

You are here: Home > Collections

RELATED ARTICLES

[Food Security Bill a milestone: Congress](#)

December 19, 2011

[Record foodgrains production in 2011 facilitates Food...](#)

December 27, 2011

[World Economic Forum: India needs to manage diverse risks](#)

November 15, 2010

Food security bill is all about political gains: Prof Gita Gopinath

SMRITI SETH, ET Bureau Dec 20, 2011, 03.28am IST

Tags: INTERNATIONAL MONETARY FUND | Food Security Bill | ECB | BoP crisis

The food security bill reflects fiscal irresponsibility and sends out negative signals to foreign investors, believes Gita Gopinath - professor of macroeconomics at Harvard University. She also thinks India is not on the brink of a BoP crisis, but short-term liquidity could become a problem. Excerpts from an interview with ET :



0

99

Tweet

Recommend

Do you think India can afford the food security bill and are such transfer schemes efficient?

It's a no for both. First, I do not think we have the fiscal capacity for this kind of a program. And second, it is fiscally irresponsible to propose undertaking spending without explaining where the funds will come from. Moreover, it is being done using the same PDS system, which has already performed poorly in ensuring the transfers reach the targeted group. Linking it to the UID will be a positive development. A preferable alternative will be to not raise expenditures but to improve the delivery of transfer schemes. Food bill is all about making expensive promises for political gains.

What are your views on India's widening current account deficit & rising external debt obligations?

The concerns about a BoP (balance of payments) crisis are a little premature, because India's reserves are high and that provides some cushion. Also, the RBI is not intervening heavily in the currency market right now, which alleviates concerns of a rapid run down of reserves. What is possible is there could be a short-term liquidity shortage and foreign investment money dries up. In general it is not a good sign that in a country like India- with immense growth potential-investors are turning away.

Does the rupee fall show India is losing attractiveness as an investment destination?

The rupee has lost value and some of that is due to global factors, the euro crisis, banks deleveraging, institutional investors trying to deleverage and investment in safer currencies. The other factor, which is more disconcerting, is that the domestic environment in India is not as attractive as it used to be. Inflation has been high; there's been a mood of policy paralysis and the economy is slowing down. When you are an emerging market, any kind of bad news gets amplified. When investors have imperfect information their reaction to negative news gets magnified and they pull out money very quickly.

What is the solution to Euro crisis?

There is no silver bullet, but at this stage the one ray of hope is if the ECB embraces more fully its role as lender of last resort. A signal from the ECB that it will undertake a more wider bond buying programming can help stem the wholesale exit of investors from the Euro sovereign debt market. Also, if the IMF has more firepower to intervene and purchase this debt it can prevent situations of illiquidity turning into one of insolvency.

Given the global slowdown, do you think India's population will end up being a burden instead of a boon?

A slowing world economy is certainly not good for an economy with a burgeoning population and a rising work force. But, I think it's possible for India to realize the 'demographic dividend'. There is enough of a growth potential in India and that they should be able to absorb the work force and reap a dividend from it if it can invest in the required physical and social infrastructure. However, this will require a serious change in the governance environment

FEATURED ARTICLES