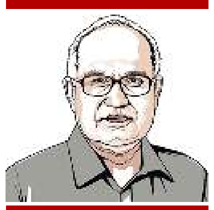
YES, NO, IT'S COMPLICATED

Is the economy back on track?

YES



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Disturbances on account of demonetisation and GST were purely short term

Looking at various indicators such as an increasing trend in the Index of Industrial Production and GDP growth rates, there is a clear signal that the economy is back on track. Disturbances on account of demonetisation and the goods and services tax (GST) were purely short term, and short-term disturbances were only to be expected. Employment-generating sectors like construction, the worst hit by demonetisation, have already started reviving – demand is picking up because of falling prices and this is obviously due to minimum exposure to black money. There are indications that the government is realising the need to move towards the ideal GST by addressing the glitches experienced at present. Moreover, with the revival of India's major markets such as the U.S., Eurozone and Japan since September 2017, exports have started picking up, accounting for about 15% of the GDP.

Fixing the rural economy

However, a major challenge is the worsening rural crisis. It is worth recalling that India was insulated from the sub-prime crisis in 2008-09 mainly because of the rural economy. The rural economy's contribution to GDP may not be significant. But in terms of aggregate demand, the rural population impacts more than 50% of the market base. What I mean is, when you talk about markets, you talk about population. And in terms of purchasing power, half the population of the country is still in the villages and is very crucial for the growth we are looking for.

On the agricultural front, while the increasing input costs have to be borne by the farmers, when it comes to reaping the benefits of market prices for agricultural produce or rise in minimum support prices (MSP), they are deprived as they do not have direct access to the market. Unless these fundamental problems are addressed and corrective steps initiated, there is no point in simply raising the MSP which in reality benefits middlemen.

Similarly, farmers should be enabled to play their role as an effective supply force in the market and be in a position to sell their produce at a competitive price. That is possible only when adequate infrastructure support is built for them. Unfortunately, the wisdom of both the government and the opposition does not extend beyond traditional approaches like MSP or farm loan waivers.

Three major challenges

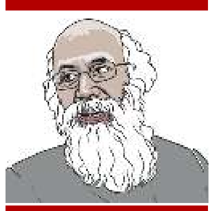
On the external front, the government faces three major challenges: the Federal Reserve's approach, rising crude oil prices, and the move towards protectionism by India's major export market, the U.S.

It is reported that the Federal Reserve is in for three hikes in the next one year. This may upset not only the stock market but also rates of exchange. Withdrawal by foreign institutional investors in response to federal hikes may weaken the Indian currency and end up in a higher import bill, especially on the crude oil front, if exports do not pick up. The government has to bring about strong reform measures. However, it may not take the risk during an election year. Against this background, policymakers should not venture into countering FII's withdrawal by forcing domestic institutional investors such as LIC, UTI, or public sector banks to enter the market as it may lead to the creation of a bubble economy.

Rising crude prices is another challenge the government has to deal with, especially in terms of imported inflation. Another negative signal is the U.S.'s initiatives in terms of protectionism.

As told to Anuradha Raman

NO



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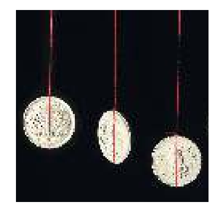
India's actual rate of growth will continue to remain close to zero

The latest quarterly growth data suggest that the economy is growing at more than 7% per annum. This implies that the economy is back on track after the slowdown post demonetisation and GST. But is it? The economy was slowing down quarter after quarter after the peak (9.1%) in Q4 2015-16. It declined to 5.7% in Q4 of 2016-17 but is now growing at above 7%, giving the impression of recovery. Unfortunately, protests by the youth, farmers and traders suggest that large sections of the population face hardships. Many businesses are doing better but complain of difficulties. The feel-good factor is missing in the economy as a whole.

The unorganised sector

The official data fail to represent the reality of the Indian economy since the actual growth rate is not more than 1%. This is because the unorganised sector, which accounts for about 45% of the GDP, has been badly hit by demonetisation and GST. The non-agriculture component of this sector contributes to 31% of the GDP. Even if it declines by 10%, while the rest of the economy grows at the officially given rate, the growth rate for the economy would be 1%. Agriculture also faces a crisis of income. The unorganised sector employs 94% of the Indian workforce.



A decline in this component impacts employment, which is why the youth are protesting. The rise in demand under the MGNREGS is an indication of unemployment. Trade, a large component of this sector, has also been hurt.

The estimation of quarterly growth is largely based on corporate sector data. The data for the unorganised non-agriculture sector are obtained only in reference years. In between these years, it is largely assumed that it is growing at the same rate as the organised sector. This method is alright only if there is no shock to the economy. A shock like demonetisation changes the relative rates of growth of the organised and unorganised components of the economy. So, what was applicable on November 7, 2016, is not applicable on November 9 and after.

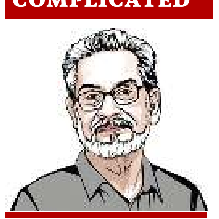
Comparing the two sectors

The two shocks have created two separate circles of growth. The organised sector has benefited from them at the expense of the unorganised sector. For instance, the efficiency due to GST benefits the organised sector but adversely impacts the unorganised sector due to complexity of the tax and poor design. The former is displacing the latter. In brief, the organised sector is growing faster while the unorganised sector is declining. Thus, while the data show an increase in growth rate, the overall economy is stagnating. The official rate of growth has also accelerated due to the sharp decline in the economy post-demonetisation.

The decline in the unorganised sector has impacted demand. Large parts of the economy have not seen an increase in capacity utilisation. That is why the investment rate has not picked up and credit offtake remains weak. The government needed to sharply increase public investment but is constrained by the fiscal deficit target. The twin balance sheet problem of banks makes investment difficult in critical infrastructure areas.

The external sector is also rather unstable. Protectionism is growing, the U.S. has lowered the corporate tax rate sharply so capital inflows will slow down. In brief, India faces twin uncertainties – internal and external. This is likely to impact investment as a result of which the official growth rate based on the organised sector will not rise. India's actual rate of growth will continue to remain close to zero.

IT'S COMPLICATED



PRONAB SEN
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Corporate India is well on its way to recovery. It's time the focus shifted to non-corporate India

The complete state of the economy is something we do not know till about two years after the end of the financial year. In the interim, whether we are talking about the quarterly data or the initial estimates of the annual figures, they are mostly based on extrapolations of corporate performance. Almost all the high frequency indicators are from the corporate sector, other than a few like agriculture and, to a certain extent, the sales tax data, which are an indicator for the trade sector. Because of this, what we measure is in fact the performance of the corporate sector. The data that we already have do seem to indicate that corporate India is coming out of the headwinds it was facing earlier in the year, post demonetisation and GST.

The non-corporate sector

Regarding the non-corporate sector, the only indicator of hard data that we have is for the agriculture sector. In this sector, we do know that production has done reasonably well in terms of physical output. However, the price data seem to indicate that the real income received by the farmers has either not grown or may in fact have shrunk. The non-corporate sector accounts for 45% of the economy, of which agriculture is 17%. So, we have no information about the remaining 28%. While we don't have hard evidence, the corroborative evidence would tend to suggest that this sector is still probably not doing very well.

Having said that, the corporate sector is certainly coming out. But the impact of the problems in the banking sector have still not fully manifested themselves. There is a positive to it, which is that over the recent months there has been a fairly substantial increase in the raising of equity through IPOs as well as through new bond issues by corporates. However, both these options are available only to a relatively small segment of the corporate sector.

With the pressure on the banking sector now, my fear is that the compression is going to come at the lower end of the economy, the smaller players, in terms of getting credit that they need for investments. The problem may well be that we may see reasonably strong recovery in terms of growth rates being in the 7%-plus area, with the smaller units suffering. That is bad news for employment. We have a situation where the pace of increase in capital intensity has been going up. Automation makes sense for relatively larger companies. Because of that, you have to think about the size of the companies you want to see coming up. The large growing larger is actually bad news for employment. What you would ideally like is start-ups starting small and then ramping up. That's how employment will be created.

Question of investments

The issue of getting back on track to high growth hinges on what is happening to investments. There we have run into a little bit of a data issue. For 2016-17, the Central Statistics Office had originally given the fixed capital formation growth as 2.4%; now they have revised it to 10.1%. Depending on what you happen to believe in, you either don't have investments happening or you have very healthy investments.

Services were doing reasonably well, on the back of two sectors – government and the financial sector. Of late, both have slowed down quite dramatically due to budgetary constraints and the banking problem, respectively.

In conclusion, corporate India is well on its way to recovery. It's time to shift the focus to non-corporate India.

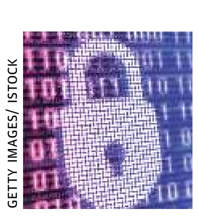
As told to T.C.A. Sharad Raghavan

SINGLE FILE

Protecting our data

Laws to do this are non-existent in India

MANDIRA MODDIE



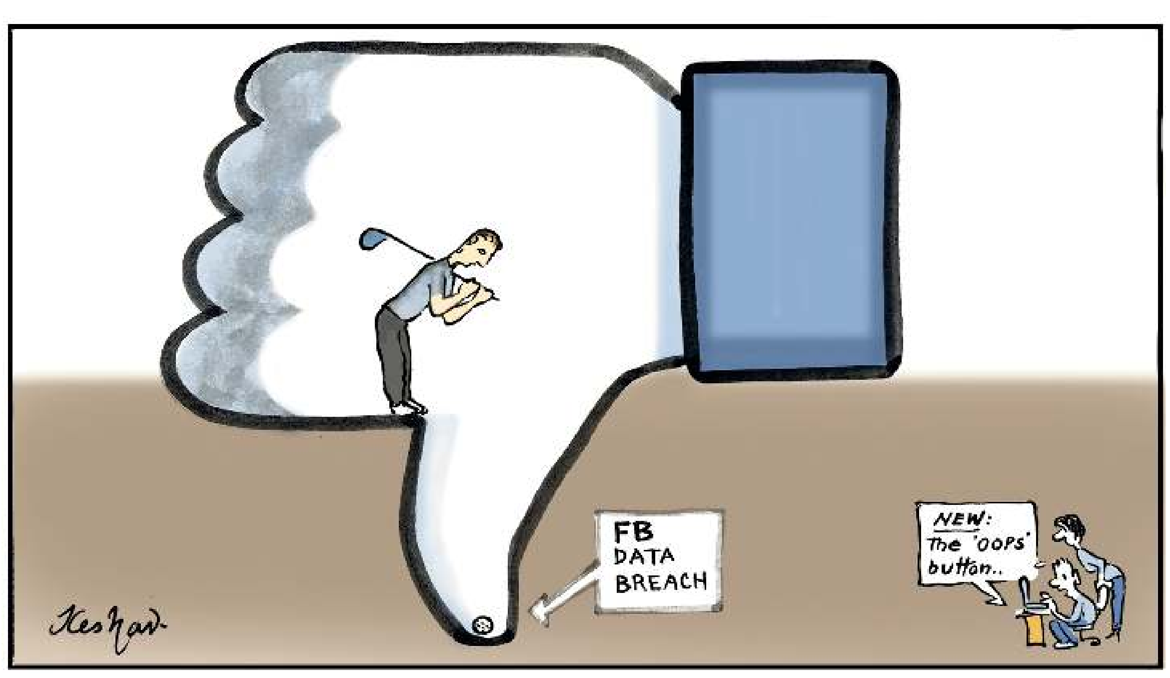
GETTY IMAGES/ ISTOCK

After the Cambridge Analytica crisis exploded, Union Law Minister Ravi Shankar Prasad warned Facebook against the misuse of Indians' data and any attempt to influence the electoral processes of this country. Unsurprisingly, the issue subsequently took on a partisan hue after the Bharatiya Janata Party and the Congress started trading accusations about hiring the services of Cambridge Analytica. Regardless, the fact remains that a clear mention was made by representatives of that company, which stands accused of misusing the data of 50 million users stored on Facebook and rigging multiple elections worldwide, of political involvement in India.

In a sense the data of Indians has been ripe for the plucking for some time now. Statista, an online data portal, estimates that India had 281.81 million mobile phone Internet users in 2016 and would have an estimated 492.68 million mobile phone Internet users by 2022. In 2019, there would be around 258.27 million social network users in India, up from 168.1 million in 2016. Facebook is projected to reach close to 319 million users in India by 2021. This proliferation of digital networking has provided an incredible platform for people to communicate, but its flip side is that individual users are increasingly viewed as legitimate targets for mining personal and metadata. As elsewhere, data mined from Indian users of social media may prima facie be used for relatively innocuous purposes such as targeted cross-platform advertising, but analysed in bulk, such data can provide an intimate psychological profile including ideological preferences that together help campaign managers target communications and forecast voter behaviour.

Further, certain risks to the very health of democracy stem from the dominance of social media platforms, which not only deliver personalised content to users, but in many cases privilege content based on engagement rather than quality. This limits users' access to information, which in turn leads to political polarisation and the spread of fake news. And fake news, as we know, has had a considerable impact on electoral politics to the point where it is being investigated by authorities in the U.S.

All of this raises a red flag on the question of data protection laws, which are virtually non-existent in India. It was only in 2017 that the Ministry of Electronics and Information Technology released a White Paper by a committee of experts led by former Supreme Court judge, Justice B.N. Srikrishna, on a data protection framework for India. Until that consultative process agrees upon basic principles to guide data protection laws, India will continue to suffer the existing regulatory framework under the Information Technology Act, 2000, which only identifies six types of "sensitive personal data" and requires entities handling such data to have "reasonable security practices and procedures" in place before collecting the information. The fact that the contracting parties can agree on their own rules governing the use of such data, and what security standards or privacy policies are applied, tells us all we need to know about the strength of data protection in the country.



CONCEPTUAL

Aesthetic argument

PHILOSOPHY

This refers to an argument for the existence of god, or other forms of divine power, based on the supposed existence of unexplained order and beauty in nature. It states that the fact that the universe is ordained with so much beauty and order cannot be explained by anything other than the existence of a god who helped create it. Critics of the argument say that beauty and order in nature can be explained fully through natural processes like evolution without the need for god as a creator. Others have also contested that nature is not as beautiful and orderly as many claim.

MORE ON THE WEB

Rajya Sabha elections: How are the Congress and BJP tackling this

http://bit.ly/RSElectplanTH

ACT ONE

Preventing trafficking

A proposed law addresses an invisible crime

KRISHNADAS RAJAGOPAL

The Trafficking of Persons (Prevention, Protection and Rehabilitation) Bill of 2018 addresses one of the most pervasive yet invisible crimes affecting the most vulnerable persons, especially women and children. There has been no specific law to deal with human trafficking, which is considered the third largest organised crime violating basic human rights.

The Bill addresses, among other things, aggravated trafficking for forced labour, begging, trafficking by administering chemical substances or hormones to a person for the purpose of early sexual maturity, trafficking of a woman or child for the purpose of marriage or under the pretext of marriage or after marriage. The proposed law also punishes promotion or facilitation of human trafficking by, for instance, manufacturing fake certificates.

The Bill ensures confidentiality of victims and witnesses, a time-bound trial, and repatriation of victims. It also provides for simultaneous measures to be taken for the rehabilitation of victims along with the trial. The victims are entitled to interim relief immediately within 30 days to address their physical and mental trauma, and further appropriate relief within 60 days from the date of filing of the charge sheet.

The Bill provides for the creation of a rehabilitation fund to be used for the physical, psychological and social well-being of the victim, including education, skill development, health care and psychological support, legal aid, and safe accommodation. The law demands that special courts be set up to ensure speedy trial.

The Bill creates dedicated institutional mechanisms at the district, State and Central levels. These will be responsible for prevention, protection, investigation and rehabilitation work related to trafficking. The National Investigation Agency will perform the tasks of the Anti-Trafficking Bureau at the national level under the Ministry of Home Affairs.

Punishment under the proposed law ranges from a rigorous minimum of 10 years to life and a fine not less than ₹1 lakh. The Bill also provides for the attachment and forfeiture of property and proceeds for crime. In transnational crimes, the national anti-trafficking bureau would coordinate with authorities in foreign countries and international organisations to facilitate investigation and trial proceedings. This includes coordinating with authorities in other countries.

FROM The Hindu ARCHIVES

FIFTY YEARS AGO MARCH 23, 1968

New Ministry in Bihar

A three-man United Front Ministry headed by Rebel Congress leader, Mr. Bhola Paswan Shastri (now a member of the Lok Tantrik Dal) was sworn in at the Raj Bhavan this morning [March 22, Patna]. The Governor, Mr. Kanungo, administered the oaths of office and secrecy. Besides Mr. Shastri, the other two sworn in were Mr. Krishnakant Singh, former Deputy Education Minister and member of the Lok Sabha and Mr. Rameshwar Prasad Singh, both members of the Lok Tantrik Dal, headed by the former State Assembly Speaker, Mr. L.N. Sudhanshu. This is the third Government to be formed in Bihar since the last general elections in February 1967. The first Ministry headed by Mr. Mahamaya Prasad Sinha was voted out of office on January 25 this year on a no-confidence motion by the Soshit Dal Congress alliance.

A HUNDRED YEARS AGO MARCH 23, 1918.

British Indian Association Annual Meeting.

Presiding at the annual meeting of the British Indian Association to-day [March 22, in Calcutta], the Maharajah of Burdwan in the course of his speech said: The present time is one of the most critical periods in our national history and we find there is just now quite a number of visionaries making things more and more impossible by their earnestness towards achieving a state of affairs which is not within practical politics at present. It is therefore up to you, gentlemen, leaders and scions of a wealthy and influential community, to step in and properly guide the political destinies of the country. Let us remember we are now being in a progressive age. Just as much as it would be a mistake to stand quite still, it would be an equally suicidal thing if we were to adopt "revolution" for our watchword instead of "evolution". To achieve this object, I would suggest to start a club for zemindars and a weekly paper conducted on real moderate lines giving the Government and the people the sane and sober advice of a community which has a real stake in the country.

DATA POINT

Branching out better

As of 2016, India was ranked 78 among 189 countries in terms of presence of commercial bank branches among its population, better than some BRICS nations such as South Africa and China.

Rank	Country	Branch presence*
1	Colombia	256.78
24	United States	32.67
28	Russia	30.14
52	Brazil	20.4
78	India	14.06
97	South Africa	10.18
103	China	8.78

Source: International Monetary Fund
Note: *Branches of commercial banks per 100,000 adults