



# Low-rate GST, parenting and punishment

Vijay Kelkar on why India should begin with a single low-rate GST; why economic empowerment of mothers leads to children getting more rewards

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MUMBAI

Vijay Kelkar, one of India's most eminent economists and policymakers, delivered the fifth C. D. Deshmukh lecture, organized by the National Council of Applied Economic Research, on 27 January. Speaking on *Reflections on the Art and Science of Policymaking*, Kelkar made a case for promoting a competition-driven market economy in India.

Kelkar cautioned that the benefits of competition and reforms can be seriously compromised if governments and policymakers don't ensure that there are no market failures.

This, Kelkar said, requires building state capacity to design effective incentives and balance the pros and cons of policy interventions.

State capacity, Kelkar

added, should be built step by step by tackling easy objectives first.

Citing the goods and services tax (GST) as an example, he argued that it is better to build a single, low-rate GST first, and later move on to more complex high rates and multiple rates. India needs to build independent institutions and encourage an atmosphere of debate and dissent to improve policymaking, he said.

Read here: *Reflections on the Art and Science of Policymaking* ([bit.ly/2kxvdo1b](http://bit.ly/2kxvdo1b))

A family which has at least one member enrolled in a higher educational institution spends at least Rs15 in education for every Rs100 of its total expenditure. These findings are from a recent paper authored by S. Chandrasekhar, P. Geetha Rani and

Sohani Sahoo, from the Indira Gandhi Institute of Development Research, Mumbai; Central University of Tamil Nadu, and University of Goettingen, respectively, which has ana-



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lysed National Sample Survey Office (NSSO) data. The paper also shows that those in the southern states of the country are more likely to be enrolled in professional courses in pri-

vate institutions. Given the high fees in such institutions, students from these states also account for around 70% of total educational loans in India. Overall, the share of

households with outstanding educational loans in India is less than 2% in the country. The paper finds that the poor are less likely to spend on higher education, and calls for collecting better information on sources of financing higher education.

Read here: *Household Expenditure on Higher Education in India: What do we know & What do recent data have to say?* ([bit.ly/2jFSNdm](http://bit.ly/2jFSNdm))

Economists and commentators are worried about growing protectionism in the US after Donald Trump took over as president in January. This sentiment, however, is not reflected by the markets, which have climbed on expectation of tax cuts, increased infrastructure spending etc. Such gains, even if they come, would be at the cost of a fall in

the incomes of the larger population due to inefficient production leading to higher prices. IAS officer Gulsar Natarajan, in his blog, has cited this apparent dichotomy to ques-

tion whether market outcomes should be taken as signals of promising economic prospects.

Natarajan notes that *The Economist* has questioned whether markets would have reacted in a similar way if similar protectionist/anti-globalization policies were implemented by a left-wing leader instead of a right-wing politician like Trump. Natarajan uses this dualism to suggest

that the advent of free market capitalism has shrunk the space for democratic politics.

Read more: *Free-market capitalism's assault on economics, politics, and society* ([bit.ly/2k2Rc3a](http://bit.ly/2k2Rc3a))

While it is true that a return to autarky and protectionism can lead to lowering of global incomes and promote inefficiency in production, it is important that the gains of free trade agreements are not exaggerated. Harvard economist Dani Rodrik has underlined

this point in his reply to a detailed defence of the North American Free Trade Agreement (NAFTA) by Brad DeLong, an economic historian at University of California, Berkeley. Rodrik points out that while NAFTA did bring about efficiency gains through large changes in trade volumes, different economic groups were impacted in different ways. Rodrik cites

research which shows that in states such as Georgia, North Carolina, South Carolina and

Indiana, workers in industries like textiles, footwear and brick and tiles suffered a steep fall in wages.

Read more: *What did NAFTA really do?* ([bit.ly/2jubt1d](http://bit.ly/2jubt1d))

How has the institution of the family changed through the years, and what are the implications of the changes? Sebastian Galiani, Matthew Staiger (both from University

of Maryland) and Gustavo Torrens (Indiana University) attempt to explain some of the ramifications of these changes by developing a model of parenting styles that highlight the importance of competition within the family. The authors argue that the economic empowerment of mothers and smaller size of families have benefited children. As parents, who have greater resources at hand, compete to influence children's behaviour, children capture a higher share of household surplus. Another result of these changes has been a decrease in the use of punishment to discipline children. Conversely, poorer families that have fewer resources at hand to influence child behaviour are more likely to punish children.

Read here: *When Children Rule: Parenting in Modern Families* ([bit.ly/2F1316](http://bit.ly/2F1316))

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