



# equilibria

Gokhale Institute of Politics & Economics

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## FREEDOM

(Excerpt from "The Prophet" by Kahlil Gibran)

And an orator said, "Speak to us of Freedom."

And he answered:

At the city gate and by your fireside I have seen you prostrate yourself and  
worship your own freedom,

Even as slaves humble themselves before a tyrant and praise him though  
he slays them.

Ay, in the grove of the temple and in the shadow of the citadel I have seen  
the freest among you wear their freedom as a yoke and a handcuff.

And my heart bled within me; for you can only be free when even the  
desire of seeking freedom becomes a harness to you, and when you cease  
to speak of freedom as a goal and a fulfillment.

You shall be free indeed when your days are neither without a care nor  
your nights without a want and a grief,

But rather when these things girdle your life and yet you rise above them  
naked and unbound.

And how shall you rise beyond your days and nights unless you break the  
chains which you at the dawn of your understanding have fastened around  
your noon hour?

In truth that which you call freedom is the strongest of these chains,  
though its links glitter in the sun and dazzle the eyes.

And what is it but fragments of your own self you would discard that you

may become free?

If it is an unjust law you would abolish, that law was written with your own  
hand upon your own forehead.

You cannot erase it by burning your law books nor by washing the  
foreheads of your judges, though you pour the sea upon them.

And if it is a despot you would dethrone, see first that his throne erected  
within you is destroyed.

For how can a tyrant rule the free and the proud, but for a tyranny in their  
own freedom and a shame in their won pride?

And if it is a care you would cast off, that care has been chosen by you  
rather than imposed upon you.

And if it is a fear you would dispel, the seat of that fear is in your heart and  
not in the hand of the feared.

Verily all things move within your being in constant half embrace, the  
desired and the dreaded, the repugnant and the cherished, the pursued  
and that which you would escape.

These things move within you as lights and shadows in pairs that cling.  
And when the shadow fades and is no more, the light that lingers becomes  
a shadow to another light.

And thus your freedom when it loses its fetters becomes itself the fetter of  
a greater freedom.



Illustration by Kiran Awale



## THE SOUTH ASIAN STRATEGIC SEESAW AND THE US

Recent history has seen a huge volume of diplomatic dialogues among various levels of state representatives of the South Asian countries, especially India, China, Pakistan and Iran, more than ever before. Ties among these countries are multifaceted and complex. The interesting part, however, is to see how US figures in the regional equation.

India-Iran

The US, EU and P5+1 imposed sanctions on Iran citing illicit use of nuclear materials. This had a major impact on the Iranian economy as sanctions were imposed not only on nuclear materials but major sectors like banking, shipping, energy, insurance, military and international trade. The 2009 vote of the International Atomic Energy Agency (IAEA) member countries for the Nuclear Non-Proliferation Treaty (NPT) against Iran due to the Qom uranium enrichment facility was kept a secret for quite some time. India, that voted against Iran, was among the 25 countries that did so, led by the US, when Iran wanted India to vote for it the most. India had a newfound partnership with the US that it did not want to spoil.

This was the third in four times that India had voted against Iran. India would generally maintain a stand against anti-proliferation but voted in favour of the NPT as the presence of one more nuclear power in the region was not conducive to her. India however maintained that Iran should continue using nuclear material for civil purposes under the NPT. As far as India's relations with Iran were concerned, the negative vote had certainly disappointed Iran. India maintained that there was no need for confrontation and that differences could be settled with diplomacy.

If India would have voted against the NPT in favour of Iran, the vote certainly would not have mattered to turn the decision, but it would have sent out a loud message. The new born partnership with the U.S. was ample reason for India to partner with the majority vote that was inclined towards anti-proliferation. Iran was subjected to strict inspection from IAEA for a decade, and in its communications to the IAEA post 2009 findings, it continuously stated that it was adhering to the Treaty and was using its nuclear facilities as directed. Iran truly was giving in to western pressure, and the onset of the Rouhani Government made that tone very clear. A strong vote by India in Iran's favour could have made things easier for Iran sooner than 2016. The negative votes stick out like sore thumbs in the otherwise smooth sailing India-Iran relations.

Pakistan-China

India faces the kautilian precept, where when there are two superpowers

in the regions, others tend to support one of them. In this case, Pakistan, India's immediate neighbour, has always supported China. China and Pakistan have shared trade, strategic and military ties since long, so much so that China wants to make sure that India and Pakistan get entry into the Nuclear Suppliers Group (NSG) at the same time, even though India's cause is heavily backed by the US and India has been successfully able to sign a deal with the IAEA gaining a special exemption from the NPT for itself.

Though China and Pakistan are old partners, their friendship is not all-weather. After the Mumbai attacks, a statement by a Chinese diplomacy expert said, "If India invades Pakistan, we would be willing to respond. If India launches air strikes on Pakistan, we would be willing to respond. If India threatens Pakistan with nuclear weapons we may even be willing to extend our nuclear umbrella to Pakistan, though we wouldn't be the first ones to use the 'n-word'. But when it's Pakistan that causes the problem, we can't back them. What could we say after Mumbai? They obviously had military training. We couldn't defend that."

Ironically, Iran and Pakistan shared cordial trade and military ties in the latter half of the last century. The two had promised each other military support in case of Pakistan's war with India and Iran's war with Iraq. Iran did help Pakistan in both its wars with India. With India coming out to be victorious, and the Iranian revolution in 1979 against the U.S. supporting Shah, ties with Pakistan started disintegrating as Pakistan would maintain ties with the U.S. too.

Not having very cordial relations with Pakistan after the Bin Laden incident, after withdrawing its military from Afghanistan and uplifting the Iran sanctions, the only country that the U.S. shares ties with is India. With ties with Iran and Afghanistan, India can play a major role in promoting peace in the region. Moreover, support from the U.S. can help India displace China as the South Asian superpower that it has enjoyed for so many years. India should hold an independent and consistent stance in diplomatic situations that will help create an image that is difficult to alter.

-Harsh Doshi

M.Sc. Economics (2015-17)

## THE SUITED MIRROR

Couple of weeks back at the all-party conference and later on in his August 15 Independence Day speech, an aggressive countering of Pakistani propaganda against India was done by the Indian PM. Making an oblique reference to repeated incidents of human rights violations by the Pakistani Army in the Balochistan Province and the disputed region of POK, the mention of Balochistan insinuated towards a strategic shift in India's foreign policy, which shows that the neglect and atrocities committed on the Baloch people will be used to counter Pakistan's claim on Jammu and Kashmir.

Covering nearly 44 percent of the total land mass of Pakistan is the South West Province of Balochistan. Although a home to only 5 percent of the total population of Pakistan, this arid mountainous stretch is of great economic importance. The mineral profusion in this region and an abundance of rare metals like silver, gold, platinum and uranium along with a humungous 36 percent of the total natural gas reserves of Pakistan, Balochistan contributes heavily to the growth engine of Pakistan. Along with a potential economic corridor to Central Asia and hosting most of the major deep sea ports of Pakistan, the Balochistan province also serves as a region of great strategic importance.

The conflict in Balochistan has been ongoing since the inception of Pakistan. The insurgencies by Baloch nationalists were first fought in 1948 and since then the mobilisation of Baloch nationalists have reportedly grown more intense with much broader insurgency beginning in 2003. The disgruntled Baloch people who are among the poorest communities in Pakistan allege the Government of Pakistan for the neglect and human right abuses in that province.

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Balochistan under the British rule was divided into four princely states. Post-independence all these four states got an option of remaining independent like the 535 princely states under the British rule were given. The Khan of Kalat opted for the same and on 27<sup>th</sup> March 1948 Kalat was annexed by Pakistan, while the other three princely states signed the treaty of accession.

The Baloch cause has received both covert and overt support from different countries at different times. Be it the support for the Baloch Marxists from Bugti tribes of Afghanistan or from Soviet Union in the 60s and 70s. The Baloch rebels of Iran were funded by Israel and USA to destabilize the local administration there. India's intelligence agency RAW have also been accused by the Pakistani government of being the supplier of arms and for funding the Baloch rebels.

The strategic game changing plan might seem bold, but a total agreement by all parties at the all-party meet shows how all the parties were kept in the fray regarding the topic of Balochistan. The well planned counter strategy to showcase Pakistan's hypocrisy and human right abuses over the Baloch people was also reiterated by the MEA and thus it seems quite well an offensive diplomacy plan of approach to counter Pakistan's Kashmir rhetoric.

-Vaidik Chakravarty

M.Sc Economics (2015-17)

## AN OPEN TALK WITH DR. ASHOK DESAI

*Dr. Ashok Desai, The Chief Economic Adviser during 1991 Economic Reforms, was present at the Institute for an interactive session with the students. He was introduced by Mr. Janak Nabar, Co-founder and Director of Research, Marketnomix. Some excerpts from the session:*

**Q. Can you share your experience and anecdotes of the time when India was going through the transformation of liberalization and ensuing crisis with us?**

**A.** Like any economist I too believed in maximizing my utility and as the crisis engulfed India in the years leading to 1990, I went to Canada for 3 years. After coming back, as I was walking in the corridors of Planning Commission I met an old friend who asked me to work on a trade policy. As I started, I found that the government was issuing approximately 1 million import licenses in a year. The exporters (mostly manufacturers) needed imported materials and machineries for their exports. With the import licenses only with a bunch of traders, the exports were becoming uncompetitive.

So I put forward the proposal that instead of laboriously issuing a million import licences in a year, with all the attendant corruption and red tape, the government should print them like currency notes and give them to exporters in proportion to exports, and let them sell them in the market. The government did that in 1991. It worked, too well. After three months, people started forging import licences. However, by then, P. Chidambaram, the then commerce minister, had gained self-confidence; he abolished import licences altogether on capital goods and industrial inputs. Manmohan Singh, then Finance Minister, asked me to come up with more such ideas and stay in Delhi.

**Q. After coming out with reforms of 1991, what, according to you, resulted in positive and negative impacts on the Indian economy?**

**A.** Until 1991 we were in severe Balance of Payments (BOP) crisis which was also a common occurrence of the past. Since then, we had faced no such crisis and we grew at a rate of 10% between 2008 and 2010.

Also, there can be seen a rise in the agricultural wages hinting to the agricultural worker shortage.

But we failed in developing our Capital Markets which is one of the oldest one and now raises hardly any money. Take for example, Bombay Stock Exchange (BSE), it was established in 1875 and it is still not mature enough as compared to the markets in other developed countries.

During my time in Delhi, I used to see a line of industrialists in front of the office of the Finance Minister. His secretary sat in a backroom, going over the applications for a permission to issue capital in the market. So, I advised the office to transfer the regulatory work to a separate body - to SEBI (Securities and Exchange Board of India). But over the years, it has expanded enormously, has become a huge bureaucratic structure in itself and hardly gives permissions and thus, capital markets have failed.

While delivering a lecture in the Nehru Memorial Library (Public Lecture delivered under the series 'India and the wider World' at the Nehru Memorial Museum and Library, New Delhi, 20 February 2013) I pointed towards the importance of marine trade in the era of globalization. Out of all big countries, India has the lowest trade ratio because of severe import restrictions but this continues to be low because of the low number of sea ports.

Now ports act as a shelter for ships where they can take refuge from rough seas; they are also the interface where goods and people are transferred between land and water. Typically, a harbour is a part which is insulated from the tides by a natural barrier or a constructed breakwater. It will have piers where ships can be docked for loading and unloading; the water in the approach channels from the sea to the piers must be deep enough for ships to approach them without any danger of running aground. The piers must be spacious enough for operation of cranes and for loading and unloading of goods, and they must have good train or road connections with the mainland. Most of the world's ports have been located so as to use natural indentation in the coastline. Bombay is a good example; Bombay Island shields the harbour from the force of the open sea, and the docks have been built on the eastern edge, away from the sea. Madras port, which was built in 1877-95 and 1906-12, is a good example of an engineered port and is India's first artificial harbour. India needs to build more such ports to gain its share in the world trade.

Other countries, say England, have inland ports like the one in London on the Thames River. England, in all, has 200 ports whereas India, which has a far larger coastline has 90. There has to be a way that deep sea ports as well as inland sea ports are constructed.

**Q. Recently Subbarao commented on the Government interference in their work. Did you faced the similar situation and have been under the pressure that Subbarao hinted? Will the situation change over time? As a budding economist, what should the students present here, prepare for while taking on the roles of advisors and policy makers to the government?**

**A.** First of all, it is not the job of an economist to make economic policies. Rather, it is a work and responsibility of the elected representatives of the people. Economists can only help and advise them and warn against potential pitfalls. Instead, there

should be a system where the politicians are educated in fields of economics and policy making. After being elected, it should be made mandatory for every minister to take a course on economics and then they should handle the responsibility.

**Q. What advice would you give to the students here regarding the skills and techniques, that they can equip themselves with, before taking on a more responsible role in the government?**

**A.** You should learn to make friends. In the government offices, you will come across all types of people - some IAS officers, other economists educated from foreign universities, who will be from all over the country and will bring with them their own perceptions and culture. You have to be able to understand their viewpoint even if you think you are completely right over some issue.

**Q. You said that the reason behind the surge in agricultural wages was due to the labour shortage but isn't it the case that the wage rose due to MGNREGA?**

**A.** Yes. MGNREGA was a factor but it provided the people with alternative income streams. People started working when the work was provided under MGNREGA and as such the labour demand in agriculture fell. Living standards rose and the people started aspiring for more by migrating to the urban areas. Take a case of Bihar, it witnessed above 10% growth for last 10 years due to the same reason - with the increased wages people were spending more.

**Q. What would be the impact of GST on different states of India? Who will stand to lose or win after GST is implemented?**

**A.** GST will work as a great leveller as far as State finances are concerned because the revenue will be distributed from the centre. Other countries have GST as well as some other taxes on production. Implementing GST will be a difficult task as the guidelines are yet to be set out properly and the policymakers are still in the dark, so to say. However, States with less revenue from indirect taxes stand to gain.

**Q. Sir, can you share with us your experience with Kaldor while you were studying in the Cambridge University?**

**A.** First, you have to understand the education system of Cambridge. There, they provided you with a lecture and it was up to you to attend them or not. College provided accommodation and everything and with that a supervisor was assigned to each student from among the faculty of the college. My supervisor was Nicholas Kaldor. He was a Hungarian and later studied at the London School of Economics. He was elected to a Fellowship at King's College, Cambridge and offered a lectureship in the Economics Faculty of the University. Born in 1908, he was one of the observers of the Keynes' papers on trade cycles which were getting very popular. Nikki too joined the crowd around the Keynes, who in his General Theory was explaining slump in the economy through a dip in demand. As a solution, Keynes' was recommending government participation in the investment expenditure in infrastructure and other areas to bridge the gap in demand and through multiplier effect raise the output and hence, employment. But then Nikki probed that what would happen if the investment is raised in the situation when there is already full employment level. As he was working on the theories put by Keynes, he also considered investments being equal to savings. Since, the propensity to save for rich people is more than that of a working class, an increase in investment levels would imply an increase in savings and that savings would be by the richer persons. These savings will give returns and that would add to the income of better-off part of the society. And hence, under full employment level, increase in investment will certainly affect the income distribution. He analysed all this in his paper "Capital Accumulation and Economic Growth".

I got interested in all this and tried to test the theory on other countries and was also hoping to have fun on the side. For my analysis I needed longer period data and there weren't many countries that had that. So, I chose France and went to Paris. But I found that their records were of a very poor quality. And later, I discovered that Germany used to keep its records in a perfect manner - in a form of annual books which were in usable condition and were available for the period 1834 to present. Then I went to Germany and analysed their economic growth and wrote my thesis "Real Wages in Germany 1871-1913" under the supervision of Phyllis Deane.

-Dhruv Goel  
M.Sc. Economics (2015-17)



## DISNEYIZATION

It is absorbing the way certain structures get super imposed on the larger functioning of the societal being. Or the way they get outsourced into a myriad of cultural symbolisms. The machinations cannot be traced to singular events or dates. They embody per se a chronology of interaction with the new production relations and their subsequent super structures. This can be simplistically explained in Marxist terminology as the growing foray of capitalistic structures with their ensuing ideologies.

One of the most subservient forces of the 21st century is the homogenization of societies and values as a consequence of globalization. This occurs through the dominantly subsuming patterns of global integration. Reducing the whole process merely to a consequence of the larger structure loses scope for a detailed analysis. Thus, Alan Bryman introduced a concept called "Disneyization". He draws a similarity between Disney theme parks and capitalistic structures developing on similar lines.

Alan Bryman, through his thesis, worked parallel to the notion of Mc Donaldization concept borrowed from Ritzer. Like Mc Donaldization, which builds on the principle of homogenization, Bryman's concept thrives on elaborate discourse of Walt Disney theme park. Walt Disney's theme park has been one of the most imaginative occurrences. What is of interest to Bryman is the thematic rendition of the parks. It is on this theory that he explains the Disneyization of society, or the 'theming' of society.

'Theming' has been one of the most visible and growing trends lately. Restaurants and cafes have absorbed this culture quite vividly. Most of the cafes and restaurants develop on a theme these days. The themes reflect a blend of the popular culture and tastes of the masses. It ranges from dynamic imaginations of the musical plethora to the wrought out sublimations in the sports world. To exemplify, Hard Rock Café started in 1971 as a theme café of metal music and now it spans fifty nine countries. Another of its kind can be a sports bar, like Underdogs in Delhi. It not only houses gaming zones and other indoor sports, but is crowded with over 40 TV screens and four giant projectors. The phenomenon is not confined to restaurants alone. Giant malls are serviced on similar outlines worldwide. Many more such entertainment houses based on the theme of cinema, art, dance forms, cultural executions, et al have come to exist.

Theming, however, cannot be treated with an isolated sense of a sociological

process. It embodies within itself a larger narrative of an inter-linkage with the socio-economic happening. Theming in itself can be a diverse phenomenon. What confines it to the drudgeries of homogeneity is the assimilation across cultures.

On a similar development, theming does not remain the sole pioneer to the larger process of Disneyization. Markets that get created in this process require an involved study. Bryman conferred this idea under the name, "de differentiation." He exemplified it through the shops that prospered in Disney Land because of the success of the theme park. The logic can be extended to cinema halls that get endowed with food courts and gradually, other commercial centers. A consumer is offered a diverse choice of products in a single space and as such newer forms of consumption patterns. Extending the model of Disneyization, Bryman further questions the creation of merchandise in this process. The Disney characters fashioned into stuffed toys, t shirts, food items, and other merchandise found a remarkable market in and around Disney Park. The mileage did not stop there. Movies, comics and other related merchandise thus created satisfied a substantial demand across cultures.

Yet another engaging facet of Disneyisation, which Bryman studied, is emotional labour. Disney parks held an abundance of smiling and cheerful workers. The friendliness with which their service gets executed leaves a perfunctory note of a mundane similarity in the process. The structures infected with so much 'cheerfulness' grew unfailingly, and got pronounced into the larger picture of Disneyization.

It is this manner in which capitalistic structures grow and absorb into the cultural synchronies. What remains to be witnessed is the interplay of production forces that subscribe to redefine cultural settings. The recourse of the narrations is definitely ordained to the primeval assortment of deconstruction. As such, while the description tolerates a main stream version, it also has an honest scope to accommodate marginalities. The crucial functioning, however, remains the mapping of certain globalised capitalistic structures inculcating into repetitive symmetries of homogeneity.

-Hafsa Sayeed

M.Sc. Economics 2015-17

## THE BABY FARM

"Womb on rent", irked the owner of the house, where I work, in disbelief when he first read these words. It was a small column on the front page of a mainstream Indian newspaper. His wife went into a state of shock once she heard the words 'womb' and 'rent' being used in the same sentence. And as I sat in a corner of the room, I remembered a time when even I was as shocked as her after hearing the same words. These words are no longer unknown or uncommon to me. I know this because I am a woman who does exactly that, gives her womb on rent to people she has never met before and might not get to meet in her lifetime.

I am a surrogate mother. Or at least I used to be.

India is notoriously known as 'the baby farm' all over the world due to the easy availability of babies at cheap rates through surrogacy. Commercial surrogacy is legal in India and is a multi-million dollar industry. Indian surrogate mothers are preferred by potential parents not only in India but all over the world. One of the main reasons is the cheap cost as well as good technical services. Surrogacy is a favoured option for a lot of potential parents. There are two types of surrogacy. One is through the sperm insemination and the other is through IVF. In the IVF treatment, the embryo is implanted in the uterus. This is generally a celebrated option as the surrogate child contains the genes only of the biological parents and none matching to the surrogate mother. And for this, she is paid. Commercial surrogacy is a big business and economically profitable. There is a fixed cost involved, which includes onetime payment for the services of the surrogate mother and a recurring cost to make sure that she is kept in good health, fed the proper nutrients and is provided with vaccinations at the required time.

Commercial surrogacy is highly profitable but not regulated. There are many clinics and nursing homes which provide these services. They take care of everything, from finding the surrogate to the final delivery of the baby and handing him/her over to the biological parents. This procedure is completely contract based. The doctors have their agents whose responsibility is to find potential surrogates. A contract is signed between both parties and it is carried out. But is the picture actually so rosy?

Most of these surrogates are illiterate and belong to financially low background. Many are involved in doing menial jobs and earn very low income. The agents approach such females who are in desperate need of money and for them it's a castle in the air. They are promised an amount

anywhere between 3 to 5 lakh whereas the potential parents are told a number higher than this. Fees of the doctor and the services of the agent are compensated separately. The difference between what amounts are promised to the surrogate and what is known to the parents is quite large, anywhere between 2-3 lakh which are shared by the doctor and the agent. Due to illiteracy, many women do not understand the contract and are paid less than what they were told earlier. Contracts are not shared with surrogate and there is no way left that the surrogate takes any legal action due to non-fulfilment of the contract (if in the first place she is aware about the legalities).

Many of these doctors run what we can call as the 'surrogate house' where all the surrogate mothers live until the baby is delivered. There, they are taken care of and provided all necessary medical facilities. Once the baby is born, he/she is handed over to the biological parents immediately and there is no contact of the baby or the parents with the surrogate. There also exists a market for what is known as 'the extra babies'. Baby Manjhi's case was one such case which brought this issue out. A Japanese couple divorced before the delivery of the baby and the mother refused to adopt the baby. Indian laws did not allow the adoption by a single father. Cases where the couple gets divorced before the delivery or refuses to adopt the baby, creates the market for extra babies. These babies are then 'sold' for lakhs of rupees to parents who are looking for a surrogate but don't want to wait too long (almost a type of human trafficking, just legal). The act of kindness, the act of being helpful, the feeling of being able to help a childless couple has been turned into a big dirty business which is largely unregulated and does more harm than good. Estimates show that approximately 25,000 babies are born through surrogacy every year and the industry is worth about \$2 billion.

These doctors and dealers have turned to this business because it is economically viable and profitable. It is not difficult to find destitute women who would do almost anything to feed their family. The Union Cabinet cleared the bill on surrogate motherhood on August 24, 2016; which protects the rights of surrogate mothers and makes percentage of such children legal. Hopefully, this bill will also help regulate surrogacy business and the corruption which lies in this system, is reduced.

-Drishti Popli

M.Sc. Economics 2015-17

## OF LEGENDS AND ECONOMICS

Of the many stories that have sprung from the Greek mythology, the legend of Icarus is one. Son of Daedalus, the chief craftsman for King Minos, Icarus, along with his father, faced the wrath of the mighty king as imprisoned for life in the Labyrinth. Daedalus and Icarus managed to escape the maze aided by wings assembled from mere feathers and wax. However, the overwhelming flight into the unattainable sky erased all traces of his father's words of caution from young Icarus' mind. Lost in his oblivion, up Icarus flew, only to meet a fatal fall into the sea when the Sun melted the very wax holding his wings together.

The question would be, why retell ancient myths on a platform associated with a lot else that is a lot different. The answer would be the genius of a thinker lies in interlinking stories with his field of study, as displayed by the work of Danny Miller. An economist and management researcher by profession, Miller gave the world of business, the Icarus Paradox.

The crux of the Greek tale is that what freed Icarus' life was what ended it. Complacency and pointless vanity or 'hubris' drowned the boy who eyed the Sun. Miller identified similar trends in modern day businesses. On conducting a thorough research on a sample of firms, he observed that a number of companies that were catapulted to glory due to certain values and self-attributed strongholds, eventually plummeted to a complete failure. The first example that comes to mind would be of the Lehman Brothers. Unconventional investment plans led to immense success, success to overconfidence, overconfidence to overindulgence in unsound ideas, and that quickly translated into bankruptcy.

Similar instances come to mind such as of Tupperware and Laura Ashley. In his paper, Miller has attributed these imminent failures to other minute factors apart from sheer arrogance and self-satisfaction. The general human belief in one's abilities, a couple of notches higher than the level backed by true talent, and so much comfort in one's place of prosperity that makes you turn a blind eye to the prospects of risk and downfall are very obvious. Xerox fell prey to such delusional entrepreneurial emotions of neglecting market changes and entry of competitors in the industry. The

most deceptive parts played in these scenarios are by ethics and values. In order to maintain valuable customer relationships, companies resort to false projections and baseless promises of skyrocketing profits. A certain technology, investment model or business plan which ushered in growth spurts and initial success are parasitized on until it gets too late to realise that the same are now redundant. Organizational behaviour has been flagged by a major milestone in the form of such theories propounded by the inconspicuous economists.

What if we broaden the realms of this paradox? Celebrities and artists, sports players and champions – A lot of their lives showcase the same trajectory, talent-success-talent-failure. Most recorded cases of untimely deaths or bans on grounds of unlawful medical behaviour can be traced back to the lives of these paradoxical victims. To fuse in another category of similar fatalities, I would name my city, the city of Joy, Calcutta. Even through the haze of blind love the residents harbour, the way it is shackled by the self-defeating comfort, Calcutta in its own skin is visible – the layered history, the dynamic culture, the scholarly gems. The big decorated basket of heritage that hurtled in prosperity has probably accumulated enough contentment to now make it only a burden. Lastly, to pause this line of argument for now, how about Microeconomics? The basic foundation of this rapidly growing and simultaneously branching discipline has a major chunk of its body grafted with assumptions and hardly practical theories. The beautiful construction of these fundamental theories that propelled Economics into the lime-light has gradually started garnering disregard and disinterest from scholars all over the world. On closer observation, an Icarus failure isn't too hard to spot.

-Kshama Mishra

M.Sc. Financial Economics (2015-17)

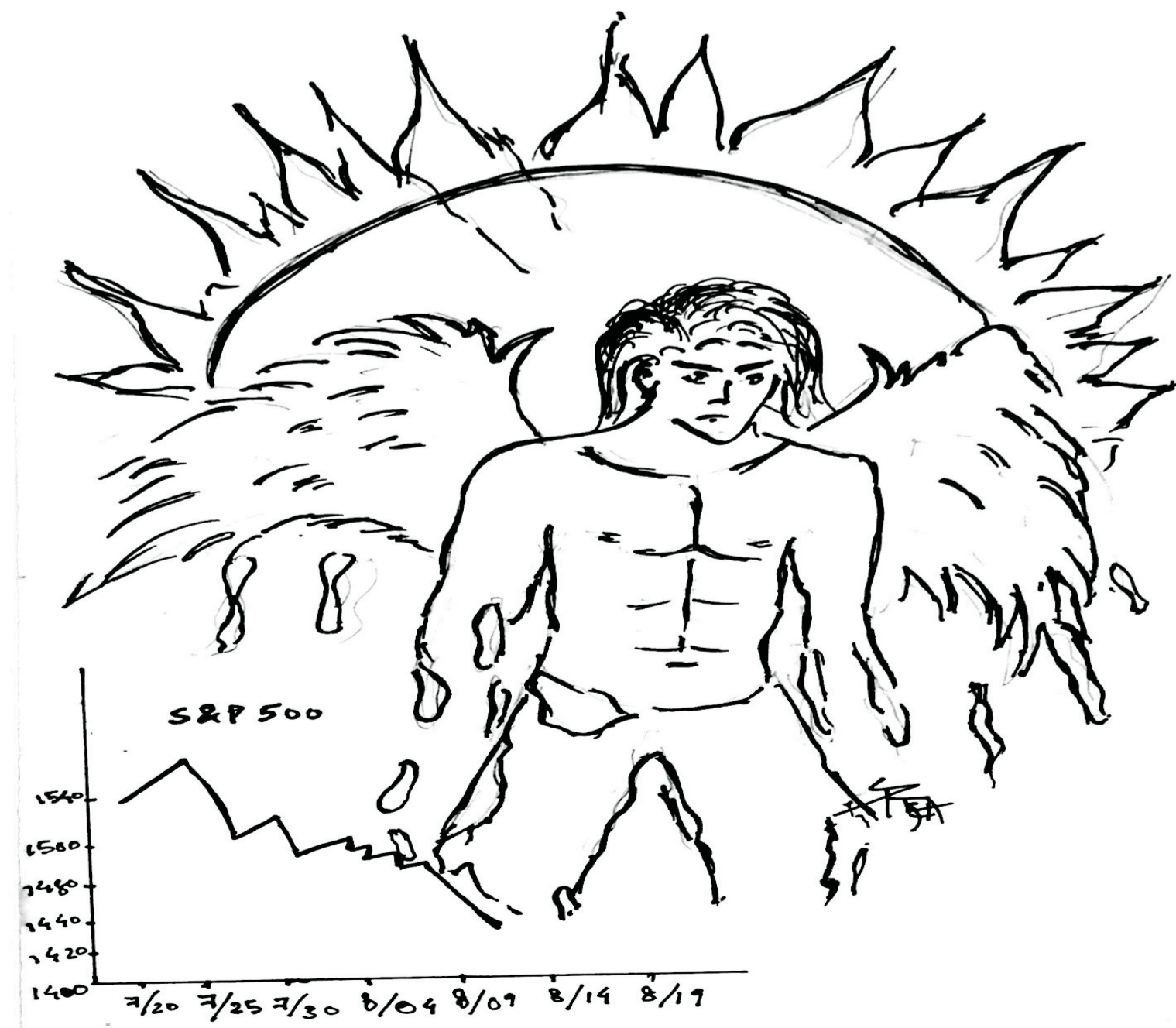


Illustration by Sreeja Sen



## DECADENCE OF PUBLIC SECTOR BANKS

*By end of March 2014, as per RBI, the public sector banks had 73.2 per cent and 73.9 per cent market share in credits and deposits respectively, indicating how the failure of these banks can seriously exacerbate the economic slump and can prove disastrous for our economy with after effects that can leak to other nations as well.*

FINANCE

Riding high on credit demand before 2008, the epochal year when the true nature of American banks got revealed and buried simultaneously, Indian public sector banks (PSBs) are now facing a rotten fruit whose seeds were planted during those years. Each day is a new revelation or a day of concern or a day for some policy action, that is trying to curb the growing menace of NPAs in India. From Bank of Baroda to Vijaya Mallya, the story of bank losses and wilful defaulters are making the headlines. Are we reaching a cliff after descending from the peak? If we are, then, how can we minimize the impact of the fall? Are external conditions working against us? These are the questions that I will observe here.

The numbers are startling, especially when one looks at the Indian Express (IE) reports where they siphoned the information through RTI. From a report in IE, bad debt stood at Rs. 15,551 crore by March 2012, which shot up by 3 times to Rs. 52,542 crores by March 2015. Looking at the rate of growth of bad loans, which grew at 4% between 2004 and 2012, suddenly jumped for 2013-15 to 60%. As the net profit CAGR growth rate for PSBs was 16.1% between 2003 and 2008, for the period 2009 to 2015, it fell to 1.73%, clearly indicating a peak, from which these banks descended to the

*State Bank of India, the largest government bank, has written off over Rs. 41,640 crores as non-performing assets (NPAs) in the last 10 years but failed to recover even one-third of this amount in the same period from bad loan accounts.*

muddy waters where the flood lights are upon them. Yet they maintain their grace of purity (characteristic of public sector entities). The process through which the banks decide upon the wilful defaulters is a mystery, visible in the answers given to RTI applications by IE. Even after coming up with such troubling numbers, the dismal

efforts of the banks in recovering these loans are ineluctable for the senses. State Bank of India, the largest government bank, has written off over Rs. 41,640 crores as non-performing assets (NPAs) in the last 10 years but failed to recover even one-third of this amount in the same period from bad loan accounts. This crisis of PSBs mirrors a deepening of sluggishness in the world economies after years that was not christened as depression. At a time when world demand is faltering and Indian industries are working at incomplete capacities, the result of such outcomes that may hamper the issuing of loan, will only affect the emerging industries, which have the potential to buoy the economy from this whirlpool.

*According to Religare Institutional Research, in 6 months of its initiation, SDR has been invoked for 15 firms with loans of Rs. 83,100 crore.*

The cognizance of the problem by media has helped shed away the reliable nature commonly associated with public sector banks. As the problem grew bigger than the carpet, the regulatory institutions introduced the measures that do not seem to help even if they were launched with high hopes and general acceptance of public. The Structural Debt Restructuring program of RBI has only provided the banks with a secret tunnel where they can hide the numbers. SDR allows the consortium of lending banks to convert a part of their loan in ailing company into equity, wherein they can own at least 51% stake, and allowing them relief for 18 months. Thus, for this period banks can report low NPAs and higher profits. In these 18 months they try to revive the affected company through refinancing and interest discounting, which only adversely affect the bank assets. According to Religare Institutional Research, in 6 months of its initiation, SDR has been invoked for 15 firms with loans of Rs. 83,100 crore. In words of Ajay Shah, professor at NIPFP, a vicious circle is created through these programs in which banks try to keep afloat the distressed asset, through converting good money into bad and when they pull the money, it hits the

economy and when economy is hit, their asset quality is affected. The money trapped, gets inefficiently spent, causing constriction of funds for lending to healthy companies. On 29 February, Arun Jaitley announced an amount of Rs. 25,000 crore to plug the hole of public sector banks, which economists consider a band-aid solution, helping the banks only for the short-run. Through Insolvency and Bankruptcy Code, 2015, government is aiming to speedily dispose off the insolvency and bankruptcy cases, which erstwhile took much time as compared to other OECD countries. Also,

*The launch of UDAY scheme has dried up the liquidity, in already avid money market, in response of which RBI announced, at the start of this month, to follow up on the liquidity neutral stance and may have to inject about ₹3 trillion*

Banks Board Bureau was set up to advise the government on top-level appointments at public sector lenders and ways to address the bad loans problem among other issues. With former CAG Vinod Rai at the helm, we can expect it to uncover the carpet from the mess that is hidden in the account books, appointment notices and the vaults of the banks. Through this wide array of measures, I expect a bed of limited thorns waiting for the

banking sector to fall.

The performance of other factors that can directly and indirectly affect the health of banks does not present a rosy picture. World demand is low and with China depreciating its currency; a renewed competition is taking place in the export market. India's share of world exports fell from a peak of 1.7% in 2014 to 1.6% while other Emerging Market and Developing Economies (EMDEs) have gained, and the actual exports fell 15.9% to \$261.1 billion in 2015-16. Working at below capacity and facing modest inflation, industries do not have any incentive to invest and expand. Seventh pay commission can boost the domestic demand but our Finance Minister was little vague on the topic of the collection of funds. While giving guest lecture in our college, Rathin Roy, director at NIPFP, also concerned his views on how the government is going to come up with the money to pay their employees and noted that the government is in dark about their numbers, as a result, the calculations are made with respect to number of pension beneficiaries. This only brings doubt in the mind as to how the government is going to stick to its fiscal deficit target of 3.5%. The markets may have boomed on the resolve of the Finance Minister, but the corrections that can be brought up by the future indicators will only erode the money of the small investors. The launch of UDAY scheme has dried up the liquidity, in already avid money market, in response of which RBI announced, at the start of this month, to follow up on the liquidity neutral stance and may have to inject about ₹3 trillion (according to ICICI Securities Primary Dealership chief economist A. Prasanna) into the market by buying dollars or government securities. All this only worsens the situation for the banks, as they will face shortage of funds and also lack of credible investing opportunities. Now these banks have to carefully tread their path through these muddy waters and will have to be constantly on a lookout for any open jaws ready to swallow them whole.

With lethargic profiteering attitude, the PSBs are losing the trust and reputation that they once enjoyed, which is showing up in their credit ratings. By end of March 2014, as per RBI, the public sector banks had 73.2 per cent and 73.9 per cent market share in credits and deposits respectively, indicating how the failure of these banks can seriously exacerbate the economic slump and can prove disastrous for our economy with after effects that can leak to other nations as well. Proper scrutiny and accountability framework under one flagship is required that can take a holistic view of the problem and come up with a unified solution.

POLITICS

ECONOMICS & SOCIETY

OPED

## AUF WIEDERHESEN

The things that strike the most as you set foot at the University of Goettingen are the Cherry Blossoms, which outline the lane to the Central Mensa in soothing pink. It almost aces its apparent job of concealing the near ugliness of the big, bulky monster of a structure- The Central Hall- that stands next to it. But it's a facade. This edifice, in combination with all the other faculty buildings that stand in the vicinity, houses one of the most impressive collections of educational infrastructure, barely comparable to even the best in India. Not surprisingly, by the time the post-graduation course commences, the students are equipped with an expert level of knowledge in theoretical and applied economics, and have at least one original research proudly listed on their CVs.

Students there are clearly at an advantage as compared to us, their Indian counterparts. An economics postgrad can choose modules from Development, Agribusiness and International Economics faculties. But what's enviable is the great freedom they enjoy to mould their degrees, with an option to choose any course, to opt in and out of one, at will and pleasure. Truly, learning is only constrained by your ability in Goettingen.

But when it comes to living there, more so as a vegetarian from India, you are at God's mercy. The whole vegetarian diet in Germany revolves around three main edibles- potato, corn and paprika, with an added pinch of blandness. Literally, the only spice they have is salt (if that is one!). Yet, the food is a calorie bonanza. So if you are thin like me, you have broad horizons of getting fat, but the diet conscious ones can expect a really hard time.

Goettingen is a university town (yes, it's just a town!), and a melting pot for students not only from Germany, but from across the globe. It provides an opportunity to meet international students, ranging from the U.S. and the U.K. to Syria and even Palestine, and does a commendable job in accommodating, and supplying a stimulating environment to all the cultural communities.

As a student who is not from Germany, there are many things that are hard to miss when you are at Goettingen. The very summer that we dread in India, brings a joyous mood to the Germans. Respite from the atrocious winters means vacation time, and it seems that they strategically place most of their holidays during this season. One of such festivals is "Men's Day". Men, all over the world have been wondering since a millennium what on earth have their 'community' done wrong, or conversely, what have the women achieved for the world so that they are bestowed with a day to mark their womanhood,

while the 'bros' have been robbed of their right. Germans have an answer to that. It was quite a shock for me to find the nearby supermarket closed on the day as I went to shop for my dinner. I could see gangs of men shouting and singing on the streets with the trademark German beer in their hands. I had to come and check online to enquire about the happenings. As it followed eventually, on my 'first' Men's day, I was left dinnerless due to my own kind! But once you are in Germany, you are also in Europe (sic). I had many weekends off, so I travelled a lot ('you ought to do that, since you live among Germans!', a Brit chuckled, when I was in Brussels). Soon I realised that not only Goettingen, but the whole Europe is like a museum where you can see every country there as an integral part of the 'foreign land', yet retaining an identity. I could particularly identify various souvenir shops that were owned by Indians in Amsterdam and Brussels, either because of the bolded familiar Indian names like 'KAPOOR AND SONS' or because the owner of the shop had an identifiable accent, or because the lady sitting inside wore a saree. Of course I could also not help but notice that majority of the taxi drivers in Frankfurt were South Asians.

"Do you see any difference between their system and ours?" I was asked numerous times once I was back. Definitely, there is a rail of difference. But what matters, is the attitude of the students, it's all the same whether it is Goettigen or Gokhale,. The intoxication of good grades trumps everything. The structure of the semester and the handsome scholarship that you get allows you to travel a lot. Needless to say, Europe is beautiful, and summer is the perfect time to marvel in its splendour. An opportunity where you can study, experience and explore without digging a big hole in your pocket is the ultimate deal when you are in your twenties.

-Shubham Gupta  
M.Sc. Economics (2015-17)

## WHO IS TO BLAME

Right across the frozen river they sat,  
Right below the hardy palm snow clad.  
They laughed and recollected the days gone by,  
The days they spent with this long gone lad.  
Some riots of laugh they made,  
Some sighs on the issues they did hate,  
Those sighs though were less enough,  
As they together met after a very long decade.

Amidst those riots and sighs,  
They sat unaware of the incoming plight,  
With his wicked oar and rusted boat,  
The Charon approached near for his daily freight.  
These days his job has been hard really,  
As rounds doubled for the valley,  
With souls of innocent and guilty-old and young,  
All alike to be taken along.

Along came a patrol of uniforms,  
Tired of the endless, sleepless nights,  
Tired of the bureaucracy above uptight,  
And tired of the hazy war.

The custodians of the law,  
Suspicious of the laughing lads,  
Suspicious of the way they sat,  
Loaded their service weapons.

In a few seconds next,  
The territory the custodians annexed.

Neither were they happy,  
Nor were the wet snow covered bodies lying next-to-next.

What was the biggest crime?  
And importantly most, whose was it the most?  
Was it of the lads who had a more neutral stance?  
Or was it of the custodians who had visions blurred too much?  
Was it of Death, that played such a wicked trick?  
Or was it of the Charon and his wicked oar?

-Sudhir Swarup  
M.Sc. Economics (2015-17)

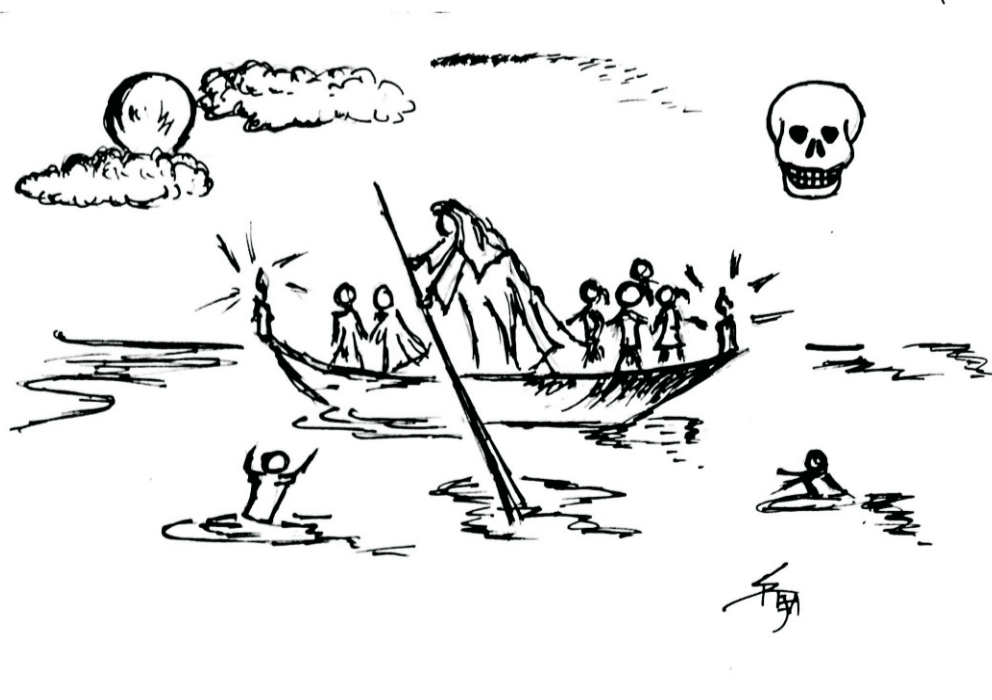


Illustration by Sreeja Sen



# ECONOMIQUE

DR. URJIT PATEL



When the stability of the financial sector is hinging on the conformity and certainty in the policies of the central bank, the choice of Urjit Patel as the next RBI governor definitely looks obvious. The reticent other side of the more affable coin, Dr. Patel will now be overlooking the policies and reforms he helped frame. Foreign born (Kenya), just like his predecessor, Dr. Patel's academic life spanned from London School of Economics to Oxford, and finally culminated in Yale. While he spent only later parts of his years in India yet his work indicates his inclination over the issues that are grappling our nation. One of his earliest papers (1992) dealt with the Public Finances in India, where, with William H. Buiter, he studied the impact of de-BGNP stabilization over inflation through eventual monetization. Leaving the academia after receiving his doctorate from Yale in 1990, he joined IMF and worked with the matters related to India and still managed to come out with papers that targeted the financial and energy policies of India. In one of such papers he expostulated the FRBM (Fiscal Responsibility and Budget Management) Act and indicated that "fiscal rules adopted by the Indian Central Government ... do not address the key distortions imposed by the authorities on the private sector through financial repression, misguided regulations and inefficient ownership and incentive structures".

Since he was coaxed into the Indian Government's policy spheres from the IMF, he has been a part of many important developments. From drafting the first report and leading the enterprise, Dr. Patel has been crucial to the creation of Infrastructure Development Finance Company (IDFC). Not unsought by the corporate, Mukesh Ambani made him President (Business Development) of Reliance Industries. After many and crucial stints with the government in January, 2013, Dr. Patel was inducted as the Deputy Governor of RBI for 3 years which would later this year be extended for another 3 years until finally, he was appointed the RBI Governor on 20 August, 2016.

Limited by space, I end the exposition on this brick in the foundation by outlining few of his contributions as a RBI Deputy Governor. With his report he changed the outlook of the RBI and made it wear a CPI lens. He motivated the move towards flexible inflation-targeting regime with a target of 4% within a band of  $\pm 2\%$  which according to the committee was a necessary step towards minimizing the impact of market volatility.

## WORDOKU

No letter should be repeated in the same row, column or in the 9 sub boxes in the grid. All the letters when arranged, form a word.

T	A		U		Z			
		R			I			
			T	A			I	M
R	U							
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And the word is..

		A				I		
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After exchanging the baton from Rajan, Dr. Patel will immediately have to face the coming maturity of FCNR (Foreign Currency Non-Resident) deposits (an FCNR account is a term deposit account, different from savings account, that can be maintained by NRIs and PIOs in foreign currency with a minimum term of 1 year and a maximum term of 5 years) that were raised by the banks in 2013 to the tune of \$25 billion, at a time when the rupee was under pressure and they swapped the same with the RBI.

While applying for the Indian Passport, Dr. Patel was recommended by none other than Dr. Manmohan Singh, the then Prime Minister of India, who simply wrote that "He is very important for the country". Through this appointment and his past work, it was certainly no understatement.

-Dhruv Goel  
M.Sc. Economics (2015-17)

# BEFUDDLED

-Sreeja Sen

