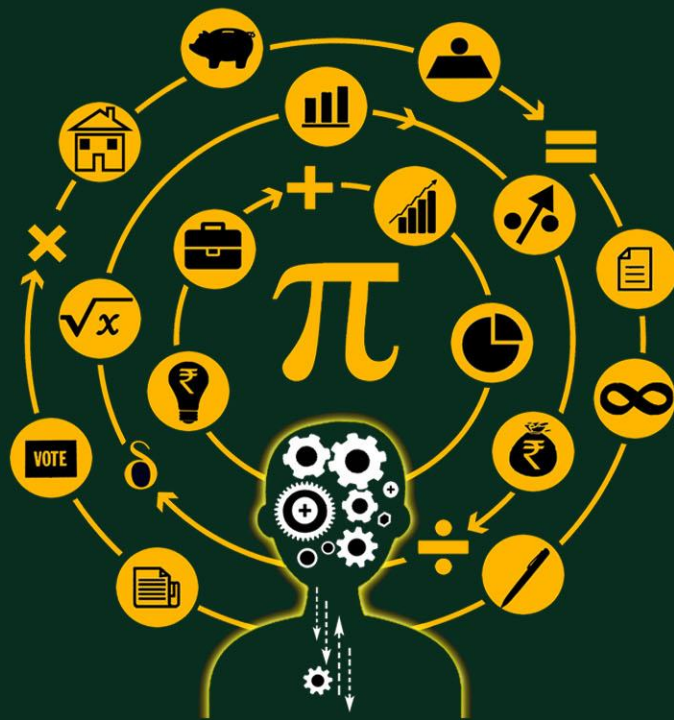


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ECONOMICS ASSOCIATION

INDRAPRASTHA COLLEGE FOR WOMEN

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Foreword

'Prophets of Profit' started its journey five years ago. It was the initiative of a group of young enthusiastic economists-to-be who created a platform to express their minds. It arose from the discussions held in class and outside on issues within and beyond the regular curricula. The initial issues took the form of newsletters and eventually became a blog this year. The current issue is an effort to publish the 'Prophets of Profit' as an academic journal. This contains research papers and articles spanning a large range of topics. The idea of an undergraduate students' journal is to inculcate a habit of investigation in the young minds and to impart training in writing research papers. To be able to publish this journal is a dream come true and a matter of great satisfaction for me. I am glad to see the endeavour and efforts put in preparing this issue. Other than research articles of good quality, the students have also reviewed certain books and documentary films. Their understanding and observations have got captured in the review articles too.

We are living in a world that is experiencing various changes in the socio-economic domain. The challenging times generate numerous questions about the social, political and economic systems. As students of social sciences, our students have addressed some of those. With further practice, the habit of thinking, analysing and expressing the views will grow and mature over time. They have dreamt big, they have worked hard and they will surely succeed. I am glad to have extended editorial assistance to this journal.

My heartiest congratulations to the editorial team and all members of the thinking fraternity. Keep going! I wish the 'Prophets of Profit' all success, now and always.

Anindita Roy Saha
Advisor
Arthagya, 2016-17

Editor's Note

The past year has been nothing short of a landmark year, both for the world and for India. The occurrence of certain events has led to what is purportedly the 'rise of the Right'. Heralded in part by Donald Trump's victory in the US Presidential elections, Brexit, the rise of right-wing populism in Europe with the likes of Marine Le Pen gaining popularity in France, and the portents of a potential breakdown of the European Union, the near future seems like one where the resurgence of the Right wing is inevitable. In India as well, with the increasingly loud echoes of the ultra-nationalist sentiment and the majority of electoral space being occupied by the largest Right wing party in the country, the ideology of the Right has established a stronghold.

However, amidst the ongoing clamorous ideological war between the opposing schools of thought, it is imperative that a sense of caution is observed; for the by-products of this war are a surge of fascist and jingoist thought, and a sense of intolerance. It is the intolerance of dissent that will prove fatal for a burgeoning democracy like ours. From recent events, it is evident that the freedom to debate and dissent is no longer sacrosanct, not even in our 'temples of education', our universities. It is important to remember in times of moral crisis such as these, that it is not always possible to reconcile the differences between the multitude of opinions and beliefs. What is necessary, however, is that every opinion is given a chance to be heard.

It is against the backdrop of such ideological turbulence, that Arthagya, the Economics Association of Indraprastha College for Women presents its annual academic journal. The aim of the journal is to encourage

research and deliberation about some of the pressing issues that plague the world today; issues pertaining to economics and allied social sciences.

The current issue comprises topics of national and global importance, covering a wide range of themes, from the economic implications of the Kashmir insurgency, the crucial introduction of the Junk Food Tax in Kerala, the occurrence of the Philips curve in India, financial literacy, the nuances of the GST and subsidies, to the playing out of the US Presidential elections, the failed Venezuelan experience of demonetisation, the importance of 'gender budgeting' and an interview with the celebrated economist specialising in black economy, Prof. Arun Kumar.

The publication of the journal has been realised only with the tireless efforts of the Editorial Board of Arthagya, the Economics Association. Special thanks are also due to the Editorial Advisor, Dr. Anindita Roy Saha, without whose constant guidance, the journal would not have been a reality.

It is our sincere hope, that the journal motivates greater thought, discussion and research on some of the most compelling, and sometimes uncomfortable issues of our time. It is also our genuine belief that the journal will prove to be highly educational, and will serve to highlight many of the widely held misconceptions in the collective consciousness today.

Devishi Dar
Editor-in-Chief

Economics of the Kashmir Insurgency

Sakshi Hallan

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Abstract

Kashmir Valley has been in a state of endless insurgency for the past 27 years. The prevailing conflict is extremely convoluted but also highly relevant in the backdrop of the July 2016 uprising that followed the killing of the young 21 year old Burhan Wani, the Commander of Hizbul Mujahideen, the most prominent Separatist Group in Kashmir today. All state resources including human, physical and financial have been compromised time and again in the past two and a half decades. Week long curfews, lockdowns, disruptions in public transport and communication that follow every insurgency-related event are unsurprising for those living in Kashmir. However, the impact of this conflict goes beyond these short term disruptions and is deeply rooted in the political, social and economic institutions and ideologies of Kashmir. The objective of this paper is to evaluate the economic impact of the insurgency that took root 27 years ago. It focuses on the major employment generating sectors of Tourism, Handlooms and Handicrafts and Horticulture to understand how long term growth has been impeded due to an unfavourable economic environment.

Understanding the Insurgency

The insurgent movement in Kashmir is extremely complicated to break down. Kashmir has been a bone of contention between India and Pakistan since even before the country's independence in 1947. In March 1987, State Assembly Elections held in Jammu and Kashmir elected Farooq

Abdullah, the candidate of the newly formed National Conference (NC)-Indian National Congress (INC) Coalition as the new Chief Minister. Shortly after the elections, the opposing Muslim United Front (MUF), the coalition of Islamic political parties, which won only 3 seats, alleged that the elections were rigged. Allegations of corruption and abuse of political power followed in the coming months. This fuelled a sense of dissatisfaction towards the government amongst the Kashmiris, which erupted in an armed rebellion against the state in 1989. The period 1990-1996 was marked by extreme violence which was dealt with heavy counter insurgency measures by the Indian security forces. During this period, 15,664 people were killed, out of which roughly 7,200 were militants gunned down by the security forces. Kashmir was the most dangerous state in this period and there were huge losses to the economy. Incidents related to insurgency started to decline and the economy started to revive. By the end of this period, the insurrection started to lose momentum and Kashmir regained peace and stability.

The period 2008-2010 marked a new and evolved insurgent movement in the valley where guns were replaced by stone pelting and loud protests and rallies. The year 2008 witnessed the largest demonstration in Kashmir's history with over 5,00,000 protesters who took to the streets to express their agitation against the government's agreement to transfer 99 acres of forest land in Kashmir to Sri Amarnath Ji Shrine Board (SASB) to set up temporary shelters for Hindu Pilgrims. The period 2011-

2015 was again marked by improvement in security and consequent return to normalcy in the valley. In July 2016, following the killing of Hizbul Mujahideen Commander Burhan Wani, Kashmir was rocked by civilian protests. Curfew was imposed immediately in all 10 districts of Kashmir Valley by both separatist groups and the government, and was lifted after 79 days. The insurgency hasn't been eliminated and there is no way of deciphering how to end it. Kashmir's economy continues to battle the unrest and survive in the midst of extreme uncertainty.

Kashmir's Economy

Jammu and Kashmir is the fifth largest state in India and occupies 6.76 % of the country's geographical area. According to 2011 Census, the population of the state stood at 12.55 million and had recorded a decadal growth of 23%, one of the highest amongst all states. The state of Jammu and Kashmir is divided into 3 major areas of Jammu, Kashmir Valley and Ladakh. However, the insurgency movement is concentrated in the Kashmir Valley which comprises 10 of the total 22 districts. It is the only state in India with a Muslim majority population.

Jammu and Kashmir occupies a special position, not just politically but also economically. It has been granted 'SPECIAL CATEGORY' status by the government of India, along with 10 other states. However, the state has failed to take opportunity of this status because of the long standing political turmoil. The economy of Jammu and Kashmir is mainly agriculture based because of its climatic conditions and hilly terrain. 70% of the state population is dependent on agriculture but as a sector it contributes just about 18% to the GSDP. This contribution has been declining for the past two decades but the shift in the labor force is only minimal. Industry contributes around 25%, although majority of the businesses are state-owned. The state government has an industrial policy that offers attractive

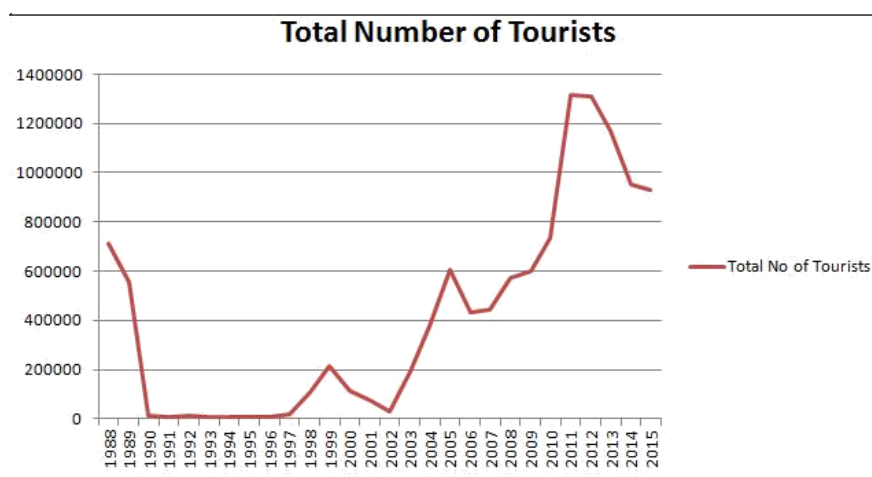
incentives along with a single-window clearance mechanism. Land is allotted at concessional rates in industrial areas on lease for 90 years. Despite that, recent survey ranked the state at 29th position in the State Wise Ranking of Ease of Doing Business. Service sector on the other hand contributes 56% to the GSDP and has witnessed consistent growth in the recent years. This growth can be attributed to the revival of tourism in the past decade. The three key industries of the state are Tourism, Horticulture and Handicrafts and Handlooms. These sectors are the most important employment generating sectors of the state and are therefore the chosen subject of study in this research. Apart from the above, the state has significantly sizable industries of floriculture, sericulture, mineral based industries etc

Overall, economic growth in the state has lacked momentum in the past decade. The positive growth outlook in the first half of the decade was reversed in the second half by frequent insurgent uprisings in 2008, 2010, 2015 and 2016. Growth rate at constant prices declined from 7.96% in 2005 to -3.81% in 2014. At present the state ranks 21st out of 32 UTs and States in contribution to the GDP with 0.78 lakh crore GSDP in 2014-2015. Another socio-economic indicator is the per capita income which in case of J&K is Rs.24,214 which is quite low as compared to the national average of Rs.33283. Nevertheless, this contribution is highly significant in absolute terms, if not in relative and thus cannot be ignored. Being a special category state, it also draws huge amounts from the Central funds for its planned expenditure which includes even salaries and wages. Besides that, the central government also reimburses the state for all security related expenses. The total amount reimbursed from 1989 to 31.12.2015 under Security Related Expenditure (Police) is 5,021.64 crore.

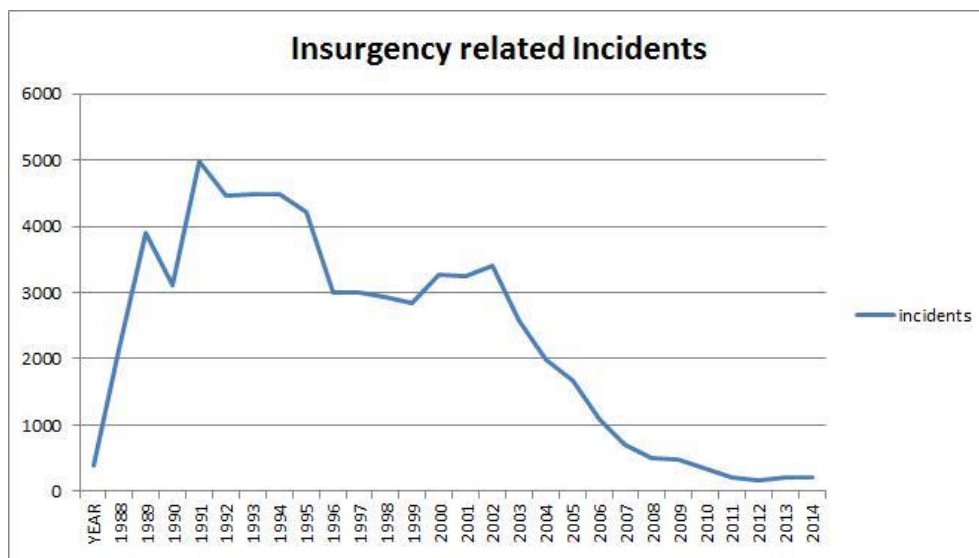
Tourism

Once known popularly as the Switzerland of India, today, the Kashmir Valley is considered by the world as an unsafe, dangerous destination. Tourism is the highest revenue generating industry of Jammu and Kashmir and is struggling to survive and regain its popularity. It also provides a positive impetus to sectors like handloom and handicrafts. Hoteliers, houseboat owners, transporters, travel-agencies, traders, guides, porters, boatmen, handicrafts and small scale industry units and many others earn their livelihood through this industry. The growing contribution of service sector to the overall economic growth of the state in the previous decade is owed to the tourism industry. With the advent of insurgency in 1989, tourism industry was crippled. Performance of tourism sector is sensitive to the political stability and peace in the state. In times of unrest and violence, this sector receives a direct and immediate hit with tourists

cancelling their bookings and fleeing the valley. Violence breeds insecurity amongst tourists and renders the place unattractive. For foreign tourists, warnings are issued by their government authorities to avoid places with political unrest and conflict. Tourism as an industry has no gestation period and so it instantly reacts to violence and terror. In economics sense, it can be said that tourism has a high elasticity with respect to political instability of a place. The tourism industry of Jammu and Kashmir is no different from others. It has witnessed massive fluctuations in tourist arrivals and has even rendered many in the industry jobless in times of unrest. The two charts given below depict the tourist arrival figures and the number of insurgency related incidents respectively. Before the insurgency took root in 1989, over 7 lakh tourists used to visit Kashmir in 1970s and 1980s. In the 1980s, it contributed over 10% to the state GDP. The



Source: Digest of Statistics 2013-2014, Directorate of Economics and Statistics, J&K



Source: South Asian Terrorism Portal

number of tourists had been consistently rising for years and it was expected to surpass 10 lakh (according to government estimates). Sadly, that did not manifest as the valley was absorbed in violent attacks in the 1990s. The graph below depicts the trend of tourist arrivals in Kashmir for the period 1988-2015 and compares it with the number of insurgent related incidents of violence in the same period. For better understanding of the trend, the total period has been divided into sub periods according to the intensity of violence.

I. 1988-1990

After the insurgency erupted in late 1988, violent civilian protests started in Kashmir Valley and militants attacked government offices. This led to police retaliation and widespread curfew. The impact on tourism was massive. From over 7 million tourists in 1988, the state received just about 10,772 tourists and FTA (Foreign Tourist Arrival) was zero. According to Home Ministry data, a total of about 6,000 militant attacks took place in 1988-1990, killing over 1300 people. Tourism, as can be seen witnessed a slump in

this period.

II. 1991-1996

This period is significant because of the heavy counter insurgency measures taken by the Indian government. At the same time, insurgent attacks, although falling, were above 4,000 every year. Tourist numbers fluctuated between 6000-10000, rising and falling year after year. Moreover, in this period, there were repeated incidents of tourist kidnappings and attacks on tourist buses, resorts and even on shrines and monuments. These attacks are linked to insurgency because they were carried out by the leading militant organization JKLF (Jammu Kashmir Liberation Front) or by other separatist groups like Al Hadid. This spread fear across the world and Srinagar was ranked as the most dangerous tourist city in the world. A negative impact on tourism was also seen in its falling percentage of Net State Domestic Product contributed by 'Trade, Hotels and Restaurants'. According to government data, this percentage declined from 16.48% to 11.88% in this period. (At current prices)

III. 1997-2000

At the end of 1996, almost 7,000 militants were killed in counter insurgent attacks by the Indian security forces and the major insurgent group JKLF was on the verge of dying out. Insurgency lost momentum and attacks were consistently on the decline. The return of stability was reflected in a jump of tourist arrival by over 500% from 1996 to 1997. This gave a huge boost to the Kashmir economy and the contribution of tourism to NSDP also started improving slowly.

IV. 2000-2005

This brief period is important because the revival of tourism witnessed a sharp reversal following the 2001 attack on state legislative assembly and an attack on Srinagar Airport later that year. However, it is to be noted that these attacks were carried out by terrorist groups from Pakistan. Therefore, the subsequent slump in tourism is not attributed to the insurgency in Kashmir.

This period was mostly peaceful with India and Pakistan engaging in peace talks, although there were 3 attacks by the terrorist organization LeT in Kashmir and Jammu. However, tourist numbers improved from just 28,000 in 2002 to above 6 lakh in 2005. By 2006, the insurgency in Kashmir declined to a trickle of incidents, limited to the rare car bomb and an occasional ambush. In terms of growth figures, percentage of GSDP at current prices improved for two years but then experienced stagnation. The early 2000s was also a period when government formulated a lot of projects, invested in reviving infrastructure and provided a lot of incentives for private players to enter the tourism industry.

VI. 2007-2016

In this period, Kashmir Valley was rocked by civilian protests every summer. In July 2007, there was a militant attack in a tourist spot which killed six tourists. The tourist figures fluctuated between 40,000 and 60,000, because each year the season started with high footfall and then went into a slump with the advent of protests and curfews. Nevertheless, overall the state tourism suffered only short term losses and tourist arrivals crossed 13 lakhs in 2011. By looking at the number of insurgency related incidents, it can be observed that they were lowest ever since the insurgency erupted in 1989. The growth experienced in this phase was slow owing to the lack of adequate tourism infrastructure. Protests and insurgent attacks had crumbled the tourism infrastructure of Kashmir. In some places like Boulevard and Pahalgam, the state government had banned any construction or repair work due to which the industry had not been able to cater to the huge demand.

Since last year, the industry has started to decline again. Government steps to attract tourists have also been countered by insurgent groups. In April 2015, three consecutive attacks on police officers took place in Baramulla, Pulwama and Shopian on the same day when the government had opened Asia's largest tulip garden in Srinagar to give a boost to tourism.

In 2016, Kashmir's Tourism industry was on a virtual shutdown since July. The curfew was lifted after 79 days. In September, Australia, Canada and UK issued travel advisories warning people to avoid the Kashmir Valley. This prolonged shutdown severely affected the livelihood of those in the tourism industry. According to the tourist department, the sector is suffering losses amounting to Rs 3000 crores and occupancy in hotels is a minimal 2-4% as opposed to the 90-100% in 2015.

In comparison to other states, Jammu and Kashmir's rank has slipped from 14th position in 2012 to 20th in 2014 to 22nd in 2015. The events of 2016 have pushed the sector to rock bottom, again. Insurgency continues to have a direct impact on the tourism industry of Kashmir for 27 years now. It has never been able to fully recover to pre-1989 level. Today, it contributes a staggering 7%.

This proves how there is a long term effect of political unrest on this industry despite the government formulating elaborate incentivizing policies to spurge.

Horticulture

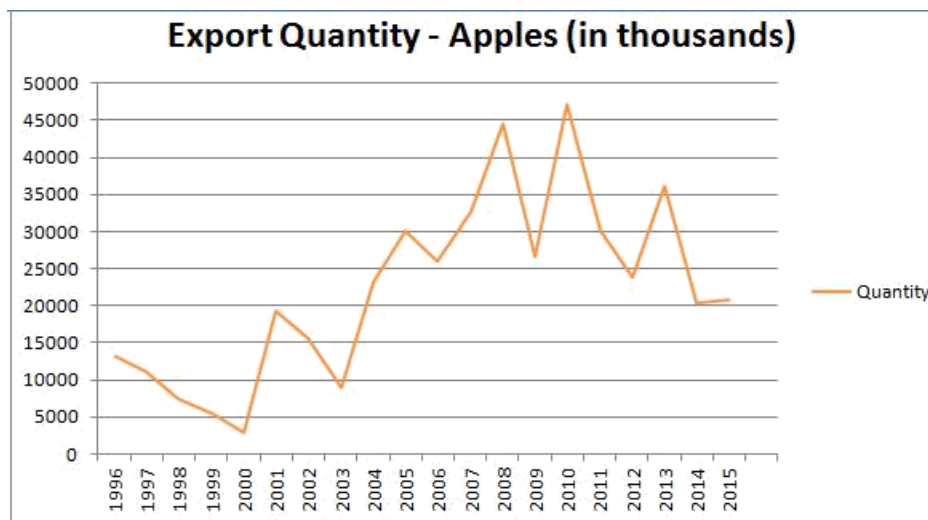
Horticulture is the mainstay of the rural economy of Jammu and Kashmir. This sector provides employment to around 20 lakh people in the state. The fruit crops grown in the state are almonds, walnuts, pears, cherries and apricots in temperate areas and mango, litchi, ber, papaya, guava etc. in subtropical areas. The overall production of fruit for the year 2014-15 was estimated at 13.54 Lac metric tonnes. Apple production in Jammu and Kashmir accounts for over 60% of the domestic market and 7% of the international market. Walnuts produced in the state account for 90% of the domestic market. Horticulture industry is one of the major pillars of economic advantage and strength for Kashmir and yet this sector hasn't experienced high levels of growth for the past two decades.

Insurgency doesn't directly affect the performance of this sector like it affects tourism, where tourist inflows closely followed the ups and downs of insurgency movement, but it has certainly hindered the growth and that is observable from the

statistics. According to the state horticulture department, it contributes more than Rs 7,000 crores to the state economy every year. In the period 1989-2015, land under apple cultivation expanded by 137% which is encouraging for the state economy.

Observing the trends in production, the period 1988-1995 witnessed stagnant yield of around 8%. In 1990's all the security settlements were targeted through armed actions by militants. Most often the militants were using the adjoining areas for these armed actions, which rendered all the adjoining orchards unsafe for movement, hence rendering the plantation as unproductive. The following decade saw an increase in the yield up to 13% in 2010. However, it again fell to 7% in 2014 due to massive floods that destroyed most of the orchards and led to a huge downfall in production. The production has increased significantly, but has also experienced drastic fluctuations in 2012 and 2014. The fall in 2014 was due to the floods, but the fall in 2012 cannot be explained. In 2015, the apple production revived and trade was smooth without any curfews or protests in the harvesting months of July to September.

Because the state occupies a domestic market share of 60%, it exports over 80% of its production to domestic markets. Therefore, export statistics must also be taken into observation. Retrieved from the ministry of commerce and trade, the table below depicts the export quantity and earnings from 1996 to 2015. The data wasn't available for the period before 1996. Export quantity fell by a huge margin in the period 1996-2000 and this

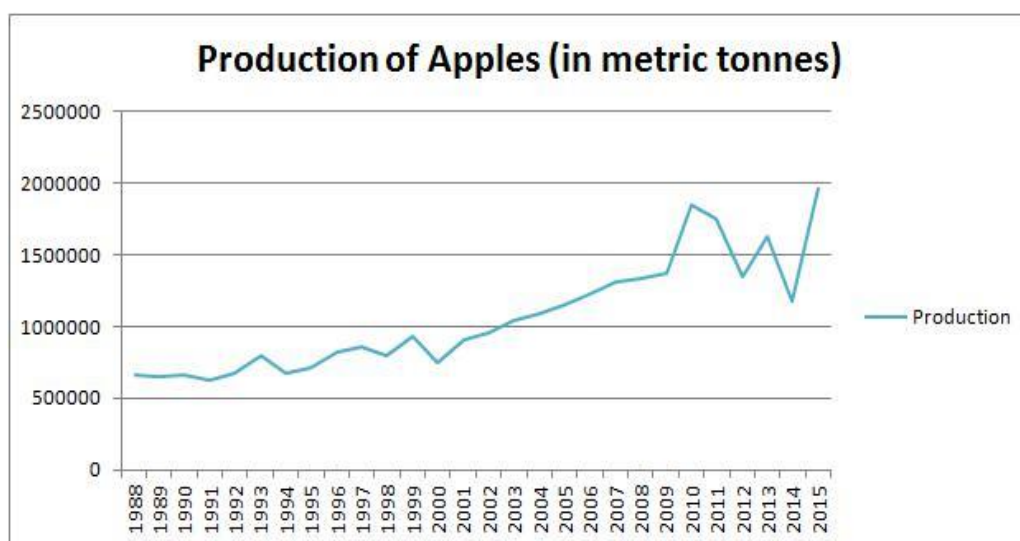


Source: Ministry of Commerce and Industry, GoI

fall in quantity can be attributed to the fall in production of apples in Kashmir by around 60,000 metric tonnes in the same period.

There are various factors affecting the development of the horticulture sector,

including land use, climatic conditions, lack of infrastructure, lack of proper markets, and poor connectivity with the rest of the country, use of substandard pesticides, and low yield due to lagging technological progress. These factors are indirectly related to the presence of insurgent movement in Kashmir.



Source: Department of Horticulture, J&K

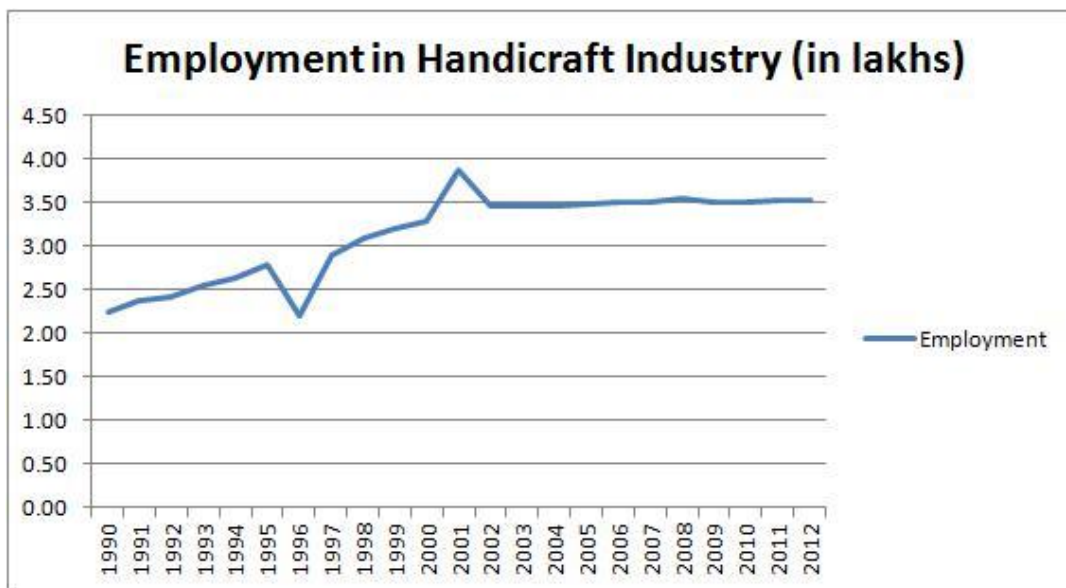
To elaborate, every time violent protests take place, Kashmir ends up in curfews and lockdowns which extend for days and weeks. In 2016, the curfews and restrictions were lifted after 79 days. In these curfews, markets were shut down, public transport stopped, national highways were blocked. This delayed the movement of products from the orchards to local markets and further outside the state. Apple growers in Kashmir's Sopore, Pulwama and Shopian, which is famous for its early varieties of apples with a lower shelf life, have not been able to harvest and transport their produce. Fruit production in Jammu and Kashmir was recorded at 24.93 lakh metric tonnes in 2015-16. Of which the valley alone produced 22.12 lakh metric tonnes. Traders have estimated losses of about 1000 crores for this season. Delay in movement of produce is also unprofitable because of the lack of cold storage facilities in the state. The government, even after having recognized this problem, hasn't undertaken steps to improve the plight of the farmers. A similar situation had arisen in 2008 and 2010 when the movement of trucks were hampered due to stone pelting across the valley. Furthermore, if laws of economics are applied in this situation, the rising prices of apples can be explained via delays in supply of produce to domestic markets. It is also important to note that the districts of Baramulla, Anantnag, Srinagar, Kupwara and Pulwama cover over 85 per cent of the total orchards in the state. This is relevant because these districts are also the ones that have suffered the most in violent attacks by militants and civilian protests. Damage to orchards has been reported but there lacks any official estimate for the same. Nevertheless, it cannot be ignored as a contributing factor. Because these areas have been the recipient of most violent attacks, they are also areas with greatest presence of

security forces.

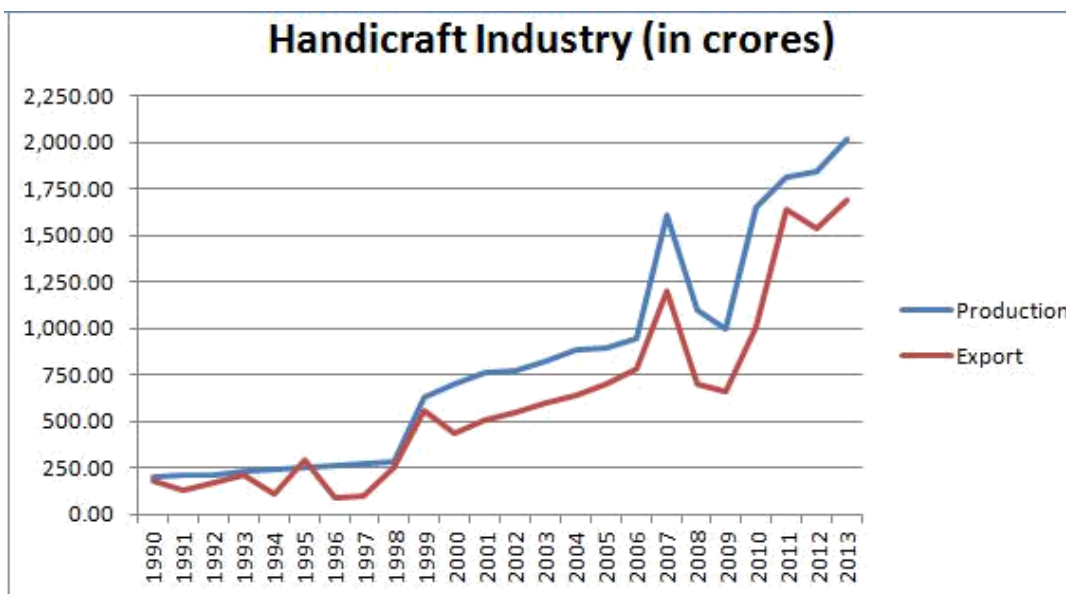
Handicraft

Handicraft is one of the few traditional industries in Jammu and Kashmir and is famous worldwide for its unique products and designs. This industry is unique to Kashmir and hence is a source of competitive advantage for the state. Every year, the state exports carpets, embroidery clothes, woollen shawls and other valuable crafts and earns significant foreign exchange. The Handicrafts and Handloom sectors have engaged a number of people as artisans and weavers. According to the Economic Survey 2014-2015, there are roughly 0.38 lakh weavers in the state engaged in organized and unorganized sector. According to Jammu & Kashmir Handicrafts Corporation Limited (2013), there has been an increase of 38.50% turnover to the total export of handicrafts products in financial years of 2011-2012 to 2012-2013 aggregate contribution of Rs.17970 crores from 12,975 crores to total GSDP.

The Sixth Economic Census of the state for the first time collected information on the number of handloom and handicraft establishments in the state. As per provisional results the number of handicraft/handloom establishments in J&K is 60,397 with 46,054 (76.25 %) rural and 14,343 (23.75%) urban establishments. These establishments constitute 11.90% of the total number of establishments in the state. The percentage of handicraft/ handloom establishments is 15.14 (rural) and 7.06 (urban) with respect to total number of establishments in the respective areas. Carpets, woollen shawls and papier-mâché are recognized as leading items of production in the state. They are also recognized as leading items of export in the state.



Source: Ministry of Commerce and Industry, Economic Survey 2014(J&K)



Source: Ministry of Commerce and Industry, Economic Survey 2014(J&K)

The performance of handicraft industry is somewhat also linked to the performance of tourism industry. It is an important part of tourist culture apart from adventure activities, houseboats etc. Because these products have high international value and reputation, the earnings of this sector is, to some extent, driven by the tourist footfall. Although there are other issues that have restricted the development of this sector, the focus here is on the impact of insurgent movement specifically.

The trend in handicraft has followed the trend in tourism industry. By looking at the production and export trends, it can be observed that in the period of 1989-1996, when the violence in Kashmir was at its peak, the production increased at a slow pace. The production of handicraft products managed to increase because the production is an indoor household activity where artisans are largely affected by curfews in the market. Exports however are sensitive to the economic environment and movement of trade in the state. Again by observing the trends, the production and exports both show a declining trend in 2008, 2009 and 2010 owing to the civilian unrest in the peak season in the above mentioned years. A declining production value in this period can be owed to the unrest in these years, which has involved mass civilian protests and demonstrations in the entire Valley.

Conclusion: Lesson Learnt

It is true that the data analysis conducted in this research hasn't put a definite figure to the economic loss suffered by Jammu and Kashmir due to the insurgent movement. To arrive at such a figure involves further rigorous research beyond the scope of this study. The objective was to prove that insurgency has arrested the development of these sectors that are extremely crucial to the overall growth of the state economy. The discussion over the conflict in Kashmir has been largely biased towards its political, humanitarian and religious facets and the

economic cost has been ignored in mainstream media. The findings of this paper have established how the insurrection has damaged the potential growth of the economy. It has proven how sectors like tourism have never fully recovered after 1989 and how growth in sectors like horticulture and handicraft has been slowed down due to the presence of militancy in the state. However, the impact goes beyond these key sectors and there is scope for further evaluation by including more data sets and more industries.

It is important to realize however, that, the intensity of the movement cannot be quantified by just number of deaths and number of attacks. A decline in these figures has given a false sense of achievement to our politicians. This decline is not an indicator of the weakness of the insurgent movement. If it was, the economy should have experienced higher rates of growth, given the preference given to Jammu and Kashmir in financing of expenditures, better development projects etc. The economy is still staggering because this movement is deeply rooted in every household in Kashmir. It is gaining strength by spreading its ideologies and hatred for the government amongst the people. The unrest created by protests on the death of the young Burhan Wani that led to the longest period of curfew in 27 years is a testimony to the angst of the movement. It has created externalities that policy makers are yet to realize. There is an urgent need to ascertain the nature of economic loss so that the policies designed take into account the future possibility of uprisings and install mechanisms to mitigate the losses.

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Junk Food Tax: Significance and Scope in India

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Abstract

This paper throws light on the significance of 'Junk Food' taxes and their scope in India. Junk food taxes usually cover high energy-dense processed food items and sugar sweetened beverages so as to reduce their consumption in order to fight obesity, diabetes and heart problems. Many countries across the world such as Mexico, Denmark, Hungary and France have imposed these taxes in different forms. The motivation behind writing this paper is the recent Junk Food Tax imposed by the Government of Kerala. Kerala imposed a tax of 14.5% on consumption of junk food such as burger, pizza, doughnuts, etc., in branded restaurants. This move by the Kerala government is backed by alarming health statistics. The percentage of obese women in India is 14.8% and that of obese men is 12.1%. In Kerala (ranks 2nd after Punjab, in obesity) the percentage of men and women who are obese is 24.3% and 34% respectively. In this paper, we first explain some essential characteristics of an effective Junk Food Tax. We, then, analyse the performance of such (similar) taxes in Mexico and Denmark. After carefully scrutinizing the tax policy imposed by Kerala, we have highlighted its drawbacks and have suggested the remedial measures that can be adopted for an effective tax implementation. Lastly, we offer some policy recommendations for a nationwide Junk Food Tax in India, especially, in some states like Punjab where immediate action is required.

Introduction

It is very evident that the diet we take is not as healthy as it should be. Due to heavy consumption of unhealthy food items and drinks, obesity, diabetes, hypertension and other diseases are now a major challenge. According to the latest reports of World Health Organization (WHO), obesity worldwide has doubled since 1980. Not only this, people suffering from diabetes have increased from 108 million in 1980 to 422 million in 2014. These diseases further lead to other serious health problems. The same reports claim that diabetes and obesity are preventable. These diseases work as externalities on an economy. People who suffer from obesity and diabetes tend to switch to jobs where they get lower wages. They are more prone to absenteeism, which affects the economy as a whole. Childhood obesity is another important concern that needs to be addressed. If obesity is not tackled in childhood itself then the children are most likely to develop chronic ailments such as diabetes and cardiovascular diseases. The increasing number of deaths from these diseases is a severe economic loss of human resources to the world economy. Apart from this, the increased personal cost of medical expenditure (which may not be borne by governments in most economies) results in reduced expenditure on education, health and overall well-being of other family members. This is how the need for taxes on unhealthy food items pops in and this is why many countries are introducing health-based taxes. Countries which have imposed such taxes include France, Mexico, Denmark, Hungary and some states of USA.

Taxes on unhealthy food items are of different kinds. Denmark introduced a "fat

tax” which simply is a tax on saturated fat on obesity-causing products; irrespective of the fact whether the food item that contains fat can be healthy too (for example, milk based products like cheese and butter). Junk Food Tax is not a similar term and, therefore, cannot be used in place of fat tax. There can be a number of debates as to what should be classified as junk food. We define “junk food tax” as a tax imposed on those energy-dense processed foods and drinks that have high sugar or fat content, which are nonessential for consumption, have a high price elasticity and thus, can be easily substituted with their healthy counterparts.

Junk food taxes are regressive in nature, that is, they are indirect taxes imposed equally on all economic strata irrespective of their income. Moreover, consumers with lower income and less education largely consume unhealthy food items and sugar-sweetened drinks. Since obesity, diabetes and other diseases related to unhealthy consumption are externalities to the society, junk food taxes fall under the category of Pigouvian Taxes.

There are many things that need serious spotlight while deciding how junk food taxes should be. It is not correct to hold traditional viewpoint that fat leads to obesity and not consider that there are many food items containing fat (like, milk contains unsaturated fat) which are essential for human body. Therefore, the primary thing that policymakers should consider is to tax only those food items and drinks that are serious threat to health and not hike prices of necessary food items. Secondly, these unhealthy products should hold high price elasticity. It means that the responsiveness to reduce consumption of a particular good when its price is increased should be high enough. Consumers’ price responsiveness varies across different product categories. They are more sensitive to soft drinks, with

an average price elasticity of 0.9 while they are comparatively less responsive to fast food. Sugar-sweetened beverages¹, on the other hand, have price elasticity as high as 1.2. High price elasticity mostly exists because of high degree of substitutability. Secondly, the policy makers should keep in mind that the taxed products do not have unhealthy (untaxed) substitutes which are easily available. For example, if sugar-sweetened beverages are taxed, people might switch to substitutes like juices and beer which contain sugar. This will not help in encouraging lower sugar consumption. Lastly, in the case of taxing soft drinks and sugar-sweetened beverages which contain high sugar content, policy makers have three options in hand. The tax imposed can be content based, volume based or sales-value based. Among these, content based taxes prove to be more effective because consumers cannot avoid tax by buying cheaper drinks as the tax is based on the sugar content (which may be more in cheaper products). Also businesses will be encouraged to produce and advertise more of the low sugar beverages.³

In a recent move by Kerala Government, a similar tax of 14.5% was announced on the consumption of burgers, pizza, doughnuts, etc., sold in branded restaurants. This health initiative taken by the Kerala government, the first of its kind in India, is the primary motivation behind writing this paper. The paper further examines how similar taxes on unhealthy food and drinks fared in Mexico and Denmark. Some of the loopholes of Kerala’s junk food tax are also discussed and a set of policies are also recommended for a nationwide tax in India.

Mexico’s Junk Food Tax

On 1st January 2014, the Government of Mexico imposed ‘Junk food’ taxes with the

aim of ensuring good health of the citizens. The motivation behind these taxes could be easily identified by looking at the alarming health statistics. In 2012, diabetes was the leading cause of death, killing 87.6 thousand people (14.5%). As of 2008, 26.7% men and 38.4% women (age 20+) were obese (as per WHO)⁴. These taxes include 8% of Special Tax over Product and Services (IEPS) on processed foods that contain 275 kilogram calories or more for every 100 grams and a tax of 1 Mexican peso on each litre of flavoured drinks. The processed foods covered under this tax are snacks, confectionary, chocolates, custards and flan, fruit jam, peanut and hazelnut butter, ice cream and cereal based products (cookies, sweet bread, breakfast cereals)⁵

All these commodities are classified as 'nonessential food items', highlighting their relative importance in the consumption basket and the fact that they can be easily substituted.

The special focus of tax reforms on flavoured drinks and sugar-sweetened beverages (SSB) was because they are a risk factor for obesity, Type II diabetes and heart diseases. Also noteworthy is the price elastic nature of these commodities which makes it easier to bring about a change in consumption pattern by increasing their prices via taxes. A study estimated that price elasticity was 1.06 for soft drinks and 1.16 for SSB for Mexico. This implies that a 10% increase in price level was associated with a decline in consumption of soft drinks by 10.6% and of SSB by 11.6%⁶. Since an increase in prices of flavoured drinks and SSB by 1 Mexican peso is equivalent to 10% increase in the price (as per 2013 prices), a decline in consumption of these products by an approximate of 10% can be expected over time.

The tax reforms have been implemented for more than two fiscal years now and the results can be seen as follows:

- According to a study, the impact of the tax on consumption of SSB has been positive. The study used data for purchases of several taxed and untaxed beverages in Mexico from January 2012 to December 2014 (two years before the tax and one year after it). The data was obtained from Nielson Mexico's Consumer Panel services for 53 cities with more than 50,000 inhabitants and this sample data represented 16 million households in Mexico for each year. The findings of the study show that the purchases of taxed beverages decline on an average of 6% over the period and it was declining at an increasing rate (up to 12% decline by Dec 2014). This decline was maximum for the lower socioeconomic groups, averaging at 9% while for the middle and higher socioeconomic groups the decline was only around 5.5%.⁷
- Using the same data source, another study observes the performance of the 'junk food' tax on majority of the taxed nonessential food items and SSB (some items like chocolates, candies and sweet bread are excluded), for the same period. The mean value of purchases of taxed foods declined by 25g per capita per month or a 5% change beyond what would have been expected based on pre-tax trends. The purchases by low socioeconomic households declined by 10%, that of middle socioeconomic households declined by 5.8%, and for the higher socioeconomic households it did not change.⁸

These studies indicate that the junk food taxes in Mexico have been effective in the short-run and according to the researchers there is enormous potential

for these taxes to bring about a change in consumption patterns in the long-run.

Learning from Mexico

- The Mexican tax reform has a special focus on SSB and other flavoured beverages. This is an important aspect not only because the consumption of these beverages increases the risk of diabetes and obesity, but also because they generally have high price elasticity.
- All the non-essential items and beverages covered under the taxes have high degree of substitutability. For example, beverages can be easily substituted by drinking water as was observed in the case of Mexico (4% increase in purchases of untaxed beverages, especially drinking water).
- Another noteworthy feature is that taxing SSB and soft drinks may reduce the consumption of certain junk foods (which may or may not be taxed) because of their complementary nature.
- These taxes do not cover commodities which fulfill basic necessity like milk, butter, oil, meat, etc., that are a part of daily consumption basket and, therefore, they do not put extensive burden on the purchasing power of the citizens.
- The Mexico junk food tax is a pure regressive tax. That is, it targets all the economic strata of the society. This fact is important because high income households are least responsive when indirect taxes increase while low income households are the most responsive. A rise in such taxes reduces their purchasing power and they cut back on non-essential food items. This can be seen in Mexico as well (9-10% decline in purchases of taxed products by lower income households).

Therefore, a pure regressive tax like Mexico's can at least bring about a change in consumption patterns of lower income households that make up the majority in all developing countries.

Denmark's Fat Tax

Denmark is the first country to impose "fat tax" on saturated fats. The country adopted the fat tax reform in March 2011 and finally came into effect from October 1, 2011.

According to WHO, in 2008, 18.7% men and 17.6% women were obese constituting to 18.2% obesity in the country. In 2012, deaths due to cardiovascular diseases and diabetes observed were approximately 10,000.

The fat tax affected all the food items containing saturated fat content exceeding 2.3% and amounted to 16 Danish Kroner per kilogram of saturated fat. The food products that were affected included meat, cheese, butter and margarine, along with oils and delicatessen products. Danish consumers were paying an extra amount crossing one billion Euros in 2012 for their consumption of food items. This included nearly 170 million Euros for the fat tax alone.⁹

The tax was abolished within one year of implementation and the following results were observed:

- The tax hit the small and medium enterprises virulently. Companies dealing with food items containing saturated fat were required to calculate the quantities of fat and were supposed to declare them in order to pay the corresponding taxes. According to a survey by the Danish Chamber of Commerce, on the retail and wholesale side, the fat tax's administrative costs hit nearly 200 million kroner (27 million Euros approximately).

- An obvious result observed was the bloated prices of certain products on which the fat tax was imposed. Danish prices were close to the European average before the introduction of fat tax. When the prices in Denmark of these taxed food items were compared with prices prevailing in neighboring countries, after the tax was implemented, there was a substantial hike in prices. For example, changes between September and December 2011 for oils and fats were very prominent. In Denmark, the prices of these items increased to 13.7%, while in Germany, the prices fell 1.5% from September to December in 2011. Instead of reducing consumption because of price hike, Danish consumers started purchasing products from neighboring European countries in order to secure their purchasing power.
- The boosted trans-border trade led to the disruption of domestic sales markets. Domestic companies were coerced to ship the products abroad which involved unnecessary additional costs. Since people started importing products like beer and soda from neighboring countries like Germany because of highly taxed products being sold in Denmark, there was weakening of domestic sales market and needless job losses.
- Before the implementation of fat tax, it was predicted, by conducting a modeling exercise taking into consideration the substitution and income effects, that there will be nearly 8% reduction in consumption by Danish consumers. However, very minute fall of 0.4% in consumption was observed over the period of October 2011 to July 2012. There are numerous reasons behind consumers

being unresponsive to price changes. Firstly, cheaper substitutes were available for the products that were taxed. Moreover, consumers preferred shopping from neighboring countries where same products or close substitutes to the taxed products were available at a cheaper price. Secondly, since consumers were not responsive to hiked prices of the products (probably because of their habit of consuming those unhealthy products), they continued consuming them which depleted their purchasing power and left less of their income for buying healthy food products (implication of income effect). Therefore, the fat tax was ultimately abrogated within one year of coming into effect.

Learning from Denmark

- The fat tax policy of Denmark was vaguely structured. This is because tax policy covered those products that contained saturated tax exceeding 2.3% and, therefore, included a wide range of products. It could have been more detailed, describing more specifically the products that required the imposition of tax. Moreover, other criteria such as price elasticity, substitutability, etc., (mentioned in the beginning of the paper) should also have been considered before implementing the fat tax in Denmark.
- Moreover, taxing products containing saturated fats is controversial because only consumption greater than 10% of total energy intake is considered detrimental while the fat tax was levied on certain products exceeding 2.3% saturated fat content. Had this fact been kept in mind, the fat tax policy would have been comparatively narrower eliminating

many products containing less than 10% saturated fat.¹⁰

- Lastly, simply imposing a health-tax is not enough. Experimental surveys should have been conducted in order to see if Danish consumers were willing to reduce their consumption on the taxed food items. The fat tax was not effective in Denmark because consumers had a choice to switch to cheaper unhealthy products in the home country or avail the same products from neighboring European nations (because of easy trans-border trade).

Scenario of Kerala's Junk Food Tax:

Predictions

According to NFHS-3 (2005-06), the percentage of women who were obese was 34% and the same figure for men was 24.3%.¹¹ These alarming statistics are supportive of the fact that Kerala ranks 2nd in terms of obesity in India (the first being Punjab). The Kerala government believes that increased levels of junk food consumption are responsible for this obesity epidemic. Following this belief the Kerala government announced a 14.5% tax on burgers, pizza, doughnuts, etc. (in addition to VAT and other taxes) sold in branded restaurants. The government aims to earn additional revenue of approximately 10 crores from this tax. This is a welcome initiative, first in India, towards inculcating healthy eating habits among the citizens. But, on the basis of the experiences of other countries like Denmark and Mexico, certain loopholes can be pointed out, which if not corrected will render the tax ineffective.

- It is not clear as to which restaurants fall under the category of “branded” restaurants. According to the Kerala finance minister, Thomas Isaac, fast food chains such as McDonalds and Dominos will be included, but the

criterion for inclusion of other restaurants is not clear yet.

- Even if we go by the traditional definition of branded restaurants, they are the ones which usually cater to higher and upper-middle class. In this way the Kerala junk food tax leaves out a majority of the population out of the tax bracket who are more sensitive to price changes than the higher socio-economic group (same has been the case for Mexico as well). Also, according to NFHS-3, 30.9% of women and 21.9% of men in rural areas are obese.¹¹ Any tax on unhealthy food items should also cater to the rural population.
- The tax covers certain unhealthy food items but leaves out drinks such as sugar-sweetened beverages (SSB) and soft drinks. This is a major loophole for three reasons. Firstly, the price elasticity for soft drinks (0.9) and SSB (1.2), in general, is even higher than that of fast foods (Donald Marron, 2015).³ Secondly, soft drinks and fast foods items are complementary in consumption and a tax on both of them would, therefore, bring down consumption to a greater extent than taxing just one, making the health-tax comparatively more effective. Lastly, soft drinks and SSB contain high level of sugar content. This point is important in context of Kerala as prevalence of diabetes is at 20% in this state which is much higher than the national average of 8%.^{2,12}
- By taxing only the junk food items which India has obtained from the influence of western culture, the Kerala government has wrongly assumed that these are solely responsible for the high percentage of

population being obese. They have ignored another major contributor, that is, street food. In many cases, street food cannot be taxed because of the informal structure of its business but Kerala can learn a lesson from Bihar in this area (13.5% VAT on *samosa*, *kachori* and sweets priced more than rupees 500 per kg).

- The Kerala government has estimated to raise revenue of approximately 10 crores which is highly insignificant to be injected in health or any other sector. The government can increase its revenue in future by including more unhealthy items and drinks in the tax net. This additional revenue could be then used to subsidize fruits and vegetables.
- The tax of 14.5% is same for all the items to be taxed irrespective of the fat content contained in them. That is, it is a sales value based tax. Such taxes are less effective because consumers tend to shift to cheaper substitutes or variants and producers have no incentive to produce low-fat products. On the contrary, a content based tax is more effective as mentioned above. Though it may require each producer to calculate and declare the fat content of various products (which may prove to be a costly affair as in the case of Denmark), but if this can be worked on, then in the long run a content based tax will show much better results.

The Kerala government claims to include more items in the junk food tax base if this current form of taxation shows positive results. But because of the above mentioned reasons, this tax might not be that effective as the government is expecting it to be and the policymakers might scrap the tax altogether, as Denmark did. Therefore, they should

address such loopholes beforehand, if they desire to inculcate a permanent change in consumption habits of the citizens.

Policy Recommendations for India

India ranks third in terms of percentage of obese population after USA and China.

According to NFHS-3 (2005-06), the percentage of women and men (aged 15-49) who were obese or overweight was 14.8% and 12.1% respectively.¹³ The situation is worse if the data for diabetes is considered as an indicator of well-being of the population. The percentage of deaths due to diabetes was 2% of the total deaths as of 2005 (as per WHO)¹². These health statistics are just a glimpse of the adverse health situation in India. These may alone indicate an urgent need for changing the consumption habits of the Indian population, as the root cause of obesity and diabetes in majority of the population is unhealthy consumption.

One tool which should be used in this regard by the Indian government is Junk food tax. Some of the policy recommendations for drafting of Junk food tax policy are as follows:

- As mentioned above, the food items and drinks covered under the junk food tax should have high price elasticity so that individuals reduce their consumption when prices rise via taxes.
- The cost per person for diabetes is 94.9 US Dollars (as per International diabetes Federation)¹⁴ and these resources if invested in other areas like education or poverty alleviation could further create more employment opportunities. Since India is one of the countries with a large number of type II diabetes cases, a tax on nonessential sugar consumption is inevitable. Therefore, soft drinks and sugar-sweetened beverages should be brought under

the tax net. Not only do these have average price elasticity as high as 0.5 (for India), but they also contain high levels of sugar content¹⁵. The government should consider taking insights from the Mexico sugar tax in this regard as the reasons for the success of Mexico's tax have been highlighted above.

- While framing a tax policy with regard to junk food tax, the Indian policy makers should prefer a content based tax. Even though such a tax may pose a costly affair for a number of producers in the short run but once implemented, it will generate effective results in the long run.
- Only those food items should come under bracket of junk food tax that are non-essential in nature. Basically, those food items that are considered necessary for human body, say milk and certain milk products, have a very low price elasticity and, therefore, will have nearly negligible effect on change in consumption by consumers on price rise (due to implementation of junk food tax).
- Before implementing junk food taxes, government should observe whether consumers are willing to reduce their consumption of unhealthy food items. This is important because, as observed in case of Denmark, people were not ready to compromise on their unhealthy food habits and started importing domestically taxed food items from neighboring countries.
- If the junk food tax is imposed on national level then it will prove to be more effective than a tax on local level. This means, if the tax is levied on every state, rather than a few states, consumers will have no choice but to alter their consumption because they will not have the option to trade

cheaper products from neighboring states.

Conclusion

Some Indian states like Kerala and Bihar have already imposed such taxes. The Delhi government has also come up with certain guidelines to reduce junk food consumption in schools. These initiatives need to be taken into consideration at a national level to witness effective results and improved health conditions of the future generations.

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Revisiting the Empirical Existence of Phillips Curve for US and India: A Comparison between a Developed and a Developing Country

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Abstract

The paper revisits the empirical existence of Phillips Curve of two countries, US and India. The derivation of Phillips curve requires the estimation of three different variables i.e. Inflation, Output gap and Expected Inflation. Various economics literatures suggest that the Phillips curve is non-existent in India. The study of Phillips Curve shows an inverse relationship between Inflation and Unemployment. As Unemployment is countercyclical, thus Inflation and Output gap are positively related. GDP deflator has been used as a measure of Inflation for both the economies. Hodrick-Prescott filter approach and AR (1) Model is used to estimate the output gap and expected inflation, respectively. For the Phillips Curve estimation formal time series method of regression is used. Our results show that there exists a short-run Phillips Curve for the US economy but not for the Indian Economy. The differences in the Phillips Curve of developed and developing countries that arose during their comparison are highlighted by the significance of supply shocks and the effect of output growth and expected inflation in determining actual inflation in both the countries.

KEYWORDS: Phillips Curve; Inflation; Output Gap; Supply shocks.

Introduction

If growth is the key measure of macroeconomic performance, inflation (or rather its absence) is the generally preferred indicator of macroeconomic stability (Acharya, 2001).

Inflation is a fundamental macroeconomic risk factor for a broad range of asset classes. Non-inflationary growth is one of the main aims of economic policy in India. The main objective of the Reserve Bank of India (RBI), is “...formulation and implementation of monetary policy with the objectives of maintaining price stability...and to promote economic growth...”

Therefore, a thorough understanding of inflation and output dynamics is indispensable for effective monetary policy formulation. The empirical relationship between inflation and the output gap – that is the Phillips curve – could guide monetary policy to achieve low and stable levels of inflation. Hence, the estimation of the Phillips curve has been applied to various economies.

Derivation of Phillips Curve Equation

According to Lucas' Aggregate Supply Equation, the deviation of output from its natural level is responsible for the deviations in the price level from its expected value, i.e.,

$$Y = Y^n + \alpha (P - P^e)$$

where, Y = actual output

Yⁿ = potential output

P = actual price level

P^e = Expected price level

α = indicator of how much output responds to unexpected changes in the price level.

(1/ α is the slope of the AS curve)

Taking Supply shock into account, the equation becomes,

$Y = Y^n + \alpha (P - P^e) + v$, where, v = supply shock

Solving the equation gives,

$$P = P^e + 1/\alpha(Y - Y^n) + v$$

Subtracting past period's price level (P_{t-1}) from both sides, we get:

$$P - P_{t-1} = (P^e - P_{t-1}) + 1/\alpha(Y - Y^n) + v$$

This equation can be written as:

$$\pi_t = \pi_t^e + 1/\alpha (Y - Y^n) + v \text{ [because } P - P_{t-1} = \pi_t \text{ and } P^e - P_{t-1} = \pi_t^e]$$

Thus, modern Phillips curve states that the inflation rate depends upon three forces:

1. Expected inflation(π_t^e)
2. Output Gap (Y-Yⁿ)
3. Supply shocks(v)

Objective of Study

The purpose of the paper is to examine the contemporaneous relationship between inflation and the output gap in India and US

and then, comparing the Phillips curve models of both the economies.

Data, Methodology and Results

As mentioned, the derivation of Phillips Curve requires the estimation of three variables i.e. inflation, output gap and expected inflation. In order to estimate the expected augmented Phillips Curve, this study covers observations from time period 1961 to 2015 for both countries US and India.

The equation of Expected Augmented Phillips Curve is

$$\pi_t = \pi_t^e + \beta(Y - Y^n) + e_t$$

where,

π_t = inflation at the time period t

π_t^e = expected inflation at the time period t

Y = Actual GDP

Yⁿ = Potential GDP

e_t = Supply Shocks

Inflation: GDP Deflator

GDP deflator, also called as implicit price deflator, has been used as a measure of inflation. (Appendix Table 1)

In simple terms, it is the ratio of the value of goods and services an economy produces in a particular year at current prices to that at prices prevailing during any other reference (base) year.

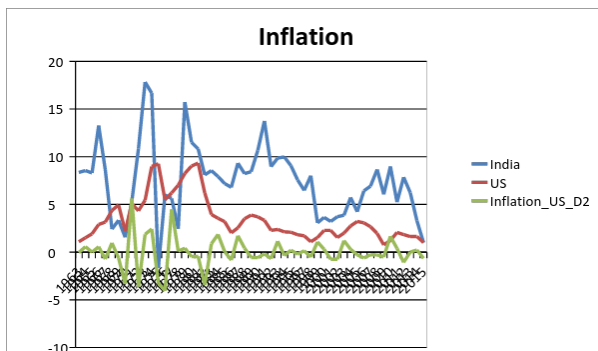
Since the deflator covers the entire range of goods and services produced in the economy — as against the limited commodity baskets for the wholesale or consumer price indices — it is seen as a more comprehensive measure of inflation.

The ADF test is conducted to check the stationarity of the given inflation series. (Appendix: India Table 2, US Table 3).

Therefore, the results show that the Inflation series of India is stationary at its original level whereas the inflation data of US is non-stationary at its original level. Thus, in order to make the data stationary, inflation series was calculated at its second difference where it proved to be stationary.

Calculated Values*			
	Level	1st difference	2nd difference
India	-4.936190	–	–
US	-1.917096	-2.508952	-4.187249

*Critical Values	
1%	-3.557472
5%	-2.916566
10%	-2.596116



Output Gap: Hodrick-Prescott Filter

The Output Gap is the difference between actual GDP and potential GDP which is estimated using Hodrick Prescott filter.

Hodrick Prescott filter is a data smoothing technique that is commonly applied to

remove short term fluctuations that are associated with the business cycles thereby, revealing long term trends. The adjustment of the sensitivity of the trend to short-term fluctuations is achieved by modifying a multiplier λ .

It is a model-free based approach to decomposing a time series into its trend τ_t and cyclical components c_t .

The HP filter is an algorithm that “smoothes” the original time series y_t to estimate its trend component, τ_t . The cyclical component is, as usual, the difference between the original series and its trend, i.e.,

$$y_t = \tau_t + c_t$$

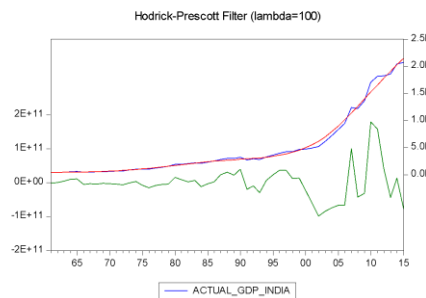
where τ_t is constructed to minimize:

$$\sum_1^T (y_t - \tau_t)^2 + \lambda \sum_2^{T-1} [(\tau_{t+1} - \tau_t) - (\tau_t - \tau_{t-1})]^2$$

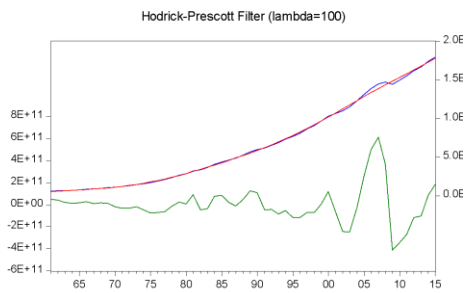
The filter is computed by applying the HP technique with λ equal 100 to actual GDP data, running it over a sample from 1961 to 2015.

The value of potential output was estimated by this filter which was further used to calculate output gap [Output Gap= Actual GDP(Y)- Potential GDP(Y^n)]. In order to keep a common unit of measurement of all variables in the model, output gap is converted into percentage form using $[(Y - Y^n)/Y^n * 100]$. (Appendix: India Table 4, US Table 5)

India:



US:



In ADF test, the stationarity of the output gap series of India are proved as the value of the calculated values being greater than the critical values. Therefore, we can reject the null hypothesis i.e. Output Gap has a unit root and accept the alternative hypothesis i.e. Output Gap is stationary in both the countries US and India. (Appendix: India Table 6, US Table 7)

Calculated Values*			
	Level	1st differenc e	2nd difference
India	-3.977190	–	–
US	-4.460035	–	–
*Critical Values			
1%	-3.557472		
5%	-2.916566		
10%	-2.596116		

Expected Inflation: AR Model

For calculating the expected inflation series, we have used the method of adaptive

expectation hypothesis where the expected values are based on past year’s inflation rate and the weight of the past year’s inflation rate keeps on declining.

Many time series exhibit serial autocorrelation i.e., linear association between lagged observations. This suggests past observations might predict current observations. An AR model is the one in which Π_t depends upon its past values $\Pi_{t-1}, \Pi_{t-2}, \dots$

$$\text{Thus } \Pi_t = f(\Pi_{t-1}, \Pi_{t-2}, \dots, \epsilon_t)$$

The form of the AR (p) model is

$$\Pi_t^e = \beta_0 + \beta_1 \Pi_{t-1} + \beta_2 \Pi_{t-2} + \dots + \beta_p \Pi_{t-p} + \epsilon_t$$

where ϵ_t is an uncorrelated innovation process with mean zero and a constant variance.

In the given analysis, the current prediction is made using only one past observation i.e. last year’s inflation.

The stationary inflation series of both the countries is used to estimate the series of expected inflation using AR model. As mentioned, the given error term (ϵ_t) in AR model is assumed to be constant and close to zero because the average value appears to be zero overtime.

India:

Thus, equation of expected inflation in India is given by

$$\Pi_t^e = 7.121655 + 0.402401 \Pi_{t-1}$$

Hence, given the values of past year’s inflation, the expected inflation series is calculated using the same equation. (Appendix: Table 8).

Method: ARMA Generalized Least Squares (BFGS)
 Date: 09/26/16 Time: 17:57
 Sample: 1961 2015
 Included observations: 55
 Convergence achieved after 4 iterations
 Coefficient covariance computed using outer product of gradients
 d.f. adjustment for standard errors & covariance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.121655	0.805252	8.84400 6	0.0000
AR(1)	0.402401	0.130000	3.09539 7	0.0031
R-squared	0.148397	Mean dependent var	7.2575	
Adjusted R-squared	0.132329	var	92	3.8696
S.E. of regression	3.604543	S.D. dependent var	59	5.4411
Sum squared resid	688.6147	Akaike info criterion	65	
Log likelihood	-147.6320	Schwarz criterion	59	5.5141
F-statistic	9.235574	Hannan-Quinn criter.	92	5.4693
Prob(F-statistic)	0.003681	Durbin-Watson stat	31	1.8793
Inverted AR Roots	.40			

Dependent Variable: INFLATION_US_D2
 Method: ARMA Generalized Least Squares (BFGS)
 Date: 09/26/16 Time: 18:51
 Sample: 1963 2015
 Included observations: 53
 Convergence achieved after 2 iterations
 Coefficient covariance computed using outer product of gradients
 d.f. adjustment for standard errors & covariance

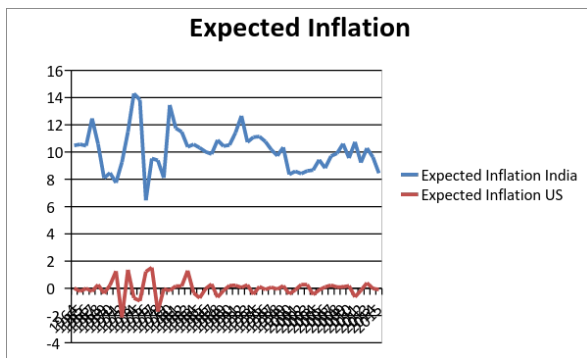
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.006520	0.157828	-0.04131 1	0.9672
AR(1)	-0.377910	0.129860	-2.91012 5	0.0053
R-squared	0.142406	Mean dependent var	-	0.0100
Adjusted R-squared	0.125590	var	95	1.6843
S.E. of regression	1.574988	S.D. dependent var	01	3.7862
Sum squared resid	126.5099	Akaike info criterion	85	
Log likelihood	-98.33656	Schwarz criterion	36	3.8606
F-statistic	8.468674	Hannan-Quinn criter.	77	3.8148
Prob(F-statistic)	0.005343	Durbin-Watson stat	80	2.3204
Inverted AR Roots	-.38			

US:

Thus, equation of expected inflation of US is stated below

$$\Pi_t^e = -0.006520 + (-0.377910) \Pi_{t-1}$$

Hence, given the values of past year's inflation (2nd differenced), the expected inflation series is calculated using the same equation. (Appendix: Table 8). The graph of expected inflation series in both the countries is plotted below.



fit by minimizing the sum of squares created by a mathematical function.

India:

Dependent Variable: INFLATION_INDIA
 Method: Least Squares
 Date: 09/27/16 Time: 19:51
 Sample: 1961 2015
 Included observations: 55

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-17.69791	5.11E-09	-3.46E+09	0.0000
EXPECTED_INFLATIO N_INDIA	2.485083	5.04E-10	4.93E+09	0.0000
OUTPUT_GAP_INDIA	-1.63E-10	9.41E-11	-1.726618	0.0902
R-squared	1.000000	Mean dependent var		7.257592
Adjusted R-squared	1.000000	S.D. dependent var		3.869659
S.E. of regression	5.55E-09	Akaike info criterion		-35.12647
Sum squared resid	1.60E-15	Schwarz criterion		-35.01698
Log likelihood	968.9780	Hannan-Quinn criter.		-35.08413
F-statistic	1.31E+19	Durbin-Watson stat		1.714412
Prob(F-statistic)	0.000000			

Calculated Values*			
	Level	1st difference	2nd difference
India	-4.936190	-	-
US	-4.123038	-	-
*Critical Values			
1%	-3.557472		
5%	-2.916566		
10%	-2.596116		

Phillips Curve of India is stated as:

$$\pi_t = 2.485083 * \pi^e + (-1.63E-10)(Y - Y^n) + v_t$$

US:

Dependent Variable: INFLATION_US_D2
 Method: Least Squares
 Date: 09/27/16 Time: 19:52
 Sample (adjusted): 1964 2015
 Included observations: 52 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.004988	0.222676	0.022398	0.9822
EXPECTED_INF LATION_US	1.018510	0.351560	2.897119	0.0056
OUTPUT_GAP_ US	0.057184	0.112879	0.506591	0.6147
R-squared	0.146875	Mean dependent var		-0.009313
Adjusted R-squared	0.112054	S.D. dependent var		1.700724
S.E. of regression	1.602607	Akaike info criterion		3.837102
Sum squared resid	125.8491	Schwarz criterion		3.949673
Log likelihood	-96.76465	Hannan-Quinn criter.		3.880259
F-statistic	4.217965	Durbin-Watson stat		2.297507
Prob(F-statistic)	0.020408			

Then, the stationarity test of this series through ADF test is done. The result shows that it is stationary at its original level, because the calculated value is greater than the critical values which causes for the rejection of null hypothesis i.e. expected inflation has u unit root. Therefore, we have to accept the alternative hypothesis that expected inflation is stationary.(Appendix : India Table 9, US Table 10)

Ordinary Least Square Estimation

This is a method for estimating the unknown parameters in a linear regression model. This statistical method is used make a close approximation and determines a line of best

After estimating the coefficients of expected inflation and output gap using the OLS Estimation method, the equation of modified Phillips Curve of US is stated as:

$$\pi_t = 1.018510 * \pi_t^e + (0.057184)(Y - Y^n) + v_t$$

Comparison

The estimated equation of modified Phillips Curve of India and US is stated as:

$$\pi_t = 2.485083 * \pi_t^e + (-1.63E-10)(Y - Y^n) + v_t$$

- INDIA

$$\pi_t = 1.018510 * \pi_t^e + (0.057184)(Y - Y^n) + v_t$$

- US

A clear relationship between output gap and inflation is evident from these equations:

- The coefficient of output gap is negative in case of India, which implies that there is a negative relationship between output gap and inflation in India.
- The coefficient of output gap is positive in case of US, which implies that there is a positive relationship between output gap and inflation in India.

Thus, the positive relationship between Output Gap and Inflation implies a negative relation between inflation and unemployment due to the countercyclical nature of unemployment proving the existence of Phillips Curve in US in short run. And unlike US, the negative relation between output gap and inflation in India indicates the non-existence of short-run Phillips curve.

The differences in the Phillips Curve of the developed and developing world are highlighted by the significance of exogenous factors of supply shocks, as supply side factors play a major role in determining

inflation in the case of developing countries like India where output or production depends on the demand. This implies that developing economies, where the percentage share of agriculture in GDP and employment in the agricultural sector is high, are more vulnerable to agriculture related supply shocks. The relation between inflation and aggregate demand may therefore be marred by such effects.

The output gap can play a central role in policymaking. For many central banks, including the U.S. Federal Reserve, maintaining full employment is a policy goal. Full employment corresponds to an output gap of zero. Nearly all central banks seek to keep inflation under control, and the output gap is a key determinant of inflation pressure.

Conclusion

In this paper we examined the Phillips curves of both India and US. The study attempts to answer the question - does a trade-off exist between inflation and output gap in India and US? We empirically estimated the Phillips curve for India and subsequently for US, and found that a trade-off does exist in the choice between inflation and output gap in the short-run in case of India. The findings show that the conventional Phillips Curve remains absent for not taking into account various exogenous factors and supply shocks. A negative relation between inflation and output gap was found which proved the non-existence of Phillips curve in the economy in the short run when taking all the sectors of the economy into consideration unlike various literatures that proved the existence of the curve only for industrial sectors. However, a positive relationship between output gap and inflation was found in US, which shows that the Phillips curve still exists in the short-run.

On comparing the Phillips curve of both the economies, two absolutely different results

are interpreted for a developed and a developing economy. This major difference is because of the negligence of the impact of the supply shocks in relation to its demand in the developed economies, which leaves its almost absolute amount of impact on the prices affecting inflation.

This paper faces the limitation of significant values of the coefficients of output gap in the two equations of the Phillips curve. The calculated values are not significant as they are less than the critical values.

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Financial Literacy in Students of IPCW

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Abstract

Financial literacy for students is an important tool to improve the financial capability of our youth and communities. On macro level, it will help reduce the economic impact of the long-term recession that now grips many communities across the country. Most college students lack financial sophistication necessary to handle the terms and conditions associated with plastic card usage. In our country, where the government is promoting Digital India campaign under which e-commerce and online banking are given emphasis, the question that now arises is if our future generation is even prepared for this transition. This paper will examine the basic financial IQ of the students of IPCW focusing on their knowledge of banking system, plastic card usage and online payment services.

Introduction

In the 21st century, earning money is an indispensable skill needed not only to survive, but also to thrive in this competitive era. And it is not just about earning money, it is also about managing it. Thus, today's youth needs to be equipped with the basic financial knowledge as it impacts the success of life decisions such as relationships, buying a house or car, accepting or leaving a job, retirement etc.

Financial Literacy

Financial literacy is often defined as the knowledge and skills needed to make key financial decisions.

Financial literacy has often been identified with financial knowledge, typically measured

through the understanding of concepts such as compound interest, inflation, and risk diversification. The underlying idea is that these concepts are the crucial pieces of information individuals need to choose the optimal allocation of consumption and savings over their lifetime. (World Bank, 2013)

Financial literacy is seen as the base of knowledge and skill set developed by an individual throughout his/her life. It is not just about gaining the knowledge but also about the application of that knowledge while making a financial decision. Thus, financial literacy goes beyond understanding the fundamentals of the financial system. It includes planning for future in form of savings and investment.

According to World Bank data, financial literacy has three main components:

- a) Mathematical Skills (numeracy)
- b) Awareness of basic financial system, and
- c) Knowledge to interact with service providers.

The capability to manage one's finance and use financial services that benefit one the most and suits one's individual needs, is a major indicator of financial inclusion in a social, political and cultural setup.

Initiatives to Encourage Financial Literacy in India

RBI in 2007 launched its 'Financial Education Initiative'. The objective of the project is to disseminate information regarding the central bank and general banking concepts to various target groups, including school and college going children,

women, rural and urban poor, defense personnel and senior citizens.

Objective

The Indian economy, post- demonetization, saw a major encouragement of youth involvement in educating others in the society, about online transactions and banking facilities. Under the Vittiya Saksharta Abhiyan (VISAKA) initiative by the M.H.R.D., the students of higher secondary institutes were asked to educate the masses on the way of using online modes of transactions safely. This was our motivation behind carrying out a research on whether the youth was ready to carry out this responsibility or not. It is undeniable that the majority of students are aware of the basic (online) transaction facility and the risks involved, the question is, are they financially involved in other important sectors of the economy?

Research Questions and Methodology

Through this research, we wish to find out whether students of Indraprastha College for Women, University of Delhi are aware of basic financial system. The target group for the survey was the students of IPCW. The sample size of the survey was 74. The departments considered were Mathematics, Multi Media and Mass Communication, English, Political Science, Philosophy, Economics, Psychology, and Commerce.

We took help from a similar study conducted by PISA in 2012. We included various parameters in our research as well which were taken up by them. A survey was conducted, that included questions concerning the following concepts:

- Money and Transaction:** This includes handling simple monetary transactions such as everyday payments, spending, and value of money, bank cards and bank account.
- Planning and managing finances:** This includes budgeting and decisions about

financing that suits the needs of an individual.

- Financial Landscape:** In this study, concepts like inflation and interest rates have not been included, but the knowledge of banking system, as in the usage of cards and relevant information, has been discussed.

Analysis

Exposure to financial facets of life is largely affected if the students are living with their parents. In few earlier studies, it has been found that students who live with their parents possess less financial IQ as compared to those who are independent.

We first divided IPCW students into two categories:

- **Category A:** Students living with parents/guardians.
- **Category B:** Students living in hostels or PGs independently.

Our sample comprises a total of 74 students, out of which 58 live with parents or guardians whereas 16 students live in hostels or PGs.

Ques 1) Arya's salary is deposited in her account each month.

This is his pay stub for August.

<i>Month</i>	<i>August 01 to August 31</i>
<i>Gross salary</i>	<i>5000 Rupees</i>
<i>Income Tax</i>	<i>500 Rupees</i>
<i>Net Salary</i>	<i>4,500 Rupees</i>
<i>Gross salary to date this year</i>	<i>54,000 Rupees</i>

How much money was deposited in his account on August 31?

- 5000 Rupees
- 500 Rupees
- 4,500 Rupees
- 54,000 Rupees

Comment: This multiple-choice question asks students to identify financial information on a pay slip. While a pay slip is a common financial document, college students need to understand the difference between gross and net pay, i.e., the difference between pay before and after any deductions have been made (such as deductions for health care or tax). Numeric operations are not required. The correct answer is Rs. 4500.

Result analysis: From students belonging to category A, 60.34% students responded correctly as opposed to the 39.65% incorrect. From students belonging to category B, 75% students were correct while 25% were incorrect. Overall, 47 students out of 74 responded correctly, which makes up 63.5% of the total.

Ques 2) At the market, you can buy tomatoes by the pound or by the box.

First option: 2.5 Rupees per Kg tomatoes

Second option: 22 Rupees per 10 Kg box

Buying which of the given is an economic decision?

Buying a box of tomatoes may be a bad financial decision for some people.

Explain why.

Comment: This question asks students to evaluate financial information for decision making in shopping. The question examines whether students can recognize that buying things in bulk may be wasteful if a large amount is not needed, and it may be unaffordable to bear the higher absolute cost of buying in bulk in the short term. Students are required to evaluate a financial issue in the situation presented and describe their conclusion in this constructed response question.

Result: 55.17% students from category A gave correct response and 56.25% students from category B responded correctly. Out of 74 students, 41 students gave the correct response.

Ques 3) As a college student, what will you prefer to own?

Options:

a. Credit card

b. Debit card

Comment: This question tries to gauge the basic knowledge among college students on plastic cards and their usage. Credit card is a good option only when a person has a regular monthly income deposited in their bank account, so that s/he doesn't get into any kind of financial hardship or default. For a college student, debit card is a much safer option.

Result: 72.41 % of category A students and 87.5% of category B students replied correctly. On the whole, 75.67% answered the question correctly.

Ques 4) The card given below is your debit card:



Identify the C.V.V. number.

Options:

a. 7899

b. 899

c. 3456

d. none of the above

Comment: This question reflects comparatively deeper cognizance on the plastic card subject. Some students might be debit card holders who are not frequent users. This question is based on an assumption that those who are frequent card users will answer this question correctly.

Result: 62.06% students from category A and 75% students from category B answered this question correctly. On an average, 64.86% students gave the correct response.

Ques. 5) Which of the following statement is true about C.V.V. number of plastic cards (debit and credit)?

Options:

- It's your card's secret number so you should not disclose it to anyone.
- You can disclose it to others as it act as a proof that you own a debit card.
- It's always a three digit number.
- None of the above.

Comment: This is an advanced level question on plastic money which tries to gauge how well students are familiar with the topic. Students have to choose the best option as all might seem correct.

Result: Only 3.5% students from category A and 6.25% students from category B could answer this question correctly. If we take an average, only 4.05% students answered it correctly (i.e. 3 students out of 74 students gave the correct response).

Ques 6) What roles do Visa and MasterCard play in credit card purchases?

- They provide processing networks that authorize and settle transactions.
- They're the companies that consumers borrow money from to make credit card transactions.
- They are established under federal charter to encourage consumers to borrow on credit cards, because the federal government believes that freely flowing credit is good for the country.
- They are voluntary associations using copyright free trademarks to establish international branding and marketing in a Web 3.0 paradigm.

Comment: This question also falls in the advanced category, where a sound knowledge on cards is required. The first thing to understand is that neither Visa nor MasterCard actually issues or distributes credit cards. The

cards themselves are issued by banks. Visa and MasterCard are networks that process payments between banks and merchants for purchases made with the cards. This question checks awareness among students on the same fact.

Result: From category A, 77.58% students responded correctly. Even from category B, 75% students gave correct answer. Overall, 77.10% students were correct.

Ques 7) Which one of these would you buy?

Options:

- 1 pair of jeans (Rs. 1000) available at a discount of 10 % and another pair (Rs. 1000) at 10% discount
- 2 pairs of jeans (Rs. 1000 each) at a discount of 11.5% collectively

Comment: This question evaluates students on their decision making skills, as well as prioritization and proper budgeting skills. Basic numeric operations are required.

Result: 62.06% students who belong to category A answered the question correctly, while 31.25% students who belong to category B answered it correctly. Overall, 55.4 % students gave the correct answer.

Ques 8) This is a monthly budget

Monthly Allowance- 3000 Rupees

Food Expenditure-1000 Rupees

Basic clothes- 1000 Rupees

Entertainment-500 Rupees

Internship money-1000 Rupees

Rent money-1000 Rupees

Will this be considered as a balanced budget?

Options:

- Yes
- No

Comment: This question evaluates students on their budgeting skills. There is a general conception that many college students have little or no experience handling money, and find the prospect of sticking to a budget extremely daunting. This is a basic level question that will

try to assess if students can reckon a balanced budget or not.

Result: From category A, 37.93% students gave the correct answer whereas from category B, 56.25% students answered it correctly. On an average, 41.89% students answered this question correctly.

Conclusion

The parameters that we defined for this research were money and transaction, planning and managing finances and financial landscape.

The first question in our survey was put in to judge if students knew the difference between net unit and gross unit. The objective of inserting this question was solely to determine if the students were aware of the terms used in every pay slip. With 63.5% student giving the right answer, we concluded that most of the students were aware about the difference and were able to interpret a basic pay stub.

The second question was asked to determine whether college students were cognizant of basic mathematics. Even though 41 students gave the right answer, it is difficult to ascertain that students would be able to make an economic choice if given a close option.

The third question was put in to assess whether students knew the difference between credit card and debit card, and their usage. With 75.67% students having given the right answer, it seems apt to conclude that students who have used these cards before are cognizant with their working and usage.

Following on the previous proposition, the next two questions were put in to find out whether these students used the plastic cards frequently or not. The percentage of student who gave correct answer to the fourth question was 64.86%, and to the fifth question was merely 4.05%. This indicates that students, though being aware about the

cards, do not hold in- depth knowledge about the same.

Question six goes beyond the cards to their companies. With 77.1% giving the correct answer, we reached the conclusion that students were well acquainted with these networks and the role that they play in the transactions.

The seventh question was put up to judge students' basic mathematical skills as well their reactions to sales and discounts. The options provided confuse a person and ask for a mathematical calculation. Most shoppers consider the option A to be more rewarding, and go for it. But when thought carefully, option B is economically more feasible. With only 55.4 % giving the right answer, it can be judged that while shoppers are mathematically sound, they are easily confused by the language of the options (which is commonly the case in most cases).

The last question evaluates students on their budgeting skills. With only 41.89% student answering correctly, it is easy to conclude that students have problems in organizing their budget.

Our most important observation throughout this survey was that students who stayed in hostels or PGs were more conscious about their transaction, budget and banking.

Beginning from the first question, percentage of students from category B who answered accurately, was more than that of category A. However, for the next question, those from category B seemed at level with those from category A.

Similar to the first question, the third question indicated that students from category B were more cognizant about the plastic cards than their counterparts. The next two questions corroborated this theory, with students from category B making their way up front by a good per cent point.

The last question saw a gigantic difference in percentage points with students from category B having more knowledge of balancing their budget, than students from category A.

The questions involving mathematical calculation and in- depth knowledge have somewhat similar responses from both the categories, and it can be said that on the basis of information provided in schools, these students share equal knowledge.

However, the questions involving budgeting, regular indulgence in spending and primary functioning of banks were answered correctly by students living in PG/Hostels. This clearly points towards the fact that this kind of information is more common with the students who have to be practically concerned with the same.

Hence, it can be concluded, that the fact that students living in PG/Hostels have to balance their own budgets, monitor their spending and deal with cards on a regular basis, increases their financial literacy, as they are directly and frequently in loop with the functioning of banks and daily budgeting.

On the other hand, the students living with their parents are dependent on them for their everyday needs and have less involvement in monetary transactions, and have less financial quotient than those in category B.

Overall, it can be concluded that students in IPCW have basic mathematical information but lack knowledge about banking systems. On the three fronts considered by us, the following was the performance:

- a) Money and Transaction: Students have basic aptitude for money, but are susceptible to getting confused when provided with complicated information.
- b) Planning and Managing Finances: Although students have the basic idea of balancing their budget, they lack the appropriate knowledge about the same.
- c) Financial Landscape: This research indicates that most college students prefer debit cards but lack information about CVV number and its usage. In a nutshell, students are card holders, with little financial knowledge on the same.

While using higher secondary students as change agents is an excellent strategy for preliminary information dissemination, there is a need to provide the youth with more information about the nuances and know-how's of the financial world.

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Goods and Services Tax: A Pinching Liability or a Darling of the Regime?

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Let's begin with a scenario where suppose a company A manufactures a product involving multiple steps and varied technologies. Another firm B buys this product from A, at a cost inclusive of A's profits. The product is consequently passed through different processes and is handed to the final consumer, who pays a price inclusive of profits at each production stage. In this case, the consumer not only ends up paying a huge sum, but also different costs for the same product produced by different producers. This situation currently prevails in the Indian economy. However, the passing of the Constitution (One Hundred and First Amendment) Act 2016 by the Indian government, introducing the goods and services tax in India to amalgamate the central and state taxes into one, is a major step towards bringing a change in the economic structure of our nation.

GST is a comprehensive indirect tax on the manufacture, sale and consumption of goods and services throughout India. It is a combination of all indirect taxes levied on a product. GST is planned to be implemented as a result of price disparity in different regions of the sub-continent, and one of the main advantages that tags along with it is the better inter- state trade. Same price in all regions can be viewed as a measure to unite the nation by economic means. GST will also have no cascading effect. It will help resolve the problem of double taxation, thus widening the base of tax payers in India. GST will also bring a significant change in doing business in India by giving start-ups an easy start and convenient regulatory

mechanisms. GST will make tax procedures more fair, transparent and efficient. The introduction of GST will definitely give a new dimension of growth and sustenance to our economy. As a result of GST, the centre levied excise tax and the state levied sales tax will be combined to a single tax and distributed equally amongst the central and the state governments.

However, nothing is all sugar in the complex economic mechanism we live in. With all the pros of GST, come some serious cons. Fiscal matters will become more centralised after the introduction of these taxes, thus giving monopoly in trade to the central government. Manufacturing states will lose a significant source of revenue. Though the bill provides a provision of paying 5-10% of extra share in taxes to the manufacturing states of our country, on an average, such states will face a reduction in total revenue generated. In general, prices of goods and commodities will decrease but the cost of certain products will increase drastically owing to the increase in sales tax due to the implementation of this bill. The sales tax has increased by 1% in the previous year and it is assumed to grow further by 2-3% in the upcoming union budget session. The burden of taxes on the consumer community will also increase. The money that will not be taken from the producers under the system of tax credit in GST will be recovered from the consumers, which definitely is a disadvantage for the Indian consumers. Moreover, implementation of GST requires transparency, changes in processes, training teams and developing IT systems for GST, all of which pose a basic

necessity for efficient implementation of this tax. Proper implementation of GST needs proper planning and development of systems to go hand in hand with it. Another major hurdle in its implementation is that of the lack honesty and transparency of the producers. This bill lacks a provision to ensure that the benefit of this tax reaches the consumers as well. The benefits of this bill to the consumer depend on the manufacturer's discretion to reduce the product's price.

However, despite all the disadvantages, the government's urge to implement the bill in a planned manner promises a transparent and efficient tax mechanism in India. Proper

planning helped the government eradicate corruption through demonetisation to a certain extent. This bill is another significant step towards the anti-corruption wave in our nation. With an expert team of politicians and economists working behind the successful implementation of this bill, we as a nation really have our "achhe din" to watch out for now. Certain difficulties that tag along with this bill can be easily overlooked under the significant positive effects of the goods and services tax. We, as a nation, have to stand up as one and support every step the government takes to eradicate corruption and bring about development in our nation.

Are Subsidies Necessary?

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India, at the eve of independence, was left with an uphill task of socio-economic development. Markets were nonexistent, people were poor and illiterate, there was not enough food to satiate the hunger of millions, and life expectancy was just 32 years. In short, the country was in a state of crisis.

It was then that India was envisaged a welfare state. However, 70 years down the line only a few problems have found their solutions, while new ones keep cropping up.

Subsidies came up in 1947, with the relief and rehabilitation finance for refugees being heavily subsidized. Ever since, subsidies have covered a wide spectrum of the Indian economy.

In this context, the latest economic survey points out that despite spending as high as 3.77 lakh crore rupees annually on subsidies, there has not been a single transformational impact on the standard of living of the people.

The main problem around input subsidies in general and fertilizer subsidies in particular, is that not much of it finds its way to the targeted beneficiaries and most of it goes into the pockets of the input companies. Besides that, the maximum benefit of input subsidization is reaped by large farmers who already possess the capacity to buy inputs at higher prices.

When subsidies harm the intended beneficiaries, it is because the subsidy is either badly thought out or badly implemented. Instead of rethinking the subsidy in itself, the government compensates by introducing more subsidies which have their own unintended consequences.

Efficient subsidies must be transparent, temporary and targeted. However in a democracy, subsidy once implemented, becomes a political issue and government suffers a political risk if they phase out such subsidies. Almost every government/party in India promises

huge subsidies, sometimes even impractical ones, one example being the 50 percent cut off in power tariff and free water by the AAP government.

Over time, new subsidies are introduced that pile up on older ones and they soon consume scarce revenue resources of the government. Increasing subsidies takes a toll on the expenditure of the government. It pushes up fiscal and revenue deficit as government spends more than it earns. This

deficit is financed either by raising more taxes or by borrowing money. Higher borrowing results in higher interest payments.

Hence, careless or politically-motivated subsidies lead to unproductive expenditure and lower revenues for the government.

Thus, subsidies do more harm than good for the cause they stand for.

Boko Haram: A Dark World

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According to the Global Terrorism Index 2016, in 2015, Boko Haram was one of the four major terrorist groups in the world along with ISIL, al-Qaeda and Taliban, simultaneously responsible for 74% of all deaths from terrorism. On 23rd December 2016, President Muhammadu Buhari of Nigeria announced that the last enclave of Boko Haram in the Sambisa forest, that was the extremist Islamic group's stronghold has been captured, which means that technically it has been defeated in Nigeria. But there is no solid proof till now which states that it has been destroyed completely and it will not rise again. Even if it is defeated, what about its effects on the economy, on the lives of people who have endured more than 7 years in terror, suffered sexual exploitation, malnutrition, starvation and most importantly a life without any freedom? This article will present the emergence of Boko Haram, how it has changed the face of Nigeria and its decline.

Nigeria is located in western Africa, with the largest oil reserves in the continent. It is one of the largest economies of Africa. Despite all this, it is one of the poorest countries in the world. One of the reasons for this is the

presence of Boko Haram in the east of Nigeria.

Boko Haram known by its Arabic name, 'Jama'atu Ahlis Sunna Lidda'awati Wal-Jihad' meaning – 'people committed to the propagation of the Prophet's Teaching and Jihad'. It was formed in Maiduguri and given the moniker Boko Haram; Boko means 'western education' and Haram means 'sin'. According to the northern part, Western education is 'ilimin boko' meaning 'fake education'. It was formed by Ustaz Mohammed Yusuf. It came to the forefront majorly in 2009, when around 700 of its members and its leader Yusuf were killed. It was founded as a Sunni Islamic sect and developed into Salafist- jihadi in 2009. It seeks to establish an Islamic state in Nigeria based on Sharia Law.

Nigeria is divided into two main religious groups- Christians and Muslims. The south is mainly dominated by Christians and the north by Muslims. This division has worked tremendously in the emergence of this extremist Islamic group, as the north is comparatively more backward. This distinction was made by the British but

continued even after independence in 1960s. The South holds all the administrative power; Lagos is the commercial and media capital of the country as well as a major metropolis. On the other hand, the economy of the North continues to decline because of lack of infrastructure and agricultural facilities and has very little access to education.

In 2011, with the death of President Yar' Adua, all power went to Goodluck Jonathan until 2015, which meant that all the administration was under the South (because of zoning). On the day of the President's inauguration, Boko Haram detonated three IEDs in Bauchi state killing at least 10 people. But Muhammadu Buhari coming to power has now given some hope to the North. All these factors have contributed to creating dissatisfaction in the North. People found employment in Boko Haram, and because of lack of education they were easily radicalized. Instead of dying of starvation and malnutrition, they found an opportunity in the terrorist groups.

The lack of good governance has also created a feeling of distrust among people. Corruption, mismanagement, and the violation of human rights by the government and military officials have helped Boko Haram in direct as well as in indirect ways. In the release of a video statement in July 2010, Abubakar Shekau claimed to be the new leader of the group and declared jihad against the Nigerian government and the US in 2010.

Initially, Boko Haram's influence was limited to only the northern parts of Nigeria but gradually, especially after 2009, it started spreading its power. Its brutal actions include kidnapping, murder, bombing, mass killing, sexual assault and human trafficking, mostly targeting civilians.

In July 2015, around 140 people were gunned down in an attack on a mosque in Borno State, killing mostly Muslims. In November

2013, Boko Haram was declared a Terrorist Organisation by United States.

In 2014, Boko Haram attracted international attention when it kidnapped 276 schoolgirls in the town of Chibok in Borno. This act was criticised by almost all states and many helping hands from different states were extended.

Social campaigns like #BringBackOurGirls were launched, receiving participation from all over the world, including that of Michelle Obama. The UN Security Council added Boko Haram to its sanctions list. The US offered help by sending 80 troops to Chad, and France by sending drones to find abducted girls; all of this was to no avail. This happened because firstly, no proper military help was provided and secondly, no country helped on a long-term basis.

Consequently, it has continued kidnapping girls. In April 2015, 450 girls were rescued from Sambisa forest and none of them was identified as the Chibok schoolgirls kidnapped a year back.

In the same year, Shekau announced that Gwoza was now a part of the Islamic Caliphate. There have been many cases of bombing, kidnapping etc.; for instance, in August 2015, assailants opened fired on residents in Kukuwa- Gari village, killing at least 174 people. As crimes by Boko Haram rose, the government tried to eliminate it by sending in the military, but because of its defeat, Boko Haram succeeded in expanding its control in other neighbouring states such as Niger, Cameroon and Chad Niger. Niger suffered 12% of deaths because of attacks by Boko Haram in 2015. The Nigerian army was not prepared military to face the terrorist group; they did not have proper weapons as most of the funds provided for such purposes went to the pockets of corrupt officials.

But from where was Boko Haram taking its training, food supplies, funding and weapons?

Al-Qaeda in the Muslim Maghreb has been a major supporter of Boko Haram. It has provided it with training, arms, funds and even social media training. In March 2015, the group formally pledged allegiance to ISIL and recognised its leader, Baghdadi, as the Caliph of Islam. There have been reports which have shown that al-Shabaab in Somalia has provided training to the group. The other sources of income have been kidnapping boys and girls and selling them as slaves or sexual workers, and by stealing crude oil.

As per Human Rights Report, they have kidnapped around 10,000 boys to train them as snipers, fighters and shooters. In Maiduguri, in a forest of thorn trees somewhere far outside this city, the Boko Haram insurgency ran a boot camp for about 100 boys. Children as young as 5 years old learned to handle assault rifles and march the woods in flip-flops. Their teachers were only 15, as reported by The Wall Street Journal, in August 2016.

A coalition of West African states' military, known as Multinational Joint Force, was made in 1994, which initially included only Nigeria's military but later on, other states joined. It has been fighting against Boko Haram and Ansaru (a splinter group of Boko Haram in East Nigeria).

In December 2016, an offensive led by the Nigerian Army has dealt a "final crushing of Boko Haram terrorists in their last enclave in Sambisa Forest" in Northern Borno state, President Buhari said in his statement. "The terrorists are on the run and no longer have a place to hide" after security forces captured Camp Zero, Buhari added. The extremist group once controlled an area the size of Belgium, but a Nigerian army offensive supported by troops from neighbouring countries over the past year has put the extremist group on its heels. However, there is still a lot of work to do.

Boko Haram kidnapped a number of children, both boys and girls, and radicalized them. Consequently, all the boys who were rescued are now more interested in killing than in playing with friends. Their mind-set has been so drastically influenced by the group that it has become difficult for them to forget what has been taught to them. Of the girls who were rescued, most of them were either pregnant (out of rape) or had been at least sexually assaulted. Such experiences are now deep rooted in their minds.

As most of the youth (especially of North Nigeria) was a part of Boko Haram, the army saw all of them as terrorists. According to the Human Rights Watch, many young men were arrested or detained for years and tortured just on the suspicion of being a member of the group. There is no proper record of how many people have been tortured and how many of them have actually been killed; roughly it is around 5,000. As per the reports of The Economist, young men who escaped to government controlled areas were often separated from their families and detained.

Human rights violation by the officials was because of two reasons; first, because of reduction in income as they were not paid proper salaries and second, they were frustrated as they were unable to defeat the group. It turned the bulwarks of the law into law breakers.

Boko Haram extensively used landmines in order to secure its territory from army, which destroyed the fertility of the land, and most of the North was dependent on agriculture. Even after the capture of the territory by the army, mines were not removed. Consequently, the main source of food and earning was blocked.

Most of the earnings of the government come from oil sales. But to avoid theft of oil, government was forced to block roads which lead to oil reserves and deploy army near the reserves. It resulted in a lack of availability of oil for citizens.

As per the UN estimates, 2,40,000 children suffer from severe acute malnutrition as agriculture was affected in order to torture citizens so that they should join the group as almost all sources of food were under the control of Boko Haram. Food material supplied by the government to help people (in refugee camps) usually never reached its destination because of loopholes in management. Corruption to locate funds, distribution of medicines and all other necessities, deteriorated the situation.

Education took a back seat as the group attacked most of schools and people stopped sending their children to school. After the incident of the kidnapping of Chibok schoolgirls, fear among the people increased. As families suffered from malnutrition, unemployment and torture from both sides, the government as well as Boko Haram, they found no use in sending their children to school.

Gradually, the group also started attacking the central parts, including the capital Abuja and some parts of southern Nigeria, which created disturbance in the administration of the society affecting production. The northern part was already living in chaos, which decreased production as well as consumption, disturbing the balance of the economy, and when other parts were also attacked, it led to stagnation in the economy.

It was only in 2015, when Nigerian government along with MNJTF started defeating and recapturing the territory, that the situation started improving. As per the Global Terrorism Index 2016, a 34%

reduction in death from terrorism was recorded in 2015. It killed 4,095 in terrorist attacks in 2015 as compared to 6,136 in 2014.

Boko Haram has left around 20,000 killed and more than 2.3 million displaced since 2009. It has created fractured bonds in the society as people see families of Boko Haram fighters as enemies and their children as future fighters. As for those who die in attacks or are killed by the army, their families are left with no one to care for them and at times they face social boycott.

But things have started changing; the view of people towards them is changing. One of the best examples is of Future Prowess Primary School in the north-east Nigeria, established by Zannah Mustapha where 80% students are Boko Haram victims and 20% are children related to Boko Haram fighters.

Gradually, everything has started recovering from what all has been lost in the last seven years. The people of Nigeria have accepted the harsh reality and are trying to move on from it towards a better future. Nigeria is the world's seventh highest populated country with 82.6% youth dependency ratio. Thus, if utilized properly it will help the country realize its potential.

What is required now is, keeping all the pros and cons in mind, introducing strong measures by the government to bring peace again in Nigeria by curbing corruption, introducing reforms in the health, education and sanitation sectors in order to erase the differences based on religious beliefs, socio-economic background and gender.

Labor Lost: The Law That Isn't

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“Child labor is where children are deprived of their childhood because they are forced to work long hours for little or no money, deprived of education and in conditions harmful to their mental and physical development.” – *International Labor Organization (ILO)*

Among developing countries, India has the highest number of children engaged in some form of employment under the age of 14 years; approximately 12.6 million. Considering this, some amendments were brought about in the Child Labor Act, 1986. It calls for a complete ban on child labor so that children can get compulsory primary education in light of Right of Children to Free and Compulsory Education Act, 2009. The key facts about the amendments so introduced are: 1. The Bill calls for a complete ban on employment of children below 14 years in all occupations and enterprises, except those run by his or her own family and 2. It defines children between 14 to 18 years of age as adolescents and bars their employment in any hazardous occupations.

However, in effect, this provision accomplishes the very opposite of what it claims to do. Instead of ending child labor, it actually makes lawful a large part of child labor that was earlier unlawful. It is estimated that around 80 percent of child labor is children working with family members in farms, forests or home based work. The amendments in the new law make it practically impossible to implement the RTE. Its clauses put such a burden on poor lower caste families, that the Act actually increases the potential for dropouts. Those who defend

this amendment applaud the opportunity it provides for the children to learn the trade of their parents. This argument is a thinly disguised defence of caste because it is only the caste system that envisages the ‘natural’ transition of children into the profession of their parents. There are 33 million child laborers in India, according to UNICEF. As per the 2011 census, 80 per cent of them are Dalits, 20 per cent are from the Backward Classes. This law will restrict these children to traditional caste-based occupations for generations. Why should the child of a porter learn to be a porter, not a poet? Why should the child of a sanitation worker not want to be a doctor, and the child of a cobbler, a philosopher? If the amendments intended to preserve Indian art and craft by enabling parents with traditional skills to pass them on to their children, this could be done through reform and investment in education.

The question is, developed countries do have laws against child labor and so do many poor countries, but child labor is virtually non-existent in the United States and the rest of the more developed world; why? The main reason children do not work in wealthy countries is precisely because they are wealthy. The relationship between child labor and income is striking. Economists Eric Edmonds and Nina Pavcnik estimate that 73 percent of the variation of child labor rates can be explained by variation in GDP per capita. Of course, correlation is not causation. But in the case of child labor and wealth, the most intuitive interpretation is that increased wealth leads to reduced child labor. Thus, the answer to the inhuman practice of child labor lies in economic growth.

The Truth behind 'Post-Truth'

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A phenomenon, concept, movement, wave or simply an etymology; what is the truth about the post-truth?

Oxford Dictionary came up with a 'World' of the year in 2016.

No, I haven't misspelled it; my beliefs differ from your facts. I feel that at times when a word is born, a world is born with it and post-truth can be labelled as one such word. 'Post-truth' is defined by the dictionary comfortably in a sentence, but there can be no comfort when they include words like opinion, public, influential, and emotion. So is it actually as simple as it seems or like an ocean, calm on the surface and turbulent within? I believe in the latter, for this term coined by the American blogger David Roberts hides a lot more confusion, change and anxiety within it. This word symbolizes a time when emotions and irrational beliefs become more influential than the objective facts, in forming a decision. But in my opinion, the term is extremely contradictory at two major levels. First, when the prefix of the word points towards something that has been surpassed and is an indication of the advent of something new, but post-truth, no matter how modern it sounds, is primarily directed towards a sense of politics returning towards the primitive and irrational. The second contradiction appears when, as a whole, the term shouts into the age where truth is overpowered by belief, but isn't truth the generally accepted belief?

Unable to define itself clearly, the word already carries numerous connotations. They had to find logic, a reason behind the very irrational seeming wave that was sweeping across the world, and then they come up with the word, 'post-truth'. They say this is what defines how Trump's orange mane is ruling

the world today, how Brexit brought along poor Cameron's exit, and since I am not 'anti-national', how can I forget the very recent demonetization. Post-truth politics is a truth that has challenged all clichéd perspectives, which both media and politicians are unable to accept, but isn't that where the roots of it stretch to? People form opinions and beliefs in consistency with what media makes for them, and in the Indian context what politicians say to them, then why is this concept entirely associated with the masses or why is it difficult for them to get along with? Starting from Brexit, the earlier "phase of the word", saw a remarkable shift in the debate from globalism and localism to lifestyle and livelihood politics. People reasserted democracy and redefined politics in a way that made sense to them, where progression was directly proportional to populism.

With Brexit hinting on for the arrival of the age, Trump's victory was factual evidence of it. People didn't vote for him because he was right, but for what he said sounded right at the right time. Leaving the sophisticated and predictable Clinton package unspotted, the elections were a shot for the race to begin. And at the micro level, the narratives of demonetization help us relate even better to this. When with the drug of patriotism injected into the long standing queues outside ATM's, with the left hand up against this completely irrational decision and the right still categorizing people into national and anti-national, not even leaving animals behind, with the cloth of nationalism tied in front of our eyes, between the black and white, even when the brain points out at the grey matter, for people it has to be either day or night, all this points towards post-truth. Politics was always unpredictable, but this is

not only about politics. I might agree with the fact that politics redefines the term and vice versa, but isn't this what the battles of ideas were since forever, this is not exactly something post, this has always been there? It is just that the politicians can now officially lie for they now have the credibility of the Oxford Dictionary. The words above have been highly undiplomatic primarily because it is not only about that or facts, it is also about how and what you feel about things, because everything is relative, there are infinite stories on the same plot all the time. Who knows what the truth is, is it what the official data tells us, or maybe what the media brings up as the fake news describing the truth as reliable as the exit polls? Even when it is the word of the year 2016, I

believe it to be something in the picture since the very beginning. There has been beyond doubt a significant shift in the election spinning to something fundamentally different, but this for me has been a long process, products of which are now in the market.

But this is not an era I would want to dream of, ironical as it sounds, but the truth is that this is tearing down the fabric of democracy and is being done by the people, for the people, of the people. I believe even when you can't trace the horizons, the nearer you get the clearer the picture becomes to you; similarly the step towards truth would be far better than just digging up a pit and burying truth's grave with 'my opinions'.

B for Burgernomics

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Burgernomics is based on one of the oldest concepts in International Economics: the theory of Purchasing Power Parity (PPP). Purchasing power parity (PPP) is the notion that in the long run, exchange rates should move towards the rate that would equalize the prices of an identical basket of goods and services. In simpler terms, PPP estimates how much money would be needed to buy the same amount of goods in two different countries.

The theory of purchasing power parity (PPP) has long been a staple of international economic analysis. Recent years have seen the rise of a tongue-in-cheek, fast food version of PPP: The Big Mac Index. In 1986, *The Economist* invented The Big Mac Index as a light hearted way to compare exchange rates between countries relative to the price of a McDonald's Big Mac, which is produced more or less in 120 countries.

Burgernomics compares rates and indicates if a currency is undervalued or overvalued. It is a tool that simplifies the exchange-rate theory. For example: the average price of a Big Mac in the USA was \$4.56 in July 2013, while it was only \$2.61 in China. Hence, according to the Big Mac Index, the Chinese Yuan was undervalued by 43% in July 2013.

Since the index is based upon the USD, European countries such as Norway, Sweden and Switzerland which have overvalued currencies would be an attractive target for US exports. Export oriented countries such as China and India have undervalued currencies compared to the USD, so US made products would not be very attractive in Chinese and Indian stores given their prices.

As fun and light hearted as it maybe, there are limitations when you try to connect a piece of Big Mac and the global economy. First of all, a Big Mac only consists of raw ingredients as variables, and these ingredients

might or might not be grown in the country in which the burger is sold. Add in labor costs, shipping costs, and other variable costs – you get varied Big Mac prices across the globe. The Big Mac Index, therefore, might

not be an accurate benchmark to measure the global economy, but it has proven to be a good indicator of patterns such as how a currency is appreciating or depreciating over the years.

The Venezuelan Experience

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On December 08, 2016, in a historical decision announced by the Prime Minister of India, Rs. 500 and Rs.1,000 notes ceased to be legal tender from midnight.

Myanmar, North Korea, Nigeria and Ghana are the countries where demonetization has already happened. Venezuela, on December 11, 2016 joined the list of these countries with President Nicolas Maduro signing an emergency decree declaring the country's largest banknote 100 Bolivar bill, to be legal tender within 72 hours. The 100 Bolivar bill constituted 77% of the country's cash. The demonetized 100 Bolivar bills were to be replaced by rolling out 500, 2,000 and 20,000 Bolivar bills. Venezuela is an OPEC member, with nearly 98% of its economy operating on oil export. The reduction in oil prices from 2013 has had a cascading effect on the economy. Nearly 80% of GDP comes from oil industry, and with falling oil prices, its revenue declined significantly. Now, the country is reeling under hyperinflation. IMF has projected an inflation rate of 475% in the country. At the highest official rate, the 100 Bolivar note is worth only about 15 US Cents. Demonetization was introduced with the intent of making it easier for people to carry cash and also because the mafia in Colombia, with which Venezuela shares its border, was piling truckloads of bolivars to buy price controlled goods across the border.

There are three exchange rates operating in Venezuela, namely DiPro, used by government (100 Bolivar per USD), DiComused, by private players (800 Bolivar per USD) and black market rates (1600 Bolivar per USD). Due to multiple standards in exchange rate, the confidence of the people and investors (domestic and foreign) in the government and the Bolivar has nearly vanished. The President of Venezuela, like India's PM, wanted to use this opportunity of cash crunch due to demonetization to promote digital economy. But the reality is, nearly 40% of Venezuela's population does not have bank accounts. The demonetization policy was introduced at a time when the country is already facing an economic crisis, with the price of essentials reaching the sky and people queuing up to get their daily needs. There were massive delays in replacement of the 100 Bolivar bills, which was also marked by less time being provided to exchange old bills. According to the President, planes carrying new bills (from Spain) were victims of "sabotage". All this created chaos on a massive scale. Large scale protest, loot and plundering of shops also took place. Additionally, Venezuela is also a country with a high level of criminal records. After 2 days of unrest, the measure was postponed until Jan 02, 2017. Until now, no further decision related to demonetization has been announced; for now we wait and watch as the story plays out.

Gender Budgeting - The Value of a Homemaker's Meal

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After the demonetization campaign, all eyes were on the Union Budget of India for 2017-18 to be presented by Mr. Arun Jaitley on 1 February 2017.

Every year, gender budgeting has been an issue of concern and has become a powerful tool for gender mainstreaming. Over the past 2 decades, women's empowerment has been increasingly recognized as a crucial factor for any country's holistic and sustainable development. Several programs and projects across the world have been launched and are currently in progress to bring social, economic and political equity and broader access to basic livelihood needs of women. India formally adopted gender budgeting in 2005. In that year, finance minister P. Chidambaram included in the budget documents, a separate statement on spending programs that benefit women in particular. It was his predecessor, Yashwant Sinha, who began the preparatory work for a shift to gender budgeting.

Gender budgeting refers to the process of conceiving, planning, approving, executing, monitoring, analyzing and auditing budgets in a gender-sensitive way which involves analysis of actual expenditure and revenue (usually of governments) on women and girls as compared to expenditures on men and boys. Gender budget is neither a separate budget nor about spending the same on women and men and neither confined to budgets alone. It covers analyzing various economic policies from the gender perspective.

Gender budgeting is necessary as the achievement of human development is highly dependent on the development and

empowerment of the 496 million women and girls. Nevertheless, the reality is that women in India continue to face disparities in access to and control over resources. These disparities are reflected in indicators of health, nutrition, literacy, educational attainments, skill levels, occupational status among others. There are a number of gender-specific barriers which prevent women and girls from gaining access to their rightful share. Unless these barriers are addressed in the planning and development process, the fruits of economic growth are likely to completely bypass a significant section of the country's population. This, in turn, does not augur well for the future growth of the economy.

Issues that need to be addressed include the total magnitude of gender budget, which is very low. Moreover, many misleading and patriarchal assumptions limit the scope of gender budgeting.

Although, interventions like gender budgeting are undoubtedly welcome, gender budgeting alone is unlikely to solve the massive problem of gender inequality that not only prevents women from living a full life but also hurts economic growth.

For example, India has the lowest level of female participation in the labour force when compared to most other regional economies. Indian women enter the labour force only when there is economic distress, retreating back into their homes once the situation improves—a rare case of employment going down when the economy improves.

Another issue that needs public policy attention is that of public goods. These, by

their very nature, are accessible for all citizens because their consumption is neither exclusive nor rivalrous. Yet, the lack of certain core public goods, such as safe streets or lack of clean drinking water is more likely to hurt the economic prospects of women than of men. The argument for safe streets is almost self-explanatory.

Hence, reducing gender disparities can lead to improved macroeconomic performance. The recognition that gender disparities are harmful and that government budgets are not gender neutral, implies a need to incorporate

gender considerations into the budgeting process. Although gender-budgeting initiatives can take many different forms, their most important purpose is to influence the budgeting process and help policymakers focus on ways that can help reduce gender disparities and improve economic outcomes. India is still a laggard when it comes to gender equality, and changing this situation is an urgent task.

"I was not tired physically. No, the only tired I was, was tired of giving in." - Rosa Park

The Phenomenon of 99

Prachi Malakar

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Why do we find goods at prices like Rs499 when they could simply be sold at Rs500? This is something that has intrigued people from all walks of life, from individual households to the elite economists that they have gone on to write theses on it.

The origin of this strategy goes back to America in the 19th century, shortly after the invention of the cash register. It was a remarkable innovation, as not only did it do simple mathematics, but also kept record of every sale. This was particularly important when one wants to keep a check on its employees if they're stealing. However, there was one problem with cash registers that they only recorded transactions which were rung up. So, if a customer makes a purchase of \$1 and hands the dollar bill to the clerk, he can neglect to record the sale and slip it in his pocket and leave no one wiser. On the other hand, when a customer buys an item for 99 cents and hands the clerk a dollar bill, the clerk has to make the change. This requires him to open the cash drawer, which he cannot do without ringing up the sale and hence kept them honest. This strategy was

popularly called the '99-cent pricing phenomenon'.

Another theory, that back in the 1880s, Melville Stone of Chicago Daily News priced his paper at 1 cent. However, given that cents were not in common use then, he coaxed local shops into odd pricing so that his customers will have to spend on his paper. However, this theory has a lot of loopholes, like why did he price the newspapers at 1 cent only? Why didn't he use a credit based system, wherein at the end of time period people could pay the entire sum? If there was a shortage of cents, why did the local shops agree to sell their goods at such prices?

But the question remains, despite the historical references, why do retailers continue to use such odd pricing systems? Is it just a trend that is still being followed? Or is there a proof that the pricing structure works?

The answer to this phenomenon lies in the study of behavioural economics, a new stream of economics which deals with the analysis of human irrationality in certain systematic ways.

The 'Left Digit' effect suggests that odd pricing attributes to a mild form of irrationality in which customers notice only the first digit on the left side of the price and are lulled into thinking that is about "Rs400" instead of "Rs500", and hence make the purchase.

Another alternative theory suggests that customers see odd numbers as correctly priced rather than whole numbers. They tend to think that a rational process is involved in the pricing and hence make the purchase. On the other hand, with whole pricing, some customers perceive that they are being gouged. It also sends a cue that they are being priced to the lowest possible.

Now the question, does it really work? Are the people really being affected by a Rs99 price point versus Rs100 price point?

Taking a look at a few researches to grab a better understanding of this irrationality, consider the following:

1) In his book Priceless, William Poundstone dissected 8 different studies on the use of "charm prices" i.e. the 99 pricing system, and found that, on an average, they increased the sales by 24% versus their nearby, 'rounded' price points.

2) Another experiment by MIT and the University of Chicago states that when a standard women's item was sold at prices \$34, \$39, and \$44, surprisingly, the item sold best at \$39, even more than the cheapest price i.e. \$34.

Clearly, the phenomenon of 99 has worked in recent times as well, although the reasons are quite different from what it was initially started for. However, it has thrown light on behavioural economics and its uses in analysing human decision-making in a more scientific way, thereby broadening our perspective on real life applications of economics (which for many is restricted to stock markets and government policy making).

Understanding China's Role in the India- Pakistan Conflict

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China's role in the ever present India-Pakistan conflict has not been one of a mere onlooker. Its presence has been constant throughout the conflict's historical narrative. In the current paradigm too, it has exerted its influence in the matter by extending loans and even increasing its nuclear cooperation with Pakistan, according to declassified CIA reports. In light of these developments, there is an ever growing need to understand the relation that exists between these two countries, especially in context of India.

China's policies, much like its counterparts' on the global front, are dictated by its economic prosperity. The \$46 Billion China Pakistan Economic Corridor (CPEC), alone serves as an ode to the relevance of Pakistan in China's energy capabilities. Pakistan's geostrategic location, known as the geostrategic curse, has enabled Pakistan to act as a central stakeholder in the rise of China. The Gwadar Port in Pakistan is of utmost importance to China, as it serves as a gateway to the Middle East. China relies heavily on the Middle East for meeting its energy requirements through imports. This is

furthered by China's ambitious 'One Belt, One Road' plan, where it aims at connecting East Asia with South and Central Asia, Europe and Africa. The same expands the trade capabilities, which these countries possess by opening to them vast, largely unexplored markets. The importance of Pakistan in this project only furthers China's interest in the country. Apart from its economic interests, China's diplomatic relations also dictate its activity in the said conflict. China and Pakistan's diplomatic relations have been constantly moving on an ascending trajectory and gaining strength with passage of time. Pakistan has on several occasions, extended its undivided support to China, initially emerging as one of the first countries to recognize the People's Republic of China and even standing by them through internal turmoil and Western allied embargos during the 1960s. Islamabad has also always objected to any inclusion of criticism against Beijing at the Non-Aligned Movement's meetings on its conduct in the South China Sea. This has been reciprocated by China in not condemning any action which its ally

may undertake in the progression of their own interests and ideologies, including direct and indirect conflicts with the state of India.

Another reason for China's support to Pakistan terror groups can be India's growing proximity to US and its allies. Through its nuclear and military partnerships with the US, India has quickly risen to become one of its key allies. The growing power of the Indian state makes it imperative for China to exert its pressure on the country to continue its dominance on the Asian continent. India's decision to host the Dalai Lama, who The People's Republic of China considers to be the chief protagonist in the Tibet uprising, is also seen as a major reason for disrupted relations between the countries. The diplomatic solidarity between the nations is expected to continue as long as the current national interests of the People's Republic of China is not affected directly or indirectly by any activities so undertaken by the Pakistani Government.

Kenneth Arrow: In Memoriam

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On 21st February 2017, the world lost a brilliant economist, writer and political thinker. Kenneth Arrow, who passed away at the age of 95, was the youngest recipient of the Nobel Prize in Economics. He died at his home in Palo Alto, California. He had retired from Stanford University in 1991, where he spent most of his life as a professor.

He was born on 23 August 1921,



in New York. He majored in mathematics at City College of New York, graduating in 1940, and earned a master's degree in mathematics from Columbia University in 1941. At Columbia, under the tutelage of Harold Hotelling, a leader in applying math to questions of public welfare and health, Arrow migrated from mathematics to economics. After serving as a weather officer in the US Army Air Corps during World

War II, he returned to his studies at Columbia and was a research associate with the Cowles Commission for research in economics at the University of Chicago. He moved to the Rand Corp., where he was introduced to cutting-edge research based on game theory. He began teaching economics and statistics at Stanford in 1949 and became a professor of economics, statistics, and operations research. The American Economic Association awarded him its John Bates Clark Medal in 1957.

Arrow moved to Harvard's economics department in 1968, and then returned to Stanford in 1979. He married the former Selma Schweitzer in 1947. They had two sons, David and Andrew.

Paul Samuelson, the first American to win a Nobel for economics, called Arrow "The most important theorist of the 20th century in Economics". This was because he made substantial contribution to a number of fields—microeconomics, macroeconomics, labor, health economics and finance, which helped other economists develop various theories for decades to come. He generated work that was technically forbidding even to his mathematically oriented colleagues. He helped transform economic theory into a mathematical science.

He developed theorems which better explained holes in economic theory that had not been well defined or discovered. The Arrow-Debreu Model, for instance, was built on the theoretical findings of John Hicks' 1939 book, 'Value and Capital'. The model, which Arrow constructed along with Gerard Debreu in 1954, solved the long-standing problem of proving the existence of a competitive equilibrium in a Walrasian system. It has been the central piece of the general equilibrium theory of economics since the 1950s. The general equilibrium analysis and welfare theory captures the interplay between consumers and producers to reach a state where things tend to balance

out and prices will adjust so that balancing occurs. By proving this, Arrow offered a rigorous foundation of Adam Smith's conjecture: solely by pursuing their desires, the individual plans of consumer and producers are guaranteed to meet. That is, there exists a set of prices for which all markets are in simultaneous equilibrium and the invisible hand helps society reach it. The theory describes how the whole economy is impacted by a change in one variable. It was a radical departure from the partial-equilibrium approach, where the focus is on how a change in price, for example, impacts just one part of the economy.

For his contribution to the general equilibrium and welfare theory, Arrow was awarded the Nobel Prize in Economic Sciences in 1972, which he shared with Hicks.

His work has also paved way for the development of various theories by other economists. His book, *Social Choice and Individual Values* (1951), in which he proved the Impossibility theorem, is one such example. The theorem proves that there is no voting procedure that orders individual preferences into satisfactory social preferences. In other words, it proves that meaningful aggregation is impossible from individual choices. Any procedure that does satisfy two plausible requirements has to be dictatorial, i.e. they are the rankings of one individual only. The theorem ricocheted around the social sciences, noteworthy for its use of abstract mathematical concepts to generate a conclusion of sweeping applicability. It led to the birth of entirely new field of research for economists and political scientists called the Social Choice theory, a literature that ranges from countries picking presidents to corporate boards picking business strategies. Having learned from him that no system works entirely well, academics turned to challenging follow-up questions, like whether some voting systems were better than others. The development of

this field also owes a great deal to Amartya Sen who expanded it to discover the Liberal paradox. According to this paradox, given the status of minimum liberty there is no way to obtain Pareto optimality. Sen said that he was “very inspired by Arrow’s results, his systematic thoughts, the understanding he generated, the questions he raised and the inspiration provided to young people,”.

Arrow’s paper titled ‘Learning by Doing’, published in 1962 first brought to light the fact that growth in per capita income cannot be only explained by growth in capital-output ratios but has to be stimulated by internal policies of innovation and education. This later came to be known as the concept of endogenous growth, i.e. growth is stimulated by technological progress which is endogenous to the economy. The first endogenous growth theory, developed by Paul Romer in 1986, was borrowed from Arrow’s ‘Learning by Doing’ model which includes a mechanism to eliminate diminishing returns in aggregate output.

His contributions to the field of finance and health economics are worth mentioning as well. Arrow was concerned with how uncertainty affected general equilibrium and thus he treated information as an economic variable. He anticipated the modern analysis of markets in which buyers and sellers do not share accurate information (which is now known as asymmetric information). In his 1963 paper, ‘Uncertainty and the Welfare Economics of Medical Care’ he looked at

how information asymmetry affected health care. He found that free-market rules don’t apply well to health care, because consumers tend to overstate the quality of medical procedures. The problems that Professor Arrow flagged a half-century ago figured prominently in the design of the Affordable Care Act, President Barack Obama’s 2010 health care legislation, including its controversial “individual mandate,” which required everyone to buy coverage whether they expected to need medical care or not.

Arrow also created mathematical concepts by which economists could measure and analyse risk. He developed the standard measure of risk aversion, called the Arrow-Pratt measure, in finance. William F. Sharpe, who won a Nobel in 1990 for analysing the relationship between financial risk and return, credited Arrow with helping to formulate the basis for modern theories of financial investment and corporate finance. His ideas have worked their way into the design of complicated financial securities, known as derivatives, like options.

He continued to research till his last days. He wrote more than a 100 articles branching into areas such as sustainable development and climate change. His intellectual powers were formidable and his speed of thought was legendary. He was always generous to colleagues and students. Arrow will be always be remembered by his contribution to economics and finance.

Book Review

An Uncertain Glory: India and its Contradictions by Jean Dreze and Amartya Sen (*Penguin UK, 2013*)

Author: Pragati Mittal

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India is the second fastest growing economy in the world after China, with the largest democratic political system. But, can we be really proud of it? Perhaps, that's uncertain. This book by Jean Dreze and Amartya Sen tries to look a little deeper at the multiplicity of the causes of this uncertainty and draws parallels with various countries, as well as from within the country, which have pioneered the growth process fruitfully and equitably. The book is rich with statistical data and exemplary evidence to support the arguments and statements.

Economic growth and development are the two sides of the same coin. There has to be a mutual relationship between the two. But, sadly, while India has been doing excellently on the growth front, India's development is lagging far behind. Growth, through income distribution and use of greater public revenue generated by it, should have translated into development. There is a lack of basic amenities for large sections of the people: lack of health care, tolerably good schools, a toilet and other basic facilities important for human well-being and elementary freedom, which keeps the majority shackled to their deprived lives in a way quite rarely seen in other self-respecting countries. India's social spending as a proportion of GDP is 6%, which is sadly very meagre, as compared to 25% in Brazil and 40% in Cuba. India has, what is seen as a case of distorted priorities. In 2008, 1.5% of the GDP was devoted to fertilizer subsidy but the public expenditure on health was a mere 1.2%. The power sector is in the grip of huge losses, also due

to subsidizing electricity for those "affluent" who do not need it, amongst many other factors. Barely any concern is raised for those who are permanently without electricity. The bulk of the population is confined to educational arrangements that are, in many different ways, poor or deficient. Teacher absenteeism along with the socially compartmentalized nature of educational opportunities, aspirations and expectations have all clubbed to the low-quality education that Indian school students settle for. This has further repercussions, both on higher education and consequently on the quality of life. There is a widespread differentiation between "the privileged and the rest", driven by economic and social inequality related to class, caste, gender, location and social privilege which are often mutual reinforcing.

Media in a democracy and the democracy in itself have the potential to be a harbinger of social change and equity. But, unfortunately, there is an elitist bias in the media coverage, which in the words of Shobhaa De is "exile of the poor from our conscience and even consciousness". There is a lack of coverage in media of the issues related to poor, women, health, problems of the states of North East and Jammu & Kashmir. The democracy is just reduced to balloting, fair elections, etc with only a little space for reasoned public debate. Along with the implementations of social policies, the aim should be for a greater accountability of those who hold responsibility, whether be it in education, health, public distribution system or MGNREGA.

While on one hand, the book portrays the dismal situation of the poor and deprived, who are actually “*aam*”, it also raises some hopes in terms of a better picture emerging in some states- improvement in coverage of education, coverage of women related issues by media, effectiveness of PDS system in a state like Chhattisgarh, improvement in accountability through RTI. Although a lot has to be done in absolute terms to uplift India as a whole, these upward indicators raise bits of hope in the otherwise distressful state of affairs. Women have an undeniably focal role to play in this process of development, as has been proved by Bangladesh. The book at great length advocates the case for the provision of social infrastructure (health, power and education) by the state as against the growing bend towards privatization. However, the authors fail to highlight inefficiencies, as in the mid-day meal programme.

All we see is power and the abuse of power by those who wield power. The victims will always with those who are at the bottom of the power structure, as is also evident in the context of Indian economy. The book is indeed a great endeavour by the authors towards highlighting the gross disparities contributing to the persistence of a hugely stratified Indian society and the role that media and the democracy can play through “the exercise of public reason” along with a fair coverage and an unbiased media reporting. Now, the important task is not so much to find a “new India” but to contribute towards making one.

This review won the First Prize in the Intra-Department Review Writing Competition organised by the Editorial Board of Arthagya, the Economics Association.

Documentary Review

India Untouched: Stories of a People Apart **by Stalin K. (2007)**

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India Untouched: Stories of a People Apart, is a 2007 award winning documentary by Stalin K., an Indian documentary filmmaker, media and human rights activist. It is the second documentary after Lesser Humans, which depicts the plight of the Dalit community in India.

India has been an independent country for than 69 years but social liberty is yet to be achieved. We blindly follow the archaic social legacies which impede social progress. The oppression to which Dalits are subjected by the upper castes has a self-claimed

justification- ‘it has been in practice for ages and we cannot break it.’ Such an inhumane practice, no matter what it costs to the ‘untouchables’, continues in the name of religion.

All credits are due to the director and his team for bringing out the gravity of the practice and its impact on those who suffer just because they are born in a lower caste. The documentary was screened on the Indian reality show Satyamev Jayate. The director Stalin K. said that in order to resolve an issue, we need to accept that it exists and stop

denying it. It is here where the problem lies. While interviewing people in metropolitan cities whether they think that untouchability is prevalent, the majority said that it has almost been eradicated. Perhaps we would have given the same answer, but once you watch the documentary you will realise that we are highly mistaken.

The film journeys across eight states-Gujarat, Bihar, Tamil Nadu, Andhra Pradesh, Kerala, Punjab, Delhi and Uttar Pradesh. It doesn't target a particular region or religion making the fact very clear that the practice of untouchability is spread throughout India and in all the religions.

The opening scene shows a rural area where children are refusing to enter the house of a Dalit woman because they will get polluted. They are not aware of the reason why, except that they are told since their childhood. This explicitly tells us that our society is not able to break away from the shackles of caste because it is passed from one generation to another, and accepted without being questioned. The scene then shifts to Varanasi, where a Hindu scholar who is a fundamentalist Brahmin, upholds the caste system saying that it is justified because it is in accordance with the Vedas and laws of Manu, the holy scriptures. He quotes from the religious edicts that the *shudras* were created from the feet of the God and hence their position in society is the lowest. Let us analyse this from another perspective. Our feet bear the burden of our entire body and provide a base to it. If there are no feet, we will not be able to stand or walk. So by referring the *shudras*' feet, aren't we, in a way highlighting their importance?

It is shocking to see the various forms in which untouchability is practised. It goes beyond its literal sense; the 'untouchables' are not allowed to enter the places of worship where the upper caste people go. They have to dismount from their cycles and walk barefoot whenever they pass an area where upper caste people live. In one of the

instances, Dalits in Trechy (a place in Tamil Nadu) cannot drink tea in steel glasses. They have to drink in glass cups and wash the glasses; else they are not given tea. The sad part of the entire situation is that they have accepted this practice as a rule that has to be obeyed despite the fact that the law forbids it.

This film is indeed an eye-opener as it reveals the segregation of the Dalits and that they suffer more than isolation. In a conversation with a Rajput farmer (who belongs to the upper caste), he says that the Dalits are not in a position to complain against the atrocities meted out at them because the police are hand in glove with the ones who treat them harshly.

Adding to their miseries, a title is given to these people- 'manual scavengers'. By virtue of being a *shudra* or a Dalit, they have to do the filthiest jobs such as clearing the railway tracks by picking up mutilated bodies of people, disposing of dead bodies of animals lying on roads, cleaning toilets, picking up garbage, etc. Here comes the irony – the ones who do the job of cleaning are 'unclean' and we will get polluted if we touch them or go near them; and those causing the filth are 'clean', just because they belong to higher caste.

The practice of untouchability isn't confined to the rural parts. The Dalits in urban part face hi-tech discrimination even if they are educated and highly qualified. The documentary features an interview with a Dalit couple that lives in Delhi. They describe how they are discriminated against in their professional lives. The husband, who is a doctor in a reputed hospital, was allotted fewer operation theatres as compared to his junior (who belonged to a higher caste), simply because he is a Dalit. Even the top ranked universities and educational institutions fall in the ambit of untouchability. If education were the measure, then how come untouchability exists in Kerala – the state with such a high literacy rate and development index similar

to that of Canada? Though in a subdued form, untouchability does exist as something intrinsic to our society.

Our society is a breeding ground where evils such as caste system and the practice of untouchability have proliferated, destroying every effort made to achieve social justice. The efforts of the director and the team have come out very well as the film has garnered attention even at the International Level. It makes us realize that we are living in a world far away from the grim and harsh realities of the society. A thread of empathy is woven

into the texture of the documentary. Education alone cannot change the mind-set of the Indians, religious backgrounds and family teachings have a much deeper influence on us. There needs to be a breaking point and a call for the youth to be the agents for change.

This review won the Second Prize in the Intra-Department Review Writing Competition organised by the Editorial Board of Arthagya, the Economics Association.

Documentary Review

How Capitalism is Killing Itself

by Dr. Richard Wolff (2016)

Author: Nimisha Rustagi

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“Capital is money, capital is commodities. By virtue of it being value, it has acquired the occult ability to add value to itself. It brings forth living offspring, or, at the least, lays golden eggs” - Karl Marx

If Capitalism is a bird that lays golden eggs, then why is it that this bird is killing itself? Why is it that 43% of the young people in the USA prefer socialism over capitalism? The documentary titled ‘How Capitalism is Killing Itself’ attempts to answer these questions by the means of Dr. Richard Wolff, who is the prime interview subject. The documentary throws light on the relevance of the predictions of Karl Marx about the fate of capitalism. It relates the anti-capitalism trend rising in the Western economies to the Marxian theory of capitalism.

Dr. Wolf, a Marxist economist and Professor Emeritus of Economics at University of Massachusetts – Amherst, does justice to the

role assigned to him. He explains heavy economic terms like Dialectical Materialism in a manner, that they can be easily understood by anybody without prior knowledge of the subject. His approach to the question, ‘How Capitalism is killing itself?’ is very systematic. He first explains the internal contradictions of capitalism, as pointed out by Marx 150 years ago, which will eventually become unmanageable and the entire system will have to be replaced. He then points out these contradictions in context of capitalism today.

In the process, two main themes emerge. Firstly, capitalists aim to minimise cost by paying their workers a wage rate which is lower than the value they are creating, because of which they won’t be able to buy back the commodities produced, leading to overproduction. This problem was temporarily solved by credit based consumerism, but the 2008 credit crisis was symbolic of the fact that the situation is much

more serious. Also, the overproduction crisis in China today is a result of this contradiction.

Secondly, capitalists move from the developed world, their place of origin, to the developing nations in search of lower wages. This is what happened in the 1970s and has continued ever since. The capitalists have managed to fill their pockets, but more and more people who have lost their jobs are now developing resentment towards capitalism.

This is where the growing support for socialism comes into picture. Capitalism is plagued by private ownership of means of production and distribution in the hands of a few (top 5-10%) which is unjust and undemocratic because they have not 'earned' every penny they have.

Socialism, on the other hand, promotes the theme 'Democratise the Enterprise'. It proposes shared ownership of resources and fair distribution of income. As Dr. Wolf points out, only when there is democracy at workplace, can the benefits of democracy at the political end be realised.

The documentary was filmed before the final candidates of the US presidential election were chosen. Dr. Wolf successfully relates the popularity of Bernie Sanders, a socialist candidate, to the resentment of the young population towards capitalism. But, at the same time, he correctly points out that it is long before socialism takes over.

The documentary does justice to its title and subtly explains the evils of capitalism our society is facing. It is a must watch for all who wish to gain clarity on this subject.

In my opinion, Donald Trump's victory is evidence that the current protests are more for 'anti-globalisation' than 'anti-capitalism'. Capitalism will succumb to its contradictions eventually but it will be a while before that happens. Capitalism is *slowly* killing itself.

This review won the Third Prize in the Intra-Department Review Writing Competition organised by the Editorial Board of Arthagya, the Economics Association.

In Conversation with Professor Arun Kumar

Professor Arun Kumar, who is the country's leading economist specialising in black economy and corruption, was interviewed by Devishi Dar on 17th January, 2017, about the recent move of demonetisation.



Q- According to many reports, only 6% of black money is held as cash, the rest being held as either real estate. How does the move of demonetisation then make sense?

Prof. Kumar- The idea of the government was, black economy means cash. They didn't make a distinction between income and wealth. Initially they thought that if cash is squeezed out, the black economy will vanish, but that didn't happen. Had they made the distinction between black economy and black money, probably their move would've worked in a different direction.

Q- Elimination of currency notes of higher denomination makes it tougher to hoard black money. Why did the government introduce the higher denomination Rs. 2000 currency note, despite their claim that they aimed to tackle black money?

Prof. Kumar- Exactly, this move was not enforced in a planned manner. From the very beginning, there was mismanagement and lack of planning. The government should've taken these facts into consideration while framing the policy.

This is the reason there were so many changes in the rules over the course of the move. Every other day, the regulations would be modified. There was clearly a lack of planning on the government's part.

Q-The move to demonetise has taken inspiration from the Arth Kranti Proposal, which recommends the abolition of all taxes and the establishment of a single point tax system called the Banking Transaction Tax. It also calls for subsequent demonetisation of currency, to cleanse the economy. Are these recommendations feasible in an economy like ours?

Prof. Kumar- These are different things and need to be separated. The Banking Transaction Tax in itself is a very complex tax. If introduced without prior planning, it could lead to a complete collapse of the entire financial system. Like the way demonetisation led to a temporary collapse of the economy, the banking transaction tax could lead to something much worse. Moreover, mixing these two policy

recommendations would probably be a recipe for disaster. It is not a good idea, in my opinion, to follow the Arth Kranti proposal and what it has recommended.

Q- Most economists have criticized demonetisation. Does it have any positive effect?

Prof. Kumar- Demonetisation was supposed to tackle three things- the black economy, counterfeit currency and terror financing. So far, it has not been able to achieve any of them. Now saying that it might have led to something else, something that was not intended, like cashless economy or digital economy, does not make sense. Even cashless economy needs proper planning and infrastructure, in order to be developed. The main problems it was supposed to deal with, it has not accomplished. Moreover, it has led to recession.

Q- The IMF has estimated that there has been a slowdown due to demonetisation. However, it has projected that the economy will revitalize in 2017. To what extent has the IMF captured the true picture?

Prof. Kumar- Currently, recessionary conditions are taking hold. The rate of growth has fallen sharply. The IMF is only estimating. Very often, agencies only project. They prefer giving conservative estimates and playing safe. Even during the 2008 global recession, due to conservative projections, the actual financial breakdown came as a shock to everyone. Now also, the IMF is talking about only a 1-2% decrease, whereas the reality might be something completely different.

Q- What are some of the policy measures the government should implement, in order to revitalize the economy after the

virtual upheaval of the economy due to demonetisation?

Prof. Kumar- First of all, the government should tackle the courage of cash. More notes need to be printed. Other measures should be taken in the budget, specifically to boost the economy. Rural demand should especially be targeted and increased. If rural expenditure is boosted, the economy will benefit greatly.

Q- The government cites the need of the 'surprise factor', when asked about lack of preparedness of ATM machines and banks. Is there any way that this need for secrecy could have been avoided?

Prof. Kumar- There was not really a need for secrecy. Even with the surprise factor, most of the money has come back. It has clearly not tackled black money. This policy, from its very conception, wasn't right. The government could have announced the introduction of notes well in advance without revealing the reason why they were being introduced. In that case, banks would have been prepared and there wouldn't have been severe cash shortage like there is now.

Q- Will PM Modi and the BJP reap any political gain out of this move, or will the public punish them for the problems they faced?

Prof. Kumar- PM Modi, in my opinion, is already at an advantage. He has certain credibility with the public. The public still thinks that work was done black money and corruption. It still believes that Modi is taking from the rich and giving to the poor. BJP is definitely going to gain from this move. Only future elections will tell us for sure, though.



