Concept Note with Sub Themes- Annexure III A
Annual Indian Political Economy Conference, 2017

Theme of the Conference: Inclusive and Sustainable Development: Theoretical and Empirical Perspectives

Sub-themes

- *Unemployment and Poverty: Major Challenges facing India*
- *Agrarian Crisis and Macroeconomy*
- *Infrastructure: Challenges and Opportunities*
- *Sustainable Development and the Paris Climate Change Accord*
- *GST*
- *An Integrated social science approach to the Problematic of Development*
- *Democracy, Development and Social Justice*
- *Making Macroeconomics Relevant Again*

Unemployment and Poverty: Major Challenges facing India

In recent years, India has acquired the distinction of being one of the fastest growing large economies in the world. Despite this, however, India has been ranked a lowly 131 (out of 181 countries) in the *Human Development Report 2016.* It is important, therefore, to examine why India has not been able to translate its success in economic growth into sustained improvements in living conditions for its people.

There are several dimensions to the challenge that India faces in this respect. First is the very nature of India’s recent economic growth, which is largely based on the successes of certain segments of the services sector. At the same time, the growth of agricultural and manufacturing sectors in the country has been far from impressive.

India has the potential to benefit from the so-called ‘demographic dividend’ (that is, an expansion of population in the working-age years). However, studies have shown that the generation of employment in industry and services in the country has been inadequate (especially in comparison with the supply of ‘potential’ workers). The growth of public investment and of public spending in the social sectors has stagnated in India from the 1990s onwards, and this has been a major constraint for the economy.

At the same time, evidence shows that, between 2004-05 and 2011-12, there has been some reduction of poverty and improvement in the growth of rural wages, especially of women, in India. These positive changes have been attributed to a rise in public spending, especially on programmes such as the MNREGA. Studies have also shown improvement in the effectiveness of programmes such as PDS during this period.

Agrarian Crisis and Macroeconomy

It was long recongnised that agricultural sector plays an important role in macroeconomy of capitalist development that distinguishes the nature of developing economy from that of developed one. The supply-demand linkages with the modern sector, factor endowment and resource linkage makes a commensurate growth of agricultural sector a necessary condition for a sustainable growth of modern sector. The assiduous policy intervention in India agriculture since mid sixities was precisely predicated on this understanding, and has succeeded in achieving a long term growth rate of 2.7 percent through public investment in technology, procurement, storage, fertilizers, etc. Adoption of neoliberal reforms in 1991 marked a different phase of policy to subject the sector to vagaries of market forces. The agricultural sector in turn underwent a change in the process of growth in the last four decades, poingnantly, manifesting in terms of a change in agrarian structure, where small peasantry are left out by and large in agriculture, while medium and big farmers have diversified and migrated out without diluting their ownership in land, in a dispersed way across states. Agriculture is predominantly conducted by petty commodity producers, owning or operating small parcels of land. This class of peasantry is being crushed periodically under frequent price crashes, rising cost of production and falling profitability. It is well known that unbridled competition would ruin producers, as market structures turn exploitative under monopsonist market exchanges. The agricultural labour constituted by landless as well as petty peasants, both are losing employment steadily with in the sector, with increasing mechanization adopted to face the competition. The private finance, fertilizer dealers, commission trading agents, processing mills, cold storages now entail new agricultural institutions that rack huge rents from poor farmers, that leave no accumulation for the latter. Unsupported by effective policy regime, this class of farmers are bearing yolk of agricultural growth, risking their lives and livelihood.

The current agrarian crisis is interestingly not associated with any agricultural crisis and hence has apparently positive macroeconomic outcomes of in terms of inflation. However, State under liberal democracy, is compelled to respond to the distress. Hamstrung by neoliberal ideology that will not permit state any longer to directly intervene into markets, state is compelled to announce debt waivers – solution that displeases the financial sector. The monetary authority is worried about the adverse implications of proliferation of debt waivers across states. While debt waivers is no solution for farmers in long run, one cannot ignore the political economy of the conflict between the farmers as class and industrial capital. How this conflict is resolved is critical for the future development of the country, while reinventing institutional structure is a historical necessity for nation and society. The political economy conference plans to take up these issues for discussion.

Infrastructure: Challenges and Opportunities

Challenges in the energy sector

India faces a severe challenge with respect to the creation of infrastructure in the country. The rate of growth of energy generation in India slowed down from 8.6% during the 1980s to 6.8% and 5.7% respectively during the 1990s and 2000s, even as economic growth accelerated in each of these decades. It needs to be noted that the power generation capacity in China was 2.4 times the power generation capacity in India in 2000, and 4.1 times the Indian figure in 2008.
Recently, it’s been in the news that India will become a power surplus nation in this fiscal year. According to reports the peak power deficit and energy shortage was less than 1 percent in April. Government claims that now there is no shortage of electricity or coal. Schemes such as One Nation, One Grid, One Price, UDAY and SHAKTI are being credited for making electricity available at affordable rates.

This power surplus claim notwithstanding, millions of people still lack electricity in India. The Central Electricity Authority (CEA) defines demand as the amount of power distributors buy, i.e. discoms. Since these discoms are debt ridden and do not generate adequate revenue, they are reluctant to purchase power and sell it to the consumers with uninterrupted power supply. Despite the power surplus claims, an estimated 45 million rural households lack electricity and several cities face regular blackouts.

The financial health of the power sector in India remains worrisome. The sector accounts for a significant part of the NPA problem in the economy, which is affecting the Indian banking sector. The generation capacity is under-utilized by many thermal power plants. As a result less electricity generation takes place; the efficiency of plant gets affected as it’s not operating at the optimal level. There is load shedding and loss of electricity at distribution stage due to power theft and illegal buying of electricity. The capacity utilization is now at less than 60 perc ent despite addition of new power plant and availability of coal.

Out of the total 329 GW of capacity installed in India, 60 per cent of capacity is coal based and more than 75 percent of generation is coal based in India. Given the emphasis on renewables, the pace of phasing out coal generated electricity will take a longer time in India. According to international standards, the per capita consumption in the country remains very low.

To take the burden away from the fossil based energy sources, the shift towards renewables is already being witnessed in India. The government of India has set its target for renewable energy capacity to 175GW by 2022. Out of this 100GW will be comprised of solar power. To meet the said target by 2022, India would need huge investments. Hence, given the background, the sub-themes can be-

a) Power Surplus Country- Is it a reality?
b) State of Discoms in India
c) Sustainability of coal based plants
d) Solar prices forecast
e) Investment trends in renewable energy
f) Sustainability of green economy in India

Issues related to land acquisition for infrastructure projects

Despite efforts being made to upgrade its facilities, India continues to face the problem of inadequate infrastructure across various fields like roads, railways and electricity. The country's poor infrastructure not only hampers economic growth but also negatively affects investment environment. According to the Logistics Performance Index Surveys conducted by the World Bank on the quality of trade and transport related infrastructure, India's index was 2.87 in 2012, compared to China's 3.61 and Brazil's 3.07. With respect to the volume of cargo traffic handled or the costs and efficiency of operations, none of the Indian ports can match the ports in India's neighbouring regions such as Singapore, Dubai or Colombo.
India's transport infrastructure development faces numerous challenges. Land acquisition is proving to be one of the major roadblocks. Appropriate dispute-resolution mechanisms need to be developed in order to address the concerns of people whose land is being acquired. All this needs a stable regulatory environment. Shortage of funds and skilled manpower are the other problem areas. Rail transport is also beset with similar problems. To debate these issues, a special session on road and infrastructure development is being planned.

Sustainable Development and the Paris Climate Change Accord

The concept of Sustainable Development (SD) emerged in the 1960s and gradually evolved in later years, when environmentalists started debating the impact of economic growth on the environment, which was reflected in some writings like Rachel Carson's 'Silent Spring'; Schumacher's 'Small is Beautiful'; Club of Romes' 'Zero Growth' and IUCN's 'World Conservation Strategy'. Although, SD has been modified in many ways, it's most widely recognized definition is from 'Our Common Future' in the second chapter of the Brundlant Report, i.e., "Sustainable development is the development that meets the needs of the present without compromising the ability of future generations to meet their own needs."
The perception that SD is only about environment is wrong. It also targets safe, strong, healthy and transparent just societies, emphasizing the fulfillment of diverse needs of all people in the existing and future time, making stakeholder engagement in policy decision making, promoting societal well being, empowerment, cohesion and inclusion by creating equity and equal opportunities.
The question that needs much more forceful attention from all of us is that 'how to develop by balancing, or with fair trade off between /among completing goals/needs

amid several pressures to tackle various environmental, social and economic limitations?’

The ecological crisis we face is a result of an economic model based on growth. In order to avoid the irreversible damage to our ecology that threatens life on Earth, we need to make a transition towards an ecological society that keeps economic growth under check. However, given the shift of focus towards GDP and military growth across nations, ecological/environmental concerns are likely to face attention deficit. In December 2015, 195 countries at the UN-sponsored climate meet in Paris agreed to limit increase in global average temperature to “well below 2 degrees C above pre-industrial levels and to pursue efforts to limit the increase to 1.5 degrees C”. This agreement has been ratified by more than the specified number of countries required for the agreement to enter into force. This accord, based on voluntary compliance on the part of the agreeing parties, falls too short of the level required to keep temperature rise within the desired levels. Now, due to US’s withdrawal from the accord under Trump presidency, even the continuation of the accord in the future itself in any meaningful sense has become doubtful.

The broad sub-themes in this context may be the following:

1. Understanding the complex issues involved in the achievement of SD and implementation of SDG-based development agenda
2. Climate change and actions, World politics on climate agreements and Paris accord

GST

After much delay and years of deliberation, the highly anticipated Goods and Services tax (GST) was eventually implemented in July 2017 amid much political fanfare. It is being termed as the single biggest tax reform in the history of India. Economically speaking, the benefits of a comprehensive GST are manifold. It is a form of value added tax and gives producers, wholesalers and retailers the benefit of taking input tax credit for goods as well as services being utilised in production chain. In India, GST means abolition of many central and state government taxes like VAT, Central Excise duty, Additional excise duty, CST, Service tax, Entertainment tax, Luxury tax, Tax on betting and gambling Octroi and entry tax. Therefore, it lightens the absolute tax burden on individual tax payer by eliminating the cascading effect. It also helps in eliminating any unreported or under-reported transactions. Therefore, it is expected to help in eliminating cascading of taxes, broadening the tax base and in reducing economic distortions caused by inter-state variations in taxes. Introduction of GST is also a landmark change the federal system of Governance in India as earlier the Centre had the monopoly power of the tax on services and states had the power to tax the sale of goods. But like any change in policy, even introduction and implementation process of GST has its own set of challenges which need further debate and deliberation. Some of the challenges can be listed as

- GST and Changing face of fiscal federalism in India
- Classification disputes and tendency among businesses to demand lower rate for their good or service.
- Opposition by some political quarters and scepticism
- Technical readiness of Revenue department and Educating tax payers regarding merits of GST and compliance
- Coordination among tax administrations (CGST, SGST and IGST)
- GST and article 370 : issue of fiscal autonomy of Kashmir
- Effect on construction sector and housing prices, etc.

An Integrated social science approach to the Problematic of Development

After attaining independence the people of India gave to themselves a historically landmark Constitution which in terms of the letter and spirit of law empowered all the citizens of India as equal members of a democratic and accountable polity, in fact, with a setoff certain specific provisions to enable the sub-sets which were forced to remain especially discriminated and disempowered . Obviously, neither the spirit nor the letter of law can by themselves turn out to be capable of replacing the centuries –old disabilities by a set of positive fairly distributed and updated capabilities, unless specific counterbalancing and enriching factors , processes and institutions are initiated. However, from the beginning, the processes of change remained distorted, dysfunctional and heavily loaded in favour of accentuating the status quo . Several factors need to be brought in to the picture from the point of development discourse to help one appreciate the massive failure of development. It seems one factor that calls for pointed attention from among several factors was grossly oversimplified as the challenge of low per capita incomes owing to the stalled processes of GDP growth by relying on the borrowed mechanism of pushing up the rate of savings, investment and borrowed modern technology . Clearly the recipe was to follow the standard neo classical, neo-Keynesian macro-economic growth mechanism and the institutional and the associated policy packages .

After independence, the democratic goals of development were directed towards catching-up with the affluent West in terms of per capita income and certain other attributes of modernity mainly to facilitate such growth.

As the capsule to capture critical aspects of development discourse, GDP per capita or total and their growth can hardly provide a real and meaningful help. These facts do not indicate how to go about making positive and highly differentiated interventions which enable fair and just productive and empowering participation to those whose initial , inherited conjuncture make them victims of social exclusion.

Over the entire period there have been many illuminating critiques and alternative ways of comprehending Indian social reality which need to be debated in the present context. There is also the need to re-work the alternative social science and development approaches respecting their essential unity and mutuality.

Democracy, Development and Social Justice

Democracy emerged as the most appealing system of governance in the post-colonial, or to be precise in the post World War II, era. The world had never witnessed such an egalitarian system as the most popular form of governance. Transition in any system with time is inevitable. Democracy certainly is no exception. Though change in any system of governance along with changing dynamic of society and polity is unavoidable, preserving the kernels of an egalitarian governance system like democracy is crucial for many reasons. In the recent past, especially with the intense and widespread incursion of neoliberal agenda, democracy seems to be like an appealing notion devoid of the substance that constitutes its core ethos. Ironically, this transition, to a great extent, transpired through development projects, another dominant idea of the post World War II world. Like democracy, development is also a noble notion aimed at construing a society with constant zeal to improve the quality of life of people by exhilarating production of goods and services. However, in most of the cases, this feasible noble project has been appropriated by unprecedented wealth accumulation projects. Unfortunately, pace of such appropriation has been alarmingly high in twenty first century India. While the country has the third largest number of dollar billionaires in the world, it has been ranked as low as 131 in the human development indicators. It's doing worse than Sub-Saharan Africa and neighboring countries of Bangladesh and Sri Lanka in terms of gender development indicators. These indicators, often manifested in suicide of farmers and artisans as well as rampant unrest in several states, are the stark reflections of the state of democracy and development in the country. The wealth accumulation projects, often in the name of development, have rampantly dispossessed people from not only their resources but also their means of subsistence. Yet, instead of formulating policies to support the poor, the State has been withdrawing from policies meant for supporting poor. In the recent past, Indian government's inclination to reduce expenditure on welfare programmes as well as curtail subsidies has been more evident than ever. This deduction is primarily in the sectors that supplement poor people's subsistence requirements and not in the sectors that benefit the rich. The sectarian tensions combined with majoritarian impulses pose a serious threat for the very idea of democracy and social justice in contemporary India. This context calls for a serious scrutiny of the conjuncture of democracy, development and social justice in India.

Making Macroeconomics Relevant Again

Microeconomics and macroeconomics are the two most fundamental subjects in economics teaching and research. All students of economics do these courses in their under-graduate and higher studies. Since the Second World War, macroeconomics has seen several paradigm shifts. During the 1950s and 1960s, Keynesian theories held sway across most developed and developing countries. During this period, the state made full use of interventionist Keynesian fiscal and monetary policies to dampen cyclical fluctuations and to ensure high employment. Keynesian policies, however, appeared incapable of solving the twin macroeconomic problems of high inflation and high unemployment occurring simultaneously (known as stagflation) – against the tenets of the established economic theory – during the 1970s. As a result, Keynesian models that predicted a trade-off between inflation and unemployment came under attack during this period. Monetarism, under the leadership of Milton Friedman, gained prominence at the expense of Keynesianism during the 1970s. Monetarism focused on the macroeconomic effects of the supply of money and central banking. It advocated controlling the supply of money as the chief method of stabilizing the economy. Even though the ideological battles between Keynesianism and monetarism became quite intense during the 1970s, these macroeconomic debates retained connection with the real economy. This state-of-affairs, however, changed in the 1980s, giving way to the new era of real business cycle (RBC) models.

Lately, new macroeconomic models, known as Dynamic Stochastic General Equilibrium (DSGE) models, have become the prevalent orthodoxy. These are highly sophisticated, abstract mathematical models based on the deductive logic of microeconomics. These 'models attribute fluctuations in aggregate variables to imaginary causal forces that are not influenced by actions that any person takes'. The most significant weakness of these models is their inability to include money in any meaningful way in the analytical macroeconomic framework. Money in these models is assigned hardly any importance 'outside the case of large inflations'.

The world-wide economic and financial crisis of 2008-09 has clearly exposed the inadequacy of the mainstream macroeconomic theories. Prior to the crisis, macroeconomics was full of confidence about its ability to deal with the major problems of output/employment and price fluctuations. In the words of a leading macroeconomist, macroeconomics' 'central problem of depression prevention has been solved for all practical purposes, and has in fact been solved for many decades'. This statement clearly shows to what extent macroeconomics has regressed (or gone backwards, in the words of a major economist) during the last three decades.
There is an additional issue here which we need to consider. That is about the appropriateness and suitability for the developing countries like ours of macroeconomics which was developed in the context of western economies. As Stiglitz puts it:

> "Though macroeconomics was developed for developed countries, developing countries often use this corpus of knowledge - with its competing school of thoughts – without any significant modifications. It is by no means clear that applying these theories to developing countries is either justified or appropriate…….systematic differences between the economies of developed and developing countries and between developing countries themselves, such as the relative effectiveness of macroeconomics tools, give rise to large variations in economic outcomes and policy choices."

The task before us is thus twofold:

(i) To make macroeconomics relevant again as a subject for studying the real economy,

(ii) To develop theoretical tools that are capable of distinguishing macroeconomics for developed countries from macroeconomics for developing countries.