Business Analysis for Engineers
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Lecture -42
Union Budget & Conclusion

In the previous class, we were discussing about, the key aspects of money, and how it affects, 3 Macroeconomic variables namely, the interest rate, the exchange rate, as well as, the inflation. And, we understood, when the supply of money increases, it causes interest rates to fall, the exchange rate to depreciate, as well as, results in inflation. And, vice versa, if there is a decrease in the supply of money. And, we understood how, all of these variables, are also interlinked.

And, the challenge in Economics, is to find a workable balance, between all of these variables. Because, it is very difficult to have, a favourable environment, with respect to, all of these Macroeconomic variables. And, that is why last class, I was explaining, that the single most important objective, of any economic policy-making, is to ensure that, the inflation is under control. Because, that is one major Macroeconomic variable, that all Governments, all policy making entities, would ensure, that it is always, kept under control.

Now, during the course of the introductory session of this course, I was mentioning that, the very purpose of this course, was not to give you, deeper insights of the various concepts, that I have dealt so far. But, to give you some comfort level, when it comes to understanding, some of the key terminologies, whatever it might be, whether it is in financial accounting, or management accounting, or in strategy, or in the last few courses on Economics.

Now, the last part, of this third module on Economics, that I am going to deal today, is about, the Budget. The reason, that I am going to spend a little time, on the Union Budget is because, when you take up careers, in whatever industry, or if you are going to even start your own businesses, there are a few signals, that you would like to pick, from the Annual Budget exercise, that the Government is engaged in. So, every year, you all know that, the Government comes out, with its Union Budget. And, this Union Budget, has various constituents in it.

And, each of them will, give a very clear understanding, of what is ahead, in terms of the planned expenses, the estimated revenues that the Government is going to earn, and how it plans to use these revenues. And, if there is a deficit, how is it going to make good the deficit. And, in addition to this, it will also announce, some policies, which as business people, as people working in a business, or as individuals, when we pay income taxes, as stakeholders in various capacities, the Union Budget, will definitely have an impact.

So, it is good for us to understand, what constitutes a Union Budget. And, what are all some of the major terminologies, that are used in the Union Budget. So that, when we listen to a Budget, or we read the Budget report, we would make some sense, out of what, the Budget is trying to explain. So, let me just give you, a quick overview, of the Union Budget.

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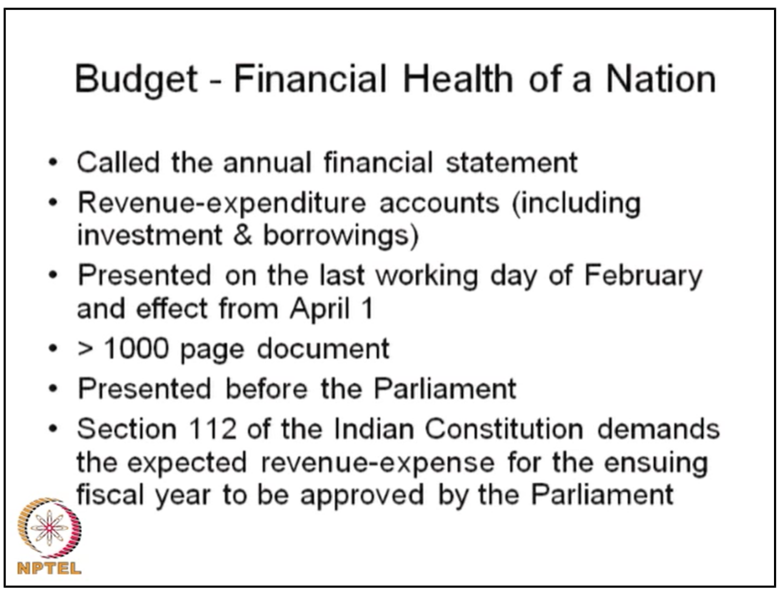

And then, I will finish the class with, some concluding remarks. The Union Budget, as I said before, is representative of, the financial health, of a nation. And, more than calling it a Union Budget, for the purpose of easy understanding, you could also call this, the Annual Financial Statement of the Indian Economy. I am talking about, the Indian Union Budget. So, you could call this, the Annual Financial Statement of India.

Now, just as corporate entities, or any entity, will have its own, income expenditure, or the balance sheet. India, as a single entity, will have its own financial statement. And, that financial statement, is in the form of the Union Budget, that gets tabled in the Parliament, every year. So, it clearly indicates, the Revenue expenditure account of the country, which includes the investments and borrowings, as well. And usually, you would see, that the Budget is presented, in the last working day of, the February of every year. And then, it comes into effect, from April 1, of that particular year.

And, usually it was the practice that, it used to be presented in the Parliament, in the evening. Because, historically, since this is an exercise, that we have been doing, for the last so many years. And, coming out from the British practice, when it is evening, it is morning for the British. And hence, the Budget that, historically was tabled in the Parliament, in the evening times. But, over a period of time, it was changed and then, you would see that, the Union Budget being presented, in the morning hours.

And usually, what is presented in the Parliament, is a very brief abstract of the Union Budget. But, the entire Budget statement, runs into thousands of pages, with all those annexures. It is a constitutional requirement, that every year, the Revenue expenditure statement, for the succeeding fiscal year, is approved by the Parliament. And, that is why, you find, that the Budget exercise, is an annual affair.

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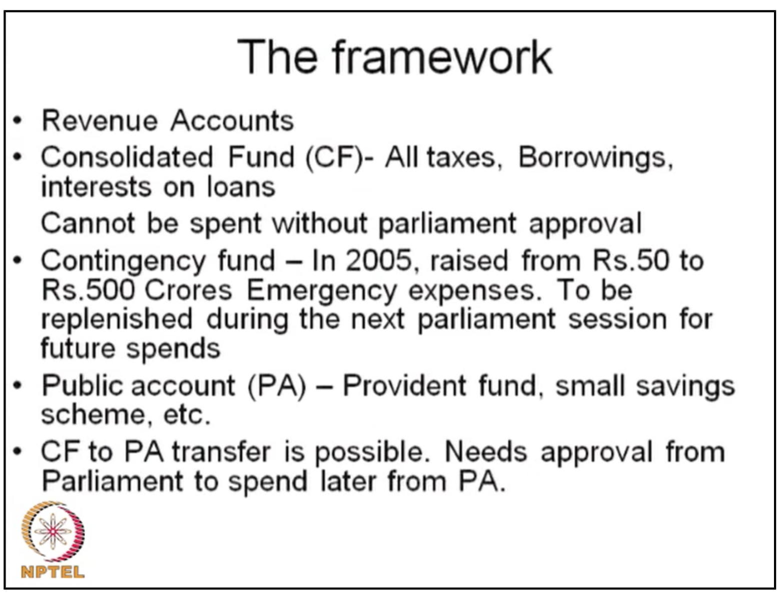

The framework of the Budget. If you look at the Budget, it has the revenue accounts, which includes the revenue and the expenditure account. And, you would find that, there is something called, the consolidated fund. It is in this consolidated fund, all the taxes, the borrowings of the Government, the interest, that it receives on the loans, that it has disbursed, all of these, get into the consolidated funds. Now, any amount of money, that gets into these consolidated funds, it cannot be spent, without getting the approval of the Parliament.

There are, some exceptions to it. The contingency fund. Actually, there is something called, the contingency fund, which is used to meet, some unexpected events, like a natural calamity. And, it was in 2005, what it used to be Rupees 50 Crores, was raised to 500 Crores. And, every time that, we use the money, from the contingency fund, to meet such emergency expenses, it gets replenished, during the next sitting of the Parliament, so that in future again, the contingency fund is used to meet, any emergent expenses.

In addition, the Budget has, the public account. The public account, into which, all the provident fund, or the revenues from the small savings scheme, all this get into the public account. It is possible that, from the consolidated fund, there is a transfer, that can be made from the consolidated fund, to the public accounts. But, when it comes to spending, the money from the public account, a prior approval from the Parliament, is necessary.

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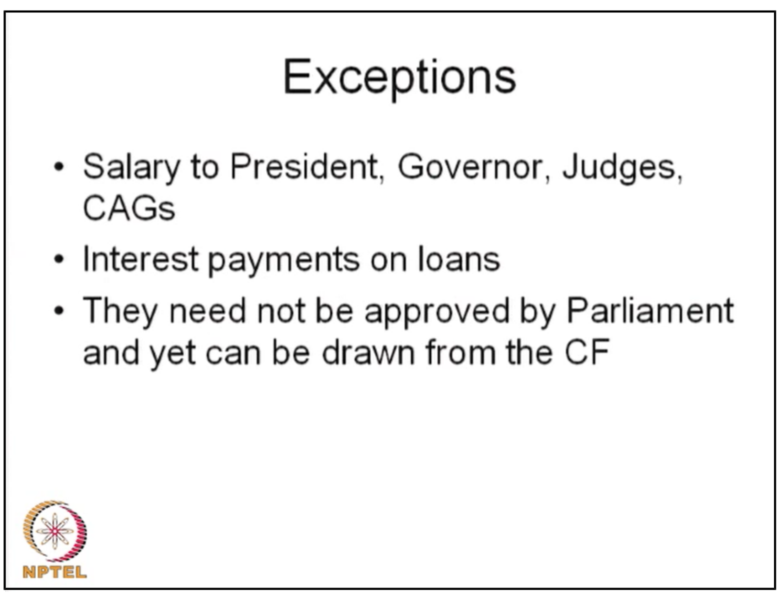

Now, there are some exceptions, like the salary to the President, the salary to the Governor, Judges, Constitutional Authorities like, the CAG, interest payments on loans. Now, these are all, exceptional expenses of the Government, that need not be approved by the Parliament. And, still, could be drawn, from the consolidated fund. I said before that, all the expenses out of the consolidated fund, needs prior approval, from the Parliament, except these exceptions.

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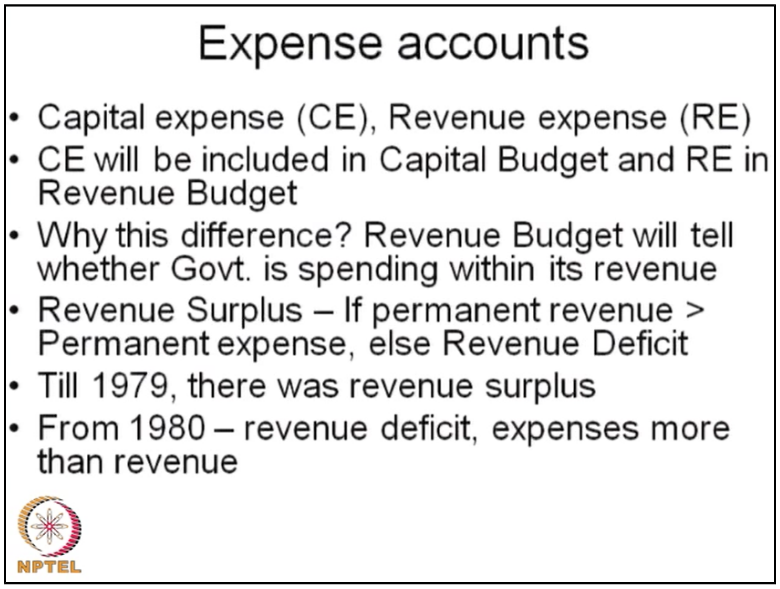

Now, if you look at the expense accounts, there are two categories to it. The Capital expense, and the Revenue expense. Now, Capital expense will be included in the Capital Budget, and the Revenue expense would be included in the Revenue Budget. And, we need to distinctly differentiate between, a Capital expense, and a Revenue expense. Because, when we are handling accounting, I had explained the difference between, a Capital expense, and Revenue expense.

A Capital expense is one that creates, that results in creation of assets. Whereas, Revenue expense, is as good as, an annual recurring expense. So, it is essential that, we maintain a difference between, a Revenue Budget, and a Capital Budget. Because, only if we have that difference, will we be able to have a proper check, on the Government spending. And, if the Revenue expenses, are more than the Revenue receipts, then we know, that the Government is spending more, than what it can earn.

So, to have a check of that time, it is good to have, two different accounts, the Capital Budget, and the Revenue Budget. Now, a Revenue deficit, or a revenue surplus, is a result of a Revenue expenditure, being less or more than the receipts, that the Government receives. As I said before, if the permanent revenue, is greater than the permanent expense, then you have a revenue surplus. Otherwise, there is a Revenue deficit. And, historically, if you look at the financial statement of our country, till 1979, there was a revenue surplus.

Which means, our Revenue expenses, were less than the receipts, that the Government received, on an annual basis. It is only from 1980, that we have constantly seen, a Revenue deficit, because the Revenue expenses were more, than the receipts. Now, Revenue expenses, are similar to your recurring expenses, annual expenses. Revenue receipts, are similar to the annual incomes, that the Government receives, in the form of a direct tax, about which, I will be talking later.

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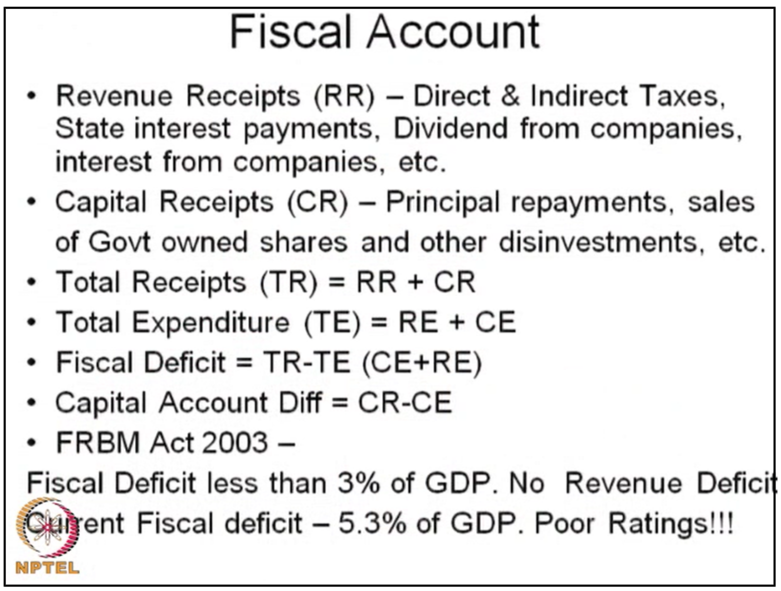

So, if you look at the fiscal account, the Revenue receipts as I said before, includes the various sources of annual income, that the Government receives. It could be from, the direct and indirect taxes. It could be from; the interest payments, it receives from the state. It could be dividends, from the companies in which, the Government is a shareholder. It could be the interest, that the company pays, on the loans, that it has received from the Government.

So, there are various possibilities, by way of which, the union Government receives, its annual income. And, this comes under, the Revenue receipts. Now, just as we have Revenue receipts, we also have, the Capital receipts. Now, the Capital receipts are the receipts, that the Government gets, because of its activity of creating capital assets. One could be, principal repayments. It could have, loaned out to create, capital assets. The interest, that it receives from such loans, gets into the Revenue receipts. While, the principal portion that it receives, gets into the Capital receipts.

Suppose, the Government is also a shareholder. It invests in shares, in its public sector enterprises. And, it decides to sell, those shares. So, the sales of Government-owned shares, the income that it gets, also get into the Capital receipts, if it is disposing off, some of the Capital expenditure, that it has, that also gets in to the, Capital receipts of the Government. So, the total receipts include, the Capital receipts, and the Revenue receipts.

Likewise, the total expenditure would include, the Capital expenditure, and the Revenue expenditure. And, difference between both, as I explained before, gets into the total expenditure, both the Revenue expenditure, as well as the Capital expenditure. And, these expenses, are also categorised, under various heads. Usually, we would see them, in the form of the Budget, for various ministries. You would have, a Budget for the Ministry of Human Resource Development, Ministry of Health, Ministry of Heavy Industries.

So, various ministries, that will have, its own planned expenditure, estimated expenditure. And, an aggregate of all of this, is your total expenditure. Now, based on the total receipts, and the total expenditure, we can calculate, the expected Fiscal deficit. Now, the Fiscal deficit, is the difference between, the total receipts, and the total expenditure. Fiscal deficit means, the total receipts, and the total expenditure. Which means, the Capital receipts, and the Revenue receipts, **minus** the Revenue expenditure, and the Capital expenditure.

While, the capital account difference is, just the difference between the, Capital receipts, and the Capital expenditure. And, a Revenue deficit, as I said before, is just the difference between, the Revenue receipts, and the Revenue expenses. Now, when do we say that, our Fiscal deficit is under control. Because, it is very difficult to have, a Budget, that results in Fiscal surplus. I told you before, that from 1980, we have always been having, a Revenue deficit.

Now, while we are having a Revenue deficit, it makes you understand, how difficult it is to have, a Fiscal surplus. Fiscal surplus means, the Fiscal receipts being more than the, fiscal expenditure. Which means, the total receipts being more than the, total expenditure. But, having said that, we need to ensure, that the deficit is within, controllable limits. And, that is why, you would see, you would hear, the fiscal responsibility, and Budget Maintenance Act, that was passed in 2003, that aimed at having a Fiscal deficit, less than 3% of GDP, by 2008.

Thanks to the crisis, this target was also postponed. And, just as the bill, wanted the Fiscal deficit to be less than 3% of the GDP, the target for the Revenue deficit. Was zero, by end of 2008, which again, was not possible at all. Now, if you look at, what is the current level of Fiscal deficit. The current level of Fiscal deficit, is around, 5.3% of our GDP, way beyond the targeted 3% of GDP. Now, all this just points out to the fact that, there is more expenditure than receipt, more Capital expenditure than Capital receipts, more Revenue expenditure than Revenue receipts.

As a result of which, you would read in the newspapers also recently, different rating agencies, downgrading the ratings of our country India. But, the understanding that I want you to have, is that, there is a mechanism in place, that keeps a check, or at least ensures, that the deficit levels, the Fiscal deficit is very much within, controllable limit. Today, it is 5.3% of GDP. But, the effort of any Government in power, is to ensure that, the Fiscal deficit never gets beyond, controllable limits.

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Fiscal or Revenue Deficit-Which is dangerous?

- Fiscal deficit = Capital A/c deficit + Revenue deficit
- Capital Expenses - create new assets
- Revenue expenses – no asset creation
- Compare Country to Company
  - Increase in profit increases share value
  - Loss decreases share value and accumulated loss erodes owner's equity
  - Currency is like share – As revenue deficit increases – the value of currency decreases
  - Imports become expensive. Exports attract lesser dollar revenue at same cost.

The reason that we need to be concerned about, the Fiscal deficit, and the Revenue deficit is that, it sends signals, to the external stakeholders. And, as I said before, the Fiscal deficit is the sum of the, Capital account deficit, and the Revenue deficit. Now, if you ask the question, which is affordable, to have a Revenue deficit, or a Capital account deficit. A Capital account deficit means that, our Capital expenses are more than the Capital revenues. Now, is it good to have, a Capital account deficit.

And, if you ask me that question, I would say, relative to a Revenue deficit, it is affordable to have, a Capital account deficit. Because, a Capital account deficit in the process, creates new assets out of which, there can be, future streams of income. As, against a Revenue deficit, which is a very clear case of Revenue expense being more, than the Revenue receipts. And, Revenue expenses remember, they do not create any new assets. So, between Revenue deficit, and Capital account deficit, it is the Revenue deficit, that is more dangerous.

The reason is, you compare, a country's financial statement, to that of a company. You know that, an increase in profit, increases the share value. But, a loss, decreases share value. I am talking about, the revenue loss. An accumulated loss, erodes the owner's equity. And, contrast that with, a country's financial statement. The currency of a country is like, the share of a company. As a Revenue deficit keeps on mounting, the value of the currency decreases.

Now, if the value of the currency decreases, as we saw in the earlier class, the exchange rate, the strength of the currency relative to the US Dollar, decreases. As a result of which, our imports become expensive. And, a country like ours, which has a trade deficit, because our imports are more, than our exports. When imports become more expensive, exports are not enough, to meet the imports, then the value of the currency, gets eroded further.

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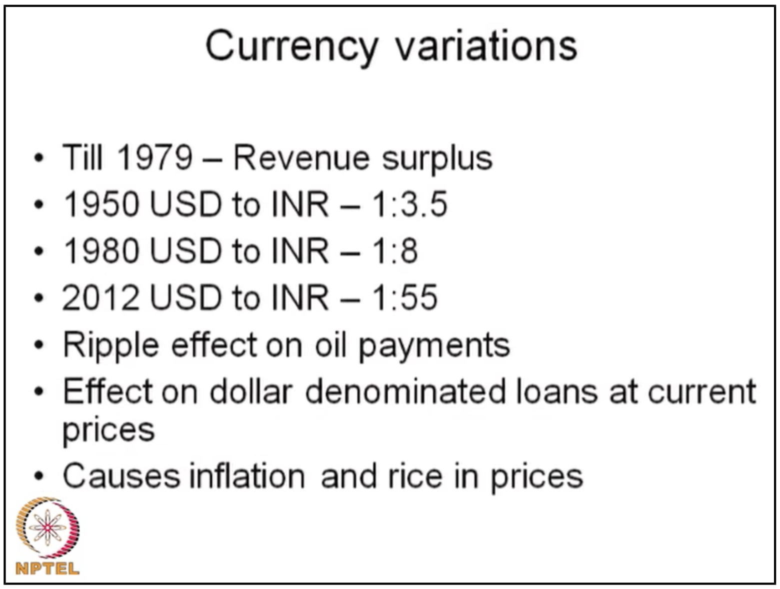

Now, because of the Revenue deficit, that we have been seeing from 1980, let us see the impact of that, on the exchange rates. Remember, in 1950, our Dollar to the Rupee ratio was, 1: 3.5, went to 1:8. And, today, we are seeing the Dollar Rupee exchange rate at, 1:55. And, imagine the type of ripple effect, that it will create, considering the imports are more than our exports, especially when oil becomes, very expensive. And, suppose, we have a us Dollar denominated loans.

Then, we need to pay more Rupees, to repay US Dollar denominated loans. As a result of all of this, it causes inflation, and the rise in prices. So, this is all just to tell you, that between Capital receipts and Revenue receipts, we can afford, I am not saying that, we should, we can afford to have, a capital deficit, but definitely, our Revenue deficit, must always be, within controllable limits. And, if not, then it is going to cause, ripple effects, leading to an inflationary regime.

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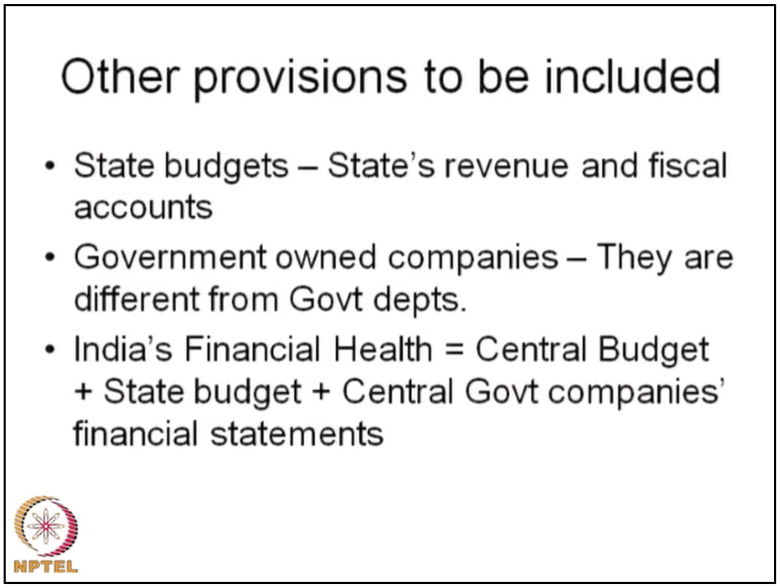

Now, what I was just presenting to you, was just the Union Budget, which is the Budget of the Federal, the Central Government. In addition to this, every State Government, will have its own State Budgets. Just as, the Central Government will have its, income expenditure account, every State Government will have its own, income expenditure account. Then, every Government owned companies, will have its own income expenditure account. And, this is different from the ministries, that I was mentioning before, those are departments of the Government.

While, Government owned companies, are entirely different from the, Government itself. Which means, the Union Budget does not involve the, income expenditure statement of, Government owned companies. So, if you really want to measure, the financial strength of Government, and Government owned companies in our country, and if the assumption is that represents India's financial health, then we will have to take into account, the Central Budget, the State Budget, **plus** the Budgets of all the Central Government companies. And, that aggregated, all of these aggregated together, would present the, Indian financial health.

Now, this is what, I wanted to explain to the class, on the Union Budget. So, these are all the various elements, that gets into the Union Budget. So, when you see a Union Budget, all that you have to lookout for is, major indicators like, what is the Fiscal deficit, what is the capital deficit, what is the Revenue deficit. And, to finance this deficit, where is the Government go in to, get its funds from, it will raise money from the global capital markets, or it can sell bonds here, or you can borrow money from the banks itself.

So, there are various ways by which, the Government raises money, to meet the deficit. So, this you will see in your, Annual Budget. And, of course, there are other provisions, which as I said before, will directly or indirectly affect various stakeholders, like the tax provisions, direct tax provisions, and indirect tax provisions, this is, if it is in the case of individuals, in the case of businesses, various duties, exemptions, and all this, gets factored in the Union Budget

So, what we have done, in this entire course is, as I said before, gave you an introduction to, Financial and Management Accounting, to some of the popular Strategic models, and a basic introduction to various Economic concepts, both Macro as well as Micro. Now, before I would like to conclude, I know, there might still be a lot of layman questions. Questions like, if there is so much deficit, why cannot we just print currency, so that we can create money, and make good the deficit. But, printing money, will have its own issues. You will understand, why?

Then, some had doubts on the reasons, for these financial crisis. What is this all about. How this financial crisis was created? Some about inflation. I mean, these are all, from a layman's perspective. So, what I am going to do is, instead of me trying to explain, each of these, I am going to leave, a set of 3 to 4 videos, that in fact a cartoonic video, that explains in a best form to understand, what it means to, just keep on printing money, what inflation is all about, what is this global financial crisis all about.

So, I urge you to just watch those videos, so that, you will gain, better understanding and, this is purely from, a layman's perspective. Now, before I would just like to conclude the course, I thought, I will just spend a little time, on some thoughts, that I would want the students, to have in their mind, so that, when they start thinking about Economics, as a subject of study, they should also try to develop, the habit of linking Economics, with other streams of studies

Now, we all know that, we are just facing, the effects of a global financial crisis. Now, if you look at, the financial crisis after 2008, you would know that, there is been a lot of difficulties, that various economies have faced, which includes the advanced economies, like the US, the

European Union, and the various other countries, have felt, the effect of the global financial crisis. Now, this global financial crisis is also created, tremendous amount of confusion, amongst various stakeholders.

In fact, if you look at, one of a very popular article, that got published in a German Magazine, called Der Spiegel. I think, it was in the dispatch of early 2009, where 5 Nobel Laureates in Economics got together, to discuss about the financial crisis. The discussion was, on the reasons for these financial crisis. This 5 Nobel Laureates in Economics were, Joseph Stieglitz, Paul Samuelson, Edmund Phelps, Robert Lucas, and Rayners Shelter.

So, all these 5 Nobel Laureates, got together, to understand, the reasons for this financial crisis. One said, it was because of the regulator. One said, it was because of the markets. One said, it was because of the corporates. So, different people had, different perspectives. And, remember, these were all, Nobel Laureates in Economics. And, at the end of this entire discussion, nobody could come out with a single solution, single reason saying that this was, the reason for this entire global financial crisis.

So, when all the 5 Nobel Laureates in Economics themselves, could not conquer, with one single reason, for this global financial crisis, leave, getting a solution for this crisis. So, that is why still, there is a lot of effort that is going, to ensure that, advanced economies are pulled out of this crisis. But remember, it is only during these adverse times, that there is a learning, for every stakeholder. Because, I have never seen, anybody learning, during times of prosperity. It is only during times of adversity, that there is a lot of learning.

So, it is from that perspective, that I thought, I will leave this course, with a new learning for the class, which is a little different from, the conventional learning. It is not very theoretical. It is going to be, a little different. I have been telling in the previous classes, that money is the fuel, for any economic activity. So, whether we need to spend, or whether we need to save, we need money. We need money, to spend. And, we need money, to save. And, the incentive to spend or save, comes in the form of an interest rate.

So, I told the class that, the interest rate is the tool, that arbitrates. And, it is the one, that decides, whether people would be able to spend or save. If the interest rates are very high, there is incentive to save. If the interest rates are very low, then there is an encouragement to spend. But, if interest rate is used as a tool, to encourage spending, then there is a different dimension, to the economic activity. And, I will just give you an example. Now, if you take the US economy, there were times when the interest rates are very high. Early 80's, but that is after the war.

And then, it was decided, to reduce the interest rates. Reduced from 20%, up to 10%. When the interest rates were very high, the amount of investments, the savings that went in to the stock market, was not that high. Because, people chose to, invest their savings into the, bank deposits, then into the stock markets. So, when interest rates dropped, from as high as 20% to 10%, investment in stocks, which was at that point of time, less than 5%, was 25%. So, 25% of the entire savings, went to the stock market.

And, the interest rates further lowered, from 10% to 5%, the investments in stock markets also, increased from 25% to 50%. Now, there were different reasons, to reduce the interest rates. Before the dot-com crisis, the need to reduce the interest rates, was to ensure that, the savings, went into the stock market. See, if you look at the, way in which, capital needs to be enriched, of corporates. Let us for example say, see, you reduce the interest rates, there is no incentive to put your money in banks.

So, you do two things. Either, you spend the money, or you put your money in stocks. Now, till the dot-com crisis, the investors felt, at reduced interest rates, it was wise to put the money, in the stock market. So, it enriched, the capital account. So, the equity account of the corporates, got enriched. And, after 2001, when the dot-com bust happened, the entire stock markets crashed. As a result of which, we needed an alternate mechanism, in which, the revenue account, if not the capital account, is getting enriched.

And, Revenue account gets enriched, only if there is consumerism. So, still the interest rates were, kept low, so that, there is an incentive to spend, not necessarily invest in stock market, but to spend money. As a result of which, after 2001, there was excessive spending. And, that is why, you found that, at low interest levels, you found a lot of people, engaging in hyper-consumerism. And, that is one of the reasons, that led to the global financial crisis.

I am not going to explain, the details of all that, it is enough for you to understand that, all this started, because of a reduced interest rate regime, that forced consumers, to engage in hyper-consumerism. And, the global financial crisis was because of the, home mortgage loans. I will just give you a small example, for you to understand this, better. Suppose, you have a house. And, you purchase the house, out of a loan. Let us say, the value of that was, 100,000 Dollars.

The loan amount was, 100,000 Dollars, and that, you purchase the house. And, this happened, around 3 years back. So, you would have paid, let us say, around 10,000 Dollars. So, the remaining amount that you had to pay, was 90,000 Dollars. And, by that time, the value of the house, increases from 100,000 Dollars, let us say, to 500,000 Dollars. And, you have somebody coming and telling you that, the outstanding loan is 90,000 Dollars, value of the house is 500,000 Dollars.

So, the net value of the house is, 410,000 Dollars. And, this they called is the, Home Equity. Which means, it is the value of the house, in the name of home equity, was the collateral, based on which, more loans were given, either to purchase new houses, or to engage into hyper-consumerism. Literally, such loans were hocked like, vegetables. And, at one point of time, it so happened that, such loans were given to people, who are at the first place, were undeserving, to receive such loans.

Which means, there was no repayment capacity at all. And, that is why, it was called, sub-prime loans. They had no capacity whatsoever, to repay this loans. And, without stopping there, such loans were bundled together, were aggregated together, and new financial products were designed, out of that bundled loans. And, you had rating agencies, that gave them good ratings. And, this instrument, called the collateralised debt obligations, these were sold to, another financial intermediary.

As a result of which, a loan that was first issued in US, got packaged with similar loans, and sold as a financial product, to some financial intermediary, inside or outside the US, which finally reached a group of investment banks, and other banks outside the US. And, that is why, usually in a lighter way, this is a US crisis, that was exported globally. That is why, you found that, when the home mortgage loan, the entire market got bust. It was, not just the US economy that got affected, all the economies, that had exposures to such products, got affected.

More importantly, the European Union got affected, very severely. Now, coming back to our discussions. Now, if you just dissect the entire crisis, and try to understand, the main reasons for this. There are a number of reasons. But, one thing, that I want the class to understand, is the fact that, the interest rates were lowered, to encourage hyper-consumerism, is something that needs to be seen, very seriously. Is this a model, that is sustainable, over a long term period?

Is a model, that discourages savings, but encourages spending, is sustainable over a long term period. And, if you try to seek answer to this question, then you will find that, there are alternate models, that are available. And, it is only because of such alternate models, some countries were not, as impacted as other countries, during the financial crisis. And, in the list of those some countries, India is a clear leader. If you look at the Indian model, it is more a savings-based economy.

And, that explains that, our savings is around, 35 to 38% of our countries GDP. We have seen an increase in savings, as a percentage of GDP, year-on-year. And, it is always, kept on increasing. And, that is why, if you find the Fiscal deficit, as I explained before, in the Budget. If you have a Fiscal deficit, today advanced economies have deficit. Take for example, the crisis that you see in Greece. The entire country is having deficit. Compounding the problem is that, they do not have resources, to meet this deficit.

They do not have, any place to borrow money. Because, there is no savings, in the banks. Contrast that with, the Indian system. If we have a deficit of 4.5 lakh Crores, then we have a savings, that comes from our Indian system, into the banks, which is close to around, 7 1/2 lakh Crores. So, we have bank savings, which is the source, to meet the Fiscal deficit. It is in fact; it looks this way. The Government deficits, can be financed, by the family surpluses.

Now, a family surplus is because that, there is a natural drive for Indian families, to save. And, this is got nothing to do with, a mathematical model, or a savings as a financial pattern. It is got something to do with, the DNA of an average Indian investor. It is got something to do with, the sociology of an average Indian investor, who always thinks that, it is better to put my money, in a safe deposit, than to gamble it, in risky speculative investments. And, that explains the reason why, the savings in stock market, is less than 5%, consistently.

And, this is true, in the case of Japan, which is the Number-2 Economy. Number-1 Economy is the US. And, Number-2 Economy has a model, which is entirely different, from the Number-1 Economy. In Japan, in fact, the savings is a family virtue. That is why, you will see that, long-term deposits. Let us for example say, a 3-year deposit, or a 5-year deposit, gives the investor, hardly any returns, probably less than 2%, 1.5%. So, imagine a 1-year deposit in Japan, would not give you an interest, more than 1%.

In fact, there were times, where a short-term deposit, if you had to put a money, in a Japanese bank for 1 month, you had to in fact pay the bank, a custodian deposit. But still, people wanted to put their money, in the banks. Because, the feeling was that, it is the savings, and savings in safe deposits, is something, that is more sociological, than economic. And, it is this sociological virtue, or branded a social capital, that has actually saved, many countries.

Countries like, India. Many Asian economies, India. China of course, has a crisis for a different reason, but then, it is again, a savings driven economy. Brazil, Thailand, Taiwan, so these are countries, where savings still constitute, a family virtue. But, the west criticises this, as a feeling of insecurity. This is not a feeling of insecurity. It does not mean that, we are saving, and reducing our consumption pattern. In fact, our consumerism is also, amongst the comparable peers.

Our GDP is, because of 70% of consumption driven activities. 70% of our GDP is, because of consumption. We are an economy, that relies entirely on a calibrated expenditure. We calibrate our expenses. If we want to grow, at 10%, 12% GDP growth every year, it is possible. And, it would be really possible, if all the families decide to spend, and not save. But, that is not the way in which, our economy functions. There is more calibration, in the functional part of an economy. And, this functional part of economy, is done by the families themselves.

I will just give you a very small example, for you to understand this better, before I conclude. The per capita income, per capita expenditure, and per capita savings, let us take these 3 indicators. If you look at the economic survey, there is a wonderful report, that got published, very recently. That, the per capita income, per capita expenditure, and per capita savings, in the last 15 years, in our country, these were recorded. And, an analysis of this data, gave a very startling finding.

Now, when our per capita income increased, and this happened, during the robust periods of economic growth in our country, and especially during the 2001 to 2007 period, when per capita income increased, so did the per capita expenditure, and the per capita savings. When the per capita income, did not increase to the extent to which it increased, during the growth phases of our economy, the per capita expenditure, got adjusted internally, and per capita savings continue to remain the same.

Now. This explains the fact that, despite our per capita income, not increasing at higher rates, it is the per capita consumption, that gets adjusted internally, to ensure, that the per capita savings rate, keeps on increasing year on year. So, this explains, the DNA, of an average Indian family-based investor. They always think that, it is a bank safe deposit, which is always better, than a speculative investment. You definitely have, matured stock markets. You have other speculative financial instruments, in which a number of people, invest their money.

But, by enlarge, our economy has remained, a savings driven economy. And, if at all, there is a single reason, why our economy was insulated from, the global financial crisis, it is because that, we had an economy, that was driven by, what I call the social capital, the foundation of which, is the family, and the DNA of every average Indian family, has been aligned, to the virtue of creating a savings oriented culture, drawn from investing in, fully detached from investing in, risky investments like the stock markets.

As I said before, we still have investments in the stock markets. But, the overall structure, of an Indian investor, has always been towards, investing money in safe deposits. And, that is why, as a conclusion, I feel, that if at all, there is a solution, that can pull out the countries, from the financial crisis that they are facing now, the solution does not lie within, the four realms of economic theories, the solution lies outside, the boundaries of economic theories.

And, it is the interlink between sociology and Economics, that needs to be understood, in a different perspective. And, only if we are able, to understand the relationship between, sociology and Economics, then we will be able to get, a solution to this crisis. As I said before, this economic crisis, does not have, an economic solution, it has a socio economic solution.

Now, this is the message, I want to leave to the class, so that as you go forward, you start thinking about new ideas, as to how we can relate Economics, with other interdisciplinary subjects, and try to see, if we can come out with, some winning solutions, that will not only make India, more insular from such global crisis, will also pull out other countries, from the crisis that they have today. Thank you.