uttarakhand in at least one of the factors- SHGs, ATMs, Literacy level, etc.

Priority Sector Lending has lately played a major role in enhancing the financial coverage due to its intrinsic characteristics of catering to the most financially vulnerable part of the economy. The southern states have increased their focus on priority sector lending which has aided small and marginalised sections to catch on small business opportunities and insulating them from the vicious circle of the debt trap.

Thus, the findings suggest a strong case for penetrating financial services to rural areas via Anganwadis and Priority Sector Lending. Also, the recent Demonetization scheme of India can be seized as an opportunity to promote financial inclusion by proper awareness campaigns that will help in changing behavioural attitudes of people towards a more cashless lifestyle. Promoting Mobile banking and corresponding infrastructure to ensure safe online transactions (backed by an insurance fund) are some effective policy tools.

However, Financial Inclusion is still a germinating concept and needs to be fully understood by incorporating qualitative variables and cognitive models into the analysis.

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THE ELECTED VS. THE APPOINTED: THE GOVERNMENT'S INTERFERENCE IN THE RBI'S MANDATE

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In the wake of recent policies espoused by the government of India, the encroachment of RBI's mandate by the government of India has taken the spotlight. Demonetisation or rather its shortcomings has rekindled the interest in the age-old debate of the appointed vs. the elected. This ongoing debate pertains not only to India and the RBI but also to Great Britain and the Bank of England and countless others. Governments often try to influence the monetary policy to back the fiscal policy unduly in order to gain short-term growth in Gross Domestic Product (GDP). This trespassing of boundaries comes not from the urge to control power but from the basic fact of their existence – public consensus. If the public feels that they have received the short end of the stick, they will vote for another party the coming elections. So in order to show the short- run growth, the long- term growth and development is sacrificed by the elected politicians. The appointed on the other hand do not have to worry about short-term performance as their tenure is fixed. So, the RBI is particularly well off within its mandated boundaries and trespassing those would be detrimental to the economic health of India.

This debate was first dragged into the limelight by C.Rangarajan, who after his tenure decided to open up on the tension between the RBI and the Government. He famously stated that the RBI cannot play second fiddle to the Government, referring to the intervention and manipulation of monetary policy by the Government. After this incident, RBI governors have been vocal of the infringement of the mandate only after the termination of their tenure. The recent feud between the Governor of the Bank of England and Theresa May on the issue of decreased interest rates. The key members of the RBI are appointed by the Government of India for four years. This term can be extended to another two years. On the other hand, the government of India is elected every five years by a public vote. So, one might conclude that the government has to show the economic growth and development every five years to get elected the next time. The RBI does not care about short- term economic growth and they focus on long- term economic development and stability. Laryczower (2011) stated that appointed officials (bureaucrats) tend to work efficiently and are less likely to be corrupt than their elected counterparts. Hence the government should stay put and leave the RBI to chalk its monetary policy.

Pursuing the tenures and the reasons for the end of tenure, one can infer the intricacies of the volatile relationship between the RBI and the Government. Most of the RBI Governors until now, have been given an extension on their tenure. Excluding acting Governors and two others, Raghuram Rajan was the only Governor who didn't have a second term. It is debatable whether it was Rajan, the most vocal governor until now or the government who didn't vie for a second term. He was the most popular, charismatic, efficient and qualified RBI Governor. His decisions such as slashing repo rates, thereby quelling inflation, were hailed and praised all over the world. But he often went against the Government which led to cold war tensions and stuck to his opinion that monetary policy of a country should not be tailored to accentuate the fiscal policy. The sole contributors to the tussle between the RBI and the Government, namely are demonetization and monetary policy committee.

Partitioning economists into two factions, demonetisation remains one of the top reasons for the feud between the Government and the RBI. The synonyms cited for demonetization in India ranged from growth stimulating, to unusual and disastrous. These were the words used by Jagdish Bhagwati, Paul Krugman and Amartya Sen respectively to describe the black money ablution program in India. The RBI Employees Association presented a grievance letter to the governor, Urjit Patel, stating that government officials were sent to supervise the printing of notes. They requested the governor to make sure of the autonomous standing of the RBI, asserting that they were well staffed and competent enough to do the work efficiently, without the Finance Ministry's intervention. Exacerbating this issue is the curbing of RBI's mandate through the monetary policy committee enactment. The Expert Committee under Urjit Patel, proposed by Raghuram Rajan, recommended the RBI to focus only on inflation and not on multiple indicators (Exchange rate, Inflation, Unemployment) and to set up a monetary policy committee. The monetary policy committee with six members- three from the government, two from the RBI and the RBI governor with a casting vote was espoused by the committee. The monetary policy recommended that the RBI ameliorate the public tension through a detailed monetary policy unravelling to enhance the credibility. The panel recommended the Consumer Price Index (CPI) as a measure of inflation instead of the Finance ministry's recommendation of considering Wholesale Price Index (WPI).This committee will include the fiscal part in the process of monetary policy determination. While some think that the monetary policy setting process will deviate from its ideal by including another process of thought i.e. the fiscal prudence of the policy and the autonomy of the RBI will corrode if the RBI is forced to consider and accommodate fiscal policy too. Others maintain that this will lead to a more integrated policy modelling, as both the fiscal policy and monetary policy go concurrently in kindling growth of the economy. Though Luddites argue that inflation targeting can result in poor outcomes in employment, exchange rate and other macroeconomic indicators, for a fluctuating price economy like India, inflation should be the prime objective while formulating monetary policy. Shorter time lag, more allocation to food and related products, less weight to fuel and metal price make Consumer Price Index (CPI) a better nominal anchor than Wholesale Price Index (WPI) for monetary policy conduct.

The Monetary Policy Committee (MPC) would be well served if the non-RBI members were to be selected by an independent panel of economists and not the government. This also doesn't shift the ideal of the MPC, which is to assign monetary policy making to a committee instead of one person decrementing the personal bias error. The Government should also look to history for the instances where the monetary policy was fitted to accentuate fiscal policy. This was the period of 1970-1990 when the fiscal deficit of India spiralled and large debts accrued with high inflation. On the contrary, the 2009 Counter-Cyclic Fiscal Policy was bolstered by the then monetary policy which cut the interest rates and injected liquidity into the economy. Though the Gross Fiscal Deficit rose sharply, the GDP growth plummet was successfully thwarted, and growth returned to 8% by 2009-2010 and 8.5 by 2010-2011. Basu (2012) states "history makes suggestions but rarely gives a roadmap". The partnership between the RBI and the Government is paramount for shaping the next crucial economic phase of India- The era of effective Industrialisation and Fiscal Stability. The cold war between the RBI and the Government will not die down soon, but things are off to a good start with the dawn of the Monetary Policy Committee.

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MICROFINANCE IN INDIA AND BANGLADESH: REASONS FOR INEFFECTIVENESS IN INDIA AND SUCCESS IN BANGLADESH

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1. INTRODUCTION TO MICROFINANCE

One way of defining Microfinance is "Provision of thrift, credit and other financial services and products of very small amounts to the rural, semi-rural, urban and semi-urban areas, for enabling them to raise income levels and improve living standards." Large scale provisions have been made to provide financial assistance to the rural sector. Organisations, which are involved in providing small scale loans to the poor, remittance management, savings, and insurance are called microcredit facilities or microfinance institutions. The majority of the users of such microcredit services are women or small and micro enterprises (SMEs).

Grameen Bank in Bangladesh introduced the world to the concept of microfinance through its credit focused peer monitoring model targeted at poor women of Bangladesh. The majority of Microfinance Institutions or MFIs are Non-Governmental Organisations (NGOs). Other types of Microfinance Institutions include statutory banks, government sponsored MFIs. The ultimate goal of an MFI is poverty alleviation; however immediate objectives may depend on the organisational ideologies. Mohammed Yunus, the founder of Grameen Bank, is one of the pioneers in the field of Microfinance.

The two major ideologies of the MFIs, as perceived by Mohammed Yunus are the Credit plus Approach Credit Minimalist Approach. In the latter, the institutions main objective is the provision of credit. It limits its role only till providing the credit. However, in the former ideology, the firm tends to provide a varied range of socio-economic, financial aid and organisational facilities and the success of such a firm would not only depend on how much credit it has been able to provide but also on a complex set of financial and economic factors.

2. REVIEW OF LITERATURE

There is abundant availability of literature on the topic of microfinance, and like many other authors, Devraja (2011) talks about the various ways of poverty alleviation within in India and how Microfinance has been one such tool. Ravi and Chakrabarti (2011) mention that even though the idea of MFIs is novel, private ownership has led it to have a profit motive which hinders the founding aim of microfinance, which is to alleviate poverty. Kumar et al., (2010) talks about how the low outreach have hampered growth rate and efficacy of the Microfinance Institutes. Nasir (2013) outlines how SHGs were formed and what the rationale was and goes on to describe how Indian MFIs have low client retention. The NABARD reports brings out a clearer picture of the performance of the various parts of the country and shows the growth rate of MFIs in India. Sinha (2011) of the BRAC development Institute, in his presentation brings out the increased reliability of microfinance as sources of credit in Bangladesh. Khandker (2005) talks about Microfinance as a tool for poverty alleviation in Bangladesh. Bebbington and McCourt (2005) talk about the improved outreach of the various MFIs in Bangladesh. Daley and Harris (2005) talk about some households that have been positively affected because of the work that Microfinance Sector has done in Bangladesh.

3. RURAL INDIA AND MICROFINANCE

Before elucidating the state of MFIs in India, I would like to give a brief description of rural India and its current status. India has 350 million people Below

Poverty Line (less than $2/day), and 80% of them have no access to microfinance. About 56% of these people look towards moneylenders and other informal sources like chit funds for borrowing money, and around 70% do not even have a deposit account. (Kumar et al., 2005)

Annual credit demand from these households is Rs.70000crores, and 87% of them have no access to any formal Credit Sources. 60% of the people in India depend on agriculture, and 70% of the population lives in rural areas. (Kumar et al., 2005) India has a low production capacity in both agriculture and manufacturing. According to the World Bank, India falls under the low-income class with wide income inequities. 51% of the households hold only approximately 10% of the total assets.

The major MFIs in India are National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), Rashtriya Gramin Vikas Nidhi (RGVN), Friends for Women's World Banking (FWWB) and Rashtriya Mahila Kosh (RMK).

Microfinance has attracted mainstream institutions since it has all the trappings of a business enterprise and full-time bankers like SIDBI and NABARD see long time engagements in this field. In this Post organisational period, the government has been trying to explain every rupee spent and has, therefore, no qualms about investing in MFIs. The changes in the policy were brought about by the Reserve Bank of India about ten years ago. It allowed banks to lend Self Help Groups (SHGs) initially. This was followed up by a seven-page memo to all bank chairpersons from NABARD and then further followed up by training programmes for bank states across all the states. NABARD refinance scheme further sweetened the policy change and made other rural funding by banks less attractive.

Even though one of the most important components of the Indian Development Strategy is the strengthening of credit delivery services and increase in their outreach, most people have remained outside the fold of the formal banking system. Microfinance was born from the failure of the institutional initiative of providing rural credit. However, in recent times micro financing has been dubbed controversial problem and become ineffective. Through the course of the paper, I would bring to light the major reasons for such a drastic change.

4. CURRENT STATE OF THE INDIAN MICROFINANCE SECTOR

Table 1 – State Wise Savings Performance

Regions	No. of SHGs	Saving Amount (Rs. Lakh)	Per SHG Saving (Rs.)
Southern Region	3489460	371591.77	10649
All India	**7461946**	**701630.28**	**9403**
Eastern Region	1527618	140837.61	9219
Northern Region	372772	32857.16	8814
Western Region	960921	82901.13	8627
Central Region	786436	60338.01	7672
North Eastern Region	324739	13104.6	4035

Source: NABARD (2011a).

The findings from "*Status of Microfinance in India 2010-11*" report from (NABARD 2011a) show that the Southern part of India has the highest per SHG (Self Help Group) savings. The average savings in this region is Rs.10649 which is greater than the All India average of approximately Rs.9400. The poorest states in India are located in the Northern and Central Parts of India which surprisingly have a lower savings of Rs. 8800 and Rs7600 respectively. This gives an evidence of a flawed MFI sector in India.

One of the primary reasons for the impressive performance of the Southern region is because of the continuous investment made to develop human capital. With better education and higher literacy rates, poorer sections of the society in Southern India became aware of the microfinance institutions and Self Help Groups. Hence, reliance on moneylenders fell which also increased savings in return.

Table 2 – Outstanding Loans

Year (March End)	Commercial Banks		Regional Rural Banks		Cooperative Banks		All Banks	
	No. of SHGs	Amount (Rs. Crore)	No. of SHGs	Amount (Rs. Crore)	No. of SHGs	Amount (Rs. Crore)	No. of SHGs	Amount (Rs. Crore)
2006-07	1893016	8760.38	729255	2801.76	272234	804.35	2894505	12366.5
2007-08	2378847	11475.47	875716	4421.04	371378	1103.39	3625941	16999.9
2008-09	2831374	16149.43	977834	5224.42	415130	1306.00	4224338	22679.9
2009-10	3237263	20164.71	1103980	6144.58	510113	1728.99	4851356	28038.3
2010-11	3053472	21883.26	1281493	7430.05	451798	1907.86	4786763	31221.2
CAGR (2006-07 to 2010-11)	12.7%	25.72%	15.14%	27.61%	13.5%	24.1%	13.4%	26.05%

Source: NABARD (2007, 2008a, 2009a, 2010, 2011a).

The outstanding loans of SHGs have been increasing from 2006. A detailed report from NABARD shows that the outstanding loans of SHGs in the commercial banks, regional rural banks, and co-operative banks have increased by approximately 26%, 27% and 24% respectively from 2006-07 to 2010-11. In India, outstanding loans have increased by around 26% from 2006-07 to 2010-11 have been due to a varied number of reasons like increased number of frauds and low financial transparency.

NABARD also reports another interesting fact that the greatest number of loans that have been outstanding have been from the central and southern region which is very ironical considering the southern states boast of the highest literacy rates whereas the central region has the lowest literacy rates.

Table 3 – Area Wise Outstanding Loans

Regions	No. of SHGs	Bank Loans Outstanding (Rs. Lakh)	Per SHG Bank Loan Outstanding (Rs.)
Southern Region	2706408	2180859.29	80581
Central Region	358872	236539.52	65912
All India	**4786763**	**3122116.55**	**65224**
Northern Region	149108	90314.42	60570
North Eastern Region	150021	69525.09	46344
Western Region	316821	124623.03	39335
Eastern Region	1105533	420255.2	38014

Source: NABARD (2011a).

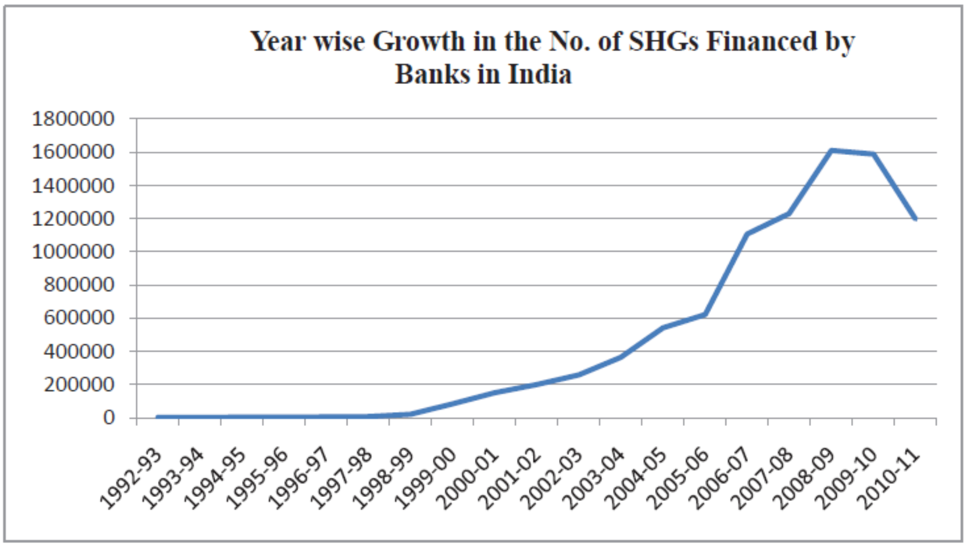
Table 4 – Non Performing Assets (NPAs)

Regions	Bank Loans Outstanding against SHGs (Rs. Lakh)	Amount of Gross NPAs (Rs. Lakh)	NPAs as Percentage to Loan Outstanding
Central Region	236539.52	25403.83	10.74
North Eastern Region	69525.09	5856.04	8.42
Western Region	124623.03	9042.42	7.26
Northern Region	90314.42	6366.1	7.05
All India	3122116.55	147410.8	4.72
Eastern Region	420255.2	18106.72	4.31
Southern Region	2180859.29	82635.69	3.79

Source: NABARD (2011a).

One of the reasons for the increase in sluggishness within the MFIs has been because of the increase in the Gross NPAs (Non-Performing Assets). Again the highest NPAs are in the SHGs of the Central Region which can again be attributed to the low levels education and low outreach of the MFIs and the increasing cases of fraud in the region. The chart below shows the year-wise growth of SHGs financed by banks which also shows the stagnant nature of the MFI sector in the country. In fact, after 2006-07, there has been a sharp decline in the number of SHGs financed. This coincided with the withdrawal of government spending in this sector which highlights its recent ineffectiveness and also underlines the dominance of private enterprises in this sector. This might lead to greater decisions being taken on profit motive rather than social welfare.

Figure 1 – Year Wise Growth in the No. of SHGs Financed by Banks in India



Therefore the current scenario needs further deliberation as to what were the reasons for the ineffectiveness in this sector. The following section puts light on that matter.

5. MAJOR REASONS FOR INEFFECTIVENESS OF MICROFINANCE IN INDIA

The **Low Outreach of MFIs** is one of the biggest reasons for its ineffectiveness. Only 8% of rural India has access to the MFIs as compared to 65% in Bangladesh (Mahanta et al., 2012). This is because most attention in Indian rural areas is given to women as they have been found to better clients. Since women are known to borrow smaller amounts and have a higher return rate, most policies have been guided to get more women clients. A greater emphasis is needed to solve this problem. Biased attention towards women coupled with stringent societal norms in rural areas where women are still made only to do household chores and not step out of the house has resulted in only progressive rural families having accounts with the microfinance institutes. A more viable, area specific and gender neutral approach in the rural areas would lead to greater approach.

Microfinance Institutions in India have been paying more attention to the rural areas as compared to the semi-rural, and semi-urban and urban areas. Only six out of more than 800 Microfinance Institutes pay attention to the Urban Poor. This outright **Negligence of the Urban Poor** is stunning since this category of people has a population of 100 million in India (Mahanta et al., 2012). The need for financial assistance among the urban poor is the same as those in the rural areas, and this is something that the MFIs need to take into consideration. An extensive survey of slum areas by MFIs would help improve both the poor in the region and efficacy of the MFIs themselves.

The education level in Rural India is deplorable due to the lack of infrastructure and poor quality of education imparted in government schools. Communication with clients(verbally and in written) becomes an extensively elaborate process, and about 54% of the employees face a problem of a **language barrier** when it comes to Market expansion and growth of MFIs (Chakrabarti and Ravi, 2011). Employees sent to areas where they are not conversant with the local language are ineffective in explaining the need of using Microfinance Institutes as credit sources.

The majority of the loans given to clients are mismanaged by them leading to **Loan Defaults**. It has been found that about 70% of all loan defaults take place in the MFIs (Chakrabarti and Ravi, 2011). This has had a severe impact on the organisational structure of MFIs in India and has hindered their growth.

The majority of MFIs in India are privately owned and therefore has an innate need of being Financially Stable. Unable to receive any organisational credit from the government, they end up recovering the borrowing costs from the clients which lead to **High Interests Rates** charged by them. The very objective for the presence of MFIs is lost when the operational costs are recovered from the clients.

People in rural India are not entirely aware of their rights and the terms and conditions of the facilities provided by the institutions. This has, in turn, led to the problem of **Client Retention**. On an average, only 28% client retention is experienced by the microfinance institutes in India (Ehsan, 2011).

High Transaction Costs have been a formidable barrier in the efficient functioning of the MFIs in India. The Microfinance sector in India faces an enormous fixed cost regarding transportation costs which doesn't vary with the size of the loan. A higher fixed cost increases the producer's element of risk in case of failure of loan payment. In such a scenario, the output cannot be adjusted to changes in marginal costs and reduces the incentive for the private entities to invest in this sector.

Financial embezzlement on the part of clients has made MFIs more apprehensive about their lending activities. It has been reported that about 67% Microfinance Institutes face **Fraud** related issues and hence this is an important reason behind the stagnation of growth of the MFIs in India (Muhammad, 2010).

There are about 75 million households which are below poverty line in India and only 22% of them receive microfinance services (Ghate 2008). According to the study, MFIs selectively chose not-so-poor in order to achieve a proper repayment rate. The ideologies of the private sector and many other sectors ensure that the people below Poverty Line are looked on as bad credit. Only 50% of the clients of the Self Help Groups and 30% of the clients of the MFIs are Below Poverty Line. Hence the **deserving poor have no access** to the services that were started for them.

There is reluctance among the destitute to join SHGs stem because of low knowledge about the institutions promoting these services (Ghate, 2008).

The states of Uttar Pradesh, Bihar, Orissa, Chhattisgarh, Uttarakhand and Madhya Pradesh hold approximately 53.5% of the poor in India. However, the share of these seven states is less than 23.6% in the total Microfinance services. The **poorest states being excluded** from this program has severely dented the chances of the success of Microfinance in India (Ghate, 2008).

According to Thorat (2006), the continually diminishing skill sets of the members of the MFIs are leading to mismanagement of financial investment and other technical services required for making the MFIs a runaway success. **The quality of service**, therefore, needs to improve.

One of the biggest problems of the MFIs in India is the **Low Depth of Outreach** (Srinivasan2009). Despite the outreach increasing gradually, the average loans being lent by MFIs is the Rs.3500 per member. Such a low amount is insufficient to tend to the financial needs of even a farmer. Not only are the loans extremely small in size but also the duration is short. Such types of loans don't help in easing the financial problems of the poor.

The poor in India is extremely vulnerable to natural calamities. In India, The MFIs focus mostly on the savings and credit services, and there are **very few provisions for insurance services**. A single natural disaster might push the poor towards the brink of destitution. Only 12% of the rural poor and 19% of the urban poor can avail Life Insurance policies in India. This mainly blocks the path for greater success of MFIs in India. Greater insurance facilities should be made accessible to the Indian poor. The availability ratio in India in 2006 was only 4.80% compared to 6.60% in other parts of Asia (Invest India Market Solutions Pvt. Ltd., 2007).

6. MICROFINANCE IN BANGLADESH

Without a doubt, the pioneer of Microfinance in Bangladesh is Mohammed Yunus. The economics professor from Chittagong University started the Grameen Bank in 1976 with the primary motive to lend small amounts of money to only the poor households in the country. There was high demand for micro-credit and with the repayment rates being high for many years led to the Grameen Bank being government-regulated in 1984 through a special ordinance.

The success of Grameen Bank resulted in the development of a lot of other NGOs and institutes dealing only in microcredit. The major MFIs in Bangladesh are *BRAC* (*Bangladesh Rural Advancement Committee)* established in 1972, *Proshika* established in 1976, *ASA (The Association for Social Advancement)* established in 1978, *BURO, Tangail* established in 1989 and *SafeSave* established in 1997. All of these organisations cumulatively boast of approximately 12.5 million active members which is a testament to the size and popularity of this sector in Bangladesh (Daley and Harris, 2005).

The Scenario in Bangladesh

Bebbington and McCourt (2005) reports that approximately 13 million poor households have been reached in Bangladesh and this estimate comes without taking into account the 4.3 million households that are using such services from Grameen Bank. The incredible outreach of this sector is amplified by the fact that 80% of the people Below Poverty Line have been covered.

"State Of Microcredit Summit Campaign Report 2005"- Daley-Harris reports that 78% of the active clients in MFIs in Bangladesh are Below Poverty Line clients. The proportion of the women in the poorest clients is 87%. Organisations like BURO Tangail, TMSS, ASA, BRAC and BRDB have the majority of women clients.

Table 5: **Top 10 Microcredit Summit-verified Bangladeshi MFIs, based on number of poorest clients**

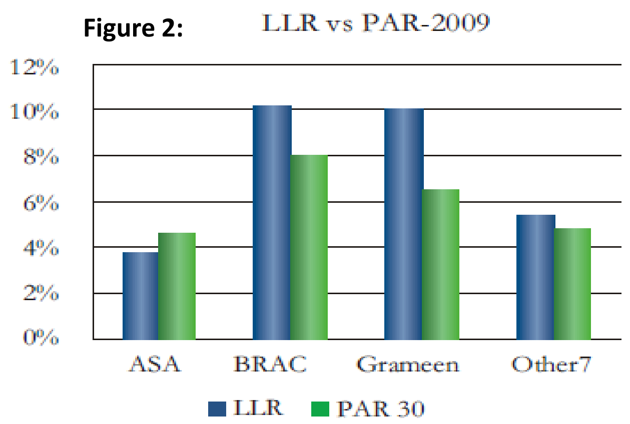
	Number of 'poorest' clients (31/12/04)	Number of active clients (31/12/04)	Proportion of active clients who are 'poorest'	Number of 'poorest' who are women	Proportion of 'poorest' who are women
Grameen Bank	4,060,000	4,060,000	100%	3,897,600	96%
BRAC	3,630,000	3,990,000	91%	3,630,000	100%
Bangladesh Rural Development Board (BRDB)*	3,528,041	3,713,728	95%	2,399,068	68%
ASA	2,490,000	2,770,000	90%	2,390,400	96%
Proshika	1,236,104	1,545,130	80%	803,468	65%
Sonali Bank**	500,000	3,800,000	13%	365,000	73%
Caritas	251,273	284,947	88%	173,378	69%
Thenamara Mohila Sabuj Sangha (TMSS)	250,664	278,516	90%	238,131	95%
BURO Tangail	221,366	221,366	100%	219,152	99%
Rangpur Dinajpur Rural Service (RDRS)	175,713	228,199	77%	140,570	80%
TOTAL	**16,343,161**	**20,891,886**	**78%**	**14,256,767**	**87%**

Source: Daley-Harris 2005. *Notes:* *Government body acting as a network of MFIs not included elsewhere; **nationalised commercial bank.

Khandker (2005) reports that Microfinance is responsible for about 50% of the overall observed annual poverty reduction and that returns on Women's cumulative borrowing have been increased from 18% to 21%. Khandker also reports that the development of microfinance leads to the rise of both participants and non-participants.

The Loan Loss Reserve is a tool to mitigate losses to a Microfinance Institution due to credit risks. The Largest MFIs have LLR almost equal to or greater than their Portfolios at Risks (PAR). This leads to stability in providing credit services.

Figure 2:



Source – BRAC (2011), Sanjay Sinha

Country	OER
India	11.4%
Bangladesh	14.6%
Nepal	10.3%
South Asia	13.3%
Asia	17.2%
Global	20.0%

Table 6

7. THE MAJOR REASONS FOR THE SUCCESS OF MFIS IN BANGLADESH

The biggest reason for the success of this sector has been its **Policy Design.** The Process had begun with Mohammed Yunus implementing the model on a small scale. After this model (later known as Grameen Model) had worked out, it was further implemented on a large scale. Yunus undertook a "learning process" approach where all expansion decisions were undertaken after lengthy deliberations with experts.

The **targeting of a specific Population** section has substantially affected the Outreach and the overall efficiency of the MFIs. It was realised that MFIs would be successful only if they were able to reach the poor to alleviate poverty. A combination of an effective indicator based means test and direct targeting have helped increase outreach. The indicator based means test included a mix of surveys on the effective landlessness and the contribution of females in manual labour. A strict selection policy was followed, and high vigilance was kept on repayment conditions. Attendance at meetings was made compulsory too.

Field staff followed intensive borrower supervision in addition to monitoring peer groups and incentivized staff performance to **Ensure Higher Repayment.** This was combined with charging market-related interest rates to ensure cost recovery and accessing low interest or no interest loans from donors to ensure **Lower Costs.**

A **favourable environment** in Bangladesh led to the greater success of MFIs in the country. It was possible to lower costs of delivery due to the high population densities. The availability of necessary infrastructure required for delivery of services like roads and bank branches with security facilities have helped improve outreach. A regular supply of university graduates with hardly any other employment opportunities helps keep a steady supply of labour to this sector. The presence of high level of law and order helps in preserving security in the banks.

Greater emphasis on women has severely helped in poverty alleviation in the country. Microfinance provisions in Bangladesh have three main paradigms. Firstly, it emphasizes on the higher repayment rates in women as compared to men and the ability of women to assist individual entrepreneurs. This is the financial sustainability paradigm. Secondly, there is an emphasis on the fact that women would spend a larger share of their increased income on their family as compared to men. This is the poverty alleviation paradigm. Thirdly, there is an emphasis on gender equality which intends to increase the bargaining power of women which is the Feminist Empowerment paradigm. There have been extensive provisions made for the application of these paradigms which have led to greater poverty alleviation of women in the country and hence led to the greater success of the sector.

8. CONCLUSION

One of the major differences between the Indian and Bangladeshi MFIs has been the differences in outreach levels. While only 20% of the people Below Poverty Line have access to microcredit facilities in India, about 80% of the people Below Poverty Line in Bangladesh have access to the same. Bangladesh took specific measures to target the rural poor and screened out non-poor and non-viable clients.

The presence of one common language in Bangladesh has helped accelerate negotiations with the clients. In India, language barriers have stalled negotiations and in many cases led to the incomplete understanding of the microcredit facilities by the uneducated masses. Regional Imbalances have significantly hampered efficiency in India, something that is not present in Bangladesh. Regional imbalances have arisen due to geographical factors, political problems and to some degree due to the presence of Naxals in some areas of Central India.

The key factors for Bangladesh for succeeding in this industry (Zaman, 2004) have to be the presence of visionary leadership, conscious efforts to improve the standard of the industry, and a not too unsupportive environment for policy regulations. In addition to that, efficient management of social resources has also helped the domestic and international political economy of Bangladesh.

India has tried emulating the model used in Bangladesh, but sometimes the vastness of the country has been its drawback. Increasing institutional bottlenecks and Red Tapism has led to the stagnancy in the sector. MFIs in India needs the presence of a multilingual workforce to improve efficiency and reach out to the poor and also make its facilities available to the urban poor. More accurate background screening is required on behalf of MFIs and people should be made aware of the risks of investing in alternatives like chit funds. This would increase efficiency and might lead to greater success for this sector in India.

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EMERGENCE OF THE SHARING ECONOMY: CONSUMER AS AN ECONOMIC AGENT

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1. INTRODUCTION

Adam Smith, the great Scottish economist, believed that the productivity of a society determines its wealth. In his magnum opus, The Wealth of Nations, he argued that humans are motivated by self-interest and 'self-love,' and that the exploitation of this trait leads to greater wealth for all and a more efficient distribution of labour. His propositions rely heavily on the following assumptions- Consumption goods and production services are openly traded; Information is perfect and costless; Possibility of immediate arbitrage: The process of adjustment of equilibrium price starts from a random price level. Looking back, one can understand how the agrarian squalor of the eighteenth century made Smith wanting to work out as to how to get the economy to produce more. But, the present consumer economy seems to have distorted the context for this proposition to hold.

The intuitive notion of 'self-interest' is soon changing into that of selfishness and greed, especially when there is a growing psychological need amongst consumers to define personal identity through products, brands, and services, falsely veiled under the garb of independence and self-reliance. Rushkoff (2009) wrote that *each home was to be its own freedom and self-sufficiency was part of the myth of the self-made man with his private estate, so community property, carpools or sharing of almost any kind became anathema to the suburban aesthetic*.

Even Smith had anticipated such inequalities, which this notion was capable of imposing and thereby suggested measures, including progressive taxes to mitigate the ill-effects. We need to realise that we live in a world of palpably limited resources, where this notion of 'self-interest' could be easily misquoted.

2. INTERPRETING THE ECONOMIC CONCEPT OF CONSUMPTION

Sadly, it would seem that the vision of unlimited consumption has come to fruition. Our enormously productive economy demands that we make consumption our way of life, that we convert the buying and use of goods into rituals, that we seek spiritual satisfaction, our ego satisfaction in consumption. The economy needs things consumed, burned up, worn out, replaced and discarded at an ever increasing rate. (Lebow, 1955). Such ideas are naturally fed by the desire to sell more and produce more.

Keynes (1936) expounded that employment and output can be increased by increasing consumption. He argued that in the short run, and especially during recessions, economic output is strongly influenced by aggregate demand, i.e., the total spending in the economy. If the economy slips into a state of depression, increased spending and thus, consumption must happen to revive the economy, though in most cases, by the government.

While the 'spend more, consume more' way out may be a short-term fix, it is neither sustainable nor healthy. The current hyper-consumerist scenario provides much fodder to this implication.

Seemingly, these negative connotations associated with the economic concept of consumption does not seem to perturb economists because it is implicitly assumed that the quantity of goods demanded by them, strategically thought through in terms of their optimisation exercise is in perfect harmony with the availability of resources in the economy.

But, the optimising behaviour of consumers may not be an entirely accurate representation of how they actually behave. Instant gratification may sway consumers, and so their decisions may not put enough weight on the future.

Market capitalism has long been associated not only with rationality but also with the freedom of choice. Choice, defined by economic logic came to be widely considered an unquestionable good-the more choices the better. Within this regime, freedom of choice is little more than the freedom to buy and consume. Choice confuses us not only about how to satisfy our wants but about what those wants are. This uncertain disorienting effect works in favour of manufacturers.

3. RISE OF COLLABORATIVE CONSUMPTION

The Sharing Economy may come across as a reflex mechanism to the 2008 financial crisis, but its existence lies beyond this economic tragedy.

The convergence of social networks, a renewed belief in the importance of community, pressing environmental concerns and cost consciousness are moving us away from top-heavy, centralised and controlled forms of consumerism towards one of sharing, aggregation, openness, and cooperation. Collaborative Consumption (CC) is enabling people to realise the enormous benefits of access to products and services over ownership and at the same time, save money, space and time. Ultimately, we are subsidising on our usage of resources, without compromising upon our utility so much so that we might soon find a solution to the fundamental economic problem- Scarcity of resources.

We can organise various systems under Collaborative Consumption, all united by the same idea of cooperation and community into three categories- Product Service Systems (PSS), Redistribution Markets and Collaborative Lifestyles. In PSS, a service enables multiple products owned by a company to be shared, or products that are privately owned to be shared or rented peer-to-peer.

Redistribution Markets involve used or pre-owned goods to be redistributed from where they are not needed to somewhere or someone where they are. People with similar interests are banding together to share and exchange less tangible assets such as time, space, skills, and money, in what we call Collaborative Lifestyles.

Sharing has always depended on a network- but now we have one that is redefining its scope, meaning, and possibility. That network is, of course, the Internet. Technology is reinventing old forms of trust. We are now using the internet to allocate resources wherever necessary.

4. CRITICISM TO COLLABORATIVE CONSUMPTION

There is a perpetual concern that CC may slow down or crumble when the economy fully recovers and prosperity returns, as, after all, it was, in many ways, a reflex to the 2008 Financial Crisis. But not only is CC driven by consumer motivations that extend far deeper than cost savings, but the habits also started to stick and spread before the financial collapse of 2008. Economic necessity has just made people more open to new ways of accessing what they need and how to go about getting it.

The economic theory of tragedy of the commons states that it is difficult to manage the interest of individuals and the interest of the group, where common resources are involved. Self- interest is bound to trump collective good. But history is demonstrating that this may not be the usual course of action. Nobel Prize winner, Elinor Ostrom's work on ‘Governing the Commons' debunks Hardin's claim that ‘Tragedy is inevitable.'

Susie Cagle once remarked, *‘Sharing and homesteading are things poor people have been doing forever out of necessity.’* The Sharing Economy appears to be the celebration of a system that, at its core, is a reflection of our desperate times. Critics seem to be perturbed by this haplessness that CC is symbolic of.

5. CONCLUSION

We do not have to choose between owning and sharing. CC will move side-by-side and eventually may go head-to-head with the old consumerist model. But, we are reaching the close of a pure one-way consumerist culture based on just owning more and more stuff. Perhaps what is most interesting about CC is that it fulfils the hardened expectations on both sides of the socialist and capitalist ideological spectrum without being an ideology in itself.

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A STUDY INTO THE EFFICACY OF PM JAN DHAN YOJANA AMONG WOMEN LIVING IN URBAN SLUMS OF DELHI

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Following is a detailed summary of a primary survey based research project conducted under the Department of Economics, Ramjas College. The study period of the research lasted till February, 2016.

1. INTRODUCTION

Financial inclusion is the provision of financial services at an affordable cost to vast sections of the disadvantaged and low income groups. The purpose of financial inclusion is to provide equitable opportunities to all individuals to avail the facility of formal financial channels for better living and better income.[1] It is essential to innovate and provide means to include the financially excluded segments by the way of ensuring access to financial services, and timely and adequate credit. It has been broadly recognized as a critical phenomenon in reducing poverty and achieving inclusive economic growth. It is not an end in itself, but a means to an end—there is growing evidence that it has substantial benefits for individuals. Studies show that when people participate in the financial system, they are better able to start and expand businesses, invest in education, manage risk, and absorb financial shocks.[2]

Access to accounts and to savings and payment mechanisms increases savings, empowers women, and boosts productive investment and consumption. Access to credit also has positive effects on income, employment status, consumption, mental health and outlook.[3]

Despite the aggressive growth in most financial segments since 2001 coupled with successfully absorbing the global recession of 2008, under-penetration of banking facility and of most financial products/services is widespread in both rural and urban areas of India. India, which is home to 21 percent of the world's unbanked adults, faces a significant challenge in catching up with the rest of the world in universalizing banking access.[4] In 2011, out of 24.67 crore households in the country, only 14.48 crore (58.7%) households had access to banking services. Of the 16.78 crore rural households, 9.14 crore (54.46%) were availing banking services. Of the 7.89 crore urban households, 5.34 crore (67.68%) households were availing banking services.[5]

Keeping this in focus, in August 2014 the government of India launched the Pradhan Mantri Jan-Dhan Yojana scheme for comprehensive financial inclusion with the goal of opening a bank account for every household in the country. Its mission is of 'Inclusive growth', that is, Sab Ka Sath Sab Ka Vikas which would enable every household in the country - both urban and rural - to gain easy and universal access to financial services,

[1] Financial Inclusion in India 2014: An Overview. (n.d.). Retrieved from http://indiamicrofinance.com/financial-inclusion-india-2014-overview.html

[2] Fernando, A. (1999). Effects of Financial Access on Savings by Low Income People.

[3] Karlan and Zinman (2010). Expanding credit access: Using randomized supply decisions to estimate the impacts.

[4] World Bank (2014). The Global Financial Inclusion Database 2014: Measuring financial inclusion around the world.

[5] Census of India 2011

financial literacy, access to credit, insurance and pension facility. In addition, the beneficiaries would get RuPay Debit card having inbuilt accident insurance cover of INR 1 lakh and life insurance of INR 30,000. Also, it provides overdraft facility of INR 5,000 after 6 months of satisfactory performance of saving and transaction history.[6]

India saw a growth in individual's savings bank accounts from 329 million accounts in 2006 to 1070 million accounts in 2015. Number of savings bank accounts of women showed an increase as well from about 143 bank accounts per thousand of female population in 2006 to 536 bank accounts per thousand of female population in 2015. But the number of dormant bank accounts still was high.[7] It shows that the people were opening bank accounts but when it comes to saving their money, not many were using their bank accounts.

2. OBJECTIVE

Our objective was to study the relevance of PM Jan Dhan Yojana to the poor women in urban slums in Delhi and the specific questions that we were looking answers were are as follows. Firstly, whether just opening a bank account will lead to financial inclusion, especially for the poor women in urban slums, and impact their saving behavior. Secondly, whether easy access to the banking system can get them freedom from moneylenders and loan sharks and therefore, materially lift economic prosperity for this particular section of the society. Also this scheme is hugely dependent on successful deployment in the field. So, the last objective is to enquire the potential issues that could be faced in the urban slums for this prestigious scheme to be successful, especially for the women.

3. METHODOLOGY

The survey was conducted using direct personal investigation. The research work is qualitative in nature. Primary data was collected by interviewing women living in the urban slums across Delhi about their awareness, knowledge and usage patterns of bank accounts opened under Pradhan Mantri Jan Dhan Yojana (PMJDY). It also included information about their income, expenditure, saving behavior in bank accounts, need for credit and its sources.

A pilot survey was first conducted on a sample of 25 women from North Delhi Region. Results were analyzed to form the final questionnaire for main survey. Stratified random sampling was done and 90 women were interviewed for the main survey.

4. LIMITATIONS

The major limitation was that the respondents were being conscious while disclosing their income and expenditures. They thought that disclosing the figures might create a problem for them in terms of status or reputation among the milieu. Some respondents also thought that we were government officials from income tax department disguised as students and hence, were not even ready to talk to us.

Also, with the sample size being restricted to 90 respondents from across Delhi, the findings can best be indicative of the overall scenario of the bank account ownership and banking patterns and its reasons in relation to the shortcomings of the Yojana but not truly representative of the whole population living in Urban Slums.

5. SOCIAL PROFILE OF RESPONDENTS

The age distribution of the respondents is spread widely with the youngest being 15 years of age while the oldest being 65 years of age. Majority of the respondents were in the age bracket of 30 – 50 years, married and living with their husband's family. The number of family members also varied from three being minimum to eight being maximum. In every

[6] Ministry of Finance. (n.d.). PMJDY. Department of Financial Services. Retrieved from https://www.pmjdy.gov.in/scheme

[7] RBI. (n.d).Medium-term financial inclusion. Retrieved from https://rbi.org.in/scripts/PublicationReportDetails.aspx?ID=836

household, at least two people were working with one being the respondent herself and a male member of the family, either her husband or her son. Majority of the respondents (60%) were not educated, i.e. never had any formal education in their lives or had studied till Class 2 but still couldn't read and write. Majority of them could not even sign their names and instead used thumbprints in place of signatures.

Family Incomes of the respondents also showed a wide variation with the least being under Rs.5000 a month to the highest being well above Rs.20000 a month. Usually these women save at their homes or if they have more money than needed to make the necessary expenditures, they informally lend it to their neighbours, friends or relatives and seek no interest on the sum lent. Also there are times when their lent money is not returned back. But they continue to do so to be able to have access to money when they are in need. They have to manage immediate expenses and also repay loans which had been borrowed in the past.

There is a gap observed between intent and action. They have the intention to save but they aren't saving in the bank. Due to uncertain income, sometimes it is insufficient to meet their needs and they have to make the ends meet by compromising on savings. Due to this, if there is surplus money, it does not go into saving but seen as an opportunity to meet the compromised need.

These women require a place, which is safe and reliable, where they can keep money in order to save the money from themselves as they know if they keep money at home, they will spend it on things they don't really require. But high psychological distance due to unfamiliarity with the banking system contributes to non-engagement with the banks. According to them, any money which is easy to access, is easy to spend. They put money in committees or chit funds that uses commitment and social devices to save money.

These are the women who belong to families where the members are entrepreneurs or daily wage workers and hence the overdraft facility which comes with a bank account under PMJDY can be very helpful for them when there is need to start or sustain a business. But the problem starts when they need to avail the same. Many are not aware of the facility and eligibility criteria. Even in cases where they are, they still prefer to go to other sources to get credit as they are afraid about what will these large banks do if they default. Existing products that informal channels offer options which work well as it gives them the certainty and flexibility they are looking for as opposed to the banks.

Some of the respondents applied for loan from a bank. They needed money to buy a shop for their ironing work and provided papers of their house as it was in their name. But they were refused by the bank as they wanted proof of running business. Respondents didn't have papers of a shop which could show how they will be able to repay the sum. They wanted a loan to rent a shop.

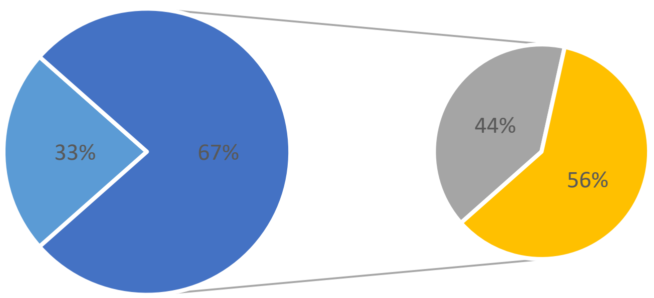
The biggest obstacle that stands in the way of making this scheme a success is the fact that people of this strata are still not fully aware of the scheme and what are they required to do to benefit from it. There is an information awareness gap. Once information is rightly spread then comes the next obstacle, which is psychological distance. They will have to learn to trust the bank with their money and not be intimidated by it.

6. THE FINDINGS

A primary survey was conducted among 90 women living in the urban slums of Delhi based on stratified random sampling method. It was found that 62% of the respondents were not benefitted by the scheme at all. This percentage consists of both categories; those who never opened an account under the scheme and those who opened a bank account but never used it. This mere fact that the bank accounts were not really being used to save and transact money defeats the purpose of having a bank account at all which were made to include the financially excluded people into the formal banking sector of the country.

33% of the women surveyed had not opened a bank account under the scheme. Various reasons were stated for the same and it was observed that every respondent had more than one reason. Of these, the major ones were - not knowing the benefits of a bank (50%), not having the support and guidance required to open a bank account despite knowing that the scheme existed (57%), being intimidated of banks due to lack of education and the belief that banks cater only to the rich (60%), the problem of low income-high expenditure as most of these women work in low income jobs and the lack of ID proof (40%). It was found that majority of them (67%) had not come in contact with a Bank Mitr. A Bank Mitr is a banking correspondent who helps people to open bank accounts in the convenience of their homes by filling the forms for them and providing the necessary information about banks and the financial services that are being provided with their accounts under the scheme. If they had covered all households in the areas they visited, the percentage of women who did not open a bank account under PMJDY could have been lesser.

Figure 1: PMJDY bank account ownership and usage N=90



Source - Authors' calculations based on survey data

Out of the 67% who opened the bank accounts, 44% of them never used their accounts to save money. They either never deposited any money in it or in case they deposited an initial amount to open the account, they withdrew it to keep the balance in the bank account as zero. It was surprising to find that out of these 44% respondents, 88% of them had misunderstood the term 'Zero Balance Account'. They thought that it is important to keep the balance of the account zero and only then will the government deposit money in it for them. This could be because majority of the respondents either had not received any formal education or even if they had, it was till primary school; so for them, in simple English, zero balance account meant the balance in the account should be zero. But since the Yojana is targeting this stratum of the pyramid, it's apparent that the main term on which the Yojana was promoted has backfired.

It was surprising that only 1% of the respondents took loans from the bank, 39% took loans from relatives and friends, as they were not required to pay back any interest on the sum borrowed. Second popular option was moneylenders (16%) but only those people approached them who had something to put on mortgage or thought that they didn't have any other option apart from approaching the moneylenders in time of need. 14% of the respondents took salaries in advance from their employers as they didn't have to pay any interest on it. The borrowers promised to work in future to repay the employers for the advance. It was based on trust. 10% took loans from shops. They went and got all goods they required from the shops and asked the shopkeeper to keep a record of it and promised to pay him back as soon as they had money. It was paid back usually at the starting of each month.

But what was more surprising was the fact that only 22% of respondents were eligible for add-on services that come with a PMJDY bank account. Hence, only 22% of the respondents would be able to reap full benefits that come with the account. That is, only 22% of the respondents were saving in their bank account and transacting enough to be eligible for the life insurance, accident insurance and the overdraft facility that are provided with the bank account under PMJDY.

7. DETAILED ANALYSIS OF CHARACTERISTICS THAT AFFECTED BANKING BEHAVIOUR

Out of the respondents who opened a bank account, only 56% of them actually used it to save and transact. Even within this category, large variation was observed in the frequency of transactions. Respondents transacted atleast once in two months, atleast once in three months or at least once in six months. To be eligible for the add-on services, like accident insurance and life insurance, which are available without any premium with a Jan Dhan account, at least one transaction is required every two months. It was observed that some women who saved and used their bank accounts were still not eligible for these add-on services. Majority of them lacked knowledge of the eligibility criteria.

Figure 2(a): Respondents who saved once in two months

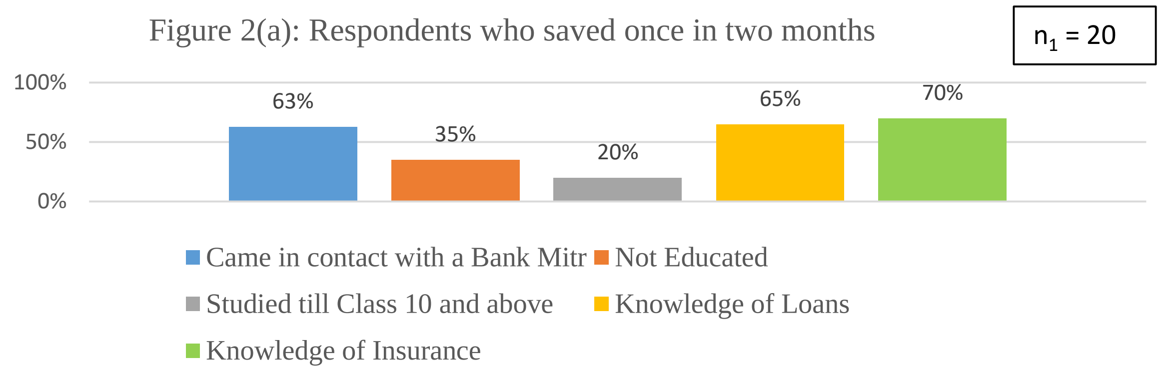


Figure 2(b): Respondents who saved once in six months

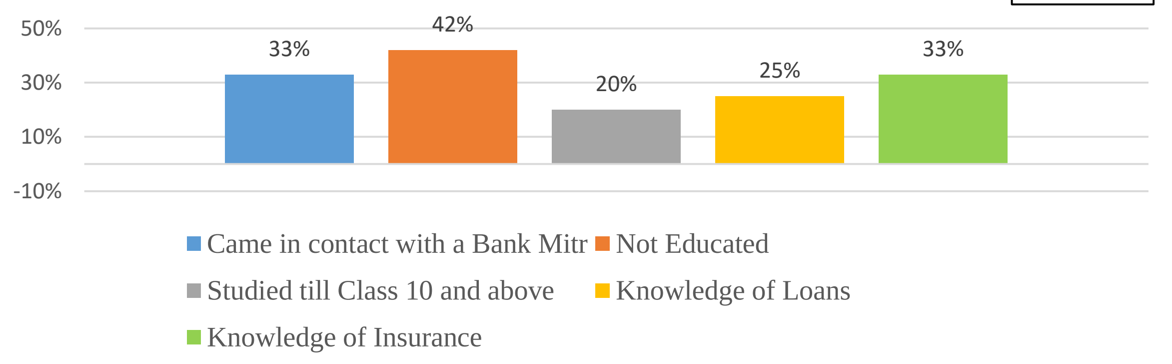
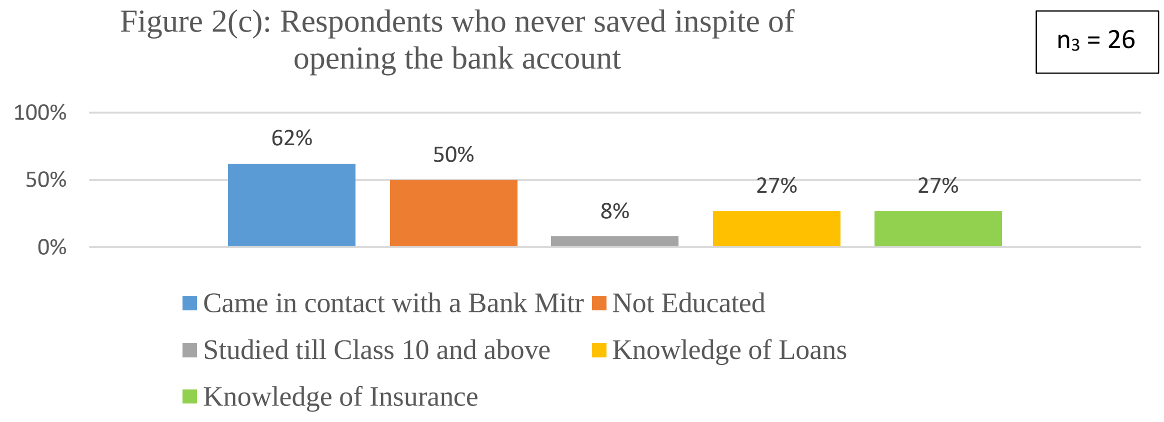


Figure 2(c): Respondents who never saved inspite of opening the bank account



Source - Authors' calculations based on survey data

There were 2 respondents who saved atleast once in three months. Both of them came in touch with a Bank Mitr. They weren't educated and they lacked knowledge of loans and insurance facilities available.

It can be observed that, firstly, Bank Mitrs were not covering all the households in the areas they visited. Also, coming in touch with a Bank Mitr helped these women to open accounts but, in some cases, even after that the women did not know about the features of the bank account under PMJDY. It implies that the Bank Mitrs were only helping women with filling up the form but not giving them any other information which could lead to better usage of the accounts. Secondly, the lesser was the percentage of not educated respondents coupled with higher percentage of respondents with education till Class 10 and above, more knowledge they had about the eligibility criteria for the add-on services. When they had knowledge, they tried to change their banking behaviour accordingly to be eligible for the same.

It was also observed that at times even after knowing about the eligibility criteria for add-on services, some respondents did not use their bank accounts enough. It was because they just did not have enough savings to be able to save. Their incomes were low and uncertain whereas their expenditures were high and recurring. Whereas, some respondents even without having the knowledge saved enough to be eligible for the add-on services. It was due to the fact that they had gotten into a habit of banking to save money.

8. CONCLUSION

Hence PMJDY can be seen as the first step towards Financial Inclusion as it leads to increase in the number of adults having bank accounts or the account ownership. But financial inclusion still has a long way to go. Illiteracy, lack of awareness, low income-high expenditure and poverty are among the vital factors that lead to a low demand for financial services and, consequently, lead to exclusion. Poverty levels have been declining and are bound to drop further, leaving households with higher levels of incomes. The number of first time savers and entrepreneurs are certain to rise. This new segment will require easy access to formal financial systems to get into the banking habit-using banks to save. Banks will have to innovate further and devise newer methods to engage such customers as these new prospective customers will turn into commercially viable customers. Hence, the supply side is required to take initiatives.

9. WAY FORWARD

Bank Mitrs need to be trained better so as to convey about the benefits of a bank account and features of the Yojana as well as the eligibility requirements to avail the add-on services to the people satisfactorily. Certificate courses for the same can be initiated to ensure better understanding.

Increasing the incentives of Bank correspondents could help to shift their focus from merely getting the bank accounts opened to promoting greater usage of the bank accounts by effectively providing the information regarding the various benefits of the bank account. It can be a small change that could have a significant impact. Also, making sure that the Bank Mitr's payments are not delayed will reduce the incentive for them to look for second income options and they will be able to focus more on this Yojana.

Additionally, there was a lot of ambiguity observed in the minds of the respondents. They were not sure about how to open the bank account and what to do after the account has been opened. More stress should be given on process literacy. A few steps should be provided to them on a paper in simple Hindi and English so that there is no ambiguity about the usage of the accounts. Even if they can't read, they can ask someone who is literate to read just one sentence for them. They would be happy to help as compared to reading a full brochure to explain the scheme to them which is a tedious task.

Bank Mitrs, apart from being trained in methods to enhance the literacy of the process, can also advice on schemes related to finance fields even outside PMJDY like the pension Yojana. They can be given training on activities like collection of small loans, credit inspections, etc.

URBANISATION IN INDIA: COMPONENTS AND CHALLENGES

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1. INTRODUCTION

Urbanisation refers to the shift of population from rural areas to urban. It also includes the availability of services which developed cities are supposed to possess to satisfy the criteria of an urban unit such as water, electricity and technological services. Evidently, most countries including India are not experiencing urbanisation but rather a kind of pseudo urbanisation. This paper discusses the various components which have contributed to the process of urbanisation in India; differences and similarities between urbanisation between more developed and less developed nations as well as the problems caused by urbanisation in India.

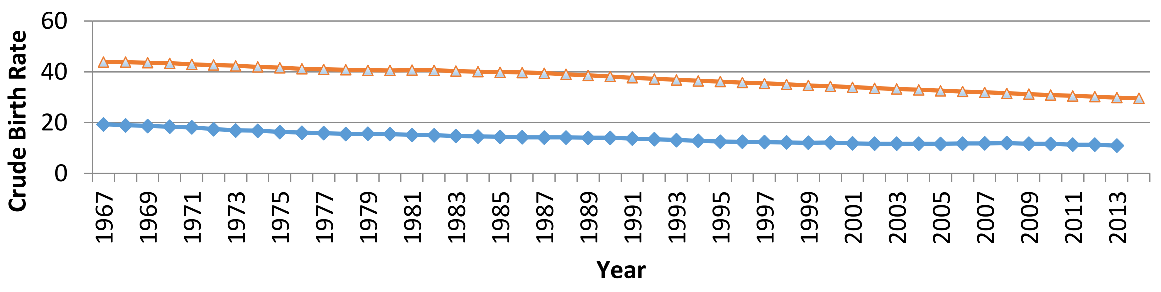
2. URBANISATION ACROSS THE WORLD

The urban population grew at a slow pace before the industrial revolution; however, it increased considerably post the revolution. In 1900, almost 14 % of the world population resided in urban areas, which grew to 30% in 1950. In the year 2008, the world population was equally split between the rural and urban areas. While 74% of the population in more developed countries was residing in urban areas, only 44% of the population in less developed countries comprised of the urban population. (Population Reference Bureau)

The urban population can grow either due to natural increase, that is, when the birth rates exceed death rates or due to the migration of people from rural areas to urban areas. The contribution of the above components to urbanisation sharply contrasted between more developed and less developed countries. In more developed countries, the urban population in the last 50 years increased due to migration owing to industrialisation wherein a large section of rural population migrated to urban areas to provide labour in industries. However, due to large scale industrialisation, the urban areas were highly polluted and populated which did not let the death rate to fall despite the easy access to medical facilities. Migration in more developed countries contributed as much as 90% to the urban population growth. (Population Reference Bureau)

In contrast to more developed countries, the urban population in less developed countries mainly increased due to significantly higher birth rates along with a fall in death rate as medical facilities were accessible to a large section of the population. Migration also contributed towards an increase in urban population growth as people migrated to cities in search of job opportunities.

Figure 1- Crude Birth Rate (In more and less developed countries)



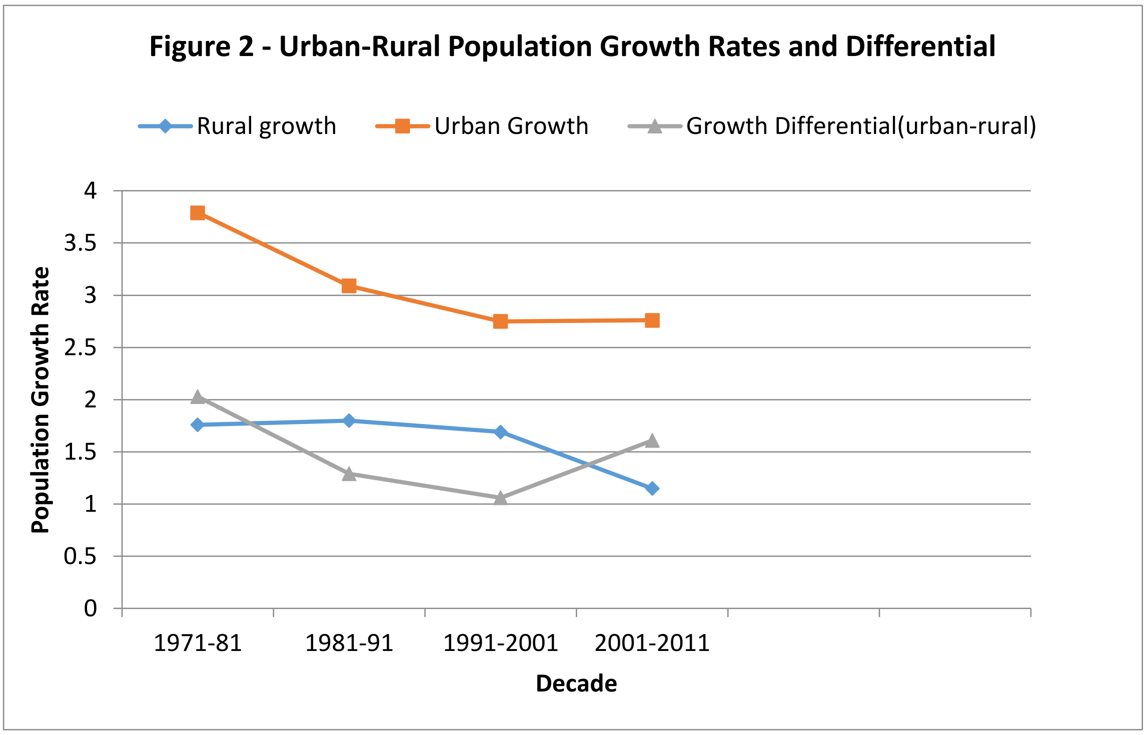
Source – World Bank Data

In figure 1, the line in red indicates birth rates in less developed countries and the line in blue shows birth rates in more developed countries. Clearly, the birth rates have been higher in less developed countries as compared to more developed countries.

According to the World Population Prospects released by UN in 2014, it is expected that in the period from 2014 to 2050, the world urban population will increase by 2.5 billion people leading to 66% of the world's population being urban. The report also states that approximately 90% of the increase will be concentrated in Asia and Africa, while India is expected to add 404 million to the world urban population.

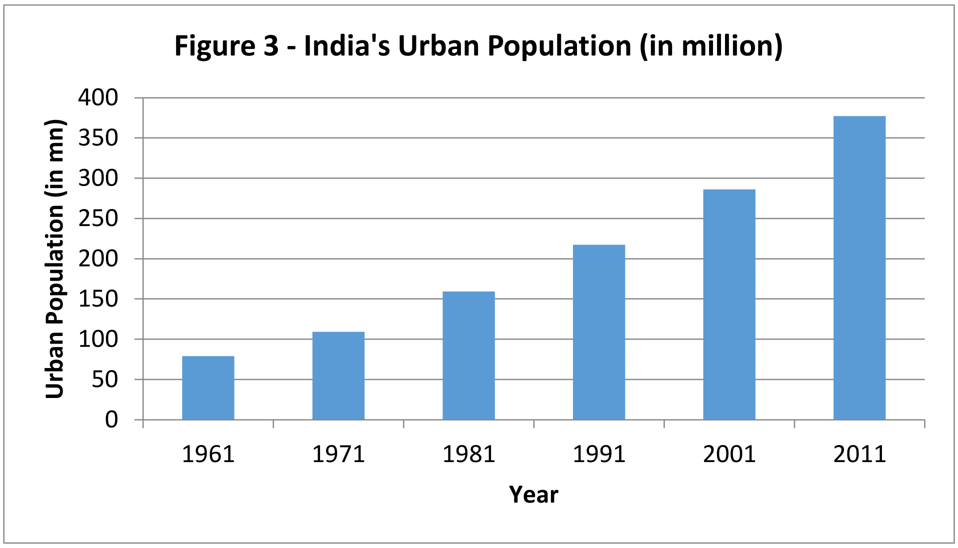
3. URBANISATION IN INDIA: A LOOK AT THE NUMBERS

In the last few decades, India has seen a considerable growth in its urban population. Although the rate of increase of the urban population declined over the last few decades, and it was expected that the urban population growth rate would decline from 2.75% during 1991-2001 to 2.23% during 2001-2011, there was a reverse trend as it slightly increased to 2.76% during 2001-2011. The growth rate of rural population sharply declined from 1.69% during 1991-2001 to 1.15% during 2001-2011 (Bhagat, 2011). The growth rate differential between urban and rural growth rates, which must grow to ensure increased urban growth, rose from 1.06 percentage points to 1.61 percentage points (refer Figure 2). It mainly increased due to the continuous decline in rural growth rate in the last decades.



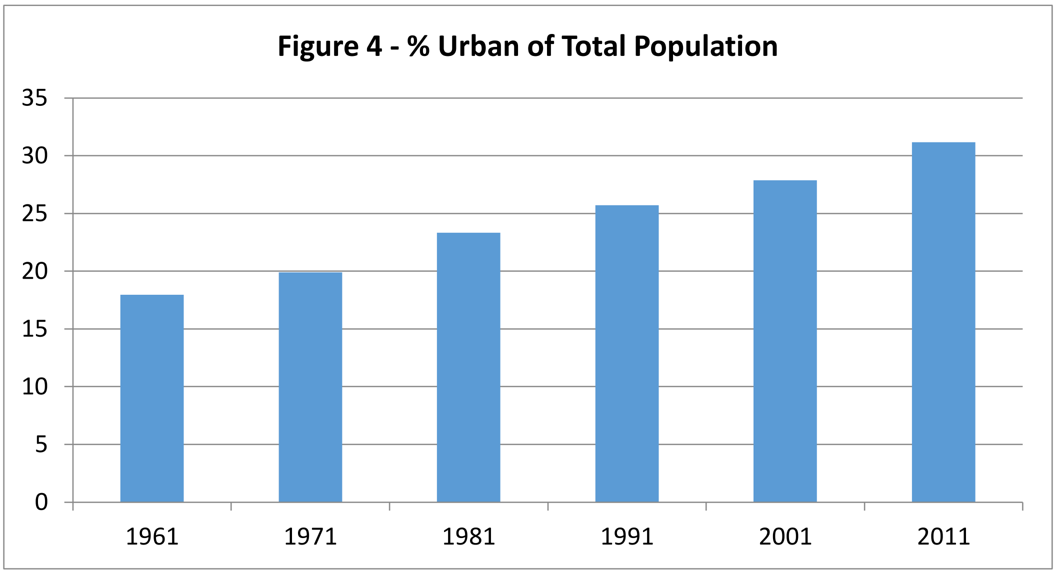
Source – World Bank Data

Out of total population of 1.21 billion in 2011, 377 million were living in urban areas as against 285 and 217 million in 2001 and 1991. Regarding percentages, out of the total population, 31.15% were living in urban areas in 2011, an increase of around 4% from the last decade. The percentage of people living in rural areas declined from 72.22 % in 2001 to 68.84% in 2011. (Census India, 2011)



Source – Census India, 2011

The Census data clearly shows that the urban population is increasing (Figure 4) continuously while there has been a significant decline in the rural population.



Source – Census India, 2011

This may lead one to conclude that India is rapidly developing and the living standard of the people is increasing owing to rising urban population and development of urban cities, but the real is quite different. The increase in the growth rate of urbanisation should ideally be due to increased economic activities in the current urban cities which attract rural population and causes rural-urban migration due to urban pull. But this increase in growth rate may also be due to other reasons such as advancing community in slum areas when lack of employment opportunities in the countryside cause migration of people from rural to urban areas. These figures do not reflect the actual living conditions of the population in urban areas or the density of the population, and thus, are misleading.

In the following sections, an attempt has been made to present an actual picture of urbanisation in India by looking at its components, the problems caused due to improper urbanisation and with a systematic overview of the policies that the government should implement to tackle the challenges posed by urbanisation in India.

4. COMPONENTS OF URBANISATION IN INDIA

4.1. NATURAL INCREASE

The urban population increases when the number of births in an urban area exceeds the number of deaths over a particular period. Advancement in medical facilities and its accessibility to a large section of the society causes mortality rates to fall, while the lack of government policies and awareness among citizens cause an unwanted increase in birth rates.

It is commonly assumed that the urban population increases due to rural-urban migration. But in the case of less developed countries like India, natural increase and area reclassification are the major source of growth in urban population. Natural increase contributed 44% towards urban population growth between 2001 and 2011. (Ellis & Roberts, n.d.)

4.2 AREA RECLASSIFICATION

The share of urban population also increased when more and more townships started transforming to conform to the definition of urban units, as defined by the census. Over the last decade some areas which were not recognised urban as they failed the set criteria, could qualify the criteria over time. There has not been any change in the definition of an urban unit over the last two decades, which has made comparison easier. According to census 2011, urban units were defined as all places with a municipality, corporation, cantonment board or a notified town area committee, etc.; all other locations which satisfied the following criteria - a minimum population of 5,000, at least 75 percent of the male working population engaged in non-agricultural pursuits; and a density of population of at least 400 persons per sq. km.

The first category of urban units is known as Statutory Towns. These towns are notified under the law by the concerned State/UT Government and have local bodies like municipal corporations, municipalities, municipal committees, etc., irrespective of their demographic characteristics. Examples: Vadodara (M Corp.), Shimla (M Corp.), etc.

The second category of urban units is known as Census Towns. These were identified on the basis of Census 2001 data.

Increase in population due to natural increase and migration made census towns qualify the criteria to be called as urban areas. Over time the population of these towns increased and area reclassification contributed 29.5% towards the increase in urban population between 2001 and 2011. (Ellis & Roberts, n.d.)

4.3 MIGRATION

In contrast to conventional beliefs, rural-urban migration did not cause much increase in the urban population. The urban cities have been less attractive to rural inhabitants due to lack of employment opportunities and lack availability of essential amenities. Cities are becoming highly congested, and the facilities are not equally distributed among the population. Also in rural areas, the agricultural sector has shown low rates of growth, eventually leading to stagnation which has caused the income as well as the living standards of the rural population to decline. This causes rural people to shift to urban areas despite the unattractiveness of urban centres. It can be therefore concluded that the migration taking place in India is mainly due to rural push and not the urban pull. This phenomenon is called pseudo urbanisation. Also, the migrants are selective while choosing the location to which they prefer migrating. Some major urban units like New Delhi, Mumbai, Kolkata, etc. are the preferable hotspots. This, in turn, exerts substantial pressure on the infrastructure as well as the provision of services in these cities. These cities have reached their saturation level of population capacity, and any further increase in the population cities creates pressure on the infrastructural and economic base of these cities thereby affecting the living conditions of the population. This has caused the problem of over-urbanisation in such areas.

5. IMPROPER URBANISATION IN INDIA

India is experiencing cluttered and inconspicuous urbanisation whereby problems like lack of infrastructure, basic facilities, housing, etc. affect the living conditions of the urban population and constrain the growth of economic activities which carry tremendous development prospects. According to the agglomeration index, 55.3% of India's population in 2010 lived in settlements possessing urban-like features against the officially declared percentage of 31. This shows that there is massive hidden urbanisation in India as a significant share of the population resides in urban-like settlements, but does not qualify the criteria to be officially recognised as urban population. The growth rate of the population living in officially classified settlements was just 1.15% a year from 2001-2011.

Messy urbanisation can be seen in India as according to 2011 census report 65.5 million Indians live in slum areas, and 13.7 % of the urban population lived below national poverty line. The lack of housing facilities and a large concentration of population in few urban units have led to a rise in slum areas which are characterised by the absence of sanitation facilities and drainage system, lack of water facilities, open defecation, the prevalence of various diseases, unhygienic living conditions and high crime rates. Slums in India are categorised into notified, recognised and identified slums. Notified slums are those who have been advised by the state as slums and come under the slum act. Recognised slums are the one who has not been officially notified as slums and do not fall under any slum act. Identified slums are those who have a population of more than 300 people or 60 households living in poorly built and congested tenements, which are very unhygienic and lack basic facilities such as sanitation and drinking water facilities. According to the census report of 2011, out of the 65.5 million slum population in 2011, 22.5 were living in notified slums, 20.1 were living in recognised slums, and 22.8 were living in identified slums.

6. PROBLEMS CAUSED BY URBANISATION

This sudden and unplanned urbanisation in India has created a series of challenges which needs to be addressed quickly. The lack of proper planning of cities has created the problem of housing in cities leading to an increase in the number of slums. The growth of urbanisation is lopsided as only selected urban units are becoming the main centres of urbanisation. Also, these cities have reached their saturation level of providing employment to unskilled or semi-skilled workers. Thus, there are not enough job opportunities left for unskilled labour that migrated from rural areas.

The focus of the government should be to implement schemes that ensure proper urbanisation in India. The city planning should be inclusive, taking care of both poor and rich. The government should focus on providing more housing facilities in urban areas. The slum population should be given proper housing facilities which will not only improve their living conditions but will also provide social safety. The industrial and economic base should be increased to generate more employment opportunities to absorb the growing demand for work. The government should focus on urbanising small cities along with providing more employment, to curb unnecessary migration from small towns to urban cities. This will not only improve the living standards of small towns but also reduce the pressure of population on the central urban units.

7. CONCLUSION

Although the proportion of the urban population has increased, a closer look indicates their inability to show the actual living conditions of the population. There is an enormous urban divide in cities where the rich and the poor coexist. The lack of proper urban planning has caused a series of problems due to which there is immense pressure on infrastructure and provision of services in a few megacities. The government is now focusing on building smart cities, so that the pressure on a few big cities could be distributed over other cities, thereby boosting the economic and industrial base of the country. A proper implementation of such policies will benefit the country in the long run as they will not only increase the economic and industrial base but also facilitate the distribution of the population. To encourage the continuous economic growth of the country, it is important that urbanisation takes place in the right direction.

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SHALE VS. OPEC

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Energy is a prime requirement for all developing and developed nations. The major source for power generation nowadays is oil. Throughout the 20th and 21st centuries, the petroleum industry has played a pivotal role in influencing the geopolitical, economic and human development strategies of both core and peripheral nations. Hence it is not fallacious to assume that one who has control over the majority of resources would certainly dominate the world's crude oil prices. The Middle Eastern countries are fortunate enough to possess an abundance of oil resources which Prima Facie creates their supremacy to influence world crude oil prices. This led to the formation of a coalition between the world's top oil magnet countries called OPEC. The Organization of Petroleum Exporting Countries is a permanent intergovernmental Organisation, created at the Baghdad Conference on September 10-14, 1960 by five leading oil producers, which was later joined by nine other countries. American reliance on imported oil began during the Vietnam War and the economic boom periods of the 1950s and 1960s. In turn, this provided Arab countries and OPEC with increased leverage to influence oil prices. Saudi Arabia, a dominant member of the OPEC group, used oil as a stealth weapon in opposition to the United States, which can be justified by the oil shocks of 1973 & 1979. In 1973, Iran and other oil producing countries stopped the supply of crude oil to the United States, because the latter supported Israel during the Yom Kippur War (Woodall, 2016). In 1979, oil shock occurred in the United States due to decreased oil output in the wake of Iranian Revolution. Both these incidents proved that America's global image as one of the world's strongest nation could be flustered by the dominance of OPEC on crude oil. OPEC controls oil prices through its pricing-over-volume strategy, thus establishing a certain degree of monopolistic power in the oil market.

At this point, US can achieve supremacy only if it becomes self-reliant in terms of fuel. Shale comes to the rescue of US. The potential of shale oil has been apparent since as early as the 10th century when the Arabian physician, Masawaih al-Mardini, wrote of extracting oil from "some kind of bituminous shale" (Ngai & Scheyder, 2016). The shale oil attracts varying degrees of interest from private and public entities but to little avail. Given the nature of shale formations, its development was initially hindered by two primary factors. The first being the absence of sufficient technology to unlock oil from these tight formations effectively and the second being relatively low global oil prices made investment in its development financially impractical.

Seeking no other possible resort, the United States started oil drilling in the Shale Basin and tried creating its market in the world of Black Gold. The shale oil boom that began with stable oil prices of over \$100/bbl continued several months even after collapsing of oil prices. Higher oil prices provided an excellent opportunity for the shale oil industry to learn and mature. In the process, companies were able to increase average productivity per well by multi-fracturing, horizontal drilling, including configuration and concentrating towards the most productive areas of the Basin (Flynn, 2017). This significant increase in market share drives the Shale companies to increase productivity and eventually reach their break-even. This penetration of US in oil market consequently increased the supply of oil or more precisely, in other terms reduced the demand for crude oil internationally. The OPEC was forced to adopt a lower price to compete or compensate the loss suffered due to the new player in the market. Now since, the shale producers in the United States rely on leverage, borrowed money from the banks, seed capital from investors and moderate oil prices to stay solvent, it was sure that a global price reduction by OPEC would lead to the bankruptcy of entire shale industry.

Contrary to the expectations, the shale oil industry not only survived but remained steady. The reason behind this is simple yet subtle. OPEC expected oil prices to drop to $70 a barrel, which they thought would be enough to squeeze many shale oil producers out of the market (Behar & Ritz, 2017). The reality proved otherwise. Shale oil producers were able to react quickly to reduce their costs through various cost-cutting measures to weather the storm of low oil prices. And many of them managed to survive at those prices. OPEC believed that only way through which they can regain their supremacy is by slumping the prices even further and hence OPEC's members continued to pursue their market-share strategy and kept pumping. In January 2015, oil prices were as low as $45-$50, and everyone expected that it would not go any lower. However, their expectation deceived them, and today oil prices are as low as $30 a barrel as compared to $100 in 2014 (Faucon, Sider & Kantchev, 2016). According to EIA (Energy Information Administration), in the United States alone, oil production has declined only by 384,000 barrel a day, from its peak in July 2015 of 9,598,000 barrels a day. In general, U.S. shale oil is showing a high resilience regardless of the current bearish sentiments. The US oil production reached its minimum in September 2015, but since then it has started growing gradually. Economically, lower price means lower supply, but the current downturn has proved that this is not always the case. The main reason behind it is the introduction of new, advanced technology, as well as better and more efficient ways of producing oil. Many companies are now focusing on increasing efficiency and productivity of their wells. Cheaper and more efficient well intervention and well completion technology, targeting richer sections of shale plays, is another reason. Such is the case in the Permian Basin, where production continues to increase. Improving the productivity by using more sand in each hydraulic fracturing job is also a factor. All these factors have offset the underlying price and supply relation in World Crude Oil market. The thing OPEC didn't expect was the resilience of US Shale oil. It could be said that Saudi Arabia and OPEC have underestimated the technological advancement of US and have concentrated the relationship between price and Supply while ignoring all other factors of production. Thus, we conclude that even though OPEC was able to decimate some shale exporter from the market, it was however not able to annihilate the entire competition. Even after fighting a rigorous battle for two years with Non-OPEC producers Saudi is adamant to maintain its market share and is persuading all other members to comply. One thing to be said with confidence is that global oil prices will continue to be low in the foreseeable future and US producers will need to improvise their strategy to undertake more efficient production technique.

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KNOW YOUR ECONOMIST

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Paul Krugman was born in Albany, New York on 28 February, 1953, and grew up in Nassau County. He attended John F. Kennedy High School in Bellmore before going to Yale University. He graduated from Yale in 1974 with a B.A. *summa cum laude* in economics. Under the guidance of his influential and experienced thesis advisor, Rudi Dornbusch, Krugman earned hid PhD in economics from Massachusetts Institute of Technology in 1977 with a thesis titled, *Essays on flexible exchange rates.* In the late 1970s, the doctor started working in the fields of international trade and economic geography. Little did he know that this would change his life and restructure the world of economics.

When Krugman began his work, there were a few pre-existing theories on international trade. The brilliant theory, which was formulated by the combined efforts of giants like Bertil Ohlin, Eli Heckscher, and James Meade revolutionised the field. It explained that a country which is relatively abundant in one of the factors of production should export goods that intensively use that factor, and should import those that intensively use the factor that is relatively scarce. The explanation was supported by showing that both interregional and international trade occurs because goods can move more easily than the labour, capital, or land that produce them.

However, the theory couldn't explain the two-way trade that was widely known to exist, that is, some countries exported as well as imported the same goods. Moreover, it wasn't able to adequately explain why rich entities like Europe, which had similar endowments of capital and labour, traded more intensively than those with dissimilar endowments.

A tight and concrete theory explaining these observations was missing till Paul Krugman, in 1979, sculpted a remarkably succinct paper, published in the Journal of International Economics, which proposed a new trade model that changed the way economists viewed the international exchange of goods. He postulated that the satisfaction achieved by a consumer from the consumption of a good, expenditure incurred by her remaining constant, rises with the increase in the number of choices. In his theory, Krugman also accentuated the cost advantages that enterprises would obtain, assuming the operation of economies of scale, if the market size and therefore, output increased.

Through these uncomplicated elementary claims and explanations, the economist argued that a nation should import and export the same goods for the benefit of both its consumers and producers. Imports will offer various types of the same good to buyers, and will therefore, increase the satisfaction of these utility maximisers. Exporting the same good widens the market for the domestic firms involved in production, and reduces the costs involved. This is good news for the profit maximising firms.

The tenacious economist had more to do and more to convey. It took eleven years, but his outstanding work on New Trade Theory converged to what is called the New Economic Geography. He foregrounded that firms would want to establish few big plants or offices instead of several tiny ones, because of economies of scale. Then he argued that transportation costs would induce firms to locate their operations close to the buyers, and also encourage the employees to locate themselves close to the firms' set-ups, because of obvious expenditure-minimising reasons. Further, he highlighted the fact that labour is supplied and output is demanded by the same economic unit, that is, households.

Once again, from these lucid statements, Krugman successfully carved out a theory to explain how firms and households tend to move close to each other, in geographic terms, which in turn explained urbanisation. His prodigious contributions to New Trade Theory and New Geographic Theory were recognised, and he was awarded the Nobel Memorial Prize in Economic Sciences in 2008.

The list of Krugman's contributions to the subject of economics is endless. He taught at Massachusetts Institute of Technology before teaching at Princeton University. He retired from Princeton in 2015, conferred with the title of professor emeritus. In 2010 he guided the Eastern Economics Association as the President of the guild. In 2016, he was ranked as the world's 24th most influential economist by the Research Papers in Economics. He is also Centenary Professor at London School of Economics and Political Science and has written a wide range of economic texts. He had an interesting take on the recently conducted demonetisation drive in India, which he termed as something "unusual". The Nobel laureate called the move a highly disruptive way to deal with illicit hoarding of cash and found it difficult to see significant future gains emanating from it. Krugman believes that the problem is something which is deeply rooted, and people will eventually find other adroit ways of accumulating unaccounted income. He further claimed that a relatively low-income economy wouldn't generate much income tax, and highlighted the fact that tax evasion was prevalent in even advanced countries.

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NOBEL PRIZE 2016

CONTRIBUTIONS TO CONTRACT THEORY

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Mankind, as a race, has developed rapidly only after we organised ourselves into a society, based on mutual cooperation and collective hard work towards common goals, all the while keeping our own interests at heart. For this kind of arrangement to work efficiently, some kind of agreement needs to be put in place to ensure that individual interests of people are also taken care of, while also making sure that they contribute towards the common goal productively. This is where the contract theory comes in.

1. INTRODUCTION

The biggest challenge to sustained and productive human cooperation is that people have differing interests. In the modern world, these divergent interests are resolved by contractual agreements. The basis for this type of agreement is that it provides incentives to the involved parties to exploit the possible gains from such cooperation. For instance, labour contracts specify conditions designed to motivate and retain employees.

This idea of providing incentives to make mutual cooperation more viable has a long history. In the 18th century, Adam Smith applied this idea to sharecropping contracts. In the 1930s, Chester Bernard extended it to include employees' incentives in large organisations.

2. BREAKING DOWN THE CONTRACT THEORY

The Contract Theory studies the construction and development of legal agreements by individuals and businesses. It involves analysis of the decision-making behind these agreements and includes specific terms, in case some uncertain happening occurs. This theory derives from principles of both financial and economic behaviour and also cover contracts based on asymmetric information.

The Contract Theory is not just confined to studying legally binding contracts. In its broad definition, it is the study of the design of formal and informal agreements with the purpose of motivating people with conflicting interests to take up mutually beneficial actions. It guides us in developing agreements between different stakeholders like employers and employees, shareholders and executives, and companies and their suppliers.

Essentially, this theory is about developing the most appropriate incentives and motivations for each party so that they can work effectively and take up mutually beneficial actions.

3. THEIR CONTRIBUTIONS

The previous work on The Contract Theory ignored two important aspects: informational problems and incomplete contracts. These were the main areas of focus for the recently awarded Nobel laureates, Bengt Holmstrom and Oliver Hart. Through their work on these aspects of The Contract Theory, they laid down the foundation of what is now commonly known as The Modern Contract Theory.

Hart's contribution is mainly towards developing the theory of Incomplete Contracts.

The basic idea is that it is not possible to create a contract that can anticipate every contingency that may arise in the future. So, granting control rights becomes a critical tool for developing performance-based incentives. The rationale behind this is that asset owners have more bargaining power, which serves as a motivation to invest. Thus, asset ownership or control should be with the party whose investment is considered to be the most important. Also, Hart considered the concentration of this bargaining power in the hands of a single party which is more effective than spreading bargaining power across multiple parties.

Bengt Holmstrom's work mainly dealt with developing contracts to cope with informational problems like asymmetric information. Information asymmetry is the study of decisions involved in transactions, contracts in this case, where one party is more and better-informed in comparison to the other party in the transaction. Thus, Holmstrom's contribution is mainly towards developing theory and models to right this power imbalance, created by information asymmetry, and hence, ensuring that transactions don't go awry. Informational problems, if not checked, can lead to market failure in the worst case scenario, as was the case in the 2008 financial crisis.

Holmstrom laid down the basic principles that companies can keep in mind while drawing up contracts, making sure managers don't compromise on the firm's long-term health just for the sake of obtaining short-term performance-based bonuses. This has become especially important after the 2008 economic crisis as this was precisely the problem in Wall Street before the crisis hit. Investment bankers often took steps risking the firm's long-term health and prosperity, in pursuit of annual bonuses, which eventually wrecked the financial system, and had a devastating impact on the global economy as a whole.

Since the contract theory is so vast and these Nobel laureates' contribution to it so far-reaching, only a few of their fundamental contributions have been highlighted.

4. APPLICATIONS

The Nobel Memorial Prize in Economic Sciences being awarded to Oliver Hart and Bengt Holmstrom for their contribution towards laying down the foundation of The Contract Theory is extremely significant. These Nobel laureates have developed very powerful and elegant methods which are now taught to all Economics students.

The tools and models developed by them have been put to use to study real-world contractual agreements in diverse fields- liquidity provision by government and banks, long-term compensation and promotion schemes for managers, and executives in senior positions and to analyse the problem of public versus private ownership of institutions such as prisons and utilities.

The theory has had a major impact on organisational economics and corporate finance, and it has deeply influenced other fields such as industrial organisation, labour economics, public economics, political science, and law.

The theory has been highly influential within corporate finance and organizational economics, where it has been used to analyze a broad range of issues, such as the costs and benefits of mergers, the distribution of authority within organizations, whether or not providers of public services should be privately owned, and how outside owners can control a company's inside managers through the design of corporate governance and capital structure.

Their combined work helps us understand our interactions with others—and design better rules so that social outcomes are better than before.

5. CONCLUSION

Contractual agreements have been an essential element of the economy since time immemorial. As technology develops further and organisations grow in size and complexity, the theory and practice of Contract Design will only grow in importance, that too exponentially.

As such, the economy and the world as a whole owes a tremendous debt to Bengt Holmstrom and Oliver Hart for their work in this regard and that is why the Nobel Prize in Economic Sciences awarded to them could not have come at a better time.

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MODERN ECONOMICS - PHENOMENAL OR NOUMENAL

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A review of one of the most appealing essays by E.F. Schumacher in Small is Beautiful and the opinion on the taxonomy of modern economics based on the references of prominent philosophers, scientists and economists

"The most obvious facts are most easily forgotten. Both the existing economic order and too many of the projects advanced for reconstructing it break down through their neglect of the truism that, since even quite common men have souls, no increase in material wealth will compensate them for arrangements which insult their self-respect and impair their freedom. A reasonable estimate of the economic organisation must allow for the fact that, unless industry is to be paralysed by recurrent revolts on the part of outraged human nature, it must satisfy criteria which are ***not purely economic."***

R. H. Tawney
Religion and the Rise of Capitalism

Proceeding on the path of the modern economics, to a certain extent, the economists seem to be distracted by the illusion of unlimited power, which is nourished by astonishing scientific and technological achievements, and has produced the concurrent illusion of having solved the problem of production, as is noted by E. F. Schumacher in his highly influential book **Small Is Beautiful: Economics as if People Mattered.**

This is certainly considered irrelevant to the domain of human, mainly by the philosophers, how we have been trying hard on accounting for the cost of the planet, how we have been trying to find the solution to the trouble of pricing the priceless, as is even noted by the renowned science writer *Lee Billings*.

Is it the maximisation of income and wealth that we ought to look for? Of course, these are the prerequisites to how we ideally want our world to transform and are not the exhaustive set of parameters that ensure the overall development. We have been reading that all in our Development Theory and Experience thoroughly and have created a far-sighted (considerably and not absolutely though) vision as to get the idea of the operationalization of pure economics. But this is not the theme here, it is rather the focus on the distraction of the modern economists today, as is highlighted by the insights of prominent philosophers and fore standing economists.

"Economists themselves, like most specialists, normally suffer from a kind of metaphysical blindness, assuming that there is a science of absolute and invariable truths, without any presupposition."
E. F. Schumacher

Schumacher has explored the idea of spiritual principles and moral purpose to the question of wealth in one of his essays, titled Buddhist Economics. With the notion that the Burmese take it to be their duty to conform both their dreams and their acts, to their faith and this is all they ever intend to do, he draws one's attention to the counter fact that such countries assume that they can model their economic development plans in accordance with modern economics and that no one bothers to bring forth the proposal of the follow of Buddhist Economics for the Buddhist way of life.

Buddhist economics must be very different from the economics of modem materialism since the Buddhist sees the essence of civilisation not in a multiplication of wants but the purification of human character.

From a Buddhist point of view, the modern economics would be a surrender to the forces of evil, emphasis from the worker to the product of work. The Buddhist is mainly interested in liberation and to this Schumacher writes,

"It is not wealth that stands in the way of liberation but the attachment to wealth; not the enjoyment of pleasurable things but the craving for them."

The main idea of the Buddhist economics that can be regarded as its essence is that,

"…since consumption is merely a means to human well-being, the aim should be to obtain the maximum of well-being with the minimum of consumption."

Modern economics, as we learn it, tries to maximise human satisfaction by the optimal pattern of consumption, while the Buddhist economics tries to maximise consumption by the optimal pattern of productive effort.

Moreover, Schumacher brings to our notice, *"from the point of view of Buddhist economics, production from local resources for local needs is the most rational way of economic life, while dependence on imports from afar and the consequent need to produce for export to unknown and distant peoples is highly uneconomic and justifiable only in exceptional cases and on a small scale."*

However, this may not be considered as compelling as the other points covering the concept because, from the point of view of development and the need and benefits of integration of the economies, trade beyond the local boundaries should be established. It may be helpful in the outflow of surplus (if any) which would help in the optimum allocation of unused resources. The notable work of Schumacher brings to our notice the rigid taxonomy of the modern economics. He certainly succeeds in fortifying the strength of working on a new stream of economics, called the Buddhist economics. However, this stream is applicable within the geography of regions believing in the Buddhist way of living life.

For the rich countries, the most important task now is 'education for leisure' and, for the poor countries, the 'transfer of technology'. This fact has provided the answer to the undermined capabilities of the world today, whether deliberate or consequential. Modern economics fails to account for the local features and is hence applicable only with slight changes in its basic model which are omitted in final policymaking to a large extent due to political instabilities or conflict in ideas. And it all results in the complete breakdown of expectations from that particular policy bringing in more instability and vagueness.

Also, the *Mathiness* of modern economics, as is named by the prominent economist, Paul Romer complains about how economists use math as a tool of rhetoric instead of a tool to understand the world. Though it would be too early for me to say whether he is right or not yet one thing that I may agree to, is the problem of commotion of the conflicting ideas of economists, where one camp of economists (macroeconomists, as he writes) supports its version of the geocentric model and another that supports the heliocentric model. He emphasises the need for economics to be similar to science where all hold to a standard that requires everyone to reach a consensus about which model is right, and then to move on to other questions. We somewhere lack the broader perspective of defining an economics of living a right livelihood, and by living, I mean a term that captures the idea of each and every human behind his/her existence. *Lee Billings,* in his *Five billion years of solitude,* writes,

"Photons, not dollars, are a planet hunter's fundamental currency, as they are what allow a planet to be not only detected but also subsequently characterised."

He may be too broad in his perspective, but that's something we all must thrive for!

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