

sectors. In the past 10 years, growth came mostly from the Services sector, but efforts are being made to ensure that the industrial sector contributes its share to the growth story as well. Where will that growth be hosted? In the cities and towns of India. And just as the Green Revolution acted as the engine of growth in the 1970s and 1980s, likewise, for the foreseeable future, the cities of India will act as the engines of growth.

We economists often talk of improving the investment climate by reducing the transaction costs of doing business. However, even if minimize the cost of doing business by having a perfect government and a sound financial system, why would anyone want to invest in cities whose water and sanitation conditions are abysmal and which lack basic infrastructural facilities? The whole point of investing in cities is that they provide agglomeration economies. Instead, if we create congestion diseconomies, why will investors invest? Unless you improve the quality of life in the cities of India, you will not be able to achieve sustainable growth of 7%, leave alone 8%.

I want to bring the urban agenda to the mainstream of economic discussion in our country. I do not mean urban vs. rural. This is a political construct. What we need is rural-urban synergy. That is why FDI in retail is a game changer. It will not only change the urban facilities but also the face of rural India. The first chapter of the Report of the High Powered Expert Committee on Urban Infrastructure and Services which I had the privilege to chair, will tell you how the urban sector is connected with the overall structural transformation of the Indian economy. The political economy of our country has remained focused on the rural for a long period of time, neglecting the growth of the

urban India. It is high time that we looked at the challenges of urbanisation and the connection between the rural and the urban sector.

Notes

EB: Editorial Board

UNCONVENTIONALLY YOURS

Stirring the Pot

Surbhi Bhatia

I.P. College, Delhi University

The common notion: Legalization of drugs doesn't go down well with people. Majority still believes that it will increase the amount of drug usage in our country and that by making it legal, people who haven't tried it before might want to indulge as there wouldn't be a law governing their fear. The gut instinct is that demand would increase in the short-term, as the penalties for being caught go down (to zero) and the drug should be easier to attain. Both of these factors suggest that in the short-term, demand should rise. And one cannot simply put the blame on the masses for having such stereotypical beliefs. After all that's what our bollywood movies have endlessly taught us over the years. The Police officer ignores the would-be-buyers and gets into the jeep right after the pusher. After a good chase of overtaking the other cars and shooting bullets, the officer captures the miscreant with a high Krishh-type jump over half a dozen cars lined up in a jam that ends in a perfect landing. But that's not the end. The real target is the supplier, smuggler. And needless to mention, a deal is made – Exemption from the punishment in return for the name of Mr. Mafia!

Like it or not but that's what has influenced our thought processes, society and the economy. Why the supply side approach-

trying to reduce the supply and not the demand, heavy penalties for the suppliers and not for the people who buy it even if that means living in a society that breeds addicts; is not good is because billions are spent every year as expenditure on prohibition enforcement – arrests, prosecution and incarceration. Legalization would reduce this deficit and will allow government to collect tax revenues on legalized sales. Not only that, drug related crimes are the external costs related with drugs. By decreasing the supply and creating a shortage, murders, mugging and mayhem will increase for sure since the addicts have an inelastic demand. The price does not bother them.

If the focus is shifted on demand – A drop in the demand will create a supply side generated surplus in the market as a result of which the prices will go down. With quantity and price both low, the total revenue shall also fall along with a drop in associated crimes. But how would this demand fall? Education and awareness, drug treatment programmes and rehab centres would come to our rescue here. Alternative occupation possibilities and training and making sure the low income group has a reasonable employment and educational level will push down the demand. Embracing information, public awareness, early intervention, counseling, treatment, relapse prevention can reduce the demand for drugs tremendously. As long as there is demand, someone or the other will supply. Therefore the focus should be shifted on tapping the demand instead of supply. Humans have always been tempted by the ‘forbidden fruit’ since the time of Adam and Eve. It is quite possible that once drugs are legalized for a period of time, they will no longer be seen as ‘cool’ by the rebellious youth and the demand might actually plummet. Imposing taxes can also help keep a check just in case the usage is increasing. There’s a difference between what is easy and what is right, it’s high time we all make a call.

I predict a riot

Sonali Chowdhry

‘Ethnic riots sweep Assam as the clash continues between the indigenous Bodos and the Bengali speaking Muslims.’

‘Violence erupts in Greece as anti-austerity protestors clash with riot police ahead of key vote on spending cuts.’

‘The battle for London- the madness spreads as unemployed youth, the product of a crumbling nation and an indifferent political class riot and pillage.’

Headlines such as these accompanied by images of burning buses and vandalized private property often emblazon the front pages of our newspapers. Some puzzling questions linger on in our minds- what goes on in the mind of the rioter? Are they even rational thinkers? Could there be a rational decision making process which determines whether an individual remains neutral or becomes a member of the rioting mob? These are the questions I seek to explore.

Starting with a basic definition-an individual is rational if his/her preferences are utility maximizing, internally consistent and if he/she seeks to maximize the net gain in the most efficient manner possible. At first glance, riots defy any rationale. What could drive a person to participate in such destruction, knowing the high costs involved for the nation as well the individual? Two economic theories attempt to explain the decision making process involved- the riot threshold model and the dual processing model.

The Riot Threshold Model

According to this model, the following relation determines the mechanism by which an individual decides whether to participate in the riot or remain neutral.