To tackle the Indian economy's woes, create more jobs

The Indian economy's health is not good. Economic growth decelerated to a three-year low of 5.7% in the June quarter of 2017-18. In the same quarter, the current account deficit hit a four-year high of 2.4% of gross domestic product (GDP). Industrial production grew by a meagre 1.2% in July 2017 compared to a year earlier. Investment demand growth has declined from 7.4% to 1.6% over the last year. Clearly, the economy is not doing well. What should the government do to cure it?

With the patient in pain, the government is moving into high gear to administer relief. With elections less than two years away, the patient must be made to feel better quickly. Several short-term measures for providing income relief at the bottom of the pyramid may be rolled out—a boost to construction activities in low-cost housing and rural roads, more expenditure under the Mahatma Gandhi National Rural Employment Guarantee Act, etc. The drag of non-performing assets (NPAs) in the banking system may also be eased.

However, these pain-relievers will not cure the patient's serious ailment. Though growth has been high in the past two decades, touching even 9% per annum in some years, the Indian economy has been ailing. Inequality has been increasing fast: India is becoming one of the most unequal societies in the world. A cause of this is that the growth of productive jobs and dignified livelihoods is not keeping pace with the growth of the population and its aspirations. By many measures, the Indian economy has one of the poorest employment elasticities in the world. This disease cannot be curbed by short-term palliatives. Fundamental causes must be addressed, and holistic treatment is necessary.

The lack of skills for decent jobs is one of the causes of slow growth in employment, but it is only one. Therefore, a vigorous treatment of it alone has resulted in only 10% of the persons trained by this government's (and the previous one's) focused drive to skill millions finding employment. There is alarm that automation technology will reduce jobs in the future and industry bodies have urged the government to prepare for “Industry 4.0”. The recent World Bank report “Trouble in the Making? The Future of Manufacturing-Led Development” should bring policy-makers back to reality. It estimates that only 2% to 8% of jobs in developing countries will be threatened by automation in the foreseeable future. The real risk, the bank's report says, is that “countries will lose out on jobs that are never created”. Therefore, attention to the impact of automation on jobs in the future is like preparing the patient for a disease he has not yet got, while the disease he presently has is not diagnosed and treated.

Why are jobs not being created in the Indian economy? And what treatments are required to enable it to generate more jobs and livelihoods faster (and not merely grow faster)? These are the questions that must urgently engage India's policy makers, even while they administer short-term boosts and pain-relievers to the economy.

The generation of many more jobs in the Indian economy requires growth of more enterprises that will enable people to convert their “labour”, i.e. the work of their hands and minds, which are the only assets that many have, into incomes; and if their incomes are sufficient and they can save, into financial assets. Therefore, we need more enterprises that engage people as their principal resource. They are required in many sectors, especially the rural, non-farms sector. They are steps on an escalator to progressively build capabilities of people and enterprises, picking them up from where they are, to take them up to more sophisticated levels.

Unfortunately, such enterprises are despised by many economists because they are not productive—that is, they use too much labour, and because they are too tiny and informal to connect with the formal economy. No doubt these enterprises will benefit by being plugged into the formal economy. It will enable them to obtain finance, access to markets, and to technology more easily. However, ill-conceived thrusts to force formalization on to them (as demonetisation and the introduction of good and services tax have turned out to be), can kill the patient with too much medicine given too fast.

Administering any strong medicine too fast, without first understanding, and then sensitively monitoring its effect on the whole body, often results in the patient becoming worse off. Perhaps India's policymakers also applied the medicine of free trade too fast with the big bang reforms of the 1990s. Inverted duty structures came about from which consumer-facing assemblers benefited. It also made consumers happy with the variety of international branded products they could buy. However, India's capital goods and machinery production sectors suffered. Whereas India and China were comparable in the strengths of their machine-building capabilities in the early 1990s, now China's capital goods sector is over 50 times larger than India's, and India imports a huge amount of capital goods from China.

The Indian economy is suffering from a combination of two diseases: a laissez faire approach to industrial and trade policies since the 1990s, and knotted-up administration. Many more enterprises that employ labour, as well as more industries with technological depth, are required to improve the health of the Indian economy. A clutter of branded schemes with catchy acronyms will not heal the patient.

"Systems thinking" is essential for stimulating sustainable growth. The effects of policies that may be good for one part of the system must be understood before they are implemented in other parts. Otherwise, they can become "fixes that backfire", as the vigorous skilling mission had become, as well as the rush to demonetise, and some of India's free trade agreements too. Moreover, a "whole of government" approach is required for coordinated implementation at several levels, at the Centre, in the states, and on the ground—which will truly make it easier to do business in India.

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‘India’s main challenge will be finding jobs amid automation’

No elbow room:“Total debt as a percentage of global GDP has gone up. You are sort of stuck,” says Lord Turner.Reuters

While the global economy is in a “much better position” than it was before last year, India’s major challenge will be to find jobs for its working-age population which is forecast to increase from about 740 million to 1.3 billion by 2050, Lord Adair Turner, chairman of U.K.-based Institute for New Economic Thinking said in an interview.

Information and communications technology is driving an increasingly unequal world, Mr. Turner said. “For emerging economies such as Africa, a very rapidly growing working population is a major challenge. India is in an intermediate position.”

Job creation is not expected to pick up in 2017 and 2018 and unemployment in India is projected to increase from 17.7 million in 2016 to 17.8 million in 2017 and 18 million next year, according to a UN Labour report released earlier this year. In percentage terms, unemployment rate will remain at 3.4% in 2017-18, according to the report.

2008 crisis

The former Chairman of the U.K.’s Financial Services Authority said that at least five decades before the financial crisis of 2008, there had been a surge in private debt. It went from 50% of global gross domestic product in 1950 to 170% in 2007, with most of that debt falling in the category of real estate — mortgage or commercial real estate, he said.

“That build-up of debt created a situation where more debt was created in real estate, which went up in value. This saw people borrow more money and banks said they can lend money as real estate is going up in value, so it is safe. It goes in this very powerful upward spiral and then it cracks.”

“It is very important to take a global view of the debt overhang in the economy,” said Mr. Turner, who was in Bengaluru to deliver the Azim Premji University’s ‘Resurrecting the Public’ lecture series.

“The challenge we now have in this global economy is that the total amount of debt has not gone down. The total debt as a percentage of global GDP has gone up. You are sort of stuck.”

The existing debt levels are only sustainable if interest rates are very low, he said. “But very low interest rates encourage people to create more debt which may create more problems in the future. We will see the U.S. Federal Reserve now increasing interest rates and maybe the Bank of England a bit. I think, as we get into 2020, we will see interest rates in Japan are exactly where they are today. Zero.”

“In the eurozone, they are pretty much where they are, which is zero. I think in the U.K. they maybe more than 1% at the most and in the U.S. they may be at 2.5%. So in historical terms, they will still be very low. I don’t think it will go higher than that without pushing the economy back into a recession and so there are some unanswered questions on how we deal with the situation.”

U.S., China

After 2008, the U.S. and some European countries saw a significant number of households and corporates having to deal with the situation and public debt in the U.S. and in China shot up, Mr. Turner said.

“Banks will lend to the real estate more so in the future as the information and communications technology don’t need much to invest. Look at how much Facebook had to invest to be worth about $400 billion and compare to how much Henry Ford had to invest in machinery, and people had to invest in steel mills to produce the machinery.

“This is a world of huge wealth creation without much investment. In this scenario, it is not surprising that a large portion is towards real estate or consumer lending. I do not think we need to stop that. We need to recognise the dangers that come with that and manage the debt.”

If India has a large concentration of bad debt then “you end up with a festering problem which the free market is not capable of solving.”

“The free market has a group of people both from the borrower and the lending side who have personal incentives to let the problem roll over for a month or a year. Indian banking system could be as bad or good as any other system which means it will create a real estate boom or bust. I don’t think India is uniquely good at avoiding that.”

‘Industrial class’

“In India, the problem has been lending for large industrial class. That is different from what we advanced economics face. It is incredibly important too.”

Mr. Turner said: “The global economy is moderately in a good position for the next two years. But a lot of fundamentals are not addressed. Debt overhang is fundamentally not addressed. Alongside that we are likely to see an increasing effect of information and communications technology on the automation of jobs.

“I think that is probably what lies behind the extraordinarily low level of wage inflation in developed economies...You don’t see any wage pressure. I think it has something to do with the capacity [building] towards maintaining information technology.”

“We have to think of universal basic income and what public sector has to do with health, education, infrastructure and cities which are liveable for people of all income levels,” he said.

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The instrumental harms of inequality

If there are intrinsic moral reasons to be concerned about inequality, there are also instrumental reasons for such concern. Inequality is reprehensible not only because it is inherently unfair and unjust, but because it can cause harm in a number of domains of everyday living. Here is a small sample of some of these instrumental ills of inequality.

First, inequality can be harmful for the prospects of an increase in national income. Because the poor spend the bulk of their income on necessities, the marginal propensity to consume out of income is higher for the poor than it is for the rich. A reduction in the concentration of wealth and income might be expected to increase the share of income going to the poor, which in turn should promote higher levels of consumption and, through this route, greater effective demand, and markets that achieve deeper penetration—with a concomitant positive impact on income and investment. Increasing inequality inhibits these healthy tendencies in the economy.

Second, the concentration of wealth and income in the hands of a few is conducive to a market structure that is monopolistic or oligopolistic. Monopolistic pricing, as is well known, is associated with deadweight losses in welfare.

Third, there are other, direct ways in which inequality can interfere with the efficiency of an economy. It is interesting to note that economists like Hugh Dalton, Tony Atkinson, Serge-Christophe Kolm and Amartya Sen have associated a measure of inequality with the efficiency, or welfare, loss occasioned by inequality. Specifically, if the marginal social value of income is seen to decline as income increases, then it is easy to see that progressive redistributions of income should increase aggregate welfare, and that an equal distribution should maximize it. Equivalently, for any given level of average income for a fixed population, in which income is unequally divided, one can always think of a lower level of income such that, if every person in society were to receive this income, the level of aggregate welfare for the equalized distribution would be the same as it was for the earlier unequal distribution.

This level of income is what Atkinson called the “equally distributed equivalent” (EDE) income. The proportionate shortfall of EDE income from the actual average income is then a plausible measure of the welfare loss, assessed in equivalent income terms, occasioned by the presence of inequality. This sort of reasoning is what led the Oxford philosopher-economist John Broome to write an essay titled *What’s The Good Of Equality?* Broome was stressing the instrumental, rather than intrinsic, virtue of equality; otherwise, he should have written an essay titled *What’s Right With Equality?* The instrumentally positive impact of equality on efficiency is also highlighted by a measure of “effective literacy” advanced by the economists Kaushik Basu and James Foster. They postulate that literacy is something like a public good, such that a literate person confers external literacy benefits on other members of her household. In line with such a view, a more equal inter-household distribution of literacy should be accompanied by a rise in overall “effective literacy”.

Fourth, inequality is often both the source and the consequence of economic domination by one group of people over another. The theme of inequality and conflict has been well addressed in the works of economists such as Debraj Ray, Joan-Maria Esteban and Anirban Mitra, when they speak of polarization, and of strife organized around religious divisions. The ghettoization of the Muslim community in Gujarat after the events of 2002, and the attempt at nullification of the community’s economic status, is a case in point. Also of relevance is the role played by economic disparities in the control of natural resources. The Yale moral philosopher Thomas Pogge has repeatedly highlighted the part played in a country’s impoverishment by domestic despots who control ownership of its natural resources.

Fifth, inequalities of income and wealth have a way of spilling over into other domains, such as health. Economic inequalities are known to have stress and demoralization effects on workers. Inequality can thus dampen productivity, and so earning potential, and so productivity again in a vicious cycle. Besides, elites in a highly unequal society would have a large say in the budgetary provisions made by a state for social sector spending and its financing through taxation. Public health and public education might be expected to be among the casualties of a system of self-centred vested interests wrought by large concentrations of economic resources and political power in the hands of a few. On the subject of health and inequality, a great deal of useful work has been done by Michael Marmot in Britain, and by the Harvard academics Ichiro Kawachi and S.V. Subramanian.

That was only a sampler, and the links and examples can be vastly multiplied. The world, however, is not wanting in "Darwinian" champions of the alleged virtues of inequality in securing the preservation and propagation of the fittest. Such tendencies are particularly well marked in fascist plutocracies—and if tendencies are what we speak of, then there is reason for us to fear on India's behalf. However unseasonal the sentiment, there is much to be said for setting one's face against unharnessed inequality. There is nothing either right or good about it.

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This is the second in a two-part series.

Comments are welcome at theirview@livemint.com

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Recently, the central government launched the Pradhan Mantri Sahaj Bijli Har Ghar Yojana (or Saubhagya).[i],[ii] The scheme seeks to ensure universal household electrification (in both rural and urban areas) by providing last mile connectivity. The scheme is expected to cover three crore households. Note that currently about four crore households are un-electrified. A rural electrification scheme has also been under implementation since 2005. In light of this, we discuss the current situation of, and key issues related to rural electrification in the country.

Regulatory and policy framework

Under the Electricity Act, 2003, the central and state governments have the joint responsibility of providing electricity to rural areas. The 2003 Act also mandates that the central government should, in consultation with the state governments, provide for a national policy on (i) stand-alone power systems for rural areas (systems that are not connected to the electricity grid), and (ii) electrification and local distribution in rural areas. Consequently, the Rural Electrification Policy was notified in August 2006.[iii]

The Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), launched in 2005, was the first scheme on rural electrification. In December 2014, Ministry of Power launched the Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY), which subsumed the RGGVY.[iv] Components of DDUGJY include: (i) separation of agricultural and non-agricultural electricity feeders to improve supply for consumers in rural areas, (ii) improving sub-transmission and distribution infrastructure in rural areas, and (iii) rural electrification by carrying forward targets specified under the RGGVY.

The total financial outlay for DDUGJY over the implementation period (until 2021-22) is Rs 82,300 crore which includes budgetary support of Rs 68,900 crore. The central government provides 60% of the project cost as grant, the state power distribution companies (discoms) raise 10% of the funds, and 30% is borrowed from financial institutions and banks.

Status of rural electrification

As of August 2017, about 1% of the villages in India remain un-electrified (3,146 villages). However, with regard to households, around 23% (4.1 crore households) are yet to be electrified. Table 1 at the end of this post shows the status of rural electrification across all states.

Issues with rural electrification

Definition of an electrified village

An electrified village is defined as one that has the following: (i) provision of basic infrastructure such as distribution transformers and lines in the inhabited locality, (ii) provision of electricity in public places like schools, panchayat office, health centers, dispensaries, and community centers, and (iii) at least 10% of the total number of households in the village are electrified.[iv]

Therefore, a village is considered to be electrified if 10% of the total number of households in the village have been electrified. This is apart from the basic infrastructure and electrification of certain public centers in the village. The Standing Committee on Energy (2013) had observed that according to this definition, a village would be called electrified even if up to 90% of households in it do not have an electricity connection.[v] It also noted that the infrastructure being provided under the scheme is highly inadequate, unreliable and unsustainable. The Committee recommended that the actual electrification requirement of villages must be assessed, and it should be ensured that the state discoms provide electricity to the remaining households in the village.

Supply of electricity

The Standing Committee had also noted that while the rural electrification scheme looks at creating infrastructure, the actual supply of electricity to households rests with the state discoms.[v] These discoms are already facing huge financial losses and hence are unable to supply electricity to the villages. Discoms continue to supply subsidised power to agricultural and residential consumers, resulting in revenue losses. Further, the average technical and commercial losses (theft and pilferage of electricity) (AT&C losses) are at around 25%. While the Ujjwal Discom Assurance Yojana (UDAY) has eased off some of the financial losses of the discoms, it remains to be seen whether discoms are able to reduce the cost-tariff gap and AT&C losses in the future.

It has been recommended that generation capacity should be augmented so that states can meet the additional demand under the rural electrification schemes. Further, the assistance to financially weaker states should be increased so that they can better implement the scheme.[v]

Electricity to below poverty line (BPL) households

Under the rural electrification scheme, the cost for providing free electricity connection per BPL household is Rs 3,000. It has been observed that this cost per household may be inadequate.[v] Due to the low cost, the quantity and the quality of work has been getting compromised leading to poor implementation of the scheme. It has been recommended that the Ministry should revisit the cost provided under the scheme.[v]

The new electrification scheme: Pradhan Mantri Sahaj Bijli Har Ghar Yojana (or Saubhagya)

The new scheme, Saubhagya, seeks to ensure universal household electrification, that is, in both rural and urban areas. Under Saubhagya, beneficiaries will be identified using the Socio Economic and Caste Census (SECC) 2011 data. The identified poor households will get free electricity connections. Other households not covered under the SECC, will be provided electricity connections at a cost of Rs 500. This amount will be collected by the electricity distribution companies in 10 instalments.

The total outlay of the scheme will be Rs 16,320 crore, of which the central government will provide Rs 12,320 crore. The outlay for the rural households will be Rs 14,025 crore, of which the centre will provide Rs 10,588 crore. For urban households the outlay will be Rs 2,295 crore of which the centre will provide Rs. 1,733 crore.

The state discoms will execute the electrification works through contractors or other suitable agencies. Information technology (mobile apps, web portals) will be used to organise camps in villages to identify beneficiaries. In order to accelerate the process, applications for electricity connections will be completed on the spot.

So far the focus of electrification schemes has been on rural areas, where typically last mile connectivity has been difficult to provide. Saubhagya extends the ambit of electrification projects to urban areas as well. While DDUGJY has focused on the village as the principal unit to measure electrification, the new scheme shifts the targets to household electrification. While the target for ensuring electricity connection in each household will be a significant step towards ensuring 24×7 power, the question of continuous and quality supply to these households will still rest on the ability of the discoms to provide electricity. Further, while the scheme provides for free connections, the ability of these households to pay for the electricity they consume may be a concern.

Table 1: Status of rural electrification across states (as of August 2017)

State	Total inhabited villages (Census 2011)	Number of un-electrified villages	% of un-electrified villages	Total rural households (in lakh)	Rural households to be electrified (in lakh)	% of un-electrified households
Andhra Pradesh	26,286	-	0%	112.16	0	0%
Arunachal Pradesh	5,258	1,191	23%	2.32	0.81	35%
Assam	25,372	337	1%	51.88	24.2	47%
Bihar	39,073	214	1%	123.21	65.87	53%
Chhattisgarh	19,567	256	1%	45.2	6.48	14%
Goa	-	-	-	-	-	-
Gujarat	17,843	-	0%	66.52	0.24	0%
Haryana	6,642	-	0%	34.22	6.89	20%
Himachal Pradesh	17,882	-	0%	14.7	0.19	1%
Jammu & Kashmir	6,337	102	2%	12.9	2.7	21%
Jharkhand	29,492	368	1%	54.71	30.63	56%
Karnataka	27,397	10	0%	94.77	7.6	8%
Kerala	1,017	-	0%	71.03	0	0%
Madhya Pradesh	51,929	46	0%	113.93	45.19	40%
Maharashtra	40,956	-	0%	137.85	3.7	3%
Manipur	2,379	62	3%	3.88	1.07	28%
Meghalaya	6,459	125	2%	4.63	1.39	30%
Mizoram	704	11	2%	1.1	0.011	1%
Nagaland	1,400	-	0%	1.6	0.88	55%
Odisha	47,677	373	1%	85.5	34.36	40%
Punjab	12,168	-	0%	36.89	0	0%
Rajasthan	43,264	-	0%	89.57	20.84	23%
Sikkim	425	-	0%	0.37	0.06	16%
Tamil Nadu	15,049	-	0%	102.84	0	0%
Telangana*		-	0%	59.7	4.17	7%
Tripura	863	-	0%	7.96	2.17	27%
Uttarakhand	15,745	49	0%	17.32	1.85	11%
Uttar Pradesh	97,813	2	0%	301.91	148.02	49%
West Bengal	37,463	-	0%	138.2	1.28	1%
Total	**596,460**	**3,146**	**1%**	**1786.87**	**410.601**	**23%**

*** all villages in Telangana were declared electrified before the bifurcation of the state.**
Sources: Ministry of Power; PRS.

[i] "PM launches Pradhan Mantri Sahaj Bijli Har Ghar Yojana "Saubhagya"", Press Information Bureau, Ministry of Power, September 25, 2017.

[ii] "FAQs on Pradhan Mantri Sahaj Bijli Har Ghar Yojana "Saubhagya"", Press Information Bureau, Ministry of Power, September 27, 2017.

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[iv]. “Office memorandum: Deendayal Upadhyaya Gram Jyoti Yojana”, Ministry of Power, December 3, 2014, http://powermin.nic.in/rural_electrification/pdf/Deendayal_Upadhyaya_Gram_Jyoti_Yojana.pdf.

[v]. “41st Report: Implementation of Rajiv Gandhi Grameen Vidyutikaran Yojana”, Standing Committee on Energy, December 13, 2013, http://164.100.47.134/lsscommittee/Energy/15_Energy_41.pdf.

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Resources aplenty, no jobs

We are in the midst of the most transformative age in human history where technological leaps could make possible a world of limitless food, water, and energy. Although we have attained the ability to produce any resource at any speed or in any quantity, human capital requirement is on a steep decline owing to the advent of cutting-edge technologies such as artificial intelligence and robotics.

While five high-technology firms find themselves among the list of the top seven most valuable companies in the world, with a cumulative market capitalisation of almost $3 trillion, it is distressing to note that that they employ just under 700,000 people among them. The inevitable widespread adoption of next generation technologies indicates a future of mass unemployment, and concentration of wealth in the hands of a few enterprises capable of providing minuscule job openings.

Today’s primary challenge is the optimal allocation of copiously produced resources among an increasing population with dwindling wage-earning opportunities. Taking cue from these trends, several progressive political outfits across Europe have started demanding legislation favouring reduced working hours with no cuts in pay, three-day weekends, and the introduction of a universal basic income.

Even if new models built around the reduction, sharing, and diffusion of work and the provision of a supplementary income can sustain employment levels and living standards in wealthy nations with a steady, declining, or ageing population, with most of them plugged into the formal economy, it will be impractical in countries like India. The Indian scenario already looks grim with the Labour Bureau stating that India added just 1.35 lakh jobs in eight labour-intensive sectors in 2015, against a backdrop of almost 1.5 crore annually entering the job market. Conditions are ripe for the creation of a plenitude of frustrated people who would be easy prey to the sway of radical nationalists and populists.

Nevertheless, the informal economy employs more than 90% of our workforce. Efforts to structure the informal sector, by encouraging them to adopt modern-day tools and best practices, and by giving them adequate access to capital for expansion, would stimulate the economy and the job market.

India has massive basic infrastructural capacity requirements. Focussed government planning and spending, along with the creation of an environment that would encourage private investments into these potentially large-scale projects, could create immediate openings for millions in sectors like construction, India’s second largest employer, providing jobs for over 44 million. If leveraged to create essential and permanent assets, employment-guaranteeing schemes like MGNREGA would also effectively absorb a large slice of job seekers. Redefining the existing economic planning, employment and resource-allocation models, to get them in sync with this technology-accelerated age, is the need of the hour.

Anil is the Executive Director of Cyber India and Vice President of Navoothan Foundation. Tweets @anilkantony

The new U.S. Fed Chairman is unlikely to opt for policies that might upset the President’s plan

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The case for a rural stimulus

The fact that the economy is on a downward slide is no longer a matter of debate. It is neither a technical issue nor is it a transient blip which will go away on its own. However, matters are complicated as far as the reasons for the slide are concerned. The real debate is whether it is due to the structural issues leading to a supply shock or it is due to demand deflation in the economy. Any effort at recovery will depend on the correct diagnosis of the problem. Although demonetisation and unpreparedness of the government for the goods and service tax (GST) roll-out contributed to the deceleration in growth rates, the symptoms have been evident for much longer.

In all likelihood the supply issues are not irrelevant, more so after the implementation of GST. The evidence on this based on increasing imports is, however, weak. Although demonetisation and GST have aggravated the supply-side issues, the slowdown started earlier. The economic recovery after 2012-13 had started in 2013-14 and continued until 2015-16, aided by the windfall gain from the decline in petroleum prices. It started declining from the fourth quarter of 2015-16, much before demonetisation and GST had taken place.

The obsession with supply-side issues overlooks the demand-side factors which were showing signs of weakening since 2014-15 itself. A large part of this was driven by what was happening in the rural economy. Wage growth had slumped by the end of 2013. Fertilizer consumption had started declining much before 2014. Growth in agricultural incomes was already decelerating. Construction sector had collapsed. These were clear signs of stress in the rural economy. The rural distress caused by a decline in commodity prices and the drought of 2014 contributed to the worsening of an already fragile rural economy.

It was on the basis of these that I had argued for the need for a rural stimulus (February 2015). The government was also flush with windfall gains from the petroleum price collapse. The government could have acted to stem the crisis in the rural economy. The 2015 drought aggravated the crisis in the rural economy, which was already suffering from depressed incomes. Not only was it ignored, it was allowed to spill over to other sectors of the rural economy, particularly in construction and rural non-farm. The unrest in the rural economy had already spilled over into the Jat, Patel and Maratha agitation, much of it in response to growing joblessness and declining farm profits. This was evident in early 2016, again much before the demonetisation exercise. However, the good monsoon of 2016 did revive hopes for a recovery, which was visible in revival of wage growth and increase in agricultural production. But even this was short-lived with demonetisation taking away the gains of good agricultural production. Since then, it has been a continuous downward slide.

The situation today is vastly different from early 2015 or even 2016 when corrective steps could have bailed out the rural economy. The fiscal capacity of the economy has shrunk, driven by burgeoning farm loan waivers from states and the fact that the government has already spent more than 95% of the fiscal deficit target. Current account deficit (CAD), which had narrowed to less than 1% of GDP in 2016-17, has widened to 2.4% of GDP.

The situation on the demand side has, however, worsened. The first advance estimates of for this year suggest that kharif agricultural output is likely to decline by 2.8% on account of lower sowing of a majority of the kharif crops. This could worsen and impact rabi output as well with live storage in reservoirs down to 66% of the full capacity, compared with 74% a year ago. Reserve Bank of India’s (RBI) consumer confidence surveys show a decline in consumer confidence spilling over to the second quarter as well. Small and medium enterprises are yet to recover from the impact of GST and are likely to see a decline in growth. Even large corporate entities are not showing any signs of recovery except in commodities and banking. Finally, growth in wage rates, which had accelerated after the good monsoon of 2016, has started declining after demonetisation and is now at the lowest level since May 2014.

Clearly, the downward risk to the economy from the demand side does not suggest any recovery in the near future. While there have been voices demanding fiscal stimulus to increase demand, the government does not seem inclined to it. The argument that this will lead to similar imbalances in the economy as it happened after 2008 are clearly misplaced. The economy in 2008 was already struggling with high food price inflation, unlike now when inflation is well under control and is clearly a signal of demand deflation rather than overheating. Secondly, unlike the 2008 financial crisis, which was accompanied by a deceleration in the global economy, the global economy is now on a recovery path. The fiscal deficit is under control and foreign exchange reserves are at their highest level. More importantly, it has exhausted the monetary policy options for reviving investment without much success. If the government cannot seize the momentum now, it is unlikely to do so at a later stage.

The case of a fiscal stimulus, however appealing, will ultimately depend on whether the government has an idea of what ails the economy. It is clear that not only has the government failed to do anything to revive the sagging rural demand, it has also refused to acknowledge the demand problem. It is only when the government acknowledges that there is a problem that it can begin to analyse the policy option. Unfortunately, the response of the government has been to shoot the messengers as was evident from Prime Minister’s speech berating the commentators for spreading the message of pessimism or to blame it on technical issues. While hope may provide succour for the time being, the government should realize that time is running out to do something concrete to revive the economy.

Himanshu is an associate professor at Jawaharlal Nehru University and visiting fellow at Centre de Sciences Humaines, New Delhi.

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PM gives a fillip to rural goods

Fond remembrance:Narendra Modi paying tributes to Nanaji Deshmukh in New Delhi on Wednesday.V. Sudershan

Prime Minister Narendra Modi has urged government departments to follow an outcome-based approach to ensure comprehensive rural development, and appealed to citizens to use rural products as a “fashion statement” to ensure prosperity of rural artisans.

“It is not enough to say we want to ensure development. If we do it in a time-bound manner and ensure our schemes benefit the target group, there is no dilution or diversion and the approach is outcome-based, then by 2022, our rural development will be so fast that it will fulfil our dreams of the past 70 years,” Mr. Modi said.

Ahead of Deepavali, the Prime Minister appealed to the well-off to use earthen lamps made by rural artisans for the festival. “If people in big households use earthen lamps made by our potters for Deepavali, then you ensure that they too can celebrate the festival,” he said.

Centenary fete

The Prime Minister shared his views on rural development at an event to mark the centenary celebrations of Nanaji Deshmukh, one of the founding members of the Jana Sangh and social reformer, and the 115th birth anniversary of the socialist leader Jayaprakash Narayan.

Mr. Modi said he did not agree with the view that “the country lacks resources to ensure development to the last person in a queue”. He said lack of “good governance” was what was holding back the desired results.

He said the States that had an efficient and proactive machinery delivered welfare schemes better. “MGNREGA is a scheme meant for the poor, but I have noticed that the States where there is more poverty give less MNREGA work, while those that have less poverty allocate more MNREGA work,” he said.

Mobile app

The Prime Minister, who formally launched 11 Rural Self-Employment Training Institutes (RSETI) and a mobile app to track development schemes, said democracy was not just about winning elections but ensuring participative development. “It’s about ensuring a dialogue where the right guidelines and feedback are given for effective policy making and such a mobile app will help achieve this,” he said.

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IMF: India could provide universal basic income of Rs 2,600 a year: IMF

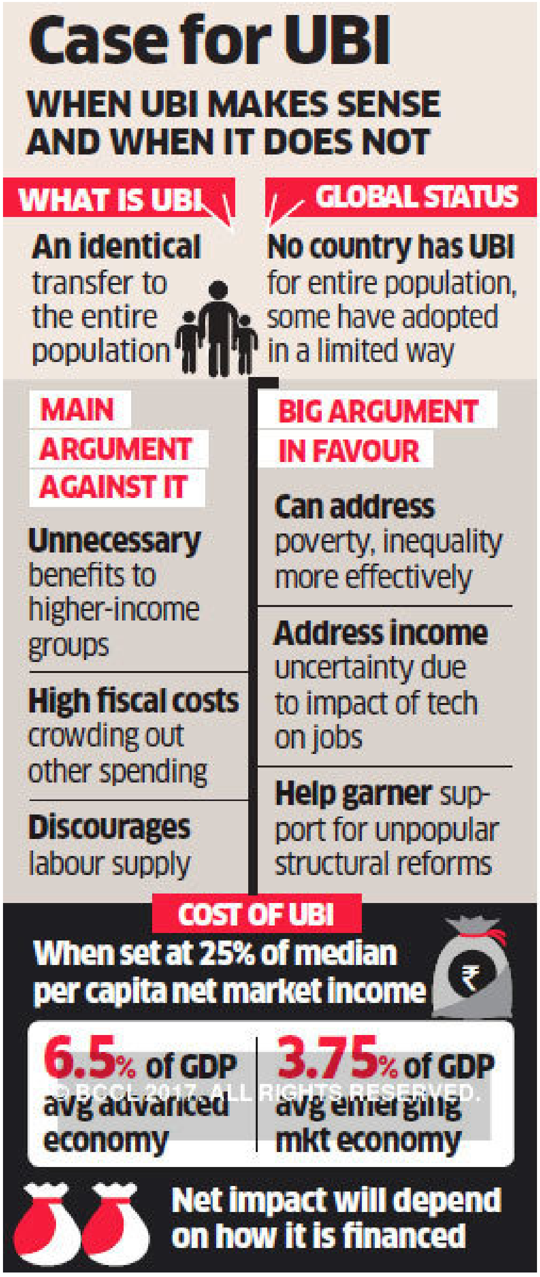
NEW DELHI: The International Monetary Fund (IMF) estimates India could provide a universal basic income (UBI) of Rs 2,600 a year to every person if it eliminates food and energy subsidies.

In its ‘Fiscal Monitor – Tackling Inequality’, the IMF has discussed UBI, “a proposal that has been widely debated recently and is being tested in several countries”, devoting extensive space to its case for India.

The calculations are based on 2011-12 data and would therefore need to be adjusted for sharp decline in fuel subsidies under the NDA government and better targeting of other subsidies through Aadhaar that has reduced overall subsidies.

Even such a modest level of UBI will incur a fiscal cost of about 3% of GDP, but would outperform the public food distribution and fuel subsidies on three counts.

It will address the under coverage of the near 20% lower income groups in the PDS, address the issue of higher income groups cornering bigger subsidies and increase generosity benefits received by the lower income groups.



The IMF has acknowledged the growing debate on the need for subsidy reforms while assessing the case for UBI. “Part of the policy debate has focused on the potential role of a universal basic income (UBI) as an alternative to the existing system of state subsidies, which are typically characterized as fraught with inefficiencies and inequities,” it said.

The figure of Rs 2,600 per annum has been arrived at through simulation that replaces food and fuel subsidies in India with a UBI.

In case of fuel subsidies, the IMF simulation goes beyond budget subsidy of cost-price difference to the extent prices are “below efficient levels that would internalize the negative externalities associated with fossil fuel consumption”.

The flip side of this is that eliminating the wider subsidies would require a sharper increase in prices than the case when budget subsidies are removed. The IMF cites a 2016 study that pegs the order of increase at gasoline (67%), diesel (69%), kerosene (10%), LPG (94%) and coal (455%).

“These large price increases reflect a broad definition of ‘tax subsidies’ that reflects the environmental cost associated with fossil fuel consumption,” the report said.

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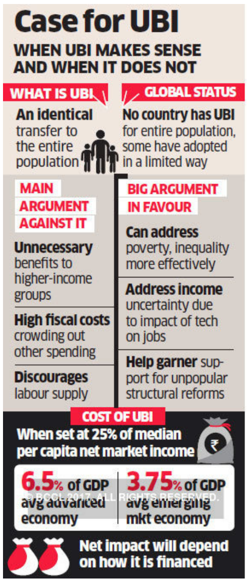

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Equality denied

The steps, if any, initiated by the government through a special session of the Lok Sabha on atrocities after the Una incident last year, have not had an impact on the violence against Dalits in Gujarat. On the contrary, there has been an increase of incidents which the Supreme Court had earlier described as "offences being shockingly cruel and inhumane". From 1995 to 2015 about 9,926 incidents have been registered - about 473 per year - under the Protection of Civil Rights Act (1955) and the Prevention of Atrocities Act (1989). The annual number of cases has jumped from 212 in 2013 to 1,010 in 2015. This trend indicates a growing caste divide in rural Gujarat.

The question is: Why are Dalits denied equal rights despite laws against such a denial? Why is violence, not democratic methods, used to resolve caste issues? Although B.R. Ambedkar was instrumental in developing legal and other measures to ensure equality, he was not very optimistic about the effectiveness of some of these measures and he offered alternatives. Now that political parties have seemingly begun to respect Ambedkar's vision, it will be useful to recall his views on the limitations of the present policies and the solution he offered for troubled times such as these.

It was Ambedkar who brought the ban on untouchability under the purview of the fundamental rights in the Constitution and later helped to enact the Untouchability (Offences) Act (1955). But he was more aware of its limitations than anybody else. In his view, laws could be effective if violated by an individual but not when the entire community is opposed to the rights of a minority. He quoted Edmund Burke: "There is no method found for punishing the multitude. Law can punish a single solitary recalcitrant criminal. It can never operate against a whole body of people who are determined to defy it. Social conscience is the only safeguard of rights. If social conscience is such that it recognises the rights which the law chooses to enact, the rights will be safe and secure."

Unfortunately, in Ambedkar's view, the social and moral conscience that governs the caste system does not support equality. The social beliefs that support inequality continue to influence the behaviour of "high" caste people in the villages. This belief system is at the root of the denial of rights and the use of violent methods against Dalits. The past does not remain in the past; its legacy continues to influence behaviour towards Dalits. Matters are made worse by the motive behind the denial of equal rights - the preservation of economic and social status.

Ambedkar argued that the actions of people are a natural outcome of their belief in caste codes. Unfortunately, there is no engagement by the government and high-caste Hindu civil society with people who practise untouchability. On the contrary, the pendulum is swinging in the opposite direction. As studies show, till recently, atrocities were often motivated by caste consciousnesses, but the current wave seems to be driven by an ideology which expresses faith in a hierarchical social system, although there is an occasional symbolic display of concern about the persistence of caste and untouchability. It is this ideological boost which has, perhaps, revived and lent moral support to the denial of rights and the use of violence against Dalits. What is required are direct efforts towards building a social consciousness in support of equal rights for Dalits. Nothing else will work if a majority of the higher castes in villages are determined to oppose equality.

Along with legal and social hurdles, Ambedkar was equally aware of the economic and demographic imbalance between Dalits and high castes in villages. In 1942, he observed: "It is a contest between the Hindus who are economically and numerically strong and the untouchables who are economically poor and numerically small… the chief weapon in the armoury of the Hindus is economic power which they possess over the poor untouchables living in the village." To correct this imbalance, Ambedkar suggested a geographical and economic distance between high castes and Dalits in the villages and argued for separate settlements or villages for Dalits, with independent sources of livelihood. Ambedkar was aware that the proposal may be "dubbed as an escapism". But he defended it on the ground that the "consequence is perpetual slavery". The uninterrupted cases of atrocities since 1955 would seem to bear out his apprehensions.

Ambedkar also advocated the gradual move of Dalits to cities. He saw the urbanisation of Dalits as a path to free them from the exploitative milieu in the villages to relatively harassment-free social spaces in cities. He thought this solution would be relatively easy. The government has declared a big housing plan, which could be used to transfer Dalits to urban areas in a phased manner over a 10-year period. The Indian government has the experience of settling lakhs of refugees during Partition, providing land for settlement, jobs and money for a business. Therefore, what Ambedkar had suggested is not a new or impossible task - it is something we have done before successfully.

Ambedkar also argued that without securing equal rights for about one-fifth of the population - Dalits - we cannot become a true nation. In 1946, he warned: "The Nation is not a physical thing in which certain objective characteristics, such as commonality of language, race, territory, etc persist. Nation, on the contrary, is a spiritual reality binding people into a deep comradeship… It is a feeling of possessing things in common in life, of communication, participation and of sharing with all those who constitute one nation. Nation is a mode of associated living, of conjoined communicated experience." Thus communication, participation and sharing with all those who constitute one nation is the key to nationhood. Twenty-one year old Jayesh Solanki was watching a garba dance celebration in a public space in Gujarat for which he was killed. Ambedkar's idea of a socially inclusive nation is in the making but there is a hard and long way ahead of us to make it a reality.

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A ‘regulatory lab’ for financial inclusion

In a recent report, the Reserve Bank of India's (RBI) household finance committee found the average Indian household keeps just 5% of its wealth in financial assets. Most is held in real estate and gold. When borrowing, Indian households are nearly as avoidant of formal financial services. In times of emergency, half of households turn to family, friends and moneylenders.

The July 2017 report, “Indian Household Finance”, found many barriers to participating in the formal financial system. While some of these barriers are cultural, such as low trust in financial institutions, many are supply-side frictions. Banks’ “one-size-fits-all” products don’t account for the complexity of Indians’ financial lives, and transaction costs are high.

While Indians’ low participation in the formal financial sector is unusual compared with households in other countries, these supply-side frictions are not. Globally, technological innovation is bringing more customized solutions to market for underserved households. Used in new and creative ways, technology can reduce supply-side frictions by lowering costs, enhancing trust, and improving access at a massive scale.

For example, a financial technology (fintech) model that has proven successful in many markets is personal credit based on alternative data sources. Advanced analytics and mobile platforms enable providers to make small-ticket loans to first-time borrowers with no previous credit score. Another fintech model, robo-advisors, helps consumers manage small portfolios with tailored advice at low cost.

Regulatory barriers to innovation

While innovation is thriving in India with an active fintech landscape, regulators need to keep pace with the brand-new business models that are rapidly emerging. The RBI has been proactive in developing new regulations, such as differentiated licences for new categories of banks, conducting pilot tests before stipulating new limits on digital transactions, and publishing a white paper on blockchain technology in banking. Yet, some regulatory barriers need to be addressed to allow these new solutions to proliferate and scale.

Fundamentally, existing regulations are not designed for fintech products. For example, many banking regulations are written for branches, but the definition of a “branch” is quickly becoming limited. The long, drawn out policymaking consultation process is cumbersome for new entrants, such as person-to-person (P2P) digital lending platforms. Overall, regulatory uncertainty hampers attempt to scale, especially when new products might fall under multiple jurisdictions. For example, it’s unclear which authority would have oversight over a savings-cum-insurance product delivered via mobile.

Safe zone for innovation

The July report offers several recommendations for fostering the introduction of more customized financial products to meet Indian households’ complex needs. The report calls for a more flexible regulatory process to encourage more financial innovation. One promising recommendation is to set up a “regulatory sandbox” to allow innovators to test new products and services in a controlled, yet live, environment.

A sandbox, or perhaps more appropriately a RegLab, is a safe zone where regulators facilitate small-scale roll-outs of new products to real customers without serious risks to consumers or financial stability. Usually, regulators impose a variety of security and customer safeguards on companies participating in a sandbox, including enhanced disclosures, dispute resolution programmes, and customer compensation plans.

In addition, through the testing process and the empirical evidence gathered therefrom, a sandbox could facilitate proactive policymaking and remove some regulatory uncertainty. Regulators in countries like the UK, Singapore and Australia are using sandboxes to evaluate the risk of new products and technologies.

As described in a recent report by the Aspen Institute's Financial Security Programme, the widespread interest in sandboxes has "exposed an underlying demand for a different approach to financial regulation—one that embraces a greater role for regulatory collaboration in the innovation process". Learnings from the sandbox allow regulators to not only keep pace with financial innovation, but stay ahead of the curve. That way, insights from the sandbox inform changes in market-wide regulation, opening the doors to even more innovation and competition, not just sandbox participants.

Test and learn

The challenge of increasing usage of formal financial services is daunting. Technology offers a means to deliver financial services directly to consumers in a much more frictionless manner. However, technology is evolving fast, and regulators need a more efficient approach to understand new models, protect consumers, and ensure the stability of the financial system without choking off innovation.

To harness the power of financial innovation, regulators must move away from the drawn out consultation and white paper-based process, to a "test-and-learn" approach. A regulatory sandbox provides a platform for testing, learning, and adapting—striking the right balance between fostering cutting-edge innovation and the policy objectives of stability and inclusion.

Smita Aggarwal is director at Omidyar Network. She was a member of the technology sub-committee of the household finance committee.

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Commerce & Industry Minister SureshPrabhuseeks permanent solution to world food security at WTO Informal Ministerial Gathering at Marrakesh

The Commerce and Industry Minister, Shri Suresh Prabhu attended an Informal WTO Ministerial Gathering in Marrakesh, Morocco from October 9 to 10. The meeting was held in preparation for the Eleventh Ministerial Conference (MC11) of the WTO scheduled to be held in Buenos Aires, Argentina from 10 to 13 December 2017. Ministers and delegates of 35 WTO member countries exchanged views on what could be realistically achieved and the possibilities for compromise. The objective of the informal gathering was to provide political impetus to the negotiations and guidance on potential outcomes.

Shri Prabhu, led discussions on behalf of the developing world and reiterated commitment to the Doha Round. He referred to the agreed objectives of the agriculture negotiations in the Doha Round and called for continuation of the reform process and to avoid further widening and perpetuation of the imbalance between developed and developing countries. He pointed out that any meaningful reform in agriculture must first seek to reduce the disproportionately large subsidies of the developed countries.

In his statements at the meeting, the Commerce & Industry Minister spoke about India’s priorities and position as regards various issues under discussion in the WTO for outcomes at MC11. He emphasized that a permanent solution on the issue of public stockholding for food security purposes must be a part of the outcomes achieved, as this is an issue of tremendous importance not only to India but also several other developing countries. Shri Prabhupointed out that a solution on this issue would give a strong signal of determination to end hunger and achieve food security, as mandated in the UN Sustainable Development Goal 2.

Emphasizing on the importance of special and differential treatment for developing countries, the Commerce & Industry Minister said India would be willing to engage on proposals that recognized this right for all developing countries without exception. He pointed out that in India, the total number of people dependent on agriculture in one way or another is close to 600 million, with nearly 98 per cent of Indian farmers being low income or resource poor and mostly engaged in subsistence farming. Under such circumstances, it was imperative for India to balance trade liberalization with the need to protect the livelihood of its farmers, he said.

Shri Prabhucalled upon WTO members to first deal with the issues which were already under negotiation, before moving on to new ones.

On the issue of discipline on fisheries subsidies the Commerce & Industry Ministeralsostressed on the importance of suitable special and differential treatment provisions and the need to make a clear distinction between large scale commercial fishing and traditional fishing. He pointed out that in India a large number of small, largely resource poor fish workers depended on traditional fishing activity as a source of livelihood. He observed that developing countries like India, possessing very low fishing capacity, would also need to retain policy space to promote and create such capacity.

Shri Prabhu also spoke about the importance of a transparent and inclusive process of negotiationsat the WTO and the need to do all preparatory work before MC11, so that only issues, which have matured for conclusion, are taken forward to the Ministerial Conference. India’s stance was very well received from all quarters making the visit a big success.

On the sidelines of the meeting, the Commerce & Industry Minister also held marathon bilateral meetings to push India’s trade in a comprehensive manner. He met Ministers from the EU, South Africa, Argentina, Brazil, Russia, Rwanda, Morocco, as well as the Director General of the WTO.

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The Transformation of Rural India

V.Srinivas

Rapid agriculture growth and rapid rural employment growth were always the focus of India's policy makers. Mahatma Gandhi envisaged India as a Nation of self-sufficient autonomous village republics. Land - the summum bonum of rural existence, and agricultural structure was the most important determinant of India's development. Highly skewed distribution of land was responsible for agricultural backwardness. As land was the critical income generating asset of rural India, changes in agricultural holding structures were necessary to ensure prosperity of the rural population. Accordingly, India's State policy focused on State Governments formulating and implementing Land Reforms legislations. These included the Land Ceiling Act, the Tenancy Act, the Land Revenue Act and broadly adopted the land to the tiller policy. Surplus arable government lands were distributed to the poor and needy peasants for livelihoods. These policies were envisaged to promote agricultural growth and alleviate rural poverty.

After the bank nationalization in July 1969, a big push was given towards expansion of banking activities. Rapid expansion of bank branch network into rural areas and expansion of bank credit to agriculture and related activities. Priority sector lending targets and interest rates were introduced as part of a social banking approach. The rural bank branch expansion significantly lowered the rural poverty and increased non-agricultural growth. However, as time progressed, divergences emerged between the levels of development in States. The richer and faster growing States were better at reducing rural poverty while growth was volatile in the poorer States. The faster growing States had formulated laws for amalgamation of farm holdings into viable units for investments, productivity and growth. In the poorer States, the alienation of small and marginal farmers from their lands and subsequent conversion to landless agricultural labor made them entirely dependent on the vagaries of the market. Large scale labor migration was witnessed in areas where rainfed agriculture practices were prevalent. The richer States also attracted higher investments and had better infrastructural development which resulted in higher per capita incomes as compared to the poorer States.

It was in this backdrop that the Indian State implemented a series of welfare programs for the rural population. These included the Desert Development Program, the Drought Prone Area Development Program and the Watershed Development Program. These programs were taken up in a decentralized participatory developmental model. The objective was to treat vast stretches of land areas with watershed treatment practices including construction of check dams, development of pastures and promotion of improved animal husbandry practices. A second crop in rainfed areas, essentially meant higher farm incomes and lower migration of farm labor.

The Indian State also implemented several major direct beneficiary programs for asset generation, skill development, residential housing and employment generation. The Department of Rural Development implements the major schemes of National Rurban Mission, Pradhan Mantri Awas Yojana (PMAY), Pradhan Mantri Gram Sadak Yojana (PMGSY), the Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU GKY) and the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) programs. The implementation of the MGNREGA on a pan India basis with assured employment on individual and community based programs has resulted in significant employment and asset generation in rural areas. The National Rurban Mission was launched in February 2016 as a new initiative for development of a cluster of villages that preserve and nurture the essence of rural community life with focus on equity and inclusiveness without compromising with the facilities perceived to be essentially urban in nature. The DDU GKY essentially focused on youth between 15 years and 35 years from poor families, is tasked with the objective of adding diversity to the incomes of rural poor families and caters to the career aspirations of the rural youth.

Indian farmers were always concerned about the availability of adequate credit at reasonable cost in a timely manner. One of the major steps forward in this direction was financial inclusion. The Pradhan Mantri Jan Dhan Yojana represents the National Mission for Financial Inclusion to ensure access to financial services. The Jan Dhan Yojana provided the bankers with the necessary confidence to promote credit culture across the deprived population and resulted in significant increases in credit flows to rural sector.

A Nation of India’s size requires significant increases in food production. The year 2016-17 witnessed the highest ever food grain production of 273.38 million tons which is 6.37 percent higher than the last 5 years average production and 8.6 percent higher than 2015-16. Government introduced the Soil Health Card Scheme (SHC) in 2015 to be issued on a bi-annual basis to all land holders of the country with the objective to conduct farm level soil analysis. In July 2015, Government introduced the National Agricultural Market (E-NAM) to link 585 wholesale agriculture production marketing committees across the country through a common e-platform. The portal has been made available in several Indian languages and has empowered the farmers with vast information dissemination. The State continued to make rapid strides in the implementation of the Pradhan Mantri Fasal Bima Yojana and the Pradhan Mantri Krishi Sinchayee Yojana covering all risks of the crop cycle and providing incentives for improved irrigation practices.

The Government's initiatives for empowering the farmers and improving the infrastructure at the village level have been largely successful in reducing poverty and enhancing education and health care indicators. The improvement in farm incomes and the transparency in subsidy transfers would enable the creation of a 21st century India that is dynamic and forward looking.

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Views expressed in the article are authors' personal.

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Six steps to job creation

In India’s highly segmented labour market, one can still discern at least three demographic groups that are in urgent need of jobs: a growing number of better educated youth; uneducated agricultural workers who wish to leave agricultural distress behind; and young women, who too are better educated than ever before. India is indeed the fastest growing large economy in the world; yet with investment low, credit offtake low, capacity utilisation in industry low, agricultural growth low, plant load factor low, it is hardly surprising that job growth is low as well.

Although growth is relatively high (though slowing for last several quarters), it is the pattern of growth that is the problem. Among many dimensions of this problem is the fact that in the quarter century since economic reforms began, it is not manufacturing that has been the leading sector driving growth. Manufacturing should drive productivity in the whole economy. Services cannot, as services by definition ‘service’ the distribution of produced goods.

So what can policy-makers do to revive job growth, other than invest more in infrastructure, which this government has been attempting to do especially for last 18 months or so, in both rural and urban India?

First, an industrial and trade policy is needed. The Department of Industrial Policy and Promotion (DIPP) is finally preparing an industrial policy. For 20 years after economic reforms began in 1991 there was no National Manufacturing Policy, and the Policy, when it came in 2011, was not even implemented. By the time the 12th Plan (with the first mention of Industrial Policy since 1991) became public, the UPA government had gone into policy paralysis. Not only did tariffs come down too fast in the 1990s, but what has damaged manufacturing is inverted duty structures.

While the DIPP is preparing the industrial policy document, it is essential that trade policy is consistent with such an industrial policy. Otherwise the two may work at cross purposes and undermine each other’s objectives. This is precisely what has happened over many years. Excessive imports have been decimating Indian manufacturing. An inverted duty structure has the following features: higher duty on intermediate goods compared to final finished goods, with the latter often enjoying concessional customs duty. As a result, domestic manufacturers face high tariffs since the last 12-15 years, leading to higher raw material cost at home, emanating from the unfavourable inverted duty structure. This was pointed out by FICCI way back in 2014 for aluminium, steel, chemicals, capital goods, electronics. This has prevented many manufacturing sectors from growing since economic reforms began. This must be corrected.

The automobiles sector in India faced no inverted duty structure, and has thrived. India has become in the last decade one of the largest producers of vehicles of several kinds in the world now. Electronics faced an inverted duty structure, but the Finance Minister has made changes, and slowly electronics manufacturing has grown.

Second, special packages are needed for labour-intensive industries to create jobs. There are a number of labour intensive manufacturing sectors in India such as food processing, leather and footwear, wood manufacturers and furniture, textiles and apparel and garments. The apparel and garments sector received a package from the Government of India roughly a year back. The other labour intensive sectors have been ignored. The nature of the package will need to be individually designed for each sector defined as quickly as possible.

Three, there should be cluster development to support job creation in micro, small and medium enterprises (MSMEs). Most of the unorganised sector employment is in MSMEs, which tend to be concentrated in specific geographic locations. There are 1,350 modern industry clusters in India and an additional 4,000 traditional product manufacturing clusters, like handloom, handicraft and other traditional single product group clusters. There is a cluster development programme of the Ministry of MSMEs, which is poorly funded and could be better designed as well.

But the Ministry's total annual budget for all programmes, including cluster development, is grossly inadequate. Spread over 6,000 clusters, it becomes even more inadequate to transform MSMEs located in clusters.

Fourth, align urban development with manufacturing clusters to create jobs. The Ministry of Urban Development (MoUD) has a programme called AMRUT (Atal Mission for Rejuvenation and Urban Transformation) aimed at improving infrastructure for small towns. Infrastructure investment by the government always creates many jobs. But the programme does not take into account whether the infrastructure investment under it is taking place in towns which have clusters of unorganised sector economic activities. Hence an engagement between the Urban Development and MSME Ministries is necessary to ensure that this is happening. It will attract more investment to industrial clusters, which is where most non-agricultural jobs are.

Fifth, focus of women. Girls are losing out in jobs, or those with increasing education can't find them, despite having gotten higher levels of education in the last 10 years. Secondary enrolment in the country rose from 58% to 85% in a matter of five years (2010-2015), with gender parity. Skilling close to clusters (rather than standalone vocational training providers), which is where the jobs are, is likely to be more successful. The problem with skilling programmes has been low placement after skilling is complete. The availability of jobs close to where the skilling is conducted will also enhance the demand for skilling.

And sixth, public investments in health, education, police and judiciary can create many government jobs. Public investment in the health sector has remained even in the last three years at 1.15% of GDP, despite the creation of the national health policy at the beginning of 2017. The policy indicates that expenditure on health will rise to 2.5% of GDP only by 2025. Given the state of health and nutrition of the population, it is critical that public expenditure on health is increased faster and not as late as 2025. In the absence of greater public expenditure, the private sector in health keeps expanding, which only raises the household costs on health without necessarily improving health outcomes, because the private sector does not spend on preventive and public health measures. But the private sector prefers to set up hospitals to cure people after they have become sick rather than prevent them from becoming unhealthy in the first place. Preventive and public health have always been in all countries the responsibility of government. More government expenditure in health means more jobs in government and better health outcomes.

Government schools also have such poor quality that parents are voting with their feet by spending money on private schools, whether or not the poor parents can afford it. The number of teachers required, at secondary and higher secondary levels, is very high, particularly in science and mathematics. Many new government jobs can be provided if more young people could be trained specially to become teachers for science and mathematics at the secondary and higher secondary levels.

The same applies to the police and the judiciary. While the number of paramilitary personnel continues to grow, State governments are not filling even sanctioned posts in the policy and in the judiciary (at all levels there are vacancies). More police and a larger judiciary can both reduce crime as well as speed up the process of justice for the ordinary citizen.

Santosh Mehrotra is Professor of Economics and Chairman, Centre for Informal Sector and Labour, Jawaharlal Nehru University, Delhi

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Rural people to get affordable life insurance services-Manoj Sinha

The Minister for Communications Shri Manoj Sinha today launched the Sampoorna Bima Gram (SBG) Yojana and an initiative for expansion of clientele base of Postal Life Insurance. Talking to media after launching the schemes here, the Minister said that the vision of the Prime Minister Shri Narendra Modi to provide banking services through the postal network needs to be taken forward to provide affordable life insurance services to people living in rural areas of the country. He said that all villages under the Saansad Adarsh Gram Yojana will be brought under its ambit.

The Minister said, under Sampoorna Bima Gram (SBG) Yojana, at least one village (having a minimum of 100 households) will be identified in each of the revenue districts of the country, wherein endeavour will be made to cover all households of that identified village with a minimum of one **RPLI** (Rural Postal Life Insurance) policy each. Coverage of all households in the identified Sampoorna Bima Gram village is the primary objective of this scheme.

Shri Sinha said, under the scheme expansion of clientele base of PLI, it has now been decided that benefits of **PLI** will no more be confined to Government and semi-Government employees, but will also be available to professionals such as Doctors, Engineers, Management Consultants, Charted Accountants, Architects, Lawyers, Bankers etc. and to employees of listed companies of NSE (National Stock Exchange) and BSE (Bombay Stock Exchange). The decision has been taken to enlarge the cover of social security and bring maximum number of people under the protection of Postal Life Insurance (PLI). He said that the postal policies have low premium and high bonus, unlike the Private ones.

The Minister added that the Government is committed to the cause of complete wellbeing of citizens of this country. Expansion of clientele base of Postal Life Insurance (PLI) and ensuring coverage of Rural Postal Life Insurance (RPLI) to all households of Sampoorna Bima Gram villages in each district of the country is a step in that direction. These two major initiatives being undertaken by Department of Posts will serve as an instrument of securing lives of people as well as enhancing financial inclusion.

Postal Life Insurance (PLI), introduced in 1884, is one of the oldest life insurance schemes for benefit of Government and semi-Government employees. **Rural Postal Life Insurance (RPLI),** introduced on March 24, 1995 on recommendations of Malhotra Committee, provides insurance cover to people residing in rural areas, especially weaker sections and women living in rural areas. Low Premium and High Bonus is the unique feature of PLI and RPLI schemes. As on March 31, 2017, there were 46.8 lakh PLI and 146.8 lakh RPLI policies across the country.

The insurance industry in India has undergone transformational changes after liberalisation of the insurance sector in the year 2000, subsequent to setting up of the insurance regulator Insurance

Regulatory and Development Authority of India (IRDAI). In such a competitive scenario, it is felt that there is an urgent need for Postal Life Insurance (PLI) / Rural Postal Life Insurance (RPLI) to redefine itself.

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A black mark

Why does India always score poorly on the Global Hunger Index? That should have been a pressing question for the country's policymakers. The Centre and the states do have several schemes to improve the nutritional status of people in the country. But confronting the country's nutritional problems has never acquired adequate urgency. India has consistently brought up the rear of the hunger index, that was first published in 2006. This year's report shows that the country has slipped three positions from last year - it ties with Djibouti and war-ravaged Rwanda for the 100th rank among 119 nations. The report does mention that India has scaled up its Integrated Child Development Services (ICDS) Scheme and the National Health Mission but also notes that they are yet to achieve adequate coverage.

Published by the International Food Policy Research Institute, Concern Worldwide, an Irish aid agency, and Welthungerhilfe, a German private aid organisation, the Global Hunger Index tracks hunger worldwide. With more than a fifth of the country's children under five suffering from "wasting" - low weight for height -India is among the very few countries that have made no progress, over the past 20 years, in arresting the problem. Child wasting is one of the four indicators in the Global Hunger Index. The report draws on India's National Family Health Survey to show that the proportion of children in the country suffering the problem has increased from 17 per cent in 1998-2002 to 21 per cent in 2012-2016. This is way above the global prevalence - less than 10 per cent of under-five children suffer from wasting. Only three other countries- Djibouti, Sri Lanka, and South Sudan - have a child-wasting rate of over 20 per cent.

Many of India's social welfare schemes - including those related to food security -have been dogged by challenges related to identifying and reaching targeted groups. In the last three years, the government has claimed that it is trying to resolve this conundrum by linking targeted welfare schemes to instruments such as Aadhaar.

The continued poor performance in the Global Hunger Index should make the government introspect the shortcomings of this endeavour. The report also carries an important message for the Swachh Bharat Mission (SBM): The project should not lose sight of the links between sanitation and nutrition. Water-borne diseases like diarrhoea, for example, are known to result in poor absorption of nutrients, especially in children under five. The government would do well to take note of the implications of the Global Hunger Index for its welfare schemes.

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Universal Basic Income is not feasible for India

The International Monetary Fund (IMF) has added its bit to the ongoing debate on Universal Basic Income in India. Universal Basic Income is seen by many as an alternative to the existing system of subsidies, which is often associated with systemic inefficiencies. The latest Fiscal Monitor of the IMF, in its analysis, used fiscal space equivalent to the cost of the public distribution system and energy subsidies in 2011-12. It showed that this can finance an annual Universal Basic Income of Rs2,600 per person, which is equivalent to about 20% of that year's median per capita consumption, with the estimated cost at about 3% of the gross domestic product (GDP). The Fund did not account for the subsidy reforms of recent years.

Although the basic idea of Universal Basic Income is not new for India—the erstwhile Planning Commission had worked on it in the early 1960s—it has attracted significant attention in the recent past. A large proportion of the population in India still lives below the poverty line and a number of government programmes providing subsidies and support to the poor are marred by inefficiencies. There are leakages in the system, and often, people who actually need government support are left out. Therefore, it is argued that Universal Basic Income will overcome these problems by providing a basic income to all citizens.

Economists in the Union finance ministry published an excellent chapter on Universal Basic Income in the 2016-17 Economic Survey. It argued that Universal Basic Income is "...more feasible in a country like India, where it can be pegged at relatively low levels of income but still yield immense welfare gains". Lifting people out of poverty is a worthy goal and, despite considerable progress, India has not been able to attain desired results in this area. However, the real question is: Is Universal Basic Income the best way to eradicate poverty in India? There are strong economic and political reasons why India cannot opt for Universal Basic Income, at least in the present circumstances.

First, the biggest issue is that India doesn't have the fiscal capacity to implement Universal Basic Income. For example, the Economic Survey calculations showed that a 75% universality rate with an annual Universal Basic Income of Rs7,620 per year at 2016-17 prices will cost about 5% of the GDP. In a column published in these pages in September 2016, economist Pranab Bardhan showed that an inflation- indexed Universal Basic Income of Rs10,000 at 2014-15 prices—about three-quarters of that year's poverty line—will cost about 10% of the GDP.

It is often assumed that resources can be raised by rationalizing subsidies and capturing a part of the revenue forgone on account of various tax exemptions, including in the personal income tax. These may not happen. The revenue forgone in most cases is optical and the result of poor design. In any case, a part of it is now out of the system with the implementation of the goods and services tax. Further, politically, it will be extremely difficult to roll back subsidies in order to create fiscal space for Universal Basic Income. It is always advisable for the government to work on reducing non-merit subsidies, but the gains should be used to increase capital spending, which will help boost growth in the medium-to-long term.

Second, Universal Basic Income can create distortions in the labour market. A steady, permanent and guaranteed income without any work is likely to affect labour mobility and participation. It is also likely to increase wages, as has been witnessed after the implementation of the Mahatma Gandhi National Rural Employment Guarantee Act. Higher wages without a commensurate increase in productivity will affect India's competitiveness. This could also have longer-term implications in terms of higher inflation and lower growth. The distortions in the labour market will, of course, depend on the amount of Universal Basic Income.

Third, the nature of Indian politics can create complications. It is highly likely that political parties, in order to improve their chances in elections, would want to increase the amount of Universal Basic Income or try to bring back subsidies in some form or the other, which will have fiscal implications. To be sure, India still has to prove that it can actually run balanced budgets for an extended period. The political class always has this temptation to declare premature victories and give away fiscal gains.

What India needs is not Universal Basic Income. It needs rationalization of subsidies, better targeting and operational efficiency. It needs to move to cash transfers at an accelerated pace with the use of Jan-Dhan, Aadhaar and mobile. This will help reduce costs and spare resources for capital spending to augment growth. As history has shown, the best way to pull people out of poverty is sustained higher growth. Therefore, rather than creating permanent doles like Universal Basic Income for the entire population, which will be impossible to reverse in the future, the idea should be to save costs with better targeting. This will help create the necessary conditions for higher growth which will decisively lift people out of poverty.

What can the government do to lift people out of poverty? Tell us at views@livemint.com

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Shri Ashwini Kumar Choubey releases FSSAI report on Food Fortification

Shri Ashwini Kumar Choubey, Minister of State for Health and Family Welfare released a comprehensive report on “Large Scale Food Fortification in India – The Journey So Far and Road Ahead” at the national ‘Conclave on Nutrition Security: Partnership & Convergence’ organized by the Food Safety and Standards Authority of India (FSSAI) on the occasion of World Food Day, here today. Shri Choubey also launched the food fortification website at the function. Smt. Preeti Sudan, Secretary, MoFPD and Secretary, MoHFW (Designate) and Smt. Vijaya Srivastava, Special Secretary and FA (MoHFW), were also present at the function.

Delivering the keynote address, Shri Choubey stated that it is not enough that the food is available but the food should be nutritious as well. He emphasized on the need to raise awareness about nutrition rich food and cautioned people against food adulteration.

At the function, the Food Safety and Standards Authority of India introduced its new initiative ‘Indian Food Recovery Alliance (IFRA)’ – A coalition of food recovery partners in country to fight the issue of hunger and also prevent food loss and food wastage in India.

The food recovery partners showcased their existing models of food recovery and showcased an integrated web-based platform that is being developed. This web based platform, released on a pilot level, allows interested donors, individuals and volunteers to register themselves to be a part of this initiative. The donors will be able to track all the data, information and the status of the food they donate through their personal logins. This platform will also provide guidance to citizens, food businesses and various food recovery agencies on prevention of food loss and food waste, and safe recovery of surplus food.

During the conclave, FSSAI also discussed & reviewed the progress on food fortification so far, shared the experiences and key leanings and convened various stakeholders to discuss the way forward. Directives have been issued from the key Central Ministries and dynamic State government like Karnataka, Madhya Pradesh and UT Chandigarh have set up cross ministerial working groups. Development partners have pledged support with resources.

Through creating a network of networks from entities across sectors in India and leveraging the power of technology, FSSAI’s aim is to create an ease of communication among all the stakeholders so that everybody can take a step closer towards reducing food wastage in a uniform direction. With respect to fortification, the next phase involves wide consumer outreach to build awareness and sensitise people to the need for fortification.

Also present at the function were Shri Ashish Bahuguna, Chairperson, FSSAI, Shri Pawan Agarwal, CEO, FSSAI, along with other senior officers of the Ministry and representatives of development partners and civil society organizations.

MV/SK

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The United Nations celebrates October 16 as the World Food Day every year, with an aim to spread awareness about eradicating hunger and ensuring food security for all.[1] In this context, we examine the status of food and public distribution in India, and some challenges in ensuring food security for all.

Background

In 2017-18, over Rs 1,50,000 crore, or 7.6% of the government's total expenditure has been allocated for providing food subsidy under the Targeted Public Distribution System (TPDS).[2] This allocation is made to the Department of Food and Public Distribution under the Ministry of Consumer Affairs.

Food subsidy has been the largest component of the Department's expenditure (94% in 2017-18), and has increased six-fold over the past 10 years. This subsidy is used for the implementation of the National Food Security Act, 2013 (NFSA), which provides subsidised food grains (wheat and rice) to 80 crore people in the country.[3] The NFSA seeks to ensure improved nutritional intake for people in the country.[3]

One of the reasons for the six-fold increase in food subsidy is the non-revision of the price at which food grains are given to beneficiaries since 2002.[4] For example, rice is given to families under the Antyodaya Anna Yojana at Rs 3/Kg since 2002, while the cost of providing this has increased from Rs 11/Kg in 2001-02 to Rs 33/Kg in 2017-18.

Table 1: Poverty ratio and number of poor persons

Year	Poverty Ratio (%)	Number of poor (Crore)
1973-74	54.9%	32.1
1977-78	51.3%	32.9
1983	44.5%	32.3
1987-88	38.9%	30.7
1993-94	36.0%	32.0
2004-05	27.5%	30.2
2011-12	21.9%	26.9

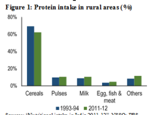
Note: Figures from 1973-74 to 2004-05 have been computed using the Lakdawala Methodology, and figures for 2011-12 have been computed using the Tendulkar Methodology.
Sources: Planning Commission; PRS.

Provision of food subsidy

TPDS provides food security to people below the poverty line. Over the years, the expenditure on food subsidy has increased, while the ratio of people below poverty line has reduced. A similar trend can also be seen in the proportion of undernourished persons in India, which reduced from 24% in 1990 to 15% in 2014 (see Table 1). These trends may indicate that the share of people needing subsidised food has declined.

Nutritional balance: The NFSA guarantees food grains i.e. wheat and rice to beneficiaries, to ensure nutritious food intake.[3] Over the last two decades, the share of cereals or food grains as a percentage of food consumption has reduced from 13% to 8% in the country, whereas that of milk, eggs, fish and meat has increased (see Figure 1). This indicates a reduced preference for wheat and rice, and a rise in preference towards other protein rich food items.

Figure 1: Protein intake in rural areas (%)



Sources: 'Nutritional intake in India 2011-12", NSSO; PRS.

Methods of providing food subsidy

Food subsidy is provided majorly using two methods. We discuss these in detail below.

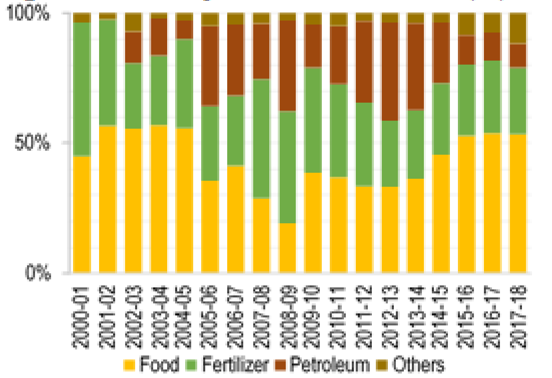
TPDS assures beneficiaries that they will receive food grains, and insulates them against price volatility. Food grains are delivered through fair price shops in villages, which are easy to access.[5],[6]

However, high leakages have been observed in the system, both during transportation and distribution. These include pilferage and errors of inclusion and exclusion from the beneficiary list. In addition, it has also been argued that the distribution of wheat and rice may cause an imbalance in the nutritional intake as discussed earlier.[7] Beneficiaries have also reported receiving poor quality food grains as part of the system.

Cash Transfers seek to increase the choices available with a beneficiary, and provide financial assistance. It has been argued that the costs of DBT may be lesser than TPDS, owing to lesser costs incurred on transport and storage. These transfers may also be undertaken electronically.[6,7]

However, it has also been argued that cash received as part of DBT may be spent on non-food items. Such a system may also expose beneficiaries to inflation. In this regard, one may also consider the low penetration and access to banking in rural areas.[7]

Figure 2: Total expenditure on subsidies (%)



Note: Figures for 2016-17 are revised estimates and for 2017-18 are budgeted estimates.
Sources: Union Budget documents; PRS.

In 2017-18, 52% of the centre's total subsidy expenditure will be on providing food subsidy under TPDS (see Figure 2). The NFSA states that the centre and states should introduce schemes for cash transfers to beneficiaries. Other experts have also suggested replacing TPDS with a Direct Benefit Transfer (DBT) system.[4],[8]

The central government introduced cash subsidy to TPDS beneficiaries in September 2015.[9] As of March 2016, this was being implemented on a pilot basis in a few union territories. In 2015, a Committee on Restructuring of Food Corporation of India had also recommended introducing Aadhaar to plug leakages in PDS, and indexing it to inflation. The Committee estimated that a switch to DBT would reduce the food subsidy bill of the government by more than Rs 30,000 crore.[10]

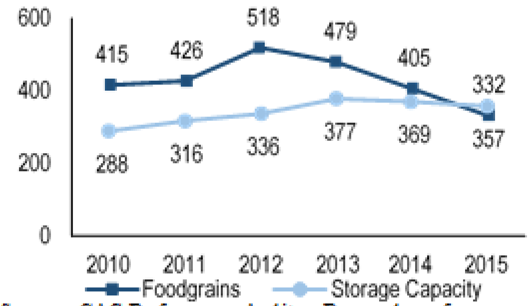
Current challenges in PDS

Leakages in PDS: Leakages refer to food grains not reaching intended beneficiaries. According to 2011 data, leakages in PDS were estimated to be 46.7%.[10],[11] Leakages may be of three types: (i) pilferage during transportation of food grains, (ii) diversion at fair price shops to non-beneficiaries, and (iii) exclusion of entitled beneficiaries from the list.[6,][12]

In 2016, the Comptroller and Auditor General (CAG) found that states had not completed the process of identifying beneficiaries, and 49% of the beneficiaries were yet to be identified. It also noted that inclusion and exclusion errors had been reported in the beneficiary lists.[13]

In February 2017, the Ministry made it mandatory for beneficiaries under NFSA to use Aadhaar as proof of identification for receiving food grains. Through this, the government aims to remove bogus ration cards, check leakages and ensure better delivery of food grains.[10,][14] As of January 2017, while 100% ration cards had been digitised, the seeding of these cards with Aadhaar was at 73%.[14]

Figure 3: Stock and Capacity of FCI (lakh tonnes)



Sources: CAG Performance Audit on Preparedness for Implementation of National Food Security Act, 2013; PRS.

Storage: As of 2016-17, the total storage capacity in the country is 788 lakh tonnes, of which 354 lakh tonnes is with the Food Corporation of India and 424 lakh tonnes is with the state agencies.[15]

The CAG in its performance audit found that the available storage capacity in states was inadequate for the allocated quantity of food grains.[13] For example, as of October 2015, of the 233 godowns sanctioned for construction in Maharashtra, only 93 had been completed. It also noted that in four of the last five years, the stock of food grains with the centre had been higher than the storage capacity available with Food Corporation of India.

Quality of food grains: A survey conducted in 2011 had noted that people complained about receiving poor quality food grain which had to be mixed with other grains to be edible.[6] There have also been complaints about people receiving food grains containing alien substances such as pebbles. Poor quality of food may impact the willingness of people to buy food from fair price shops, and may have an adverse impact on their health.[16]

The Ministry has stated that while regular surveillance, monitoring, inspection and random sampling of all food items is under-taken by State Food Safety Officers, separate data for food grains distributed under PDS is unavailable.[17] In the absence of data with regard to quality testing results of food grains supplied under PDS, it may be difficult to ascertain whether these food items meet the prescribed quality and safety standards.

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Reducing inequality need not hurt growth

How times have changed. The US has become the world's largest producer of oil and gas, and is now also an oil exporter. It is also becoming a free trade sceptic. China is now the flagbearer of free trade and is also leading climate change activism. Ageing Europe is electing young leaders, with the latest being a 31-year-old prime minister in waiting.

Into this new normal is the unusual stance of the International Monetary Fund (IMF). The latest IMF report, called the Fiscal Monitor, is cautioning about increasing inequality in the world. Not Thomas Piketty, this is the IMF! The report says that income inequality is the highest it has been in more than half of all member countries of the IMF. Traditionally, the development and inclusive growth agenda has been with the World Bank, whereas the IMF's mandate is rescuing countries from currency, fiscal and financial crises. The IMF now is advocating redistributive policies, and is asking rich countries to spread their wealth more evenly among their own people. In effect, the IMF is asking for higher taxes for the very rich which it says will reduce inequality without sacrificing economic growth. This is in direct contradiction to the proposed tax reform plan of US President Donald Trump (the biggest shareholder of the IMF).

The Trump plan is to cut personal and corporate income taxes, give tax amnesty to bring back profits parked overseas, and eliminate the estate tax (meant for the rich). The Trump plan would, of course, bring great benefit to the very rich, the top 1% earners. That plan is being touted as the largest tax cut in US history, and is being justified as promoting large-scale job creation. The IMF seems to be giving a thumbs down to the Trump plan. Whichever side of the debate you are on, the fact is that both sides are concerned about rising inequality. Ironically, it is that same inequality and extreme polarization which led to the election of Trump.

So let us ask, is rising inequality inimical to growth? This is an age-old question. On one side you have Simon Kuznets, who said that inequality is just a by-product of growth and no cause for worry. Kuznets' hypothesis was that in the early stages of development, inequality gets worse. This seems natural since the fast-growing sectors race ahead, while others lag behind. The disparity widens. But then eventually growth benefits percolate outside the fast-growing sectors, and competition drives down the premiums, leading to a convergence in growth rates across sectors. Thereby leading to lesser inequality. This was the Kuznets curve, with inequality rising and then falling.

On the opposing side is Thomas Piketty, who has questioned (some say debunked) the Kuznets curve. In his magnum opus, *Capital,* he says that economic growth just makes wealth inequality worse. There is a causality from growth to inequality, which is inevitable, which leads to the concentration of wealth in fewer and fewer hands. Growth necessarily leads to worsening inequality, which Piketty demonstrated using data across countries. This is not the place to discuss Piketty and his critics or to support Kuznets. But suffice it to say that there comes a time when inequality, whether of income or wealth, becomes "too much". How much is too much?

Think of inequality as a public good (or public bad) not unlike pollution. Pollution is a by-product of industrial and economic activity, and hence can never be zero. But above a threshold it is seen as excessive and needs to be regulated. What is that threshold? This is a question that every society has to answer for itself. The same is true for inequality. It is a question not of efficiency or optimality, but of fairness and justice. How much is too much? Is it suffocating all of us? Is it hurting economic growth? Extreme inequality leads to political tensions, social instability, frustrated aspirations, loss of trust in governments, breakdown of law and order, discouraged investors, charges of crony capitalism, and drying up of investment and eventually growth itself. Hence lesser inequality is a public good that modern economies have to provide their citizens.

Each society decides what is an acceptable level of inequality for it. The Scandinavians have some of the lowest gini coefficients in the world, and they also happen to be high-income countries. In a recent paper, Piketty and co-author Lucas Chancel observe that over the period of 1980-2014, the gains to the top 1% income earners were most disproportionate in India as compared to all other countries. In particular, cumulative gain in real per capita income for all of India over the 35-year period was only one-fourth of what the top 1% earned. Piketty admits to the inadequacy of his data, but his paper serves as a warning bell. We are well past the threshold beyond which inequality is detrimental to growth. Reducing it (like reducing pollution) should be a priority for fiscal policy (as the IMF too recommends).

This need not entail higher tax rates, but, in fact, the elimination of exemptions and tax loopholes and a widening of the tax net. For instance, the annual Union budget gives an estimate of the value of tax giveaways, which are bigger than the entire fiscal deficit. Surely there's room to trim those freebies (also known as tax shelters). Then there is also the expenditure strategy of substantially enhancing the outlay on education and health. Income disparity can also be reduced by increasing the participation of women and reducing the gender pay gap. All these measures are growth friendly. There may, in fact, be a "Laffer curve" phenomenon here, wherein reducing inequality becomes growth enhancing in some range of the gini.

Ajit Ranade is chief economist at Aditya Birla Group.

Comments are welcome at views@livemint.com

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Govt. plans to boost rural employment

Urban migration:Scores of rural workers have to move to towns to find employment.C. Ratheesh Kumar

The Rural Development Ministry, in a bid to addresss one of the biggest challenges for the Modi government, is in the midst of examining proposals that promises to leapfrog job creation for the rural youth.

The proposals emerged from a two-day conclave the Ministry hosted last week, that was addressed by Prime Minister Narendra Modi.

Several out of the box suggestions such as a migrant tracking system, low-cost accommodation for urban workers, and changing the word “labour” to “professional workers,” are now being compiled into a draft note that will eventually be sent to the Prime Minister’s Office.

“Our ministry already runs the biggest rural employment programme in the form of MNREGA. Now, we are focussing on specific livelihood missions to scale up employability of rural youth,” said a senior official of the ministry, who did not wish to be identified.

The note on skill development, accessed by *The Hindu* , points out that the Ministry’s flagship skill development programme — Deen Dayal Updadhaya Gramin Kaushal Yojana — needs to “reinvent itself to reach the next level.”

Experts have suggested a cluster approach, where villages with similar socio-economic conditions should be clubbed and every village should have a *gram vikas prerak* (village development motivator), and call the “bottom of the pyramid as the foundation of the pyramid.”

Rural digital index

“Like a smart city index, we need to have a rural digital index,” the note points out and says skill development programmes of the government should work backwards from the future and link it to the market demands.

“Link skill to entrepreneurship development and do not over-emphasize wage employment,” reads one of the 18 recommendations that have so far been crystallized.

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“Significant Employment and Enterprise Thrust in Rural Areas”

The Department of Rural Development has been making concerted efforts to improve the work availability in rural areas. Besides wage employment opportunities under MGNREGS, it is also promoting skilled, semi-skilled and unskilled wage labour in a very large rural housing programme like PMAY-Gramin and in road construction sector under PMGSY. The Budget of the Department of Rural Development has more than doubled since 2012-13. Adding the State contribution, in all the programmes as also the large transfers under the 14th Finance Commission for rural infrastructure, the total fund available is over 3 times of what it was 5 years ago. 51 lakh houses under construction, nearly 1 lakh kilometers of roads in different stages of construction and large scale wage work available under MGNREGS especially for agriculture and allied activities, have ensured greater opportunities for wage employment.

The Department is also promoting enterprises through a concerted thrust on Bank loan linkage for women Self-Help Groups under Deendayal Antyodaya National Rural Livelihoods Mission (DAY-NRLM). Currently, the linkage is of more than Rs. 47,000 crores, which is being used to promote useful enterprises like Custom Hiring Centers, Rural transport, agriculture and allied activities, animal husbandry, horticulture, handloom and handicrafts, retail business etc. The Bank linkage for women Self-Help Groups has also more than doubled over the last 3 years. The placement-based wage employment skill programmes like DDU-GKY and the self-employment programmes through RSETI are also helping households to move up the skilling ladder and in diversifying livelihoods.

MGNREGS being a demand-based programme, over Rs.40,000 crores from Government of India has already been released to States. Adequate funds have been released for drought affected States like Madhya Pradesh and Uttar Pradesh. On account of drought, States like Kerala, Tamil Nadu and parts of Telangana have also received higher releases in the first quarter. The labour budget of States like Andhra Pradesh, Telangana and Puducherry have been increased to meet additional demand for wage employment. Timely release of wages is ensured in nearly 85% cases (within 15 days) so far. Follow up with Department of Financial Services and CMDs of Banks and Department of Post has been taken up to ensure that fund released through Banks/Post Offices reach the labourers’ account immediately. The Government of India follows the General Financial Rules(GFR) strictly and therefore requires audited accounts of the previous financial year from the State Governments before approving any release after 30th September, 2017. States are complying with the financial provisions of GFR and funds are appropriately being released after due scrutiny. The Government is determined to maintain the fund flow under MGNREGS. To ensure very high timely payments to labourers, additional funds have been asked for to meet the demand.

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Hunger is a shame

It is sad that it required the publication of a report by the International Food Policy Research Institute (IFPRI) to draw attention to a problem that has been present in India for centuries and is endemic in all developing countries: hunger. It is an undeniable fact that a significant proportion of the Indian population goes hungry on many days of the year. Why should the government deny this depressing fact, unless it has developed the habit of denying anything that is an inconvenient truth?

There is no mystery in the numbers put out by the IFPRI (see table):

There is no mystery in the numbers put out by the IFPRI (*see table*):

Year	India's rank/Number of countries	India's Index Score
2007	94/118	25.03
2008	98/120	23.7
2009	102/121	23.9
2010	105/122	24.1
2011	108/122	23.7
2012	106/120	22.9
2013	105/120	21.3
2014	99/120	17.8
2015	93/117	29.0
2016	97/118	28.5
2017	100/119	31.4

A lower score means a better situation. Rise in score is deterioration.

Every year, some countries are added and some countries are dropped, presumably because of availability or non-availability of data. As the table shows, this is not a material factor - over 11 years, the total number of countries considered has varied between 117 and 122, which is, statistically, insignificant. What conclusions can we draw?

– India's relative rank among the countries deteriorated between 2008 and 2011 but the score was more or less the same;

– India's relative rank and score improved significantly between 2011 and 2014; and

– there has been a significant decline in the score since 2014.

The Good and the Bad

The question that we have to ask ourselves is, why was India not able to maintain the trend of improvement that was witnessed up to 2014?

Every government since 1947 must be held responsible for the good and the bad, and so is the present government. The Global Hunger Index is calculated based on the proportion of the population that is undernourished; prevalence of wasting and stunting among children below the age of five; and the under-five mortality rate. There has been progress. Without burdening this column with numbers, the study of the period between 2006 and 2016 reveals that, as a proportion, stunting among children has declined; anaemia among women of reproductive age has declined; low birth weight has declined; exclusive breastfeeding has improved; but wasting among children has worsened. None of the states in India reached acceptable levels of wasting or underweight in 2016, based on the WHO cut-off rates for public health significance.

The reason for both the improvement and the deterioration is food - its availability, affordability and accessibility. People must have adequate food, everything else is secondary. India produces enough food for its people, but not all people get enough food to eat. That is the paradox. While many interventions were made - some achieved moderate success - the most decisive intervention was the passing of the National Food Security Act, 2013 (NFSA).

The NFSA Promise

The NFSA declared 'entitlements' to food grains every month at subsidised prices. Every person in a 'priority household' will be entitled to 5 kg of food grain, every 'Antyodaya' household to 35 kg, every pregnant woman or lactating mother to a daily free meal during pregnancy and for six months after childbirth plus Rs 6,000, every child under six years to a daily free meal, every child between 6 and 14 years to a free mid-day meal, and, in the case of non-supply of foodgrains or meals, to a food security allowance. It was intended to cover, if necessary, up to 75 per cent of the rural population and up to 50 per cent of the urban population. A State Commission would oversee the implementation of the Act in each state.

The NFSA was a bold, ambitious and obviously costly intervention. Reservations were expressed; however, the only alternative was a Universal Basic Income (UBI) that may have proved more expensive.

Grave Neglect

When the government changed in 2014, the NDA was obliged to implement the law. It did not. I cannot recall the Prime Minister making food security a mission (as he did Swachh Bharat), nor did the government propose an alternative. The NFSA was gravely neglected. In July 2017, the Supreme Court found that in many states the bodies charged with implementation had not been set up and described the situation as "pathetic". According to the Budget documents, the government spent Rs 134,919 crore in 2015-16 under the NFSA. For 2016-17, it was Rs 130,335 crore (budget estimate) and Rs 130,673 crore (revenue estimate), but the actual expenditure was only Rs 105,672, as reported in May 2017. This was callous neglect and there has been no explanation.

The State of Food Security and Nutrition Report (UNICEF, 2017) states that 190 million people in India are undernourished. When the IFPRI holds a mirror to our face, it is not enough to deny the warts. Hunger in India is an ugly wart. The government of the day owes an obligation - higher than the promise of a bullet train or the 'tallest' statue or any other jumla - to propose a comprehensive solution to eliminate hunger and implement it.

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Long-run trends in rural wages

Wage rates for agricultural and non-agricultural labour in rural India have been in the news recently. First, in his *The Indian Express* column, Surjit Bhalla argued that demonetization was not bad for the rural economy since the growth of wage rates had increased from around 2% in mid-2016 to 5.7% in mid-2017. There followed a response by Himanshu in *The Indian Express*, using the same data to show that Bhalla's conclusions were valid only for select occupations. More importantly, he pointed out that a recovery in rural wages had started before demonetization and that this recovery came on the heels of a longer period of declining real wages since May 2014. However, he used wage levels rather than growth rates in his analysis and interpreted Bhalla as saying that demonetization had increased wage rates. Both these points were criticized by Bhalla in his response.

Himanshu is right in saying that the uptick in wage rate growth started before demonetization, around August-September 2016. For the selected occupations shown here, growth rates went from near zero or negative in August 2016 to around 3% in November 2016. Post-demonetization, in the December 2016 to July 2017 period, the growth rate no longer rose and in fact plateaued in the 4-5% range. The trends are similar for other occupations. So while it is a relief that demonetization did not reverse the growth trend, it may have slowed it down—though, of course, no firm causality can be inferred until seasonality as well as other relevant factors affecting the rural economy are taken into account.

If we step back from the immediate context of this debate, however, the long-run dynamics are worth examining. It has been a roller-coaster ride for rural wages over the past few years. The accompanying figures show inflation-adjusted wage rates as well as the rates of growth over a two-decade period. After enjoying unprecedented high rates of growth between 2010 and 2014, rural wage rate growth collapsed in late 2014. This was followed by a period of very slow growth till late 2016. During this period, the average year-on-year growth in wage rates was either zero or around 1-1.5%, depending on the occupation. This collapse and stagnation deserve a closer look than they have received thus far.

The period before 2010, in real terms, was a period of complete stagnation. To put this in perspective, the high growth regime in the early 2000s wherein the Indian economy grew at 7% on average in real terms delivered virtually no increase in rural wage rates. Recall here that according to the National Sample Survey Office's Situation Assessment Survey of Farmers) (2012), wages constitute a key source of income for a large proportion of rural Indians, including those who cultivate their own land.

This dismal picture started to change in 2010. The period from the middle of 2010 to the later half of 2014 stands out as one of historically high rates of growth, at times faster even than the growth rate of GDP (gross domestic product). This has been attributed to increases in agricultural productivity, increased activity in the construction sector and the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), falling labour force participation of women, as well as general urbanization. Thus, in some respects, it may be valid to think of this a period during which there was a substantial drawing down of surplus labour reserves in agriculture.

Coming on the back of a prolonged period of stagnation, high-growth rates should have been welcomed since they enabled some degree of catching up between the rural and urban sectors. Instead, they were seen as a problem due to inflationary concerns. But citing the rise in agricultural wages as causing food-price inflation without any consideration of the way value is distributed across the agricultural value chain or of other supply-side constraints is problematic. In this respect, two items from Raghuram Rajan's list of desirable policy measures are worth emphasizing: a reduction in the wedge between what the farmer gets and what is paid by the household by reducing monopoly power and improving logistics, and improving farm productivity through more investment. These two items have long been the obvious measures to implement to solve the quandary and yet not enough has been done about either.

The general tendency to interpret rural wage-rate data in terms of its implications for inflation rather than welfare of the rural population continued even when growth collapsed in the latter half of 2014. It was seen in some circles as a “positive development”. Along the same lines, the Reserve Bank of India’s Monetary Policy Report from April 2015 called the deceleration in rural wage growth “a favourable but unanticipated development that restrained cost-push pressures”. An exception was a *Mint* article from May 2016 which concluded the past two years had been a “disaster” for rural labourers.

This collapse has received much less attention though a reversal of the same factors that led to the increase is suspected. The reasons need to be investigated further. It is worth noting that indexation of MGNREGS wages to inflation and to the state minimum wage for unskilled workers was also cited by Rajan as another link between the public works programme and strong rural wage growth. Thus one possible explanation for the collapse in wage rates post-2014 may be that under the new regime, MGNREGS wages have not been systematically indexed to minimum wages—and indeed, in some states they have increased at a pace far slower than inflation (in extreme cases, by a rupee per year).

To summarize, if we compare the average rate of growth for per capita gross national income over the three periods to the average rural wage-rate growth, a striking picture emerges. While national income continued to grow in real terms at the rate of 7% over all three periods, this growth translated into improvements in rural wages at a commensurate rate only for the middle period, when wage growth was over 8%. In the first period (1999-2010), wage rates grew on average at 0.33% per annum, while in the third period (after 2014), they grew at 1.7%. Much can be learned from a more thorough investigation of these three periods.

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Turning the poor's assets into capital

The Indian judiciary is crumbling under the weight of pending cases. More than 28 million cases are pending in the country's district courts. Of these, more than 7.5 million are civil cases, and Bengaluru-based NGO Daksh's data shows that more than 66% of the civil cases are related to land or property. Not only is the judiciary overburdened, the poor litigants are also losing Rs1,300 on average per day of court hearing in litigation costs and foregone business. In this context, the Andhra Pradesh government's steps to use blockchain technology for land titling are a laudable development.

Blockchain technology is at the forefront of a technological shift called disintermediation; the removal of intermediaries in exchange processes that enables people to transact in a peer-to-peer fashion based on the trust provided by blockchain.

At present, land ownership data is stored with the government in centralized ledgers (records). This means that the data can be accessed and modified only by the government. This is a problem because if this data is erroneously entered, lost or forged, the ledger will no longer represent the true ownership of assets. Blockchain allows the government to maintain a public ledger of asset-ownership in a distributed fashion. The data is stored on a network of devices and there is no central point of failure. It ensures trust by being transparent—it is visible for everyone to verify. At the same time, it ensures privacy for the owner by ensuring that the ownership of the asset only changes hands after authorization.

At present in India, trading an asset requires an enormous effort just to determine the basics of the transaction: Does the seller own the real estate and have the right to transfer it? Will the new owner be accepted as such by those who enforce property rights? What are the effective means to exclude other claimants? Such questions are difficult to answer. For most goods, there is no place where the answers are reliably fixed. That is why the sale or lease of a house may involve lengthy and cumbersome procedures of approval involving all the neighbours. This is often the only way to verify that the owner truly owns the house and there are no other claims on it. Blockchain has the potential to change this by representing what is economically meaningful about any asset—size, location, use-restrictions, etc.—linking it to the owner unambiguously, and tracking all future exchanges.

Secure land ownership will prove immensely beneficial for India's poor. The prosperity of Western nations can be traced to the security provided to property by the formal legal system. The poor in India do own things, but they don't have a way to represent their property and create capital. They have houses but not titles; crops but not deeds; businesses but not statutes of incorporation. They produce all kinds of things—from clothing and footwear to leather bags and wrist watches. But due to missing documents of ownership, they are pushed into the unregulated sector of the economy—unable to access credit and public utilities like water and power. These enterprises of the poor are very much like corporations that cannot issue shares or bonds to obtain finance and investment. In the words of Peruvian economist Hernando de Soto, without representations their assets are "dead capital".

With a trustworthy asset ownership system, millions of people will move out of the anonymous mass of citizens and become individuals with property interests. By intractably linking themselves to a property, they will become identifiable and have to forfeit their anonymity. Thus, people who use goods and services and don't pay for them will be identified and charged interest penalties; contract violations will be traced; and legal infractions can be more easily prosecuted. On the other hand, they will be able to save and invest, avail of credit and maintain credit histories, and benefit from lower insurance premiums. Buildings are always the terminals of public utilities like power, water, broadband service, etc. But legal property transforms them into accountable and responsible terminals. The threat of forfeiture will discipline households and erstwhile unserved citizens will be treated like responsible members of society whose engagement is backed by a pledge of property.

Blockchain has the potential to end the days of large-scale property-related litigation; it will free the assets of the poorest Indians to create capital and enter the formal economy. However, recognizing the present owners of the lands is a huge task in itself. In 2013, Action Research in Community Health and Development (ARCH), Liberty Institute and some other NGOs helped tribal farmers in Gujarat use GPS technology to mark their lands on government maps and secure their property. Something similar must be done for the vast swathes of India's countryside. There is enormous value locked in the assets of India's poor. One can hope that the government will take swift action given the potential gains for them.

Do you think more Indian states should use blockchain for giving land titles to the poor? Tell us at views@livemint.com

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Hunger, Starvation and Aadhaar

It took the death of 11-year-old Santoshi Kumari from Jharkhand's Simdega district to remind the country that hunger and starvation of young children is still a reality in India. This was not the first such incident. Last month, three brothers in Karnataka also died under similar circumstances. The children died not only due to lack of food, but also because of the apathy of a government which has put all its effort in denying the story and framing flimsy excuses rather than addressing the issue.

It is also a grim reminder of the huge disconnect between India's relatively high levels of growth and its low ranks on human development. The Global Hunger Index (GHI) 2017 once again reminded that growth is necessary but not sufficient to deal with the millions of challenges that the poor face in their day-to- day lives. While we may quibble about the ranking, the methodology of comparing countries has remained consistent over time. And based on these, there is no denying the fact that India not only is home to the most number of malnourished in the world, but its progress in combating malnutrition has been slower than countries with similar level of income.

The index is based on a combination of calorie undernourishment (percentage of population below the recommended nutritional intake) and child wasting, stunting and being underweight. Brought out by the International Food Policy Research Institute, GHI has seen increasing coverage with more data being made available. By the latest GHI 2017, India ranks 100 out of 119 developing countries. It does not include most of the developed countries where the extent of hunger is insignificant. But among the countries for which information is available, India has seen the lowest improvement among all countries taken together for which information is available.

More than the level of hunger and malnutrition, it is the slow progress in resolving them despite the rapid growth of the economy which should put the policymakers to shame. While the index for India has improved from 38.2 in 2000 to 31.4 in 2017 declining by 6.8 points, most countries at a level of hunger and malnutrition similar or higher than India have seen a faster decline. During the same period, the corresponding decline for North Korea (12.1), Bangladesh (11.1), Nepal (14.8), Afghanistan (19.4), Ethiopia (23.7) and Rwanda (24.9) was almost double or more. One can add to the list many more countries which have achieved a much faster and better outcome despite growing slower than India.

The issue is not new nor has the attention to this been drawn for the first time. This was aptly described as a national shame by the previous prime minister. Since then, there has been a vibrant debate leading to passing of the National Food Security Act (NFSA). The Act which was to be implemented by July 2014 all over the country is still in the process of getting implemented in many states. In most states, either the identification of beneficiaries is not complete or even where it is complete, it is yet to be implemented fully. The maternity entitlement programme which is part of NFSA has been notified only recently, that too with lower entitlement than what was enacted.

But what killed the young children was not the lack of food or government schemes to tackle malnutrition. We have many of these and most have seen these being accessed by the poor despite bureaucratic obstructions. The responsibility of death lies with the overzealous administration which was more bothered about identifying ghost beneficiaries through the forced implementation of Aadhaar-led biometric identification than providing ration to those who need it. The political apathy is obvious from the approach itself which believes that the objective of public policy is making Aadhaar mandatory even though it is not. Such attitude has also been seen in other nutrition programmes such as mid-day meal scheme where young children in school have been denied nutritious food in the absence of Aadhaar identification. So has been the case in the Integrated Child Development Scheme (ICDS) where pregnant women have been denied benefits legislated by Parliament in the absence of valid biometric identification. There is now enough evidence that there are errors of exclusion with Aadhaar, but also that the biometric identification is not fool-proof. This was the evidence from the east Godavari experience where it has been running for a long time but also elsewhere.

The administrative machinery is not only violating the NFSA, which has been enacted by Parliament but is also leading to a situation where needy households have been discouraged from accessing the basic services that is legitimately due to them. On every such instance, the official reaction has been one of denial rather than acknowledging the pitfalls of such bureaucratic adventures. The current instance of hunger and starvation deaths is a clear case of an insensitive administration using Aadhaar to deny benefits to the citizens. Above all, it is a clear reflection of the political priorities of the governments. For the government, life of a human being is certainly less important than a 12-digit number.

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Thomas Piketty's inequality theory gets dinged

People tend to like big, sweeping theories of economic history. When Karl Marx foretold a supposedly inevitable series of class conflicts and revolutions that would end in a communist utopia, the idea was so powerful that it inspired revolutions, alternative economic systems and wars. Other thinkers depicted economic history as the triumph of a particular culture, or the inevitable ascendance of free-market capitalism.

French economist Thomas Piketty, the latest to win popular acclaim for a grand theory of economic history, was a bit different. Unlike some of those who came before, Piketty brought a wealth of data. Painstakingly exploring historical records, he constructed measures of income and wealth going back centuries and covering a number of different countries.

His thesis was also unusually simple—instead of a complex theory of social class or the vagaries of human culture, he merely predicted that the rich get richer until a big war or revolution resets things. His reams of historical data purported to bear this pattern out—the wealth and income shares of the rich tend to rise and rise, unless a calamity like World War II temporarily levels the playing field.

Whenever a thesis like this gains popularity—Piketty's much lauded book was a best-seller—smart people are going to line up to take a shot at it. Broad theories of history, after all, are always too simple to be true in their purest form. History is a complex process, for one thing, and overarching theories are gross simplifications. Also, because history only happens once, it's impossible to verify a historical theory with anywhere near the degree of empirical confidence of a scientific theory.

Early Piketty critiques often focused on his calculation of capital's share of income. Many noted that Piketty didn't take capital depreciation into account. Matt Rognlie, now a professor at Northwestern University, estimated that most of the rise in capital income was due to the increased value of land, not to corporations eating the world. These are problems for Piketty's theory of why the rich get richer, but they don't really contradict his historical argument that the rich usually do get richer. A few people raised doubts about Piketty's data, but overall the criticisms did little to blunt the consensus that the French economist's work was magisterial in that regard.

Now, however some economists are going back and checking Piketty's history more thoroughly. Richard Sutch of the University of California—Riverside has a new paper arguing that Piketty's measurement of the share of wealth owned by the richest Americans is deeply flawed and unreliable.

Sutch points out that Piketty's wealth data, which goes back to 1810, patches together two very different data sources—the early data comes from estate tax records and covers individuals, while the later data comes from government surveys and covers households. In order to compare wealth patterns in the 20th century with those in the 19th, Piketty contrasts household wealth in the former against individual wealth in the latter, when the two can in fact behave very differently.

Sutch argues that Piketty's procedure for harmonizing the two data sources is simplistic and arbitrary. He also identifies some places where Piketty seems to have introduced fudge factors into his analysis, drew a line across a period in the 1970s where the household data had a gap, or apparently made calculation errors.

For the 20th century, Sutch concedes that his concerns are relatively minor, and that the broad pattern Piketty describes isn't in very much doubt. But the 19th century is a different story. Sutch contends that much of Piketty's analysis of that century is based on a single data point from 1870, collected by a potentially unreliable analysis of census records, and massaged by yet more fudge factors and guesses. Piketty also has a data point for 1810, but Sutch argues that Piketty essentially made up this data point based on older data from 1774.

The scant quantity and unreliability of the 19th century data, and the heroic assumptions Piketty makes in order to fit that data, drive Sutch to exasperation:

"(Piketty's) heavily manipulated data, the lack of clarity about the procedures used to harmonize and average the data, the insufficient documentation, and the spreadsheet errors are more than annoying. Very little of value can be salvaged from Piketty's treatment of data from the nineteenth century."

Others are sure to check Sutch's criticisms carefully. But if his analysis holds up, it will be the most spectacular refutation the economics profession has seen since the Reinhart-Rogoff affair back in 2013.

The broad strokes of Piketty's analysis of 20th century inequality are almost certain to survive intact. There's too much high-quality data there. That inequality in the US and other developed nations rose in the early 20th century, fell in the mid-century, and then rose again in the latter decades isn't in doubt.

But this one-century pattern is too short to prove anything about grand cycles of history. Without reliable information on the 19th century, it will be quite a stretch to conclude that the rich usually tend to get richer.

That doesn't mean Piketty is wrong. His theory could still be valid. And there's no question that the rise in inequality since 1980 is concerning, or that the parallels with the Gilded Age a century earlier are disturbing. But it's always important to remember the difficulties and dangers in crafting all-embracing narratives of economic history. **Bloomberg View**

Noah Smith is a Bloomberg View columnist.

Comments are welcome at views@livemint.com

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Shedding light on Saubhagya: on electrification scheme

The Pradhan Mantri Sahaj Bijli Har Ghar Yojana (‘Saubhagya’) launched in September, which claims to ensure electrification of all willing households in the country, is too ambitious a project. While it makes grandiose promises to provide a free electricity connection to all willing Below Poverty Line households and to all others on a payment of 500 (which shall be recovered by the power distribution companies/power departments in 10 instalments along with electricity bills), it expects the poor to pay the bills without providing any subsidy to ease their burden. Even to the best of their abilities the poor would often not be in a position to pay regular electricity bills, which in turn could result in disconnection. The government has conveniently overlooked the fact that for the poor in some States, the inability to pay an electricity bill is a big impediment.

This new scheme is just a way of refurbishing the **Deen Dayal Upadhyaya Gram Jyoti Yojana** (DDUGJY), the earlier scheme of rural electrification launched in July 2015, which aimed to electrify all un-electrified villages by May 2018.

Power problem — On Saubhagya scheme

Under DDUGJY, the government managed to electrify 14,701 villages while 2,760 villages remain un-electrified; out of these, work is still in progress in a total of 2,611 villages. However, out of the 14,701 villages, only in 8%, i.e. 1,198 villages, do all households have connectivity. Even if we take into consideration the fact that so many villages have been “electrified”, the next point of contention is the definition used. According to the definition, a village is considered to be electrified if 10% households have an electricity connection and related basic infrastructure. Furthermore, even in these 10% of households, there is no promise of minimum hours of supply. The question we then need to ask is this: given that 90% of households may not have power supply and of those 10% with electricity not having a regular supply, can we still consider such a village to be electrified in a meaningful way?

The objective of the Saubhagya scheme is to “provide energy access to all by last mile connectivity and electricity connections to all remaining un-electrified households in rural as well as urban areas to achieve universal household electrification in the country.” On the face of it, the scheme may only be able to plug the gaps and address the issues of entry barrier, last mile connectivity and release of connections, but it can guarantee neither regular electricity supply nor continuation of those connections in case of non-payment. A free electricity connection may provide some relief as far as the financial burden is concerned. However, expecting poor households to bear the recurring burden of bills as per the prevailing tariff of DISCOMs is unimaginable.

Even if the programme is successful, hypothetically, and all households are provided a connection, there would still be the problem of regular supply. Industry estimates suggest that this scheme would potentially require an additional 28,000 MW and additional energy of about 80,000 million units per annum, which is roughly 7% of India’s current installed power capacity. There is a power shortage even at this moment leading to scheduled and unscheduled load shedding, often up to 10 hours or more. The problem is graver still in interior rural India. Considering the huge lapses as far as electricity availability is concerned, managing this additional demand would prove to be challenging. We should also not forget that the provision of providing one-two hours’ supply a day is not the same as provision of regular supply.

In the past three years, we have seen a series of policies and promises urging us to ponder over the type of welfare politics India is witnessing. Symbolically, all such attempts have a lot of significance as far as the bid to secure popular support is concerned. However, there has been a lot of debate in the past over many of the government's policies which it claims to be based on the primary goal of "ushering in development". Nevertheless, it must be a cause of worry that the government has embraced the slogans of welfare politics without being able to deliver substantial and meaningful results. Irrespective of the poor track record as far as meaningful change is concerned, such policies have aided the government in building an image of being people-centric.

Certainly, Saubhagya has some positives such as provision for households outside the reach of grid lines. However, our contention is that the policy has set a standard for itself without enough focus on its capacity to deliver results. The policy statement echoes the commitment to facilitate economic growth and social development, but we still need to ask whether this is another instance of messaging for an electoral purpose.

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The new U.S. Fed Chairman is unlikely to opt for policies that might upset the President's plan

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Inclusive economic growth is central to development: Vice President

Inaugurates Entrepreneurs' Organisation Global University Conference 2017

The Vice president of India, Shri M. Venkaiah Naidu has said that inclusive economic growth is central to development. He was addressing the inaugural session of the Entrepreneurs' Organisation Global University Conference 2017, in Hyderabad today. The Minister for IT, Municipal Administration & Urban Development, Industries & Commerce, Public Enterprises, Sugar, Mines & Geology, NRI Affairs, Government of Telangana, Shri K.T. Rama Rao, the Director of Entrepreneurs Organizations Hyderabad Global University, Dr. Luis Chasi and other dignitaries were present on the occasion.

The Vice President said that the government focusing more on creating jobs, than seeking jobs. He further said that to achieve Sustainable Development goals, inequalities in opportunities must be removed. The Prime Minister, Shri Narendra Modi has given the mantra - "Reform, Perform and Transform" to foster faster development, he added.

The Vice President said that ‘Skill India’, ‘Start up India’ and ‘Make in India’ initiatives will nurture entrepreneurship in the country. There will be no red tape, only red carpet, for investors, he said in a lighter vein. He further said that both Demonetisation and implementation of Goods and Service Tax (GST) would augur well for the country in future. These revolutionary steps would bring more revenue for the government, which can be spent on welfare programmes, he added.

The Vice President said that LPG - 'Liberalisation, Privatisation and Globalisation' are the order of the day. He exhorted the youth to work with courage, competence, confidence and commitment.

The Vice President said that the theme of this conference is ‘Jugaad’ or what we can call ‘improvisation’ and we have to create more opportunities with the scarce resources. He dwelt upon certain examples such as building of the ‘Rama Setu’ by Sri Rama to cross over to Lanka. He also mentioned the design of the Nano car, the Dabbawallahs of Mumbai who deliver 2 lakh lunch boxes daily and Shri Sonam Wangchuck’s ice stupas or artificial glaciers in Ladakh that provide water to farmers when they need it most.

The Vice President said that the financial sector has seen innovation event and three years ago, there were only 15 million bank accounts in a country of 1.2 billion people. The country wanted a change and today more than 50 million people are now connected and part of the modern financial system. How did it happen? It was again a ‘Jugaad,’ backed by a very small and noble thought that “if people won’t come to banks then let banks go to the people”, he added.

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KSD/BK/KV

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Left behind on the path ahead

The **tragic death of an 11-year old girl in Jharkhand** — which has resulted in the government going into defensive mode — reflects the dire situation that poor families in India find themselves in every day. On October 18, the Aadhaar-issuing body, **the Unique Identification Authority of India (UIDAI), said** that 'the family of the girl, who allegedly died of starvation, had Aadhaar and that stringent action should be taken against those who denied her government benefits'. While it has been accepted that she was excluded from having access to rations due to Aadhaar, the government has gone out of its way to assert that the child died due to other causes. The Jharkhand Minister for Public Distribution has rescinded the order requiring the cancellation of ration cards not seeded with Aadhaar. This is another addition to a long list of mass exclusions that a callous state claims as "savings".

While Aadhaar is part of a larger ecosystem of centralised governance where policymakers assert that digitisation, banking and cash transfers, and biometric tracking (JAM, or Jan Dhan, Aadhaar, Mobile) will sort out all problems of welfare, inquiry will show how unbridled, mandatory digitisation is causing immense pain and suffering to the poorest and most marginalised of this country.

The social security pension system in Rajasthan is another critical welfare system being broken by this tidal wave of digital solutions. This year, on Gandhi Jayanti, the State government announced that from October 2, 2017 pension forms would be accepted only 'online' through 'e-mitra kendras' or licensed private sector operators.

Also read

Aadhaar and the right to privacy

Social security pensions are a lifeline for the elderly poor. In Rajasthan alone, there are 63,18,095 active pensioners. Previously, to apply for a pension, an eligible person could submit pension forms to the panchayat. Now, they have to first go to an e-mitra kendra. The applicant must have with them Aadhaar and Bhamashah cards (a State-level identification platform similar to the UID/Aadhaar system), upload all the documents, submit their biometrics, pay a small fee and wait for verification and sanction. Pensioners must also periodically re-verify themselves. This process is supposed to cost 11 but "enterprising" e-mitras charge 100.

For the elderly poor, end-to-end digitisation of social security pension processes is a disaster waiting to happen. The inability to open and use bank accounts, seed them with Aadhaar and Bhamashah, and then withdraw pension payments from their accounts using biometric authentication every month is resulting in sanctioned beneficiaries being removed from pension lists. Nobody knows how many of them were alive when arbitrarily classified as "dead". Take the case of Kanku Devi, Sita Devi and Dhaku Devi, pensioners who the government said were dead.

Every village has a Kanku Devi. Now 50, she has a congenital disability that rendered her limbs lifeless. Single, she lives in a one room, stone house. Her brother's daughter-in-law gives her enough firewood, ration and water to prepare a small meal for the day — a dry roti with salt.

Before she passed away, Sita Devi, 40, had been bedridden for five years after a spinal injury at work. Her three children, the eldest who is 15, looked after their mother and house. Her children are now struggling to get social security benefits, challenged by digital requirements.

Dhakhu Devi, 90, who also passed away, and with no children to look after her, was almost blind and did not have an electricity connection in her house. She managed to be mobile within the house. Her daily roti, if it came, was brought to her by a family member who lived nearby.

These women were the luckier ones who got their pensions restarted after the intervention of civil society organisations. The meagre pension gives them some semblance of dignity and independence. There are countless such people across India, who are now bewildered and suffering the consequences of new digital systems.

Though effective digital applications exist, the question is this: who does digitisation serve? And, are there other, better mechanisms freely available? The most sensible policy would be to provide a parallel digital option.

A demand that beneficiaries have the option to choose a payment mode that is convenient to them has been assiduously ignored.

There is, for instance, the plea to retain the option of choosing the panchayat route for pension applications. A useful digital-based reform would have been to have an automatic pension sanction as soon as people become eligible for it. The policies being pushed through appear to be more out of a concern for administrative convenience than the right to life. There is no consultation, no transparency, no accountability and no regard for what systems people know will suit them best.

Schemes such as ‘Digital India’ sound exciting as they “spell” progress. But what these schemes mean to a majority of the poor and the devastation they cause is lost on us. A disturbing lack of empathy, transparency and participation is allowing the weakest to be bullied into what is being portrayed as a way ahead.

Nikhil Shenoy is with the Mazdoor Kisan Shakti Sangathan

The new U.S. Fed Chairman is unlikely to opt for policies that might upset the President’s plan

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Hits and misses

The meeting of the UN high-level political forum on sustainable development (HLPF) took place in New York from July 10-19 to discuss the progress made on the sustainable development goals (SDGs) of the 2030 Agenda. Forty-three member nations presented their report cards in the form of voluntary national reviews (VNRs). Around 5,000 people participated — half of them from civil society and private entities. Eighty ministers from various countries, holding diverse portfolios such as external affairs, planning and budget, also attended. Before the meeting, the governments undertook long consultations to prepare their reports. Was the exercise worth it?

The reviews show that countries have taken steps to incorporate SDGs in their national plans and policies and identified polices which already include some of the goals. Governments have created new institutions, or have used existing institutions, to facilitate execution of the SDGs. On this count, the HLPF/VNR exercise has yielded results.

However, there was significant apathy or antipathy among governments to consult and include suggestions from civil society actors in the VNRs. Except in Europe, and some other countries like Brazil and Japan where governments incorporated the inputs of civil society, the process remained largely non-inclusive or superficial. In India, too, the process was patchy. There was also a visible lack of awareness among civil society actors across the world about the mechanism and processes of VNR. The secretariat for HLPF of the UN Department of Economic and Social Affairs has no place for carrying the shadow reports on SDGs of civil society organisations.

In the VNRs, countries generally outlined how well they have performed. Barring some countries in Latin America and Europe and possibly a few in other regions, stress on critical areas and ways to address them was missing. A survey done in 20 VNR nations by Action for Sustainable Development, a global civil society organisations' platform on SDGs, suggests: "In many cases, although there is a sense that the SDGs are included in existing national plans, the 'transformational' aspect of the agenda has been significantly diluted or lost."

The shadow reports prepared by civil society on SDGs find that the scale of inequality is constantly rising while governments' 'austerity' measures of cutting public investment in the social sectors is continuing. There is simultaneously reduction in the corporate taxation. This is worrying as the UN Secretary General's report finds that in 2016, only 45% of the world's population was protected by some social protection system.

A multidimensional poverty index ought to be adopted to analyse domestic poverty conditions as suggested by some nations. A clear road map needed to address pressing challenges of refugee crisis, terrorism, fundamentalism, increasing hunger, inequality and climate change. The HLPF process needs to be strengthened by formalising multi-stakeholder consultations, discussing critical challenges, and making the ministerial declaration mandatory for nations to fulfil.

Pradeep Baisakh works with GCAP, a global campaign on poverty and inequality

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