

theirview

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Assam needs an action plan

The state faces many economic and human capital challenges that must be tackled with ingenuity and resolve

Lachit Borphukan, the courageous commander of the Ahom kingdom (in present-day Assam), gained fame for defeating the Mughal army in the Battle of Saraighat in 1671. He used every trick in the book—from choosing advantageous terrain and conducting guerrilla attacks to using his intelligence apparatus. The present Assam chief minister, Sarbananda Sonowal, will have to display similar ingenuity if he wishes his government to tackle the state's development challenges and put it on the path of rapid development.

Assam's challenges are many. Being landlocked with no easy access to a seaport makes it difficult for the state to make a mark in the global trade of goods. The security challenges posed by infiltration from Bangladesh and the annual flooding caused by the Brahmaputra are perennial value destroyers.

In the four months since the new government has been sworn in, it has already faced up to the annual flooding. About 40% of Assam is prone to floods and no development can sustain if it continues to lose about Rs200 crore worth of property every year on an average—not to mention the significant loss of life every time flooding occurs. No wonder the great singer Bhupen Hazarika chided the river for being indifferent to the people's sufferings. The Assam government has set up an expert committee to study the taming of China's Yellow River—also known as Hwang Ho (China's Sorrow)—in a bid to learn about flood control techniques. Hopefully, some concrete course of action will result from this.

The infiltration issue is also being addressed genuinely for the first time. There are about 140,000 D-voters ("doubtful voters") in the state while the actual figure may be much higher. This was a raging issue during the 2016 state assembly election and the Sonowal government has promised to fence the border with Bangladesh in two years. The infiltration and consequent violence, especially in the Bodo areas, do not augur well for development.

Sonowal has to take advantage of any peace dividend resulting from this and launch a massive development programme. Investment in human capital via deepening access to high-quality education and health is important. The health indicators of Assam are abysmal. The infant mortality rate for Assam is 54 per 1,000 live births, while it is 21 for Tamil Nadu and 40 for India as a whole. Rampant trafficking of young women also has to be addressed urgently.

Assam ranks 22nd among Indian states in ease of doing business and reforms implementation. The total FDI (foreign direct investment) from 2000-15 was around \$90 million, while Karnataka's FDI inflow in 2014-15 alone was \$6.7 billion.

One of Sonowal's primary tasks will be to inject energy into the bureaucracy, which does not

compare favourably with that of, say, Tamil Nadu or Karnataka. Sonowal should take a cue from the manner in which Narendra Modi built the *Vibrant Gujarat* brand when he was the chief minister. The Assam government needs to be seen as proactive. It cannot sit back and wait for investors and tourists to discover the state. The current *Awesome Assam* campaign is poorly crafted and has been getting negative reviews.

To give some perspective, Assam attracts around 25,000 foreign visitors per annum while Tamil Nadu has 4.7 million foreign visitors. Every rupee invested in tourism gives an eightfold return to the economy. These numbers alone should impel the government to approach this issue on a war footing.

But the real game changer in Assam will be the development of a strong agribusiness industry. Assam needs an integrated agribusiness policy like the Karnataka's Integrated Agribusiness Development Policy 2011, which places emphasis on both agri-industries and agri-infrastructure.

Assam has six agro-climatic zones and produces a variety of fruits, vegetables and herbs. It also produces more than half of India's tea. "Assam Tea" has obtained Geographical Indication, but the brand needs to be strengthened. And 60% of India's bamboo comes from the NorthEast, pointing to the possibility of the development of bamboo-based industries. In addition, Assam is popular for Eri and Muga silks, whose popularity unfortunately has not been exploited properly.

Modi has said that the North-East can emerge as the "basket of organic food" for India. But there are challenges in terms of logistics and productivity. For example, banana productivity in Assam is 17 tonnes/hectare while in Madhya Pradesh it is 66 tonnes/ha; for pineapple, it is 17 tonnes/ha in Assam, while it is 63 tonnes/ha in Karnataka.

Assam's situation today is such that it could be a poster child for the "Skill India" campaign, feeding in turn into all the above-mentioned sectors. While literacy rate is on a par with the rest of India, the state's per capita income is around Rs50,000 compared to around Rs94,000 for India. Vocational training using the public-private partnership model, and a flow of skilled labour into agri-business, tourism, petroleum and services will help in mitigating the migration problem.

To develop a "Xarvasreshtha Axom", chief minister Sonowal should present a solid action plan in the next few months, laying out a comprehensive strategy for achieving progress in various sectors. He needs to display political resolve and commitment to action. If he needs inspiration, he need only look back to Borphukan on the banks of the Brahmaputra.

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Reserve Bank of India's new neutral rate

The central bank is lowering the policy rate despite its relatively pessimistic assessment of inflationary pressures

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India's new monetary policy committee (MPC) met under the new central bank governor for the first time on 4 October, and decided to lower the benchmark repo rate by 25 basis points to 6.25%. It also signalled a more practical approach towards cleaning up bank balance sheets. This was in line with market expectations. First, the central bank had indicated towards the end of the tenure of the previous governor that it had shifted to an accommodative mode. Second, consumer price inflation was trending downward and seemed to be within its comfort zone. Third, the new governor was widely perceived as dovish, with a growth and credit rather than anti-inflationary and financial stability bias, in contradistinction to the former governor.

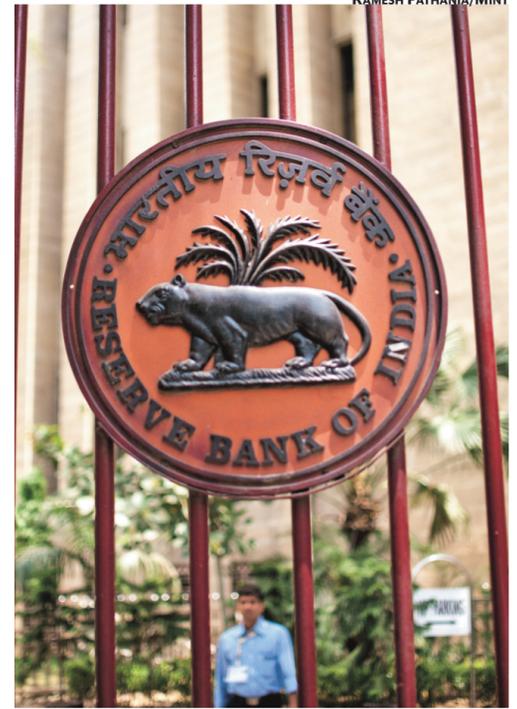
It may be recalled that the former governor came in for sharp criticism from the treasury benches for his supposed hawkish stance that tilted towards fighting inflation and deteriorating banking assets at the cost of growth. This may well have been the reason why his term was not extended—a departure from past practice, in what appeared to be an infringement of the central bank's independence. The gold standard in developed markets is that the treasury does not comment on monetary policy.

The easing nevertheless struck a slightly jarring note as the central bank acknowledged obstacles to reaching its inflation target of 4% in the foreseeable future, with the consumer price index expected to stay sticky at around 5% over the next several months, leaving little headroom for further easing. The ostensible reason given for lowering the policy rate despite this upside risk was a downward shift in the target real interest rate from 1.5-2% to 1.25%. The justification was that central banks globally are moving towards lower neutral interest rates. The neutral or equilibrium rate of interest is the policy rate of the central bank when both inflation and growth are on target.

It is widely believed that the US Federal Reserve implicitly followed the Taylor Rule in setting monetary policy. The metrics of this rule is based on a real neutral interest rate of 2%. Its benchmark federal funds rate has, however, been stuck near the zero-bound since the global financial crisis broke out a little less than a decade ago. John B. Taylor has long observed that the Fed had started deviating from his eponymous rule even prior to the global financial crisis. The deviation has not only persisted in the wake of the crisis but has become even more exaggerated. There is now speculation that it is possible that the US Federal Reserve has abandoned the rule altogether. This deviation may well have inflated the credit bubble that burst with the financial crisis. Some argue that continued deviation from the Taylor Rule is fuelling another asset bubble, making another crisis imminent.

There is, however, a counter-argument that Fed policy is consistent with the Taylor Rule, and that it is simply working with a lower equilibrium rate. This fits in neatly with the theory advanced by former Fed chairman Ben Bernanke that the global 'savings glut' is putting downward pressure on the neutral interest rate. The extreme view is that the current zero-bound monetary policy in advanced economies is not accommodative enough, and that persistent deflationary pressures in these economies indicate that the neutral interest rate might actually be negative. Some advanced economy central banks, such as those of Japan and the European Union, have indeed flirted with negative rates. The Federal Reserve has not ruled out the possibility of negative rates in the future.

Should India follow the example of advanced country central banks? There are good reasons why it should not. First, although inflation has declined, unlike advanced economies, India continues to have an inflationary rather than deflationary bias, driven by volatile food prices. Second, India has a savings-investment gap instead of a savings glut. Financial savings have indeed been falling. It is true that the savings-investment gap, captured in the current account deficit, has fallen in the recent past. But this is due to the decline in demand, especially investment, and in oil prices. If investment were to revive, and/or oil prices to increase, the gap could widen again. A reduction in the neutral interest rate is likely



RAMESH PATHANIA/MINT

to lower financial savings further, diverting them to unproductive assets like gold, or less productive sectors like the informal economy.

It could be argued that the US also has a savings-investment gap, reflected in its persistent structural current account deficit. By virtue of minting the global reserve currency, however, there is no difference between the US' external and domestic debt. It can tap the global savings glut without being penalized by markets. Indeed, the slightest hint of economic or financial trouble pushes capital to the US. Its public debt to gross domestic product ratio has doubled since the financial crisis, yet its cost of borrowing has declined. To a lesser or greater extent, this is true of other reserve currency areas as well.

India too has been tapping the global savings glut to finance its savings-investment gap through large capital inflows. The critical difference, however, is that whereas central bank policies in reserve currency areas, and in particular those of the US Fed, determine the direction of international capital flows, external debt crises and sudden stops of capital are the chief sources of macroeconomic crises and collapse of growth in developing countries. The latter widen their savings-investment gaps at their own peril.

The first action of the new MPC and governor reinforces the belief that there is a weakening of the inflation-targeting framework of the central bank and a movement back towards greater financial repression and credit-fuelled growth. The minutes of the meeting will shortly be made public. These will reveal the rationale behind lowering the policy rate despite its relatively pessimistic assessment of inflationary pressures relative to its target, and also why it felt compelled to follow the precedent set by advanced economy central banks in the matter of neutral interest rates despite apparently different domestic circumstances.

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myview

The world in our brain, beyond the conscious

It is so easy to believe that the earth is flat and that the sun is revolving around the earth because that is what our eyes see. Similarly, it is so easy to believe that we are always conscious of what we are doing and what is happening around us.

Organized religions and our legal system have reinforced the belief that we are all aware of our actions, have willed them, and so, are responsible for them.

According to Harvard University professor Daniel M. Wegner, when we have thoughts that occur just before an action, and when these thoughts are consistent with the action, and when other potential causes of the action are not present, we believe that we have willed our action. If I thought of reading today's newspaper, picked it up and started reading it, it is a clear example of how my consciousness is in charge of my life and guiding all my actions.

The initial attempts to put forward an alternative theory of human behaviour did not meet with much success. Sigmund Freud, in 1915, put forward the theory that most of human behaviour

occurs below consciousness.

However, his explanation of the sub-conscious being a storehouse of childhood experiences, mostly of a sexual nature, could not stand the test of scientific scrutiny.

The claim by James Vicary, in 1957, that he increased the sale of popcorn and Coca-Cola by subliminally flashing "Drink Coke" and "Eat Popcorn", created quite a stir among those interested in finding more effective ways to persuade human behaviour. But his later admission of his experiments being unreliable made any discussion about non-conscious behaviour a taboo.

But the new millennium saw several scientific studies that proved that human behaviour extends far beyond conscious processes. Picking up the newspaper was not a simple conscious act after all; many non-conscious aspects lie beneath. The fingers we used to pick the newspaper up, the delicate pressure exerted to hold the paper, the angle at which the newspaper was held, the awareness of the language of the newspaper—most of these were not

consciously thought through.

Mounting evidence from medical sciences proves that there is a world in our brains beyond the conscious. The famous neuroscientist V.S. Ramachandran's explanation of the unusual medical cases of an amputee suddenly feeling intense pain in his phantom limb, and of a blind patient who cannot see a pen that is held before her but manages to reach out and grab it, is rooted in the intricacies of non-conscious brain processes.

The famous experiment by Benjamin Libet in the 1980s proved that the non-conscious brain decides about 0.3 seconds before a person is conscious of his own decision/action—something that Libet could pinpoint using an electroencephalogram (EEG).

BEHAVIOUR BY BRAIN
BIJU DOMINIC

This revelation generated lots of discussions not just about the preponderance of the non-consciousness in our decision-making process, but more so about the holy cow of consciousness theory—free will.

The limits of human consciousness are clearly evident in sports arenas. Sport psychologists have discovered that the minimum time our conscious brain requires just to react to a stimuli, hear the sound of a starting gun and start sprinting, for instance, is 0.1 second. Any athlete who reacts before 0.1 seconds is therefore disqualified.

But the time a player gets, in games like cricket, baseball and tennis, to decide which shot to play, is less than 0.02 seconds—the vast gulf between 0.1

and 0.02 indicates that such decisions are taken non-consciously.

These experiments show that the non-conscious is five to 10 times faster in taking decisions when compared to our conscious. It is this superior speed of the non-conscious that makes a person freeze in his tracks to avoid stepping on a snake. The conscious processes step in a second or two later to confirm that it was a twig and not a snake. The super-fast non-conscious, that might go wrong a few times, is evolutionarily more useful for survival than the slow, conscious brain.

The famous invisible gorilla experiment demonstrated that those counting the number of passes a basketball team is making miss the gorilla that's dancing in front of their eyes. It is proof that the conscious brain can focus on only one activity at a time.

Neuroscience experts have started putting numbers to the capacity of our brain processes. It is now estimated that our sensory system can handle 11 million bits per second. The most optimistic number of bits that the conscious-

ness can process is a mere 50 bits per second. Given the superior speed and the overwhelming capacity advantage, it's a no-brainer (no pun intended) that a vast majority of our decisions are taken by the non-conscious.

The importance of the non-conscious in decision making is by far the most significant discovery about human behaviour. Policymakers and corporate strategists can only ignore this factor at their own peril. The scientific data that demonstrates the huge significance of the brain's non-conscious processes is overwhelming.

But will it change our blind faith in the consciousness? After all, a very large percentage of people, even in developed countries, still believe that it all began with Adam and Eve a few thousands of years ago.

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