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Whither free speech?

Govt's silence on campus violence is baffling

There is surely something rotten in India if a group of young men owing allegiance to the ruling dispensation can walk into a college in Delhi and beat up students and other participants in a function just because they do not agree with some of them. The group was brazen enough to announce that through their vandalism and violence they were preventing what they perceived to be "anti-national" activities. This is not the first, nor, one fears, will it be the last, time that the epithet, "anti-national", has been used to suppress free speech and to intimidate individuals and groups who have different views from those who flock to the saffron banner. The saddest aspect is that such bullying is taking place inside university campuses, which are supposed to be sanctuaries for free speech and dissent. The freedom to express one's views is one of the fundamental pillars of democracy; arguably it is the most crucial pillar. The Constitution, while recognising the right to freedom of speech, does impose certain restrictions on it. But it has become evident that there are outfits in India that believe it is their duty, in the name of the nation, to suppress views that are not in agreement with the Sangh Parivar's reading of what is national. As a result, freedom of speech has now entered the long list of things that are endangered in India. At the very top of that list are, of course, reason and dissent.

The point about reason, or rather the absence of it, is underlined by the fact that Umar Khalid, the student of Jawaharlal Nehru University whose presence in Ramjas College was the trigger for the violence perpetrated by the Akhil Bharatiya Vidyarthi Parishad (ABVP), was not going to speak on anything that would have compromised India's integrity. He was slated to speak on the tribals of Bastar. There is nothing "anti-national" in speaking about them. This makes it obvious that the violence was a premeditated attack. What is appalling is that instead of showing regret, ABVP members are proud of what they did and have threatened to continue to use violence against those they perceive to be "anti-national". It is manifest that they have no respect for the freedom of speech and the rule of law. They believe that muscle power and bullying lay down the writ in democratic India.

There is one very good reason why loyalists of the Sangh Parivar can continue to incite violence at the slightest pretext: The government takes no action against them. It is not for the first time that the Prime Minister and the entire leadership of the Bharatiya Janata Party have been eloquently silent on the violence in Ramjas College and its sordid aftermath, including the shameful hounding of Gurmehar Kaur. Through their silence, they condone and even applaud the violence. It is also worth noting that such incidents of violence occur at particular conjunctures during election time — they are used to whip up primeval passions. As the ruling party, the Bharatiya Janata Party has to make sure that the shadow of violence does not loom large over Indian democracy.

Delhi's pay hike

Many questions about the state govt's minimum wage increase

The Delhi government has proposed increasing minimum wages in the National Capital Territory. The extent of the proposed hike in minimum wages is substantial. Unskilled workers will have to be paid at least ₹13,350 per month, as compared to ₹9,724 currently. Semi-skilled workers will see their minimum compensation rise from ₹10,764 to ₹14,698, and skilled workers from ₹11,830 to ₹16,182. Overall, this is a 37 per cent increase, less than the 50 per cent recommended by an earlier committee, but nonetheless worthy of note. After a disagreement with the then Lieutenant Governor of Delhi on the subject of whether the previous committee was empowered to revise wages, the Delhi government had created a new committee, which knocked down the proposed increase marginally. Critics of the government have been swift to claim that elections to the Municipal Corporation of Delhi, which the Aam Aadmi Party hopes to wrest away from the Bharatiya Janata Party (BJP), are approaching and may have been a factor in the decision.

There is, of course, no doubt that minimum wages, in general, should be examined at regular intervals and revised. However, this should, as far as possible, be a transparent process, so no arbitrariness exists and there is no scope to attribute motives to such decisions. Certainly, the increase does not seem disproportionate when compared with the Centre's decision, in August 2016, to hike nationwide minimum wages by 46 per cent. Delhi is an expensive city, and costs of living are high up and down the board. Yet, there are still many questions that can and should be asked about the economic logic behind this decision.

It is known that minimum wages can have the effect of depressing employment. In cities such as Delhi, this is an exceptionally pressing problem. After all, many parts of the National Capital Region are not part of the domain of the Delhi government. The satellite city of Noida, for example, will continue to be subject to the restrictions on wages determined by the Uttar Pradesh government in Lucknow, which will naturally be less stringent than those imposed by the Delhi government. The flow of jobs out of Delhi to Noida, and to Gurgaon in Haryana, will be a natural consequence. It is to be hoped that some of these general equilibrium effects were taken into account by the committee.

In general, India has a jobs crisis, and any decision that reduces the private sector's capability to create additional employment should be subject to the most careful scrutiny. India has a history of labour protection legislation that ends up hurting labour, and this should not become one of them. There are safeguards that might usefully be put into place to deal with such dangers. The most important are those that make sufficiently transparent the mechanisms by which the minimum wage is set and revised, and recognise the overall welfare implications on the working class of any such decision. The BJP has claimed that only 10 per cent of workers in the NCT receive the minimum wage. Efficient implementation of existing levels, instead of raising those levels, might have been a better first step for the government to have taken.

COMMERCIAL SPECTRUM AVAILABLE

Summary of total licensed spectrum in various countries (in MHz)

Country	Current	Pipeline	Hz/ Subscriber
USA	608	55	2.1
Australia	478	230	22.8
Brazil	554	0	2.0
China	227	360	0.5
France	555	50	9.3
Germany	615	0	6.2
Italy	540	20	5.9
Japan	500	10	3.3
Spain	540	60	11.8
UK	353	265	7.9
India	221	10*	0.2

Source: International data – FCC (2013), Indian data from COAI (2015), subscriber data from World Bank; * estimate

ILLUSTRATION BY BINAY SINHA

Organisational hurdles in telecom sector

Where we are vs where we need to be

The mobile telephony sector has not just plateaued but begun a downward spiral, with revenues dropping for the first time in a decade after Reliance Jio's entry, by about 20 per cent. Considering the staggering government collections of around ₹3,00,000 crore by way of charges and taxes over the past decade from investments of about ₹2,00,000 crore, it would appear that the sector has paid too dearly. The irony is that this inflection point comes when there's been much ballyhooing about a vigorous push for Digital India, whereas the reality in telecommunications is that conditions are more difficult, with easy markets saturated and average revenues per user dropping, while the need for capital expenditure is higher.

The organisational issues are of a broad social and political nature: (a) An uncoordinated, disunited way of functioning, including our approach to infrastructure in general, and broadband and communications in particular, (b) a divisive political process that rewards opportunistic disunity while discouraging unity, (c) a demoralised and disgruntled administration and technocracy, resulting in an erosion in the standing of civil servants, technocrats and other professionals, made worse by attempts to manage by coercion. It is best to acknowledge and accept these as problems to be overcome, instead of being in denial. Consider these in more detail to appreciate the nature of what we're up against.

Government departments in India have functioned in silos barring rare exceptions, without an active work culture and processes for coordination and convergence. While central and state government procedures enable the Cabinet secretary and chief secretaries of states as heads of administration to exercise interdepartmental coordination, ministries and departments have tended to be turf-conscious and maintain an inward focus, either consciously or by default. Episodic instances at coordination have been the exception. Yet, what is often essential for practical solutions to complex inter-departmental issues is a collaborative approach.

SHYAM PONAPPA

Consider the example of spectrum, of which every country has the same amount: The relative shortage for commercial use in India as shown in the table (*see chart*), and the multiple agencies that need to coordinate and converge on spectrum policies.

The Telecom Regulatory Authority of India is responsible for recommending spectrum use; the Wireless Planning and Coordination Wing in the Department of Telecommunications, the Ministry of Communications, is responsible for spectrum allocation and licensing; and agencies such as Doordarshan under the Ministry of Information and Broadcasting, the Indian Space Research Organisation in the Department of Space, and the Ministry of Defence, are assigned certain bands of spectrum. Finally, the Ministry of Finance is responsible for all government levies and collections. The turf issues are such that they need the active intervention of the Prime Minister for resolution.

There is also an irrational yet widely held opinion that aligns with an interpretation of the Supreme Court (SC) verdict on the 2G scam, that is viewed as favouring auctions and maximising upfront government revenues. Whereas the judgment allows government to formulate other policies and act on them, and despite the detrimental effect of auctions on services, and that the consequences are not in the public interest.

For beneficial policies, the constituents have to analyse and understand the causes of the problems and possible mitigating steps, to converge on policies in the public interest. Too much to hope for? Perhaps, yet this is only one aspect of a multidimensional requirement.

Another major aspect is that our political processes favour dissonance and disintegration over order and convergence. It pays to create factions, run down the opposition — in this age of crassness, the more viciously the better — and to control the swing vote to opportunistic self-interest. The way our political systems are structured, divisive and disruptive tactics that exploit populism are easier and more effective than building consensus, because funding is more easily available to breakaway politicians serving factional interests, than to those trying to work together seeking common ground. This highlights the problem of political funding, and the need to rationalise this to align with societal benefits, instead of as it is currently, to society's detriment.

A third prerequisite for developing constructive solutions is the need to promote professionalism and merit, and to remedy the absence of it across the board. Instead, there's a prevalence of feudal approaches, cliques and attempts at browbeating and strong-arming people. This makes it difficult for administrators and professionals to make objective analyses and recommendations, especially where change is required. It is a lot easier to just go along with customary practices, however deficient. A clear example is the auctioning of public resources, compared with the straight-forward acceptance of the need to build revenue-generation capacity in enterprises (through allocations that are fair and transparent), before attempting to collect taxes or levy government charges. Often, auctions are patently inferior to other alternatives to ensure transparency, such as production- and revenue-sharing, as has been proven in the instance of telecom licences. These have yielded nearly 10 times the auction revenues foregone, perhaps highlighting that government's "take" is too high. The SC upheld the principle negating auctions in its ruling on the Presidential reference in 2012 on mining franchises. However, because auctions are expedient, we indulge in them. It is instructive to review the SC judgment, excerpts of which follow: "...there can be no doubt about the conclusion recorded in the 'main opinion' that auction which is just one of the several price recovery mechanisms, cannot be held to be the only constitutionally recognised method for alienation of natural resources..."

"Each bit of natural resource expended must bring back a reciprocal consideration. The consideration may be in the nature of earning revenue or may be to 'best subserve the common good'"*(http://www.supremecourtofindia.nic.in/outtoday/op27092012.pdf)*.

Politicians and administrators construe this to mean that it is safer to resort to auctions, ignoring the fact that in the case of spectrum, the resource is not expended because it is reusable, and there's no excuse for not subserving the common good.

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Insurance against competition

Heads of leading general insurance companies in India are quite busy these days. That's understandable as business is booming (the non-life segment is growing at a fast clip of nearly 30 per cent), but there is another reason for their super-hectic schedule. They are meeting each other quite frequently these days (the last such meeting was held on Saturday last week) to fix a minimum premium pricing for a diverse set of industries so that competition doesn't harm any insurance company.

Participants at the Saturday meeting comprising both government-owned as well as private insurance companies agreed to give some discounts for lower loss ratios on agreed high rates. For large risks, it was decided to introduce discounts on account of favourable loss ratios for the last five years according to an agreed slab.

Such moves are quite unusual, to say the least. With the opening of the insurance sector in 2002, the Insurance Regulatory and Development Authority (IRDA) did usher in true competition by abolishing the Tariff Advisory Committee, allowing each insurance company to independently price the risk. Under the earlier tariff regime, minimum ratings were set out for each risk along with the rating methodology.

POWERPOINT

SHYAMAL MAJUMDAR

But 15 years later, insurance companies have joined hands to bring back the earlier tariff regime to kill competition. This has been done in two phases: First, effective September 1, 2016, all non-life insurance companies agreed to adhere to a minimum premium pricing for eight industries — pharmaceuticals, steel, auto, chemical, fertilisers, airports and power. The industry also decided that the expiring lead insurer would notify other insurers about claim experience of previous years.

Since the informal arrangement suited everybody, it has now been decided that effective March 1, 2017, the list of industries would expand to cement, paper, tyres, information technology and software development parks.

The cartelisation has brought in expected results. Clients have seen their renewal premium go up an average 50-100 per cent (in some cases above 500 per cent) as no insurance company is willing to give pricing below the informally agreed formula.

People connected with the industry say a self-governance committee comprising representatives of five leading general insurers are collectively deciding the pricing of risk and this is followed by all others when they quote to their clients. In short, everybody is making hay as the consumer is left with no choice.

To be sure, no formal circular has been issued by any regulatory body or the General Insurance Council or any association of insurers as it will not stand the scrutiny of law. But there is no need for any formal arrangement anyway as long as it suits all insurers. However, the question that arises is whether this "coordination" of product design and premiums, the uniform wordings on policy documents and identical premium rate should not invite the attention of the Competition Commission of India (CCI), which has earlier been quite proactive in the cases of the cement, tyre and insurance industries. After all, the latest move by insurance companies is nothing but gross violation of free competition and would lead to jacking up the prices every year.

To be sure, this is not the first time that the insurance industry has been accused of cartelisation. Ironically, the first such instance had the finance ministry's blessings. In 2012, the ministry asked all government-owned insurers to "necessarily share data concerning premium, claims, etc, with respect to major accounts and ensure that there is no competition between them in any corporate/group account".

The letter warned that "any deviation from this instruction will be viewed seriously." Following this, all the four state-owned non-life insurers quietly adopted a strategy of "joint consultation" before underwriting any big risks.

The second instance was in 2015, when the CCI slapped ₹671 crore penalty on four state-run insurance companies for cartelisation and indulging in anti-competitive practices. The order followed a probe by the CCI into charges made through an anonymous letter that the four insurers rigged the bids submitted in response to tenders floated by the Kerala government for selecting an insurance service provider for the Rashtriya Swasthya Bima Yojna.

Under the Competition Act, 2002 (Act), "bid rigging" refers to any agreement, between enterprises or persons engaged in identical or similar production or trading of goods or provision of services, which has the effect of eliminating or reducing competition for bids or adversely affecting or manipulating the process for bidding.

The CCI trashed the argument put forward by the insurance companies that since each of them was wholly owned by the government, they constituted a single economic entity and that therefore, an allegation of cartelisation was unsustainable against them, and said that the insurance companies did not constitute a single economic entity because the regulatory intent of the government was for them to act independently and to compete with the private operators in the insurance sector to offer better services to consumers.

The 2015 case was taken up by the CCI suo moto following suspicions raised in certain quarters that the four insurers "held meetings prior to submission of bids in response to the tenders" and manipulated the process.

Will history repeat itself?

Economics versus the real world

BOOK REVIEW

VIKRAM JOHRI

For too long, economics has been thought of as the preserve of a tiny minority, one that can make sense of its bewilderingly complex possibilities. The subject starts off simply enough, with almost everyone who goes to school aware of the delectably graspable demand-supply curve; but the more the real world intrudes, the more adherents the subject loses.

Economics also suffers from that unique conundrum: In which bucket should the discipline be placed? Does it belong to the "science" pile, given how neatly some of its basic assumptions can be summarised? Or is it better company with the humanities, since all of the subject's elegance cannot stand scrutiny in the face of its principal opponent: Human behaviour?

Professor Ashok Guha teaches economics at the School of International Studies at JNU. In the preface to this book, he explains why this presented to him two distinct challenges: One, how to make the subject interesting to his students most of whom read history, political science and sociology; and two, how to rid the teaching of economics from the dense mathematics that underpins most of its theories.

Economics Without Tears is the outcome of his efforts, an introduction to the dismal science that is narrated simply. In bite-sized chapters, Prof Guha tackles both microeconomics — consumption as the heart of all economic activity — and macroeconomics — national income and international trade. The book is an interesting intermesh of Econ 101 (Giffen goods, lemons and so on) and more advanced topics (the Keynesian model).

Yet, there is little to show for Prof Guha's exalted promise to make the subject riveting to a diverse set of students. Graphs and equations fill a book that is not light on jargon. Prof Guha envisages the book to be consumed in the classroom since the most interesting applications of the subject are left for discussion in the questions that end every chapter. Professor Know All and Ms Sparty, his creations, indulge in fun discussions that the reader is never made privy to beyond the slimmest of premises. Due to this, the book does not rise beyond academic dryness.

That, however, may not be the most relevant criticism of *Economics Without Tears*. Most economics textbooks — and Prof Guha's is as good conventionally as the next one — focus on the neoclassical model in which profit/utility maximisation is taken as a given before suitable models are constructed to accommodate it. In reality, things are far messier, and the subject, to be sure, is increasingly amenable to accommodating this messiness. The work of Daniel Kahneman, say, is nearly entirely focused on delineating how top-down models are sorely insufficient in capturing the incentives that drive individual action.

Recent political events have reiterated the inadequacy of the neoclassical model to account for real-world problems

Recent political events have only reiterated the inadequacy of the neoclassical model to account for real-world problems. From Brexit to the election of Donald Trump, economic scholars have been at pains to explain why the western world is turning against free trade. On the other hand, the financial crisis of 2008 and rising income inequality have put paid to the idea of a free and fair market. Some Democrats now wonder if perhaps Bernie Sanders, with his take-Wall-Street-to-the-cleaners rhetoric, was a better candidate to defeat Mr Trump.

The principles of Adam Smith and David Ricardo are, thus, being sorely challenged. Economic distress has also strengthened protectionist calls. This has entailed not just visa regulations but broader anti-immigrant sentiment. Together with the threat of Islamic terror, these forces are roiling Europe and America to an unprecedented degree. The left versus right divide has never been starker but when both camps speak darkly of upending the order, economists are expected to rise to the challenge and offer solutions.

One would imagine that Prof Guha's students, who are unlikely to be reading the subject as a pit stop to becoming investment bankers, will be all the more interested in exploring the pitfalls of classical economic theory. That the book only cursorily acknowledges the storm buffeting the discipline may be its most serious shortcoming.

In the bookshop, *Economics Without Tears* was displayed in the same section as Malcolm Gladwell and Steven Leavitt, writers who have, if anything, plumbed the other extreme in relating economics via popular psychology. One hopes Prof Guha's next will be as pertinent, a book that truly fulfils the exciting remit of this one.

ECONOMICS WITHOUT TEARS
A New Approach to an Old Discipline
Ashok Sanjay Guha
Penguin
242 pages
₹299

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The spectre of a currency war

Such a war would hurt global growth and that of India as well

THE OTHER SIDE

A V RAJWADE

Whatever the logic of Donald Trump's criticism of other countries running trade surpluses with the US through currency manipulation, the possibility of his imposing import duties can hardly be ruled out. He has certainly highlighted trade imbalances as the major issue in the global economy.

The possible currency/trade war is only one of several interesting parallels to the 1930s. Both the 1930s and the 2000s were preceded by major crises in asset markets. In 1929, it was the stock market crash, while 2008 witnessed a major global banking crisis following the collapse of the mortgage market in the US. Another parallel is that the 1930s witnessed the largest ever drop in global output, often referred to as the Great Depression — the second-largest drop in global output occurred after the 2008 crisis. The 1930s witnessed a currency war amongst the then major economies, particularly the US, Britain and France: Competitive devaluations (against gold — remember it was the era of the Gold Standard) and tariffs or import duties, were the weapons used. Trump is now threatening a trade war.

In June 1933, representatives of 66 countries met in London at a World Economic Conference. While many heads of government attended it, the US official delegation had no major figure, indicating then president Franklin D Roosevelt's lack of enthusiasm. Arguably, the Bretton Woods conference in 1944, which led to the formation of the International Monetary Fund (IMF) and the World Bank, was aimed at developing an orderly post-war global economic and trading system, learning from the lessons of the 1930s. Indeed, the fixed exchange rate system then brought into being worked well for about three decades, leading to a continued and rapid rise in global output. As most advanced industrial countries relaxed controls on capital movements, the fixed exchange rate system collapsed and the advanced countries are living in an era of floating, market-determined exchange rates, which have led not only to great volatility in exchange rates but also persistent global imbalances, which Trump correctly highlighted.

To come back to capital flows and exchange rates, Article VI of the IMF charter prohibited member countries from borrowing from the fund, "to meet a large or sustained outflow of capital". Under it, the IMF could also "request a member to exercise (capital) controls to prevent such use". The reality is that most of the crises, at least in the emerging markets, have been the result of capital outflows — and from Mexico in 1994 onwards, the IMF has always lent money to countries suffering capital outflows. Indeed, the IMF has never invoked the provisions of Article VI enabling it to encourage imposition of capital controls. Perhaps by the 1990s, the "Wall Street/Treasury Axis", as Jagdish Bhagwati once described it, had become too powerful an influence on IMF policies.

Chicago School theories of rational expectations, efficient markets etc sanctified the virtues of markets and the sins of government intervention. The banking system clearly has a strong vested interest in floating, indeed volatile, exchange rates as much of banks' currency trading profit comes from volatility. The finance capital's gains obviously come at the cost of the real economy. In today's world, speculative and volatile capital flows have become the major determinants of exchange rates. (After reading a 2014 speech by the former governor of the New Zealand central bank on floating exchange rates, I have started wondering whether even central bankers understand the role of capital flows in the modern era!) The other side is that were exchange rates to be primarily determined by trade flows, they would be far more self-correcting. Deficits would lead to currency depreciation as the demand for foreign currencies by the domestic economy (to pay for imports) would exceed the supply through exports; the currency would depreciate; the deficit would be corrected. (Trade surpluses would lead to currency appreciation and help reduce surpluses.)

In the last article I had quoted the difference between "managed" and "manipulated exchange rates". Manipulation occurs when intervention by the central bank in the market leads to a movement of the exchange rate away from what a balanced external account, on both flow ("current account", net of secondary income) and stock ("international investment position") accounts, requires. Management may also require controls on capital flows as Article VI of the IMF prescribes.

Does a trade/currency war between the US, Germany, China and Japan matter to us? In my view, yes; if global growth slows, it will affect every economy, sooner or later, some more, some less.

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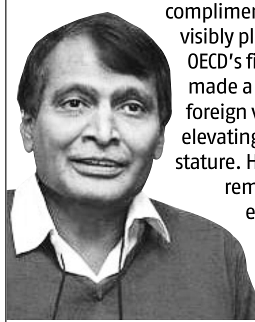
CHINESE WHISPERS

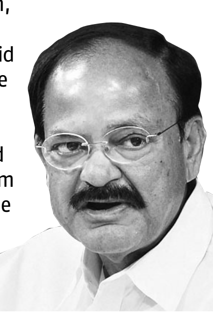
Angel of good news

Frequently under attack from economists and political opponents over demonetisation, the government has been quick to latch on to any praise about the economy, especially from international sources. So when José Ángel Gurría, secretary general of the Organisation for Economic Co-operation and Development, complimented the economy's resilience in the face of several challenges on his recent trip to India, Railway Minister Suresh Prabhu (*pictured*) couldn't resist paying back... with a compliment. At an event, visibly pleased with the OECD's findings, Prabhu made a pun on the foreign visitor's name, elevating him to angelic stature. He ended by reminding everyone present that angels always bring good news.



A four-pronged strategy

Communication is an important step to success, says M Venkaiah Naidu (*pictured*), minister of urban development, housing and urban poverty alleviation and information and broadcasting in the Narendra Modi government. At an event in Delhi, he introduced his own version of Modi's motto "reform, perform and transform". Naidu said the strategy should be to "reform, perform, transform and inform". "We should inform the media from time to time about the great work this government is doing," he said.



Ajay Tyagi seeks divine blessings

Newly appointed chief of market regulator Securities and Exchange Board of India (Sebi) Ajay Tyagi (*pictured*) visited the Siddhivinayak Temple in Mumbai before taking charge. Though Tyagi's flight from Delhi to Mumbai was delayed, he made a detour to the temple before logging in at Sebi. This delayed the photo-op by nearly an hour. The Siddhivinayak Temple is famous with the high and mighty as well as common people. Apple Chief Executive Tim Cook, too, had kicked off his India tour with a visit to the temple.

Sustaining GDP growth momentum

Structural changes in the factor, product and labour markets should be given priority to allow economic agents to combine inputs efficiently

SUNIL KUMAR SINHA & DEVENDRA KUMAR PANT

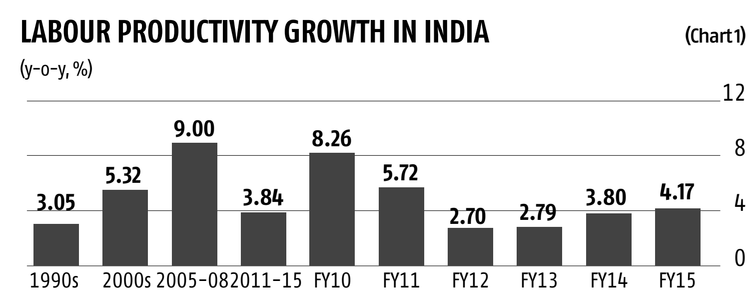
In the medium to long run, gross domestic product (GDP) growth will depend on the increases in the supply and productivity of capital and labour. While the growth of labour supply depends on the growth of working age population and changes in labour force participation rates, the pace of capital stock growth depends on the rate of growth of investment. Although India does not face a challenge with respect to labour supply, the quality of labour has become a big concern and will remain so in the foreseeable future. This, coupled with current weakness in investment demand, has emerged as a major challenge for sustaining growth momentum in the economy.

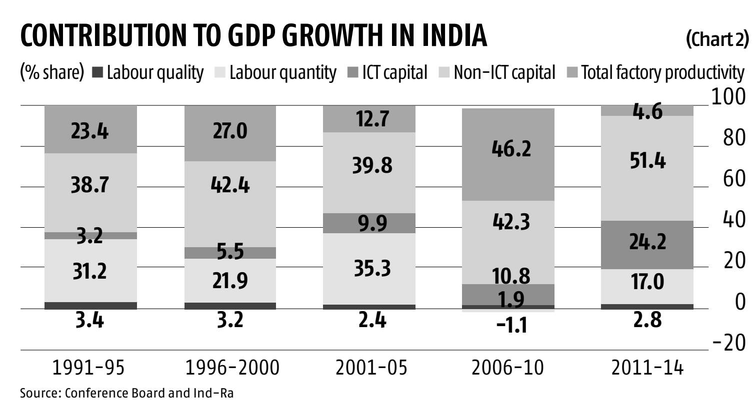
Labour productivity in India has fallen significantly in the current decade compared with that in the previous decade. This basically implies that GDP growth has been decelerating more than labour input growth. If India has to achieve a GDP growth of nine per cent, it will have to raise its labour productivity growth by 73.8 per cent over the rate achieved in FY15.

However, labour productivity is only one factor or a partial factor productivity measure and does not provide a full perspective. For example, low labour productivity would mean production inefficiency, but it could be a response to the relative labour capital price mix being faced by the economy. In labour surplus economies, production lines may be deliberately organised to use this abundant and cheap resource, leading to lower levels of labour and high capital productivity. This is why total factor productivity (TFP) has emerged as a better measure for the overall efficiency of a country's production. TFP is the portion of output not explained by the amount of inputs used in production. As such, its level is determined by how efficiently and intensely the inputs are used in production. In this method, GDP growth is decomposed into sources from factor inputs such as quantity of labour, quality of labour, ICT capital , non-ICT capital and TFP growth.

A glance at two and half decades of data shows that non-ICT capital, TFP and labour quantity are the key drivers of GDP growth in India. Although the contribution of labour quantity to GDP growth fell to 17 per cent during 2011-2014 from 31.2 per cent during 1991-1995, it is still a significant contributor to GDP growth. However, the same cannot be said about labour quality whose contribution to GDP growth fluctuated in the range of 0.8 per cent and 4.2 per cent during 1990-2014.

Non-ICT capital has been the single largest contributor to GDP growth and continues to be so even now. Also, it is more stable in terms of its contribution to GDP growth. In fact, the contribution of non-ICT capital to GDP growth increased to 51.4 per cent during 2011-2014 from 38.7 per cent in 1991-1995, though not in a linear manner. But the contribution of ICT capital to GDP growth increased in a linear manner to 24.2 per cent during 2011-2014 from a meagre 3.2 per cent during 1991-1995. This indicates rising investments in ICT and its contribution to GDP growth. Unlike technological advancements which are largely confined to manufacturing, the impact of ICT permeates into almost all sectors of the economy and brings about significant gains. This can be seen from the transformation and productivity gains that the wholesale/retail trade or banking sectors have witnessed during the last decade.





In terms of contribution to economic growth, TFP has played an important role in India. The average TFP growth for India during 1991-2014 was 1.6 per cent. China for the same period witnessed TFP growth of 2.7 per cent. Although India's TFP growth does not show any systematic pattern, it rose to 3.8 per cent during 2006-2010 from 1.2 per cent during 1990-1995 but dropped to 0.3 per cent during 2011-2014. As a result, the contribution of TFP to India's GDP growth declined to a meagre 4.6 per cent in 2011-2014 from a staggering 46.2 per cent during 2006-2010.

Therefore, it can be argued that the dip in economic growth during the first half of the current decade is largely due to the dip in TFP growth. Even in China when GDP growth slowed to 4.5 per cent in the second half of the 1990s from an average 9.7 per cent during the first half, it was due to the slowdown in TFP growth, which dropped to negative 1.3 per cent from 4.6 per cent.

Although historically capital accumulation has played a more significant role in promoting growth across various countries, the relative contribution shares of various components are not constant across countries and over time. In India, investment to GDP ratio remained range-bound (21.1 per cent to 27.3 per cent) during 1991-2004, but TFP growth fluctuated in a wide range of negative 3.4 per cent to 3.3 per cent during this period. However, the period 2005-2010 saw a synchronised movement in investment to GDP ratio and TFP growth. While investment to GDP fluctuated in the range of 34.9 per cent to 39 per cent, TFP growth fluctuated in the range of 2.3 per cent to 4.6 per cent. This synchronous movement, however, broke down during 2011 to 2014, as investment to GDP remained high in the range of 35.9 per cent to 39.4 per cent, but TFP growth dropped in the range of negative 0.7 per cent to 2.1 per cent. This shows that capital accumulation alone does not guarantee TFP growth. More crucial is the capability of a country to assimilate and leverage the capital accumulation as reflected in both ICT and non-ICT capital and combine it with labour input to reap benefits. Given the policy paralysis and stalled projects India failed to do this during 2011-2014 and thus, while investment to GDP remained high, TFP declined, pulling down GDP growth.

It is therefore imperative that structural changes in the factor, product and labour markets are given priority to allow economic agents to combine inputs efficiently and intensely to generate higher TFP. This is critical for accelerating and sustaining GDP growth over the medium to long term. Sooner the policy issues relating to land acquisition, goods and services tax and labour market reform are settled and/or implemented, the better it is for the Indian economy.

Sunil Kumar Sinha is principal economist and Devendra Kumar Pant is chief economist at India Ratings and Research. Views are personal

BUSINESS LIFE

How to get better customer service and skip the rage

54 per cent of customers reported a problem in the last one year, finds a study

CHRISTOPHER MELE

You've bought a product or service, and now — ugh! — there's a problem. Your blood pressure climbs as you face an obstacle course worthy of "American Ninja Warrior" to get help.

What is the most efficient and least painful path to get good customer service? Call the company's toll-free number? Chat online? Send an email? Complain on social media?

If you perceive a reduction in the quality of customer care, you are not alone. The frustration can turn some of us from Bruce Banner into the Incredible Hulk.

Among the findings of a 2015 "National Customer Rage Study" by Customer Care Measurement & Consulting: Companies are doing all the right things the wrong way. For example, they have call centres, but they're understaffed, which causes complaints to pile up.

The report, conducted in collaboration with Arizona State University and Dialog Direct, was the seventh since 1976. The latest report found that 54 per cent of customers reported a problem with a product or service in the preceding 12 months, an increase of four percentage points from 2013. In 1976, that figure was 32 per cent.

Scott M Broetzmann, the president and chief executive of Customer Care, said companies direct consumers toward self-service, the lowest-cost approach. Consumers have been empowered by technology to perform routine tasks, such as checking an account balance or placing an order, but things can go awry when they have a question or problem.

Broetzmann said companies sometimes rely on "disingenuous approaches", which can be vexing or meaningless to customers, to internally measure their performance. For example, some call centres require a representative to say a customer's name at least three times during a call.

Consumers have been empowered by technology to perform routine tasks, but things can go awry when they have a question or problem PHOTO: ISTOCK

"Disrespect can inspire rage because in the most primitive parts of our brains it's tied to our survival," she wrote. In days when we were cave dwellers, "to be overlooked or irrelevant was to die", she added.

The customer rage study found that nearly 50 per cent of respondents found the statement "Your call is important to us, please continue to hold" very annoying, with another 17 per cent saying it should be banned. Runners-up were: "That's our policy"; "We are currently assisting other customers. Your call will be answered in the order in which it was received"; and "Can I get your account information again?"

For quick solutions to small specific problems, try online chats, Yarrow said. They are ideal for handling issues like a promotion code or learning when your product will arrive.

"This isn't the place for empathy or to complain," she said.

Check a company's Facebook or Twitter profile because some are savvy social media users, said Justin Robbins, the content director for the customer management institute. Other experts, though, have said that companies are largely slow to respond to complaints posted there, and that social media should be a last resort.

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LETTERS

A less taxing time

The ideas listed in S Kumar's letter, "End tax exemptions" (March 1), as well as those in Ishan Bakshi's article, "Data crunching: Are we a nation of tax evaders?" (February 28) — to which Kumar was responding — need to be examined and followed up on by policymakers.

In Budget proposals, the rich and powerful get exemptions factored in. There is no logic or rationale in continuing the exclusion of agricultural income for tax purposes, as it is being done at present. Those who benefit from huge tax waivers or exemptions do not share any of it with society when they prosper later.

With the launch of the goods and services tax, there will be an across-the-board rationalisation in taxation procedures outside the income tax (IT) net. The time is opportune to think of modalities to make IT less taxing for taxpayers.

The present legislative set-up and procedures give the impression that paying IT is a punishment for earning more and that one should not mind spending a fortune to avoid paying it. The package of tax concessions and the procedures followed by the IT department to collect taxes make one think along these lines.

Why not make the employer pay employment tax after making necessary adjustments in the compensation packages?

Alternatively, given the development of technology, it should be possible to have dedicated bank accounts for salary payments and receipts, including other incomes forming part of the taxable income. The only negative impact would be rendering some employees jobless in some departments and organisations, including chartered accountancy firms.

M G Warrier Mumbai

Focusing right

It was nice to read the two articles by Shubhomoy Bhattacharjee, "Why cheaper housing is the elephant in the room" (February 27) and "Building on the middle class dream" (March 1), as part of the series on affordable reading, the dream project of the Narendra Modi government. The fact that the Ministry of Housing and Urban Poverty Alleviation is making every effort to make the project successful is well known.

Most writing on affordable housing usually does not focus on issues such as land pricing, infrastructure development and connectivity issues. The two articles cite the issues, highlight the need to focus on reality of the real estate sector and the steps needed to achieve success.

I wish Bhattacharjee had written more about the statutory approvals required for real estate projects. At least two dozen approvals are needed; this makes life tough for the industry and even the best planned projects tend to get delayed.

A single-window clearance, like that in the telecom industry, would go a long way in the real estate sector. While that appears difficult — because land is a state issue requiring several clearances — something needs to be done.

Arbitrary changes to rules with retrospective effect cause delays, like in the case of projects on the banks of the Yamuna or in the Aravalli ranges being stopped for want of environment clearances. Easy access to debt will help. This has been addressed in a small way by adding affordable housing to the infrastructure sector.

I hope these points are included in future reports. These are issues that concern not only affordable housing but also the entire real estate sector.

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