



## Understanding Economic and Business Environment

### EPITM 4

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#### Fashioning Economic Models: Questions



##### 1. Why the Indian elephant trammelled ?

- Why nations fail?
- Lessons for sustaining growth!!
- Democracy, Markets & Growth

##### 2. India's Tryst with Trust

- The Economic Vision for Precocious, Cleavaged India: Growth vs. Inequality

##### 3. Market/Policy Reforms

- *Goldilocks Economy to Stagnation to Recovery*
- **Making the Elephant Dance again!**

## **Sawcha, Sundar and Swastha Bharat!**



### **4. Decoding Slowdown Conundrum!**

- Rights (5Rs), Entitlements & Policy Paralysis

### **5. Turning the Wheel**

- ***RaGa vs. NaMo – Aab Acche Din!***
  - ***Entitlement*** versus ***Empowerment***
    - *Beti Bachao, Beti Padhao, Swachh Bharat*
    - Start-Up and Stand-Up India (SKDC)
    - Enabler(s) – JAM, GST
    - Deify or Demonize Demonetization
    - Make in India or Made for India!!

## **The 5 Es of ECONOMICS**



- ***Economic Growth***  
*increased ability to produce goods & services*
- ***Productive Efficiency***  
*producing at a minimum cost (waste)*
- ***Allocative Efficiency***  
*producing more(less) of what people want(don't want)*
- ***Equity***  
*fair distribution of income/goods/services*
- ***Full Employment***  
*using all available resources optimally*

# MACROECONOMICS



## Structure, Performance & Behaviour

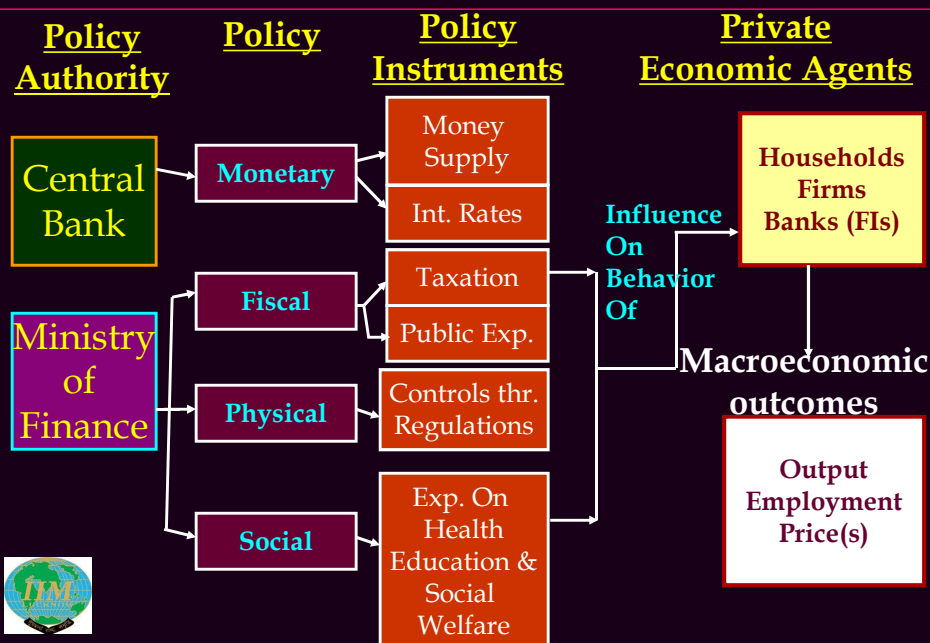
- a top-down view of the ECONOMY
- study in AGGREGATE
  - output, employment & inflation
- business cycle
- monetary & fiscal policy
- BoP & exchange rate

## Reflection on

- *organised & simplified structure*
- *to understand:–  $Y$ ,  $U(L)$  &  $P$*

Difference in *degree* not in kind

## Macroeconomic & Social Policy Framework of Economy





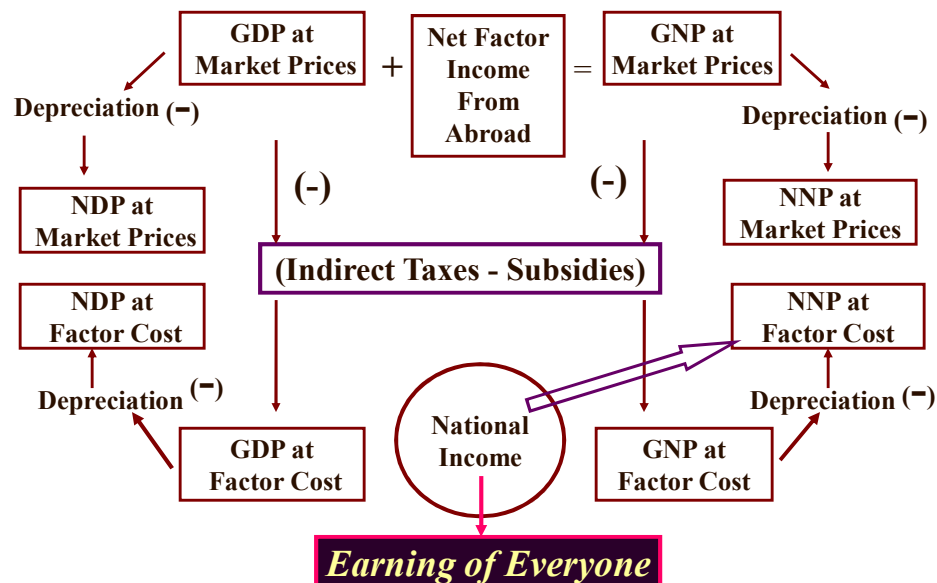
## Diane Coyle

### Estimating Living Standards: GDP Per Capita/Income

GDP measures the output of the economy in a given period.

‘It adds up everything from nails to toothbrushes, tractors, shoes, hair cuts, management consultancy, street cleaning, yoga teaching, plates, bandages, books, & the millions of other services, & the products in the economy.’

## Various Concepts of NIA



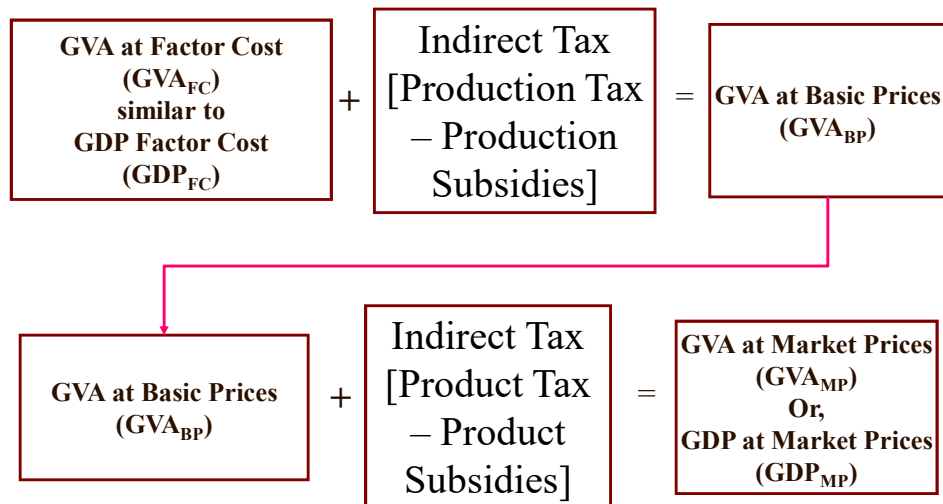
## New National Accounting



### 👉 GVA at Basic Prices ( $GVA_{BP}$ )

- ☛ aggregate output at purchasers' prices
- ☛ contribution of factors of production (LA/L/K/E)
- ☛  $GVA_{BP} = GVA_{FC}$  (similar to  $GDP_{FC}$ ) + [Production Tax – Production Subsidies]
- ☛ **Production Tax**: land revenue, stamps and registration fees, and profession taxes.
- ☛ **Production Subsidies**: to the railways, input subsidies to farmers, subsidies to village & small industries, administrative subsidies to corporations or cooperatives, etc.

## Various Concepts of NIA





## Are Nations Converging?

### What Sustains **Very Long Run Growth**?

### The Asian Landscape

Country	Population (million)	GDP (billion current US\$)	GDP per capita (current US\$)	GDP per capita PPP (US\$)	GDP growth rate 2016–17 (%)
Singapore	6	324	57,714	93,905	3.6
Korea, Rep.	51	1,531	29,743	38,260	3.1
China	1,386	12,238	8,827	16,807	6.9
Thailand	69	455	6,594	17,871	3.9
Indonesia	264	1,016	3,847	12,284	5.1
Philippines	105	314	2,989	8,343	6.7
Vietnam	96	224	2,343	6,776	6.8
<b>India</b>	<b>1,339</b>	<b>2,598</b>	<b>1,940</b>	<b>7,056</b>	<b>6.6</b>
Pakistan	197	305	1,548	5,527	5.7
Bangladesh	165	250	1,517	3,869	7.3

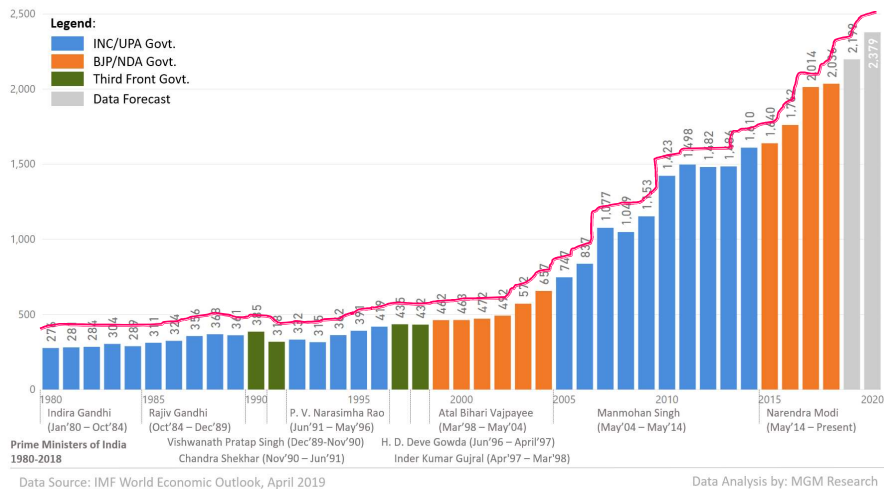
Source: World Bank World Development Indicators, 2017.

## G 20 Nations GDP Per Capita



### India GDP per capita 1980-2020

GDP per capita in current prices (US dollars per capita)



## So Close and Yet So Different: 2 Nogales



### City of Nogales, Arizona, Santa Cruz County, US

- PCI is \$30,000 per annum:
- average households: school going/access to health care/higher life expectancy/govt. provision of public utility/law and order
- Democratic government & the trust

### City of Nogales South, Sonora, Mexico

- prosperous part of Mexico
- yet PCI is 1/3<sup>rd</sup> of Nogales, Arizona
- school drop outs/high infant mortality/poor public health/high crime rates/political corruption & ineptitude

## Where and When are *Acche Din*



### ☛ North Africa/Middle East

- shaken by *Arab Spring* or “Jasmine Revolution”
  - *Mohamad Bouazzi*, a street vendor, self immolation, Dec 17, 2010, Tunisia
- Tunisia = repression + no social justice + denial of peaceful change = a ticking bomb

### ☛ Discontent?

- acute poverty (20% of population)
- average Egyptian income 12% of US citizen
- life expectancy 10 few years
- North Korea/Sierra Leone/Zimbabwe
- ½ of the population lives below \$2 PCI

## Where and When are *Acche Din*



### ☛ (Institutional) Political Change!

- conventional economic thinking
- geography/culture/know-how/faulty policies
- *Wael Khalil*, Egyptian protest blogger, 12 immediate demands focused on political change only
  1. oligarchic power structure
  2. economic impediments are due to political power  
*Husain Mubarak alone had amassed \$70bln fortune*

### ☛ Developed Countries (UK, USA & French)

- shared political power and rights
- liberty/responsive government



## Democratic Institutions & Survivability



### Adam Prezeworki

#### Since World War II

- 70 democracies in poor countries died
- all 37 democracies in richer world survived
- Countries with higher level of income & stable democracy
- India is **an exception** to sustain democracy at lower PCI
- Nehru's unwavering commitment to institution building
  - 1952, 1957 & 1962 electoral legitimacy
- Political Decay of Institutions in Mid 70s
  - Indira Gandhi was Anti-Nehru
  - Deinstitutionalisation
  - Populist Politics substituted Inclusive Growth

**Only 4.5% (23) Countries are Full Democracy**  
**India (R#53): Flawed Democracy!!**



## Macroeconomy as a **Set of Institutions**



- All those *institutions* that mediate & support the basic economic processes of *production, exchange, distribution & accumulation*
- history, culture, structure & functioning of institutions governing these processes defines the *texture* of an economy
- It is institutions that distinguish one economy from another & key to understand *why nations grow or fail*

## Capitalism



*refers to a class of economic systems where the institutions of (i) private property, (ii) markets, & (iii) firms, combine each other & interact with families, governments & other institutions*

- they may differ greatly across countries
- provided incentives and opportunities for:
  - (i) technological innovations
  - (ii) gains from specialisation
- but growth also has come with costs of depleting resources and climate change

## What Explains **Success** or **Failure** of Nation States/Economies



### 👉 **Crony Capitalism Fails!**

- if private property is not secure
  - markets won't be competitive
- firms survive because of personal network
  - rent seeking class
  - oligarchic power structure
  - crony capitalism

### 👉 **Dynamic Capitalism Succeeds**

1. private incentives for cost reduction innovation
2. firms managed efficient managers (lessen cost)
3. supportive public policy/stable society