



Diplomatic mayhem

The Saudi-led bid to isolate Qatar could have far-reaching economic-political consequences

The dramatic decision by Saudi Arabia, the United Arab Emirates, Bahrain, Egypt and Yemen to suspend diplomatic ties with Qatar could have far-reaching economic and geopolitical consequences. Tensions were brewing within the Gulf Cooperation Council for the past six years ever since Qatar started actively supporting the Muslim Brotherhood, a political Islamist movement that the Saudis and their close allies see as a threat to stability in West Asia. In 2014, Saudi Arabia, the UAE and Bahrain had temporarily withdrawn their ambassadors from Qatar over this. But a suspension of diplomatic ties as well as air and sea travel to and from Qatar is unprecedented. Saudi Arabia, the UAE and Bahrain on Monday asked Qatari diplomats to leave their countries within 48 hours and Qatari citizens within 14 days. Saudi Arabia blames Qatar for "harbouring a multitude of terrorist and sectarian groups that aim to create instability in the region". But such allegations can be raised against most Gulf countries. It is an open secret that both Saudi Arabia and Qatar back their proxy militant groups throughout West Asia. Take the case of Syria, where the Saudis back Salafi groups such as Ahrar al-Sham, while the Qataris bankroll the armed wing of the Muslim Brotherhood. Both share the same goal: to overthrow the regime of Bashar al-Assad. In Yemen, Qatar is part of the Saudi-led coalition that has been bombing the country for over two years.

It is not immediately clear what drove Riyadh to take this extreme step. Emboldened by President Donald Trump's open embrace and anti-Iran agenda, the kingdom could be making a renewed attempt to rally Sunni countries under its leadership against Tehran. Qatar has historically played off both sides of the Saudi-Iran rivalry. Even as it joined the occasional GCC outbursts against Tehran, it maintained sound economic and diplomatic ties. Qatar's ruler Sheikh Tamim bin Hamad Al Thani, who had a phone conversation with Iran's President Hassan Rouhani last week, is reportedly critical of the Saudi-led efforts to drive up an anti-Iran agenda. It is to be seen whether Saudi Arabia has overplayed its hand. If Qatar continues to resist the GCC line, it could trigger a wider crisis in the region. Qatar is an economic powerhouse in the Gulf and hosts the headquarters of the U.S. military's Central Command. The air war command for the U.S.-led fight against the Islamic State in Iraq and Syria is also in Qatar. So any prolonged attempt to isolate the country would not only have economic consequences — oil prices fluctuated soon after the decision was announced — but also complicate the fight against the IS yet more. What West Asia requires is a united front against terror and lowering of Saudi-Iran tensions. Opening new fronts in the rivalry will only destabilise the region further.

Maha farm crisis

Reforms that de-risk agriculture are required for a long-term solution to agrarian distress

A strike by farmers in Maharashtra continues to affect normal life, despite the State government's announcement of an end to the strike last week. The farmers, whose demands include full waiver of farm loans, hikes in the minimum support price for agricultural produce and writing off of pending electricity bills, have been on an indefinite strike since June 1. As the strike nears the end of its first week, prices of essential goods such as milk, fruits and vegetables have risen steeply, causing distress to consumers. Some farmer groups agreed to call off their strike after Chief Minister Devendra Fadnis promised that his government would waive farm loans of small and marginal farmers worth about ₹30,000 crore, increase power subsidies, hike the price for milk procurement, and also set up a State commission to look into the matter of raising the MSP for crops. He also promised that buying agricultural produce below their MSP would soon be made a criminal offence. Other farmer groups, meanwhile, have stuck to their demand for a complete farm loan waiver and continued with their protest. It is notable that the protests have come soon after the Uttar Pradesh government waived farm loans earlier this year, setting off similar demands in other States. Yet, while Maharashtra's farmers have caught the attention of the government, the focus on quick fixes has pushed aside the real structural issues behind the crisis.

At the root of the crisis is the steep fall in the prices of agricultural goods. The price slump, significantly, has come against the backdrop of a good monsoon that led to a bumper crop. The production of tur dal, for instance, increased five-fold from last year to over 20 lakh tonnes in 2016-17. Irrespective of price fluctuations, MSPs are supposed to enable farmers to sell their produce at remunerative prices. But procurement of crops at MSP by the government has traditionally been low for most crops, except a few staples such as rice and wheat. This has forced distressed farmers to sell their produce at much lower prices, adding to their debt burden. Not surprisingly, the whole system of agricultural marketing has led farmers to feel cheated, and it was only a matter of time before they organised themselves to protest. Going forward, any long-term, wide-scale procurement of crops at MSPs looks unlikely; even a one-time full loan waiver is considered unrealistic by the Chief Minister, given the State's finances. The possible ban on buying produce below the MSP would just worsen the crisis by making it hard for farmers to sell their produce even at the market price. The only long-term solution is to gradually align crop production with genuine price signals, while moving ahead with reforms to de-risk agriculture, especially by increasing the crop insurance cover. Expediting steps to reform the Agricultural Produce Market Committee system and introduce the model contract farming law would go a long way to free farmers from MSP-driven crop planning.

The case for a rate cut

If the RBI wishes to do its bit to boost growth, it must keep its inflation target flexible



T.T. RAM MOHAN

Did demonetisation impact the economy badly? Observers have been awaiting the growth figures for the full year, 2016-17, for a clear answer to the question. Well, the figures are out now. But the answer is not as clear as some would like to believe.

Demonetisation happened on November 8, 2016. Observers had said its effects would be reflected in the figures for growth in the third quarter of the year (October-December). They were proved wrong. Growth held up quite well in Q3 compared to that in the previous quarter.

Hold on, critics of demonetisation said, you will see the effect with a lag in the fourth quarter. It would appear they have been proved right. Growth, measured by Gross Value Added (GVA), did slow down — from 6.7% in Q3 to 5.6% in Q4. But if demonetisation did impact the economy, growth for the year as a whole should have been lower than forecast before demonetisation.

Check the timeline

This has not happened. Growth in GVA for the year as a whole, at 6.6%, is in line with estimates prior to demonetisation. Growth in GDP, which is GVA plus net taxes, came in at 7.1% for 2016-17. This is what the Central Statistics Office (CSO) had forecast even before the impact of demonetisation became known.

Some argue that the impact of demonetisation may not be reflected



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in aggregate growth but it is reflected in particular sectors that bore the brunt of demonetisation. Manufacturing slowed down from 8.2% in Q3 to 5.3% in Q4. The growth rate in construction over the two quarters changed from 3.4% to minus 3.7%. Segments of the services sector also slowed down sharply in Q4. The services sector as a whole was rescued by an acceleration in public administration, defence and other services.

The difficulty is in disentangling the effect of demonetisation from that of other factors. Merely because growth in FY 2016-17 is lower than in 2015-16 or because there was a deceleration in Q4 of 2016-17 relative to Q3, we cannot conclude that demonetisation is primarily responsible.

In 2015-16, the Indian economy reaped the benefits of a sharp drop in oil prices and the boost to consumption it gave. The *Economic Survey* of 2014-15 had estimated the potential gain for the next year at 2 percentage points of GDP. This gain was absent in 2016-17 when oil prices stabilised or even rose slightly. Private investment has continued to decelerate.

The fall in GDP growth from 8% in 2015-16 to 7.1% in 2016-17 reflects

these larger factors.

Reserve Bank vs CEA

So much for the impact of demonetisation. The fact remains that growth has decelerated over the past year. The policy question is: how should the Reserve Bank of India (RBI) respond? Chief Economic Adviser (CEA) Arvind Subramanian and the RBI differ on this all-important question.

Mr. Subramanian noted in an article last month that "since the middle of last year (2016) there has been a noticeable deceleration in manufacturing activity". He went on to argue that "there is a strong case for broad macro policy support, including monetary policy support, to reinvigorate the economy." (*Mint*, May 25, 2017.)

That is not the line that the RBI has been taking. The minutes of the Monetary Policy Committee (MPC) meeting of April 20 noted that growth in GVA was poised to rise to 7.4% in 2017-18 from the then estimated level of 6.7% in 2016-17. Further, in its monetary policy report, the RBI noted that manufacturing activity had gained momentum in the second half of 2016-17. The RBI seemed to be saying: growth is recovering of its own accord, there isn't much that we

need to do.

This is not quite true. Even if growth were recovering, it would be below the output potential of the economy. We need to aim for higher growth. The case for the RBI to cut interest rates in order to support growth does not go away.

But growth is not the primary mandate of the RBI today. The primary mandate is keeping inflation within a targeted band of 4% plus or minus 2%. The MPC's interpretation of this mandate has evolved. To start with, the MPC suggested that it only needed to ensure that inflation stayed with the overall band. In February 2017, the MPC made a significant shift: it signalled that its inflation target was 4%. Where do we stand in relation to this target?

In his VKRV Rao memorial lecture last month, Mr. Subramanian argued that the economy has "over-achieved" on inflation. Consumer Price Index (CPI) inflation is well below the RBI's medium target. "True core" inflation, that is, inflation minus food, fuel and transport services, has been falling for the past several months.

The central bank, however, is guided, not by past inflation, but by inflation expected in the future. In its monetary policy report of April 2017, the RBI noted that "core" inflation (CPI inflation minus food and fuel) was sticky. The RBI said it expected inflation to average 4.5% in the first half and 5% in the second half of 2017-18.

There is every prospect that inflation in 2017-18 will be within the RBI's 4% target. However, if the RBI does not want to take chances, it can cite several factors that could cause the 4% inflation target to be breached. GST might impact the price level adversely. The climatic factor known as El Niño could disrupt food output. Commodity

prices may harden. Allowances prescribed by the last Pay Commission could cause the inflation rate to edge up. And so on.

For a government that is keen to push growth, the RBI's position does present a problem. A cut in the policy rate would help repair the balance sheets of banks and corporates and reverse the fall in the investment rate. It would further boost consumption. By checking the appreciation of the rupee we have seen over the past year, it would give a fillip to exports.

Rupee not a worry

Until December 2016, when the U.S. Federal Reserve announced the first of many interest rate increases expected in a tightening cycle, the concern was that any rate cut by RBI would lower the difference in yields on the rupee and the dollar, cause an exodus of funds from the Indian markets, and lead to a destabilising fall in the rupee exchange rate. This is not such a concern today when foreign inflows remain strong and the problem we have is of rupee appreciation.

Whichever way you look at it, the Indian economy could use a rate cut today. However, the RBI's commitment to an inflation target of 4% renders a rate cut difficult. If the RBI wishes to do its bit to boost growth, there is only one way out. It must avail of the flexibility it has been provided under the inflation mandate. It must return to its initial commitment to the inflation band of 4% plus or minus 2% instead of being fixated on a 4% target. The alternative would be to squander a great opportunity for stepping up growth.

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Finessing data collection

Despite availability of employment statistics, data gaps need to be plugged



INDIRA HIRWAY

The government has recently set up a task force headed by the Vice-Chairman, NITI Aayog to recommend a methodology to generate timely and reliable employment data.

India already has several globally respected sources of employment statistics, which include employment and unemployment surveys (EUS) conducted by the National Sample Survey Office (NSSO) till 2011-12 at an interval of five years and annually with a thin sample; annual and sub-annual EUS by the Labour Bureau since 2011-12; the Census of India conducted every 10 years; an Economic Census conducted for agricultural (excluding crop production and plantation) or non-agricultural sectors at intervals; and other administrative data. However, with the changing times, new challenges need to be addressed.

Filling in data gaps

These include the need to collect detailed information on informal workers — their earnings, and their

working and living conditions, the need to reduce the time lag between the survey and release of data and the need to conduct short-term surveys for quick assessment of the impact of different policies on employment. A few data gaps need to be filled in, such as the absence of data on district-level employment for decentralised planning, data on circular migrant workers; the working and living conditions of women labour.

There are two more areas of employment statistics that need the attention of the task force.

Complementing surveys

Time-use surveys (TUS) to complement labour force surveys: It is now well accepted that TUS complement the labour force survey in two major ways. First, they can reduce, if not eliminate, underestimation of the workforce/labour force, which is known to be a major weakness of our employment statistics. This is because TUS, which collect comprehensive information on how people spend their time on different activities without missing any activity, are likely to capture even scattered, sporadic and irregular informal work of people. Also, under-reporting of workers due to the biases of investigators or of respondents is not likely to get in in this system of data collection. In addition, data on simultaneous activities are likely to



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net all work performed by people. They also throw additional light on the characteristics of the workforce-labour force that is not feasible under labour force surveys. This includes the scattered nature of work — mainly of informal workers, multiple jobs performed by workers; the time spent on work in hours and minutes (useful in estimating underemployment); and measuring time stress experienced by workers as reflected in their total time spent on work as well as the time spent on simultaneous activities. Our study that has compared in details the NSSO (1999-00) and TUS data (1998-99) on the workforce has shown that a TUS provides valuable additional information on the labour force in India.

The working group set up for the 68th EUS has already decided that a TUS should be conducted after an EUS — in a staggered manner to col-

lect additional and improved information on labour force.

The ILO resolution

The task force should also take note of the Resolution by ILO (2013) on Statistics of Work, Employment and Labour Underutilisation which intends to set new standards for work statistics to guide countries in updating and integrating their existing statistical programmes in the field. It defines "work" as "any activity performed by persons of any sex and age to produce goods or to provide services for use by others or for own use" (this definition is consistent with the concept of General Production Boundary under the System of National Accounts). Under the resolution, there are five distinguished forms of work. The resolution has also presented a new labour force status classification, which includes persons in employment, persons in unemployment and persons outside the labour force — all defined slightly differently than earlier. In addition, there is a brand new concept of labour underutilisation, which includes time-related underemployment, unemployment reflecting an active job search by persons not in employment, and potential labour force, i.e. persons not in employment but who are willing to work under specific conditions.

All countries including India are

expected to develop their own system of work statistics keeping in mind its various uses and a national data collection strategy. As stated in the resolution, labour force surveys will be the main source of data for implementing the resolution. They will focus on employment and, where relevant, own use production of goods. Some countries may also include unpaid trainee work. Statistics on other forms of work will be collected periodically, either as add-on modules to a labour force survey or as part of a stand-alone, special purpose survey, including a time use survey. A TUS is expected to supplement the labour force data to implement the resolution. Again, a national TUS will have to be conducted periodically using sound methods and concepts to complement the modified labour force survey to implement the resolution.

Finally, the task force should recommend modifications in a manner that comparability with old and new data is maintained — the new data should not be used to hide the declining rate of growth of employment of recent times. Unless policymakers know what is really happening, they will not be able to design correct policies.

Indira Hirway is Professor of Economics and Director, Centre For Development Alternatives, Ahmedabad

LETTERS TO THE EDITOR

Letters emailed to letters@thehindu.co.in must carry the full postal address and the full name or the name with initials.

Women in combat

The Army's move to recruit women to combat positions will open up new vistas for them. Indian women are sure to surmount initial hiccups, if any, and excel in their new and formidable assignments. With more women joining the Army in multiple fields, there will be a welcome cessation of the gender barrier and attendant mental blocks. I envision the day when a bold and accomplished woman will don the mantle of Army chief and come out with flying colours.

P.K. VARADARAJAN,
Chennai

Be humane

The media is bursting with reports on curbs on cow slaughter. There are news reports of a bizarre "food fest" at a premier educational institution in Chennai and the killing of a bull in Kerala in public view. All this is heartbreaking. For many of us from the villages, we find this to be shocking because a cow or a buffalo is valued as a treasure. These animals represent survival

as many of us wouldn't have crossed our childhood without them. If the media does its research, it will find innumerable stories: of an infant in the family which grew up on cow or buffalo milk as its mother was too sick or malnourished to feed the child or of a sick grandparent who managed to survive by depending on cow's milk. And then there are the bulls that help a farmer till the land, haul loads and help a family raise some income. City dwellers and some in the media can scoff at this as much as they want, but there are many of us who are grateful to this animal which has done so much for many a family. So please think and show some mercy towards these poor animals which make our lives better. It is unfortunate that many of these animals suffer by eating plastic, foraging in garbage and suffering oxytocin injections to yield more milk. Why add to their misery by slaughtering them?

JAGANNATHAM JAMALLA,
Chennai

Milk impure

The article on the adulteration of milk ('Being' page - "The milk you drink could be laced with detergents", June 4) is a matter of concern. One only hopes that the random milk samples tested in Delhi do not include samples supplied by government-run dairies. Milk remains the most vital nutritional food of the nation, especially for growing children, and there can be no compromise on its purity and safety standards. The government must conduct nationwide sample tests at all milk producing units in coordination with the Food Safety and Standards Authority of India and the respective State governments. In an environment where we are already being slow poisoned by air and water pollution, chemicals in vegetables and food items, adulterated milk should not be allowed to sneak in as an additional toxin. There needs to be another pure and healthy white revolution.

A. MOHAN,
Chennai

Fizzling out

The political hullabaloo over the use of electronic voting machines amounted to nothing in the end. The Election Commission of India has exposed the rank cowardice of the Opposition parties which did not have any courage to meet the challenge posed by the ECI to prove that EVMs can be tampered with. The parties which have been defeated at the hustings should now analyse the causes for their political setback and leave the ECI and EVMs alone. They should look for reasons why they have strategic deficiencies and a bankruptcy of ideologies.

B.S. JAYARAMAN,
Coimbatore

Schooling in Bihar

It is painful and disappointing to read about the Bihar topper scam ("Headmistress, two others held in topper scam", June 5 and "Bihar Inter 'topper' held", June 3). It is tragic that a State which is home to Nalanda University — once considered the centre of

excellence and quality education — and where many a bureaucrat and diplomat came from is now in the news due to its incompetent State toppers. This shows the deep maladministration and mismanagement in schools and the quality of education.

ARVIND MISHRA
Darbhanga, Bihar

■ Tamil Nadu's toppers are no better than their Bihar counterparts. I usually check those students who score stunning centums in commerce subjects. I once had a postgraduate in commerce who was unable

to explain what "average clause" in an insurance contract is. In the good old days, the marks one scored were directly proportional to the intelligence of the student. These days they are inversely related. A student scoring 50 marks or less means that he/she has tried to understand the basic concept, now considered a crime in present-day education. Education should instil discipline and humaneness in students which are sadly missing now.

A. RAVI,
Chennai

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CORRECTIONS & CLARIFICATIONS:

A news report headlined "CSIR faces fund crunch, asks labs to look outside" (June 4, 2017) erroneously expanded CSIR as the Council for Scientific and Industrial Research. It should have been the Council of Scientific and Industrial Research.

Misspelling: The blurb that accompanied the story headlined "Two dance forms, and a story of friendship across the Palk Straits" (June 4, 2017, World) got the spelling of Sri Lanka's *Kandyan* dance wrong. It had been misspelt as *Kandiyari*.

It is the policy of The Hindu to correct significant errors as soon as possible. Please specify the edition (place of publication), date and page. The Readers' Editor's office can be contacted by Telephone: +91-44-28418297/28576300 (11 a.m. to 5 p.m., Monday to Friday); Fax: +91-44-28552963; E-mail: readerseditor@thehindu.co.in; Mail: Readers' Editor, The Hindu, Kasturji Buildings, 859 & 860 Anna Salai, Chennai 600 002, India. All communication must carry the full postal address and telephone number. No personal visits. The Terms of Reference for the Readers' Editor are on www.thehindu.com