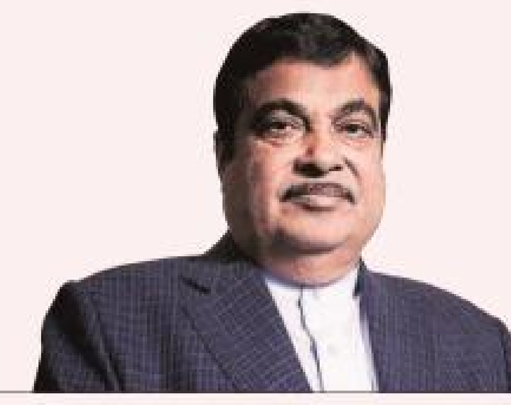
# Opinion

WEDNESDAY, SEPTEMBER 18, 2019



NO RESERVATIONS

Union Transport Minister, Nitin Gadkari

It is not true if one thinks that by reservation alone a community will get complete progress. The communities which got maximum reservation have progressed—this thinking is also not true

## No case for a GST cut, not clear that it will help a lot

Apart from the fact that automobile demand is not just driven by tax rates, consumers need to rebuild their savings

WHEN FACED WITH poor demand conditions, the natural response of most producers is to lower prices. So, it is not entirely clear why India's automobile industry should be different, and instead of cutting prices, clamour for cuts in GST rates; a final decision on this will be taken by the GST Council on Friday. There is, of course, no harm in petitioning for a tax cut, especially when the average rates are as high as 28-30% on even low-end cars and two-wheelers, but if the situation is as dire as is being made out, and tens of thousands of people are being laid off, surely the industry should lead with sharp price cuts? After all, at 12.8% for Maruti, 23.5% for Bajaj Auto, and 15.3% for Hero MotoCorp, the industry had healthy pre-tax margins in FY19.

Nor is it going to be that easy for the government to convince the GST Council to agree to this demand. For one, since a GST cess can only be levied on goods whose tax rate is 28%, lowering the GST rate to the 18% level that the industry wants will mean that whatever cess is collected from the sector will have to be given up; considering that cess collections—a fourth of this comes from the automobile sector—are used to pay the states for any shortfall in tax collections, few states would be willing to reduce the rate. Two, if the rate-reduction is not accompanied by a sharp increase in sales volumes, states will lose out on valuable revenues.

It is certainly true that, in response to the global financial crisis in FY09, the government enacted a sharp cut in excise duties; and while sales did increase—26%, in the case of passenger vehicles and two-wheelers—it is not clear how much of this was due to the tax cut, and how much due to the economy bouncing back. While FY08 growth was 9.3%, this had slipped to 6.7% in FY09, and then bounced back to 8.6% in FY10.

Apart from the fact that there is no certainty that manufacturers/dealers won't roll back their discounts once the government cuts GST rates—this will allow them to protect their margins even while prices fall for the retail consumer—there is another big difference between FY09 and now. Savings rates had fallen even then, though nowhere as sharply as now. From 37.5% of GDP in FY08, savings fell to 32.7% in FY09. But, much of this was either due to a fall in corporate savings (9.4% of GDP to 7.6%) or due to a collapse in public sector savings (5.1% of GDP to 1%); household rates actually rose, from 22.8% to 24.1%. In sharp contrast, while savings rates fell from 34.6% in FY12 to 30.5% in FY18, it is household savings that have collapsed (from 23.6% to 17.2%) this time around while public and private corporate savings rose. Presumably, if private consumption expenditure stayed buoyant all these years, even when the economy was slowing and jobs/increments were in short supply, this is because the household sector was drawing down on its savings. So, it is entirely possible that consumers will now focus on rebuilding their savings portfolios—the collapse in the Sensex also hit this—instead of increased consumption in response to tax-rate cuts.

## The idioms of division

The govt's Hindi-push may end up harming India's unity

UNION HOME MINISTER Amit Shah is right when he says—at a function to mark Hindi Divas—that a country that forgets its language "kills its cultural existence", and that "language connects us to the roots of the nation". The problem, however, lies in Shah's appeal to use Hindi as the "unifying" language when it is clear large parts of the country find this unacceptable. The PIB press release on the event quotes Shah on the "unanimous consensus for Hindi as national language in the Constituent Assembly", but the issue is about whether this was meant to be the only national language. Hindi did have influential backers in the Assembly, including Mahatma Gandhi, Sardar Patel and BR Ambedkar, but after a heated debate in the Assembly, it adopted the Munshi-Ayyangar formula that called for letting English continue as the official language of India along with Hindi for a period of 15 years, with Parliament having the power to extend the use of English further. In 1963, the Official Languages Act was enacted to grant English an extension, in a bid to preempt opposition to Hindi becoming the sole official language. In 1967, the Act was further amended to allow Hindi and English to continue as official languages indefinitely.

Given India's multilingual ethos—Shah himself noted that India was home to 122 languages, and nearly 20,000 dialects—the Constitution defines not only the official languages of the Union and the states but also the language of interstate communication, and the language to be used in the courts and in legislative processes, along with some special directives, points out Priya Misra of NLSIU in a 2017 paper in the *Journal of Legal Studies and Research*. The Supreme Court, in *Union of India v. Murasoli Maran*, said that extending the time for the usage of English does not amount to "abandonment of progress in the use of Hindi as the official language of the Union". But the home minister should look at his own speech to understand why pushing Hindi as the national (or, "unifying") language, is a patently bad idea. A language's deep links with the culture of the people that speak it is undeniable. In a country where the roots of culture and language run deep in the psyche of its many peoples, using Hindi as the sole national language is bound to erode the unity that is strengthened by this diversity.

The government should have learnt its lesson when the three-language formula controversy for school education, recommended in the original draft National Education Policy submitted by the K Kasturirangan panel, roused furious opposition in the non-Hindi speaking states. Since it clearly didn't, it should look at the aftermath of Shah's Hindi Divas remarks. Karnataka chief minister BS Yediyurappa has stated that Kannada is the "principal language" of the state, signalling an anti-Hindi imposition-stance. Leaders from across southern and eastern India have decried Hindi imposition. The creation of states largely along linguistic lines, and English having a pan-India utilitarian value has brought about a thriving unity that the authors of the Constitution recognised and appreciated. Pushing Hindi as "unifying" language undermines the unity the Constitution has so carefully crafted.

## CostlyFUTURE

If current patterns of food consumption and land use persist, these would incur a hidden cost of $16 trillion a year by 2050

A RECENT REPORT by Food and Land Use Coalition (FOLU) highlights the negative impact the current modes of food production, consumption, and land use have on the environment, and economy. According to the report, current methods have a hidden cost of $12 trillion a year—they are the biggest contributors to greenhouse gas emissions (30%). The current modes of production, and consumption have also led to the degradation of the world's wetlands, tropical forests, grasslands, and other habitats. The report warns that the hidden costs could amount to $16 trillion a year by 2050 if urgent measures aren't taken to change the current patterns of food production and land use.

The report states that global farm subsidies have a rather large climate-change footprint—1% of the $700 billion given as farm subsidies globally is used in a manner that benefits the environment. The rest results in high emission cattle production, deforestation, and pollution from excessive use of fertilisers. The economic structure of the food system in itself fosters inequality. According to the report, of the 740 million people living in poverty, two-thirds are agricultural workers and their dependants. To tackle this, FOLU recommends a reform agenda, which is centred around 10 critical points—healthy diets, productive and regenerative agriculture, healthy and productive ocean, protecting and restoring nature, diversifying protein supply, among others. It states that if the 10 points are worked upon, then the current food and land use systems can provide food security, and healthy food for nine billion by 2050, and also tackle and mitigate climate change. Also, reduction in hidden costs would add $5.7 trillion to society annually by 2030, and $10.5 trillion annually by 2050. The report notes that reduction of hidden costs will also lead to a reduction in public health costs of $1.09 trillion a year by 2030.

POPULATION PROBLEM

IN KEEPING WITH THE GLOBAL TREND, INDIA'S FERTILITY RATE AND POPULATION GROWTH RATE HAVE BEEN DECLINING. DATA SHOWS INDIA WILL SOON LOSE ITS DEMOGRAPHIC ADVANTAGE

# India fast losing demographic potential

TV MOHANDAS PAI & NISHA HOLLA

Pai is Chairman, Aarin Capital & Holla is Technology Fellow, C-CAMP

Views are personal

THE WORLD IS experiencing unprecedented demographic change, and the topic occupies centre-stage in many countries. Global population growth rate reduced from 2% in 1970 to 1.1% in 2018. On average, the population is ageing; and rather steeply, across the developed world. The fastest growth is now seen mostly in Africa due to higher fertility rates.

Japan is a classic case of an ageing country, where the number of yearly births is significantly lower than the number of deaths. World Bank data shows Japan's population growth rate deteriorated from a dismal 0.05% in 2008 to a negative 0.2% in 2018. Median age is around 47 years, and the ratio of older people to the working-age population is the world's highest.

Fertility has dramatically reduced in developed regions like the United States, Europe, and Russia. The US fertility rate is now 1.8 births per woman, down from 3+ in 1964, and less than the replacement rate of 2.1. Population growth decreased from 0.95% in 2008 to 0.62% in 2018. Their population is ageing, with a median age of 38 years as opposed to 28 in 1970. Meanwhile, Russia's growth rate has been hovering around 0% for over two decades. The developed world is getting older, and shrinking. The biggest challenges are now in managing an ageing society, with implications in social security benefits, hospices and healthcare, workforce productivity, automation, accelerated obsolescence, and many other factors.

The geopolitical repercussions of population decline in the developed world are becoming increasingly mainstage. Immigration is changing the ethnic make-up of many countries in Europe and the United States. Different communities have different fertility rates; typically, immigrating groups produce more children than native—mostly white—populations in these regions. In the US, fertility rates amongst the white community average 1.7 while those among the Hispanic community average 2.2. The white community is estimated to dip below 50% of the population by 2045, while the Hispanic community might reach 25%, up from 17% in 2018.

Apart from other ramifications, the question of skills among communities is foremost. Historically, the immigrant Hispanic community does not have the same skill level as the white community, which bleeds into economic productivity, and national growth. With the steep rise in non-white politicians—especially in the neo-socialist, extreme left-wing cliques in the Democratic Party exemplified by "The Squad"—demographic change is bleeding into politics as well.

Closer home, China—the world's most populous country—is witnessing a colossal shift. The population growth rate has stabilised at around 0.5% over the last decade, and the number of babies born in 2018 was only 15.23 million—the lowest since the 1961 famine. Median age is 37 years, compared to 19 years in 1970. Like the developed world, China, too, now faces issues like a shrinking workforce, and an ageing population.

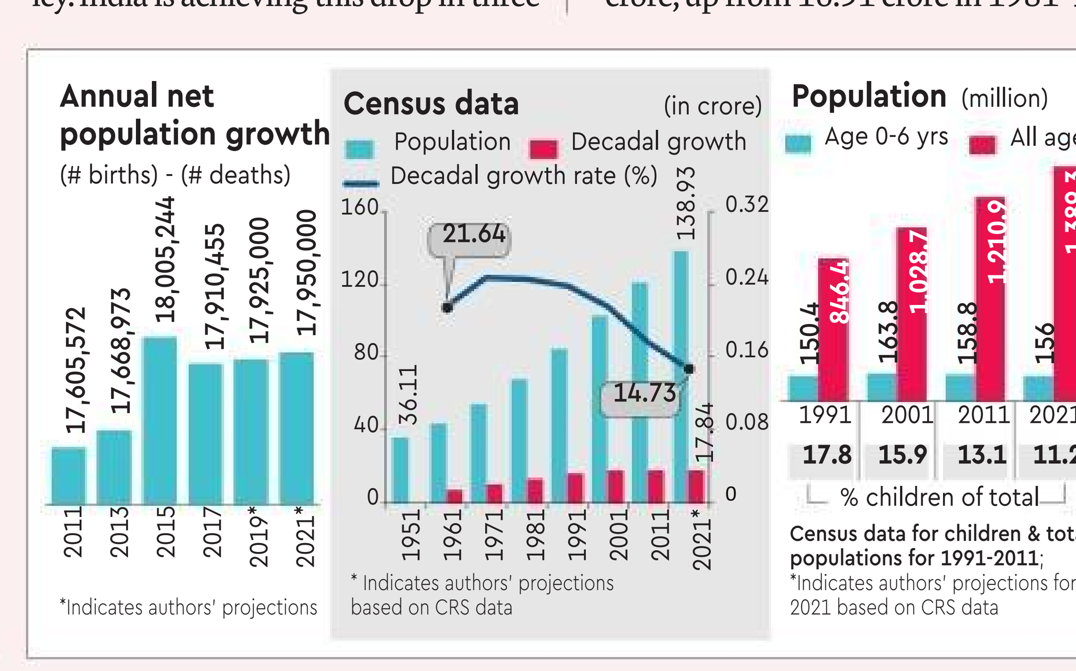
India's fertility has dropped dramatically. Data from the National Family and Health Survey (NFHS) shows India's Total Fertility Rate (TFR) decreased from 3.39 in 1990-92 (NFHS-1) to 2.18 in 2013-15 (NFHS-4). This means, already in 2015, we were below the average global replacement rate of 2.3. A previous article, by authors Pai and Baid, (*bit.ly/2MtXsLY*) projects that India's TFR will fall just under 2.0 in 2019. Following the linear trend projection indicates that TFR in India might be as low as 1.86 in 2021.

"Demographics is truly a nation's destiny. The US took 50+ years to stabilise from a fertility rate of 3+ to 1.8. China took under two decades, due to the forced enactment of the One-Child Policy. India is achieving this drop in three decades without any extreme interventions. It is remarkable that a country the size of India is achieving this organically. Policymakers must study the effect of liberalisation on our demographics; it cannot be a coincidence that fertility dropped steeply from 3.4 in 1992 to 2.18 in 2015 after liberalisation in 1991."

To examine this trend from another angle, there is a wealth of data in the Civil Registration System (CRS). CRS maintains a state-wise database of the number of registered births and deaths in the country. The latest CRS report, based on 2017 data, marks the level of registration of births at 85%, and of deaths at 80%. With this, we can estimate the number of births and deaths per year, and the population growth, barring immigration. The accompanying graphic contains yearly net additional population since 2011, with actual data up to 2017, and trend projections for 2019 and 2021.

With the addition of annual net populations based on CRS data, the projection for 2021 comes close to 139 crore, as shown in the accompanying graphic. The data-backed model also predicts that decadal growth, and growth rates for 2011-21 will fall more steeply than in the previous decades. The upcoming 2021 census will cast more light on this.

Decadal growth reached its zenith in 1991-2001, with an increase of 18.23 crore, up from 16.31 crore in 1981-91.




In 2001-11, decadal growth stabilised to 18.21 crore, slightly fewer than the previous decade. CRS data shows decadal growth is expected to reduce in the 2011-21 decade to roughly 17.8 crore.

Decadal growth rate, on the other hand, peaked back in 1961-70 at 24.8%, and has steadily decreased ever since, which means that the population has been growing slower and slower after 1971. Growth slowly reduced to 21.5% in 1991-2001, and then rapidly dropped to 17.7% in 2001-11. With the population projection based on CRS data, it looks like decadal growth rate might plummet to 14.7% in this decade. Without a doubt, India's population is ageing.

The future of all communities lies in its children. India was always pegged as the recipient of the demographic dividend, but data shows we will soon lose that advantage. The accompanying graphic shows the number of children between the ages of 0 and 6 years in the census years 1991 to 2011. This number rose from 150 million in 1991 to 164 million in 2001, and then dropped to 159 million in 2011. Projections from the CRS data indicate that in 2021, India will have around 156 million children, a drop of 3 million from 2011.

The percentage of children to the total population, however, has been steadily decreasing, from 17.8% in 1991 to 13% in 2011. 2021 projections indicate this might fall to 11% soon. Fewer children being born means fewer children entering Class 1, and, ultimately, fewer people entering the workforce.

At the rates fertility and population growth are dropping, India's population may stabilise faster than expected. We can expect a peak soon, followed by a gradual decline. With improved lifespans, we are soon going to have a large ageing population, supported by a gradually-shrinking workforce. These trends indicate that many areas of our economy are going to be affected imminently, and must be given special attention—from staffing primary schools and teacher training, to improving workforce productivity and instituting special programs for the 60+ age groups.

India's policymakers must commission a detailed demography study that brings together different aspects like fertility, births and deaths, school enrolment, workforce participation, and so on. This study will provide a solid foundation on which to make the necessary policy changes, and investments as India grows to a $5 trillion economy.

# Draghi lets Lagarde pick up the pieces

The former MD of IMF will need all her political skills to ensure that the ECB does not become unmanageable from the beginning of her term

FERDINANDO GIUGLIANO

Bloomberg

It is not easy being in Christine Lagarde's shoes. The incoming president of the European Central Bank has not yet presided over her first Governing Council meeting, but she will have to face down a revolt over the central bank's decision to restart quantitative easing before she even starts.

Lagarde may want to thank Mario Draghi for pushing through such a momentous decision in the face of widespread opposition. But, the former managing director of the International Monetary Fund will now need all her political skills to ensure that the ECB does not become unmanageable from the very beginning of her term.

The intellectual case for pushing through such a comprehensive package—which also included a rate cut and easier lending terms to banks—was compelling. The euro zone economy is slowing and inflation is widely off the central bank target of just below 2%. As Draghi said, it would be a lot better if governments with fiscal space—such as Germany and the Netherlands—took the lead in spurring a recovery by increasing investment spending or cutting taxes. But in the absence of a sustained fiscal stimulus, the ECB has no option, but to unleash its monetary might.

Still, the decision came at an awkward time and was overshadowed by disagreements. On October 31, Draghi will step down at the end of his eight-year presidency to make way for Lagarde. The decision to restart quantitative easing reportedly faced opposition from the governors of the central banks of Germany, France and the Netherlands, and from executive board members including Benoit Coeure. The head of the Dutch central bank, Klaas Knot, took the unusual step of criticising the decision in an official statement.

Draghi could have left it to Lagarde to form a broad consensus, but he clearly isn't a man for compromise. In 2012, when he announced in London that the ECB would do "whatever it takes" to save the euro, he took many of his fellow members on the governing council by surprise. The "Outright Monetary Transactions" scheme—which spelled out the technicalities behind "whatever it takes"—went ahead in spite fierce opposition from Jens Weidmann, the powerful president of Germany's Bundesbank. On that occasion, Draghi's judgment was correct. His solitary style of leadership served the euro zone well. The hope must be that time will prove him right again.

> Throughout his term, Draghi has managed to paper over the divisions at the heart of an incomplete monetary union, but the cracks remain

Lagarde will have to deal with the inevitable fallout. At a hearing at the European Parliament this month, she pledged to act with "agility" and to continue with Draghi's loose monetary stance for a "prolonged period of time." These comments suggest she is probably comfortable with the actions the ECB took last week. But, it will be far harder to defend the new scheme of net asset purchases when she takes the central bank's top seat in November. To make things worse, the rebellion at the central bank is far larger than anything Draghi has had to deal with before.

The transition at the ECB was always going to be difficult. Throughout his term, Draghi has managed to paper over the divisions at the heart of an incomplete monetary union, but the cracks remain. The irony is that last week's decision to relaunch QE could make these splits come back with a vengeance. Lagarde should be nervous about Draghi's last hurrah.

*This column does not necessarily reflect the opinion of the editorial board or Bloomberg LP and its owners*

## LETTERS TO THE EDITOR

### Farooq Abdullah's arrest under PSA

That the government has rushed to detain Farooq Abdullah under the Public Safety Act, and declare his house a jail just ahead of Vaiko's plea in Supreme Court against his detention exposes the intentions of the ruling dispensation. Sensing the mood of the apex court that has raised many questions over the prevailing situation in Jammu and Kashmir, and that the dissatisfied Chief Justice of India has opted to visit the Valley to assess the present conditions in person, the government has tried to pre-empt the results of Vaiko's habeas corpus petition to have the state government produce Farooq Abdullah in court and set him free. By detaining Dr Abdullah under PSA, the government has not only confined him to a single room in his own multi-roomed house but also restricted his movements. Though Home Minister Amit Shah has earlier asserted that Dr Abdullah was not under house arrest, which was refuted by the detainee, his detention under a more stringent PSA confirms the fact that he was all along under house arrest only. If Dr Abdullah's arrest is inevitable, that too under the stringent PSA, the government should come open to say so detailing the reasons for same.

— Tharcius S Fernando, Chennai

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ANDREW JACOBS
New York Times

# Eating away at food safety norms

A shadowy industry group shapes food policy around the world

**WHEN THE INDIAN GOVERNMENT** bowed to powerful food companies last year and postponed its decision to put red warning labels on unhealthy packaged food, officials also sought to placate critics of the delay by creating an expert panel to review the proposed labeling system, which would have gone far beyond what other countries have done in the battle to combat soaring obesity rates.

But the man chosen to head the three-person committee, Dr. Boindala Sesikeran, a veteran nutritionist and former adviser to Nestle, only further enraged health advocates.

That's because Dr. Sesikeran is a trustee of the International Life Sciences Institute, an American nonprofit with an innocuous sounding name that has been quietly infiltrating government health and nutrition bodies around the world.

Created four decades ago by a top Coca-Cola executive, the institute now has branches in 17 countries. It is almost entirely funded by Goliaths of the agribusiness, food and pharmaceutical industries.

The organization, which championed tobacco interests during the 1980s and 1990s in Europe and the United States, has more recently expanded its activities in Asia and Latin America, regions that provide a growing share of food company profits. It has been especially active in China, India and Brazil, the world's first, second and sixth most populous nations.

In China, the institute shares both staff and office space with the agency responsible for combating the country's epidemic of obesity-related illness. In Brazil, ILSI representatives occupy seats on a number of food and nutrition panels that were previously reserved for university researchers.

And in India, Dr. Sesikeran's leadership role on the food labeling committee has raised questions about whether regulators will ultimately be swayed by processed food manufacturers who say the red warning labels would hurt sales.

"What could possibly go wrong?" Amit Srivastava, the coordinator of the advocacy group India Resource Center, asked sarcastically. "To have a covert food lobby group deciding public health policy is wrong and a blatant conflict of interest."

The organization rejects allegations that it works to advance the interests of its corporate members. "Under no circumstance does ILSI protect industry from being affected by disadvantageous policy and laws," the group said in a statement.

After decades largely operating under the radar, ILSI is coming under increasing scrutiny by health advocates in the United States and abroad who say it is little more than a front group advancing the interests of the 400 corporate members that provide its $17 million budget, among them Coca-Cola, DuPont, PepsiCo, General Mills and Danone.

Last year, the candy maker Mars withdrew from ILSI, saying it could no longer support an organization that funds what a Mars executive described as "advocacy-led studies." In 2015, ILSI lost its special access to governing bodies at the World Health Organization after critics raised questions about its industry ties.

In the 40 years since its creation, ILSI has methodically cultivated allies in academia and government through the conferences it sponsors around the world, and by recruiting influential scientists to committees that work on issues like food safety, agrochemicals or the promotion of probiotic supplements.

Although conference topics seldom touch on politically contentious matters, critics say they serve a larger purpose: cultivating scientists and officials who might normally avoid an event directly sponsored by McDonald's or Kellogg's.

"It also helps that they are always held at five-star hotels, and that they serve you lunch," said Dr. Shweta Khandelwal, a nutritionist with the nonprofit Public Health Foundation of India. "We certainly don't have the money to pay for people's lunch."

In many ways, Dr. Sesikeran is the ideal ILSI recruit: a former top government official and marquee nutritionist. In the seven years since he retired as director of India's National Institute of Nutrition, Dr. Sesikeran has advised companies like Nestle, the Japanese food giant Ajinomoto and the Italian chocolate maker Ferrero.

Since 2015, Dr. Sesikeran has been a trustee of both ILSI-India and the organization's global operation based in Washington, and he is a frequent speaker at ILSI events, where he has lectured about the benefits of artificial sweeteners and genetically modified crops.

The ILSI positions are unpaid, but they come with all-expense-paid travel to meetings around the world.

Last year, when the Food Safety and Standards Authority of India needed someone to lead its panel on warning labels, officials chose Dr. Sesikeran. Pawan Kumar Agarwal, the authority's chief executive, had spoken at ILSI seminars alongside Dr. Sesikeran, and in 2016, he tapped Dr. Sesikeran for a committee weighing the pros and cons of genetically modified mustard plants.

According to Indian law, seats on such scientific panels are reserved for independent experts, a point highlighted in a letter that Mr. Srivastava of the India Resource Center recently sent to the food authority. "The regulated cannot be the regulators," he wrote, noting that ILSI's disclosure forms require board members to place the organization above all other interests.

Dr. Sesikeran did not respond to interview requests. Dr. Arun Gupta, a pediatrician with Nutrition Advocacy in Public Interest-India, said that in private, Dr. Sesikeran has defended his close association with industry, saying he believed he could bring about needed change by working with big food companies, not against them.

> **Created four decades ago by a top Coca-Cola executive, the International Life Sciences Institute now has branches in 17 countries. It is almost entirely funded by Goliaths of the agribusiness, food and pharmaceutical industries**

Rekha Sinha, the long-time executive director of ILSI-India, said suggestions that the organization promotes industry were wrong. In the two decades since its founding, she said, ILSI-India had funded studies on diabetes, helped promote the mandated fortification of processed food with vitamins, and advised the government on how nutrition affects those with H.I.V. and AIDS.

"The criticisms of ILSI-India that are circulated out there are very painful because they are not justified," she said.

As it expands across the globe, ILSI is drawing unflattering attention. Over the past year, researchers have documented how the organization's China affiliate helped shape anti-obesity education campaigns that stressed physical activity over dietary changes, a strategy long espoused by Coca-Cola that critics say was designed to protect corporate profits.

In Beijing, relations between ILSI and the government are so intertwined that ILSI's top leaders double as senior officials at China's Center for Disease Control and Prevention.

Through freedom of information requests, authors of a recent study in the United States obtained emails between ILSI trustees, its corporate members and the group's allies in academia urging them to step up their fight against the WHO's increasingly tough stance on sugar.

In one exchange in 2015, Alex Malaspina, the founder of ILSI, sought suggestions from ILSI trustees and an official at the Centers for Disease Control and Prevention in Atlanta about how to influence Dr. Margaret Chan, then the WHO's director-general.

"We must find a way to start a dialogue," wrote Mr. Malaspina, who retired as ILSI's president in 2001 but was still in frequent contact with its staff, trustees and corporate members. "If not, she will continue to blast us with significant negative consequences on a global basis. This threat to our business is serious."

James Hill, an ILSI trustee and expert on weight management, responded, "I agree that we need to do something to try and prevent WHO from taking a completely anti-food industry stance in the obesity field."

In a statement, ILSI, based in Washington, said claims that it sought to influence the WHO were "unfounded and inaccurate." Although it did not provide further details or respond to specific questions about its activities overseas, the organization said in another statement that ILSI entities are allowed to provide regulators "information relating to factual matters within ILSI's scientific expertise."

In addition to its far-flung offices, ILSI runs a research foundation and an institute focused on health and environmental issues that is largely funded by the chemical industry. It also publishes the academic journal *Nutrition Reviews* and organizes scores of scientific conferences around the world.

Much of ILSI's work in recent years has focused on fostering relationships in developing countries.

"Emerging economies are where the action is," said Laura A. Schmidt, a professor of health policy at the University of California, San Francisco. "These are places where the health infrastructure is less established and populations may be less informed about health hazards. If corporations can get in on the ground floor, they can shape the narratives and policies around unhealthy products."

The organization's annual report and website brim with assurances about its commitment to transparency. According to its code of ethics, ILSI projects "must address issues of broad public health interest."

But the organization has a long history of championing corporate interests. In 2001, a WHO report criticized the group for its role in financing studies that cast doubt on the dangers of smoking, and in 2006, the agency barred ILSI from activities involving the setting of standards for food and water after its stealth efforts to sway policy in favor of industry came to light.

Over the past decade, ILSI has received more than $2 million from chemical companies, among them Monsanto, which was bought by Bayer last year. In 2016, ILSI came under withering criticism after a UN committee issued a ruling that glyphosate, the key ingredient in Monsanto's weed killer Roundup, was "probably not carcinogenic," contradicting an earlier report by the WHO's cancer agency. The committee, it turned out, was led by two ILSI officials, one of them Alan Boobis, the vice president of ILSI-Europe who has done consulting work for the chemical sector.

In India, ILSI's expanding influence has coincided with mounting rates of obesity, cardiovascular disease and especially diabetes, which affects more than 70 million Indians. Experts say that number could soar to 123 million in the next decade as more people embrace processed foods high in fat, sugar and salt.

The government has responded with bold measures, including a 40% tax on sugar-sweetened soda introduced in 2017. But other efforts, including a ban on junk food sales in and around schools, have stalled amid opposition from food and beverage companies.

"The power of this industry is even greater than that of the tobacco industry," said Sunita Narain, the director of the Center for Science and Environment in New Delhi. Four years ago, she took part in a government panel on warning labels whose report was promptly shelved. "But they are so shadowy that these players don't dare come to the table representing the food industry, because no one would accept Coca-Cola or Pepsi in the room."

ILSI-India has excelled at getting its allies into the room.

In addition to Dr. Sesikeran's roles, Dr. Debabrata Kanungo, an ILSI member and former official with the Indian Ministry of Health, sits on two scientific food panels: one considering the safety of pesticide residues, and another on additives in processed foods. Ms. Sinha, ILSI-India's executive director and an economist by training, briefly served on a government nutrition panel along with Dr. Sesikeran, but both were removed after they failed to declare their relationship with ILSI as a conflict of interest.

Even as its influence in the developing world grows, ILSI has faced occasional pushback. An ILSI-funded research project on childhood obesity in Argentina was canceled three years ago after parents whose children were enrolled in the study learned more about the organization. And in 2015, ILSI officials in Washington shuttered ILSI-Mexico after the news media there wrote unfavorably about a conference it organized on sweeteners.

Many of the speakers, it turned out, were well-known advocates for the beverage industry, and at the time, the Mexican government was considering modifications to a newly enacted tax on sugary drinks.

It did not help that the head of ILSI-Mexico was Raul Portillo, a former Coca-Cola executive in charge of regulatory and scientific affairs.

In an email to one of the group's trustees, Mr. Malaspina, ILSI's founder, called the incident a "mess" and said he was saddened by the decision to suspend ILSI-Mexico. "I hope we have now reached bottom and eventually we will recover as Coke and ILSI are concerned," he wrote.

The suspension, it turns out, lasted less than a year, and ILSI-Mexico is up and running with a new executive director: J. Eduardo Cervantes, the former director of public affairs at Coca-Cola of Mexico.

## RBI POLICY

# The 'fiscal or monetary?' question

It is worth looking at what Subir Gokarn said in the 2013 Report of Currency and Finance

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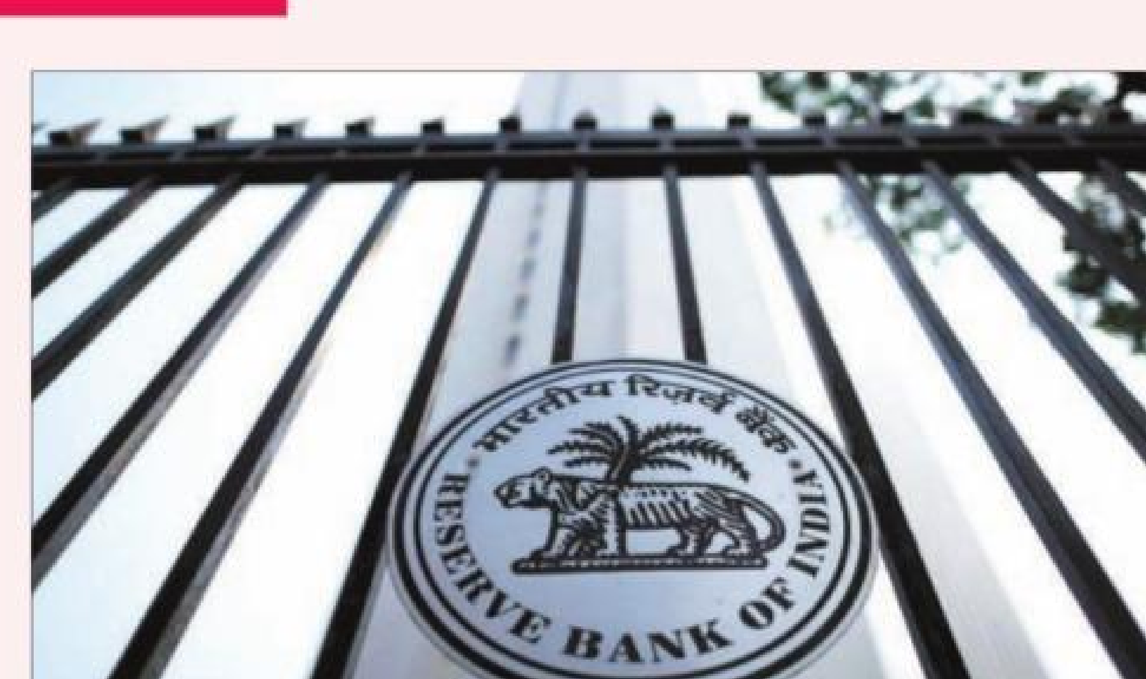



**THE RESERVE BANK** of India (RBI) published its last Report of Currency and Finance (RCF) in 2013. RCF 2013 was titled "Fiscal-Monetary Co-ordination". It was prepared under the guidance of Subir Gokarn, when he was the Deputy Governor of RBI. When there is wide concern about the tendency to dichotomise the effects of monetary and fiscal policies on growth slowdown, I remember Subir's contributions to the plausible linkages between the two.

Since 2013, India has embarked into a new monetary framework, through the Urjit Patel Committee report recommendations and the subsequent signing of an agreement by Government of India and RBI on a "new monetary framework" (NMF) on February 2015, based on these recommendations. As per the NMF, the single objective of RBI is price stability through an inflation targeting (flexible) framework.

The NMF also has envisaged central bank independence—operational independence (not goal independence) through the formation of the Monetary Policy Committee (MPC) to vote on repo rate adjustment announcements, whether to maintain "status quo" with regard to policy rates or alter. The MPC has announced its policy rate decisions, based on the detail analytics of global and internal macroeconomic environment. Now, is there a clamour to relook the monetary policy stance—the new monetary framework? Is there any pressing concern to return to the previous framework of fiscal-monetary linkages?

Economists often trace back the institutional linkages between fiscal and monetary authorities to 'Unpleasant Monetary Arithmetic' (UMA) of Thomas J Sargent and Neil Wallace. This UMA regime deals with the question of who "dominates" and who gets the "first mover advantage" in policy decisions to finance the fiscal deficits. The monetary arithmetic turns "unpleasant" as the fiscal policymaker "dominates" and monetary policy "follows" in these policy decisions. They believed that the bond financing of deficits (the pre-dominant method of financing fiscal deficit in India) becomes, sooner or later, unsustainable, and the central bank has to step in and generate the monetary seigniorage revenues (by printing money) for the "eventual monetization of deficits".

Yet another point to recall is that in the "fiscal dominance" regime, the attempts by the central bank to keep inflation low through inflation targeting cannot last and must ultimately give into higher inflation in the longer run. The compelling reality under this regime, therefore, would be "inflation today or inflation tomorrow".

Now, one may ask whether the macroeconomic environment gets better if the "roles are reversed" and the "first mover advantage" is transferred to monetary policy stance, with central bank independence (CBI). Economists refer this situation of central bank independence (CBI) and inflation targeting with no fiscal policy dominance as 'Unpleasant Fiscal Arithmetic' (UFA).

The Unpleasant Fiscal Arithmetic believes in introducing strict "fiscal policy rules", and it obliges fiscal agencies to adjust to the anti-inflationary policy of the independent central bank. Here, I do remember Subir's question—"does monetary rule need a prelude, a fiscal rule?" It was during the period when India has started experiencing a macroeconomic transition from "discretion" to "rules" or even towards "controlled discretion". A recent treatment of the fiscal-monetary policy linkages is the "fiscal theory of the price level". This is an interesting rewind of fiscal-monetary linkages especially when "price determination" is perceived not strictly as a monetary phenomenon.

These "fiscalists" argue that the price level depends on fiscal policy and the price level "indeterminacy" problems can be solved by having the central bank peg the nominal interest rate at a level consistent with the central bank's desired inflation rate, rather than by controlling the growth rate of the (base) money supply.

The new avatar of fiscal-monetary linkages—fiscal route to price determination—is about strict fiscal rules and inflation targeting. This requires the fiscal authorities to keep the deficits within the numerical threshold level of deficits normalised to GDP. Apparently, the numerical fiscal rules have become the name of game to achieve greater fiscal discipline, with or without its impending adverse consequences on economic growth.

If we empirically examine the Indian context, the fiscal-monetary linkages have been prominent under two channels. One is through "monetary seigniorage"—automatic monetization of deficits—which India contained long back. The second channel is through "fiscal seigniorage" which takes into account the central bank's profit transfer to the government. Neumann defined fiscal seigniorage as [Net Profit] minus [Dividend paid to member banks minus Book Loss on FOREX minus Investment in Loans and Foreign Assets], where the Net Profit is monetary seigniorage minus Operating Costs. This can be derived through Central Bank's balance sheet, and is very relevant to understand Bimal Jalan's panel recommendations on surplus transfer to the government.

When India is thinking of external financing—sovereign bond—of fiscal deficits, monetary seigniorage financing attains renewed attention as it is an internal source of financing deficits. Excessive mode of any source of financing the fiscal deficits has specific macroeconomic consequences. However, economists often believe that the monetary seigniorage financing of fiscal deficits is technically a "free lunch" if the economy has not attained the full employment levels. From the point of view of public debt, the "free lunch" applies if $r<g$, where $r$ is the real rate of interest and $g$ is the real growth of economy. Unpacking these debates on fiscal-monetary linkages in India is thus contextual for more reasons than one.