Decisive First Step towards Simplified Labour Laws: The Code on Wages, 2017 placed before Parliament

***Deepak Razdan**

The Government took a decisive step towards simplifying and amalgamating the vast mass of labour laws when it presented before the nation The Code on Wages, 2017, a Bill which combines features and provisions of four existing labour laws pertaining to wages. The Bill was introduced in the Lok Sabha during the Monsoon Session of Parliament on 10th August, 2017. Intended to bring relief to both employers and employees, the Code amalgamates, simplifies and rationalises the relevant provisions of the four Central labour enactments, namely the Payment of Wages Act, 1936; the Minimum Wages Act, 1948; the Payment of Bonus Act, 1965; and the Equal Remuneration Act, 1976. The four Acts will stand repealed with the passage of the Bill. Facilitating easier compliance of the law, the Code will ultimately create conditions for setting up of more enterprises and fresh employment opportunities.

The Statement of Objects of the Bill said the amalgamation of the laws would facilitate their implementation and remove the multiplicity of definitions and authorities, without compromising on the basic concepts of welfare and benefits to workers. The proposed legislation would bring the use of technology in its enforcement and thereby bring transparency and accountability for effective enforcement of the law. Widening the scope of minimum wages to all workers would be a big step for equity.

The Bill provides for all essential elements relating to wages -- equal remuneration, its payment, and bonus. The provisions relating to wages shall be applicable to all employments covering both organised as well as un-organised sectors and the power to fix minimum wages continues to be vested in the Central as well as State Governments, in their respective spheres. There are clear definitions of employer, employee, worker, minimum wage and wages.

The Code will enable the appropriate Government to determine the factors by which the minimum wages shall be fixed for different categories of employees. The factors shall be determined taking into account the skills required, the arduousness of the work assigned, geographical location of the workplace and other aspects which the appropriate Government considers necessary.

Provisions relating to timely payment of wages and authorised deductions from wages, which are at present applicable only in respect of employees drawing wages up to Rs 18,000 per month, shall be made applicable to all employees irrespective of wage ceiling. The appropriate Government may extend the coverage of

such provisions to Government establishments also.

Ensuring that there is no discrimination on the basis of gender in the payment of wages, the Bill incorporates in its first chapter itself provisions for “Equal Remuneration” in Section 3, which says “There shall be no discrimination among employees on the ground of gender in matters relating to wages by the same employer, in respect of the same work or work of similar nature done by any employee.”

No employer shall pay to any employee wages less than the minimum rate of wages notified by the appropriate Government for the area, establishment or work as may be specified in a notification. While fixing minimum wages in respect of any employment for the first time under the Code, the appropriate Government, which can be Central or State Government, will appoint a committee comprising representatives of employers, employees and independent members, to go into all issues and make recommendations. This would ensure justice to all stakeholders. “The appropriate Government shall review or revise minimum rates of wages at an interval of five years,” says the chapter on minimum wages.

Under the Bill, the Central Government will have the power to fix a national minimum wage, with a provision that there can be different national minimum wage rates for different States or geographical areas. State Governments will not fix any rate lower than the national rate. If any State Government earlier fixed a rate higher than the national rate, it will not reduce its wage rate. The Central Government before fixing a national minimum wage rate will take the advice of a Central Advisory Board. There is provision for payment of overtime work done.

Under its payment of wages provisions, the Code says “all wages shall be paid in current coin or currency notes or by cheque or through digital or electronic mode or by crediting the wages in the bank account of the employee.” Wage payments can be made daily, weekly, fortnightly or monthly and the Bill has fixed time-limits for the payments.

The provisions on payment of bonus say that the bonus has to be paid even to employees who have put in only one month of service. Section 26 says this payment will be “an annual minimum bonus calculated at the rate of eight and one third per cent of the wages earned by the employee or one hundred rupees, whichever is higher, whether or not the employer has any allocable surplus during the previous accounting year.”

The bonus payment will increase proportionately, if the allocable surplus in any accounting year is higher, subject to a maximum of 20 per cent of the wages, the Section says. The available surplus for any accounting year will be gross profits for the year, after permissible deductions including direct tax on income, profits and gains for the year. The allocable surplus will be 60 per cent of the available surplus for banks and 67 per cent for other establishments.

As per Section 39, all amounts payable to an employee by way of bonus under this Code shall be paid by crediting it in the bank account of the employees by his employer within eight months from the close of the accounting year. An employer can get extension of time, but this shall not exceed, “in any case,” two years.

Doing away with inspector-raj, the Code provides for Facilitators who will help employers and employees in the proper execution of the law. The Facilitators can be appointed by the Central or State Governments and given powers throughout the States or such geographical areas assigned to them.

Section 51 of the Code says the Facilitator may within the limits of his jurisdiction, (a) supply information and advice to employers and workers concerning the most effective means of complying with the provisions of this Code; (b) inspect the establishment based on an inspection scheme. The inspection scheme, given by the Government, will provide for generation of a web-based inspection schedule.

The Facilitators can examine workers, “search, seize and take copies of such register, record of wages or notices or portions thereof as the Facilitator may consider relevant in respect of an offence under this Code and which the Facilitator has reason to believe has been committed by the employer,” Section 51 says. The Facilitators will be empowered under IPC and CrPC for their work.

Complaints for offences under the Code can be made by the Facilitator, employees, registered Trade Unions, or the Government. The Code has spelt out elaborate penalties for the offences. If an employer pays to his employee less than the amount due to him under the Code, he shall be punishable with fine which can go up to Rs 50,000. A repeat offence within five years can mean imprisonment extending up to three months, and fine up to Rs 1 lakh, or both.

Contravention of the Code or a rule made thereunder can mean a fine up to Rs 20,000, and a repeat offence within five years can mean imprisonment up to one month, or fine up to Rs 40,000, or both. A Facilitator can give time and opportunity to employer to comply with the Code, and may not initiate prosecution if there is compliance.

Clause 55 of the Bill provides for composition of offences. Only the offences for which there is no punishment with imprisonment shall be compounded. The compounding money shall be a sum of fifty per cent of the maximum fine. There is no compounding for a similar offence compounded earlier or for commission of which conviction was made, committed for the second time or thereafter within a period of five years.

Under various other Sections, the interests of employees are protected by the Code. The burden of proof that the due payment has been made, and without any unjustified deductions, will lie with the employer.

The Code on Wages, 2017 is the first of the four Codes proposed by the Government to give further boost to ease of doing business. The three other Codes will cover Industrial Relations; Social Security & Welfare; and Safety and Working Conditions. While they will bring about a long-awaited clarity in labour legislation, and minimize its multiplicity, their ultimate benefit will help working class know its rights and responsibilities, and look forward to larger employment opportunities.

*****

**Deepak Razdan, is a senior journalist and is at present Editorial Consultant, The Statesman, New Delhi.*

Views expressed in the article are author's personal.

END

Financial Inclusion in Rising India

***Arjun Ram Meghwal**

“***I dream of a digital India where mobile & e-banking ensures Financial Inclusion”***

Prime Minister Shri Narendra Modi

“Financial Inclusion” is the way the Governments strive to take the common man along by bringing them into the formal channel of economy thereby ensuring that even the person standing in the last is not left out from the benefits of the economic growth and is added in the mainstream economy thereby encouraging the poor person to save, safely invest in various financial products and to borrow from the formal channel when he need to borrow.

Lack of financial inclusion is costly to society and the individual. As far as the individual is concerned, lack of financial inclusion forces the unbanked into informal banking sectors where interest rates are higher and the amount of available funds much smaller. Because the informal banking structure is outside any legislative framework, any dispute between lenders and borrowers cannot be settled legally. **As far as the social benefits are concerned, financial inclusion increases the amount of available savings, increases efficiency of financial intermediation, and allows for tapping new business opportunities.**

State sponsored universal banking has therefore contributed to greater economic diversification in rural areas than is the case in more competitive banking environments. **With structural adjustment programs being introduced in the 1980s and 1990s, financial market reforms swept over many developing countries.** At the beginning of 20th century, India had insurance companies (both life and general) and a functional stock exchange

Scope of the financial inclusion is not limited to only banking services but it extends to other financial services as well like insurance, equity products & pension products etc. Thus, financial inclusion is not just about opening a simple bank account with a branch in an unbanked area.

Adding the common man into the mainstream economy has other advantages as well as *on the one hand* it helps inculcate the vulnerable section of the society to save money for its future and the rainy days, take benefits of the economic activities of the country by participating in various financial products like, banking services, insurance & pension products etc., *on the other hand,* it helps the country to increase the rate of 'capital formation' which in turn, give a push to the economic activities in the economy by channelizing the money from every nook & corner of the country.

In the absence of people of a country financially included in the mainstream, they often tend to park their savings/ invest in the non-productive assets like land, buildings & bullion etc. While, financially included people can easily avail the credit facilities, whether they are sitting in the organised or unorganised sector, urban or rural sector. *Micro Finance Institutions (MFIs)* are the classic examples for providing easy & affordable credit to poor people and have got written innumerable success stories.

This phenomenon of financial inclusion also helps government plug gaps & leakages in public subsidies & welfare programmes as government can directly transfer the subsidy amount into the account of the beneficiary rather than to subsidise the product. In fact, the Government has even saved by around more than Rs. 57,000 crores in its subsidy bill and has ensured that the benefit of the subsidy reaches to the real beneficiary directly to him/her.

The NDA government led by Prime Minister Sh.Narendra Modi made itself committed, since beginning of its term, to give special emphasis on the financial inclusion of every person of the country. One of the most crucial of the several steps taken by this government is JAM- Jan Dhan, Aadhar & Mobile.

Jan Dhan Yojna - with a view to increase the penetration of banking services and to ensure that all households have at least one bank account, a National Mission on Financial Inclusion named as ***Pradhan Mantri Jan Dhan Yojna*** was announced by Prime Minister Sh. Narendra Modi in his independence speech on 15th August, 2014 & the scheme was formally launched on 28th August, 2014. Within a fortnight of its launch, the scheme entered into the Guinness Book of records for opening a record number of bank accounts. Large scale achievement was made by opening 29.48 crores accounts by Mid-August, 2017 out of which 17.61 crores accounts were in rural/semi-urban areas and the rest 11.87 crores in urban areas.

The additional benefits on opening an account under Jan Dhan Scheme is the customer is issued a RuPay Debit Card having inbuilt insurance cover of Rs 1 Lakh. Besides, an overdraft (OD) facility of Rs 5,000/- is granted to the customer for satisfactory operation of account for 6 months. A life cover of Rs 30,000/- has also been granted to customers for opening the accounts up to a certain time period. The scheme has been a great success and the 99.99% households out of the 21.22 crores households surveyed have been covered under this scheme by December, 2016. More than 44 lakh accounts have been sanctioned OD facility of which more than 23 lakh account holders have availed the facility involving an amount around 300 crores.

Insurance & Pension schemes – In order to provide social security system for all citizens and especially to the poor and under-privileged people, the present government launched *Pradhan Mantri Suraksha Bima Yojna* and *Pradhan Mantri Jeevan Jyoti Bima Yojna.*

The former scheme i.e., ***Pradhan Mantri Suraksha Bima Yojna (PMSBY)*** covers the persons within the age slab of 18 to 70 years and a risk coverage of Rs 2 lakhs is provided at an affordable premium of Rs 12 per annum only. As per the date 12th April, 2017, around 10 crore people were enrolled under Pradhan Mantri Suraksha BimaYojana (PMSBY).The later scheme, i.e., ***Pradhan Mantri Jeevan Jyoti Bima Yojna*** covers the persons within an age slab of 18 to 50 years having a bank account. The life cover of Rs 2 lakhs is provided to the insured payable in case of death of the insured due to any reason. As on 12th April 2017 3.10 cr person were enrolled under PMJJBY.

Atal Pension Yojna – A scheme launched in 2015 is open to all bank account holders in the age group of 18 to 40 years and they can choose different contributions based on the pension amount. Under this scheme monthly pension is guaranteed to the subscriber and after him to his spouse and after their death, pension corpus as accumulated till the age of 60 years is returned to the nominee of subscriber. Central Government also contributes 50% of the contribution subject to a maximum of Rs 1000 per annum. As on 31st March 2017 a total of 46.80 lakh subscribers have been enrolled from Atal Pension yojana with a total pension worth of Rs1713.214cr.

Varishita Pension Bima Yojana: All those who subscribe to the VPBY from 15th August 2014 to 14th August 2015 will receive an assured guaranteed return of 9% under the Policy.

Pradhan Mantri Mudra Yojna – Scheme launched in April, 2015 to provide formal access of financial facilities to Non Corporate Small Business Sector. The basic objective of the scheme is to promote & ensure bank finance to unfunded segment of the Indian economy.

In the Mudra Scheme since beginning till 13th August 2017, total 8crore 70 lakh loan where distributed out of which 6 crores 56 lakh were given to woman. In this scheme 3 lakh 75 thousand crores were sanctioned (1 lakh 88 crores to woman) and 3lakh 63 thousand crores were disbursed (out of which 1lakh 66 thousand crores were given to woman). The target for 2016-17 was Rs 180,000cr while sanctioned amount is Rs 180528cr which indicate the success of the scheme.

Other Schemes includes Jeevan Suraksha Bandhan Yojana, Sukanya Samriddhi Yojana: Kisan Credit Cards (KCC) and General Credit Cards (GCC), BHIM App.

Liberalized policy towards ATMs and White label ATMs. To expand the network of ATMs, the RBI has allowed non-bank entities to start ATMs (called 'White Label ATMs'). The RuPay Cards have significantly increased its market share to 38 per cent (250 mn) of the total 645 million debit cards in the country so far. The card has been provided to the account holders of PMJDY (170 million).

Financial Literacy Centers were started by commercial banks at the request of RBI to give awareness and education to the public to access financial products. Here, RBI's policy is that financial inclusion should go along with financial literacy.

The launch of direct benefit transfers through the support of Aadhaar and Bank Account is one of the biggest developments that activated and retained people in the newly opened account.

Stand up India – launched to extend bank loans between Rs 10 lakhs to Rs 1 crore for Greenfield enterprises set up by the SC, ST & women entrepreneurs and to provide them handholding support. By Mid-August 2017 38,477 people were given loan up to Rs 8,277 crores out of which 31000 were woman and given loan up to Rs 6,895 crores.

To further strengthen financial inclusion in the country, government has advised the Banks to deploy Micro ATMs in rural areas and consequently, 1,14,518 micro ATMs have been deployed by December, 2016.

Venture capital Scheme: In this scheme SC/ST people were encouraged to be Job Provider instead of Job Seekers. Initially in this Scheme loan were provided from 50 lakh to 15 crores which now is changed from 20 lakh to 15 crores. The government had encouraged SC/ST people to stand on their own. Schemes of 70 venture and Fund of Rs 265 crore were approved, funds to 40 venture were already been distributed. These ventures on the average provide employment to 20-25 people. The rate of interest has been reduced from 10% to 8%.

Conclusion:

The government is committed to its target of increasing the inclusion of every household in the financial system so that the masses can get all the legitimate benefits arising out of the growth of the country and in turn, the funds mobilised from the people not earlier in the formal channel could also be brought in the formal channel thereby giving the economy of the country an extra thrust to lead the path of growth.

**The author is the Minister of State for Finance and Corporate Affairs, Government of India.*

END

Focus on ‘Optimal Infant & Young Child feeding Practices’ during National Nutrition Week

Ministry of Health and Family Welfare is observing National Nutrition Week from 1st September to 7th September, 2017. The theme of this year’s National Nutrition Week is “Optimal Infant & Young Child feeding Practices (IYCF): Better Child Health.” During this period, a week-long campaign is also being carried out to create mass awareness about the importance of appropriate nutrition in protection and promotion of health and wellbeing of children.

For promotion of Optimum IYCF practices, MoHFW has launched “MAA- Mothers’ Absolute Affection” programme to improve breastfeeding coverage and appropriate breastfeeding practices in the country. Around 3.7 lakhs ASHAs and around 82,000 healthworkers including programme managers at district and block level, doctors (MOs), staff nurses (SNs) and ANMs have been sensitized for breastfeeding promotion strategies under MAA programme and more than 23,000 health facility staffs (MOs, SNs and ANMs) are trained in IYCF training. In addition, more than 1.49 lakh mothers’ meetings were also carried out by ASHAs at village level to sensitize mothers regarding importance of appropriate breastfeeding practices.

Community sensitization activities such as mothers’ meetings and block/ district level workshops with programme managers, services providers’ e.g MOs, SNs and ANMs along with FLWs are also planned during the National Nutrition Week (NNW). Village Health and Nutrition Days (VHNDs) will be held at village level in Anganwadi centres to increase the awareness and bring about desired changes in the IYCF practices in the community. In addition, “National Guidelines on Lactation Management Centres in Public Health Facilities” have been recently released to facilitate establishment of lactation management centres for ensuring that the sick and pre-term babies are fed with safe human breast milk.

Breastfeeding is an important, efficient and cost-effective intervention promoting child survival and health. Breastfeeding within an hour of birth could prevent 20% of the newborn deaths. Infants who are not breastfed are 15 times more likely to die from pnuemonia and 11 times more likely to die from diarrhoea than children who are exclusively breastfed, which are two leading causes of death in children under-five years of age. In addition, children who were not breastfed are at increased risk for diabetes, obesity, allergies, asthma, childhood leukaemia, sudden infant death syndrome etc. Apart from mortality and morbidity benefits, breastfeeding also has tremendous impact on improved IQ.

The trend of breastfeeding has shown an upward trend. As per recent data, initial breastfeeding has been nearly doubled in last decade. i.e from 23.4 per cent to 41.6 per cent (NFHs-3, 2005-06 and 4, 2015-16). Significant improvement has also been reported for exclusive breastfeeding as proportion of children under age 6 months exclusively breastfed, has gone up to 54.9 (NFHS-4) per cent from 46.4 per cent (NFHS-3). However, there is further scope of improving initial breastfeeding rates considering the high proportion of institutional deliveries in the country.

MV/SK

END

www.livemint.com 2017-9-4

Theories that impede job creation

The government is preparing a new industrial policy, according to the department of industrial policy and promotion (DIPP), “to enable industry to play its role as the engine of growth and to shoulder the responsibility of adding more value and jobs”. This policy will replace the United Progressive Alliance’s national manufacturing policy which was expected to generate 100 million additional jobs by 2022. DIPP will be adopting a consultative approach, the announcement says. The previous plan was also developed consultatively. There were 26 working groups representing all stakeholders, who gathered data, debated issues, and developed strategies to achieve the goals. It would be very worthwhile to understand why the goals could not be reached and incorporate those insights into the new policy.

A major problem was with the implementation of the previous plan. Job creation along with industrial growth requires aligned action on many fronts: infrastructure, skills, finance for small enterprises, a supportive trade policy, etc. It requires “a whole of government” approach. Partial solutions will not work. No matter how good the plan may have been, the absence of coordination among ministries and cooperation among stakeholders stalled implementation. Because jobs have become a principal concern of Prime Minister Narendra Modi himself, and because implementation is his forte, a policy with him at the steering wheel is more likely to succeed.

A greater challenge will be to change old theories in the minds of policymakers, and industry leaders too, about jobs/livelihoods, enterprises, and productivity.

The traditional concept of a good job/livelihood is full-time employment, preferably with a large organization, with assurance of continuity of employment and social security benefits. However, there are many other ways of earning livelihoods. For example: by owning a small enterprise—a small workshop, or street stall; as a member of a cooperative enterprise co-owned by many producers; driving one’s own car as a taxi with Ola or Uber, etc.

A dominant view of an enterprise that creates jobs is a large factory with hundreds of workers in assembly lines. Or, a large BPO (business process outsourcing) centre with hundreds of workers behind computer screens. So, if we want more jobs in the economy, we imagine we must have more such, large-scale, “organized” enterprises whereas the greater creators of jobs and livelihoods are enterprises that are much smaller, and seemingly unorganized (from the point-of-view of those with a fixed view of what an organization should be).

Small enterprises have great difficulty in obtaining resources—finance, space to operate, skilled workers, etc.—and in dealing with the regulatory framework too. According to some economists, India has too many “informal” enterprises. They must be brought into the formal system, which means they must comply with the requirements of formality (which include compliance with regulations) so that they can obtain the benefits of incorporation into the formal system. At the same time, some economists are advocating that small enterprises should be relieved of compliance with all regulations (which implies greater informality) so that they have flexibility to grow. There is conceptual confusion here. Practical solutions should be found unbiased by ideology.

There is a reason why small (and informal) enterprises can create more jobs and livelihoods than large ones. Unveiling the three-year “action agenda” for the country on 24 August, the vice-chairman of NITI Aayog said, “India does not have an unemployment problem; it has an underemployment problem”. The problem is low productivity, he said. In India, two workers do what one worker could do, which also means lower wages for both. Which suggests that enterprises should take measures to remove their extra workers. This will increase productivity—measured as output per worker, and it will increase the wages of the workers who remain with the enterprise. But what about the workers who are no longer employed by the enterprise? They will either become unemployed or join less “productive” enterprises that continue to provide “underemployment”.

How do enterprises increase productivity per worker? By investing more in machines and automation. If the productivity of the entire economy must be increased, small enterprises should also invest more in automation. They will have to find money for this. Since the greatest difficulty small enterprises have is to obtain enough money for their business and at low cost, improving productivity by automation is not a viable option for them. So, fortunately, they will continue to provide “underemployment” to the masses seeking jobs, who are not being employed by large enterprises that invest in automation, reduce employees, and thus substantially improve productivity per employee. For small enterprises, the solution for improving their competitiveness is to improve the skills of their owners for managing their workers and improving utilization of their materials and machines.

Productivity is a measure of how much output is produced per unit of input. The most common measurement of productivity is output per worker. But there can be other measures of the productivity of an economy. If the purpose of economic growth, from the point of view of citizens, is the production of more jobs and livelihoods, and if the scarce resource is capital, the more productive economy will be the one that produces more jobs per unit of capital invested. Perhaps, contrary to the drive for more “scale”, it should be an economy with a greater proportion of small enterprises that use more labour and less capital and have a higher “total factor productivity”. Formation of strong clusters and networks of small enterprises, using technology, can enable them to acquire greater scale to obtain access to markets and resources. The policy should be to make clusters and networks more organized and formal rather than the individual enterprises.

Faster implementation is key. However, unless old theories are set aside and fresh solutions applied, a new policy will also fail in more widespread creation of livelihoods and jobs. As Einstein said, you cannot solve an intractable problem with the same theories that created the problem.

Arun Maira served in the erstwhile Planning Commission.

END

The economics of the household balance sheet

It is well known that financial assets play a limited role in the Indian household balance sheet. Higher preference for physical assets, among other things, has resulted in lower penetration of insurance products and the near absence of retirement savings. A committee headed by Tarun Ramadorai, professor of financial economics at Imperial College, London, which submitted its report recently, has taken a comprehensive look at these issues and made recommendations in order to increase the role of formal finance in the household sector.

The committee notes that an average Indian household has 77% of its total assets in real estate, 11% in gold, 7% in other durable goods and just 5% in financial assets. While households in other developing countries such as China also have a higher preference for physical assets, this is significantly different from developed countries where financial assets play a much bigger role in household finances. Interestingly, even households that move towards the top of the wealth distribution do not increase allocation to financial assets—they just shift gold holdings towards real estate. The committee has also found a strong link between lower take-up of insurance products and reliance on non-institutional sources of credit. This basically shows that lack of insurance pushes households to take debt from non-institutional sources. The report highlights that 69% of households depend on informal sources of funding to deal with medical emergencies. Funding from informal sources such as moneylenders comes with higher interest burden and affects household finances.

There are various reasons why households at different levels of wealth distribution prefer physical assets over financial assets. For instance, wealthier households may find it easier to divert their illegitimate income towards physical assets to avoid taxes, as investments in the financial sector are easier to track. For others, as the report notes, “High transactions costs and bureaucratic impediments to efficient participation create a high ‘nuisance factor’ for households hoping to engage in formal financial markets.” Lower- income households often believe that the formal financial sector is only for the rich. The other important reason why households prefer physical assets could be persistent high inflation over the decades.

However, at a broader level, the reluctance of households to engage in the formal financial market shows that the institutional architecture has not worked as desired. If people are reluctant to go to a bank or a financial institution, it suggests that the system requires design changes to be able to serve the needs of an average Indian household. This will not only increase the financial well-being of households, but will also help channelize savings into productive investments. In this context, the government has done well by starting the Pradhan Mantri Jan-Dhan Yojana as well as schemes in the insurance and pension space. It is important to understand that with physical assets, households have only optimized their balance sheets in the given circumstances. Therefore, if the operating environment changes, it is possible that Indian households will adjust accordingly—maybe with some amount of hand-holding by the state.

The committee has made several sector-specific recommendations to address issues on both the asset and liability sides of the household balance sheet. For instance, to improve access to financial products, the committee has recommended end-to-end digital distribution networks, and making the know-your-customer requirement completely paperless. Better use of technology should be able to increase the access to financial products. The committee has also recommended the formation of a regulatory sandbox. This is an idea worth trying. It will allow testing of innovative financial products and monitoring of possible risks. This will help in developing innovative low-cost financial products. It will also enable regulators to adapt to innovation and technology. Financial products in India need to be more flexible so that people working in the economy’s large informal sector, with irregular income, can participate. The committee has made a number of other recommendations to improve the overall market structure for different products, including the way interest rates should be set in the home loan market.

One big issue that influences the household preference for an asset class—and not just in India—is awareness. The state and other stakeholders will have to work together to improve financial awareness. However, it will not be easy to change the asset mix of Indian households and a shift will undoubtedly be a long drawn out process. The government and regulators would do well to create an enabling environment where households are able to access simple financial products, backed by a strong mechanism to redress grievances, with ease. Households will only move to financial assets in a big way if products are easily available and they trust the overall financial architecture with their savings.

Will households benefit from moving to financial assets? Tell us at views@livemint.com

END

The Alchemy of financing

Over 50% of Indian households earn less than Rs500 a day.

For most of us, this statistic conjures up images of hundred-rupee notes being handed out to a daily wage worker at the end of the day, or a field sales executive finding Rs15,000 credited to her bank account at the month's end. The reality is very different—for the 60% households in India that are farmers or in trade, incomes are seasonal and highly volatile. If you plotted their household income across the year, it would find two or three spikes and dead silence in between. The expense curve, on the other hand, is an unrelenting saw-tooth curve ripping into the peace of mind of these households every month. How do these folks then manage to make ends meet? It is through the rigmarole of debt.

While readers of this column fret and fuss on issues such as improving fixed deposit yields, refinancing the home loans, buying life insurance, or dabbling in stocks, the average two-acre farmer is involved in a far more complex life-and-death calculus of making the unpredictable income from two harvests separated by six months last for a whole year of daily expenses, the unfortunate but inevitable health emergency, and life events such as a wedding in the family.

Getting through a year often involves harnessing up to a dozen financial instruments, most of which are informal—Kisan Credit Card loan, credit from the local grocer and agri inputs store, top-up credit from the aarhat (grain trader), health emergency borrowing from local money lender, microfinance loan, chit fund membership, informal credit and savings arrangements with neighbouring households, "money-guard" relationship for shoring-up daily surpluses, etc. For a masterclass on this subject, head no further than the 2009 classic *Portfolios of the Poor*, a thoroughly insightful analysis of the cash-flows of over 250 very poor households across India, Bangladesh and South Africa, and the stories of their incredible ingenuity in using the tools of finance to fund bare necessities as well as survive exigencies.

It is true that the bespoke financing innovations of the informal sector have always saved the day for these folks. But barely, as they come at high costs and without guarantees.

At the turn of the millennium, commercial microfinance started bringing in formality at scale to this fragile financing ecosystem. In the joint-liability-group loan, microfinance found a winning product that came to the doorstep of the customer in a remote village, didn't ask for onerous collateral, and could collect small repayments on a weekly basis at relatively low interest rates, thus unlocking formal financing towards "consumption smoothening" for households that had volatile incomes. Unfortunately, regulatory constraints, and the allure of the almost magically scalable joint-liability lending model have kept "microfinance" limited to microcredit and not reach its full potential; at least until very recently. On the credit side too, the lack of matching repayment schedules to household income-flows has ensured the continued existence of additional informal borrowings at high costs to bridge the cash flow gaps. Most poor households, as a result, are still not able to improve their financial net worth even in the good years.

Microfinance's reliance solely on the boots-on-the-ground approach to distribute and collect loans can't afford personalization. When you run a company with a field force in the thousands serving millions of customers scattered across the country, it is difficult to resist the regimented one-size-fits-all collection model to make the economics work.

All of this will change now. The dream of delivering personalized financing products at an affordable cost to our aspiring billion will be a reality in your pet cat's lifetime.

Thanks to the most audacious technology installation event of the last decade globally, we now have the holy trifecta of JAM—Jan Dhan, Aadhaar and Mobile. That is over 1.2 billion people with a secure digital identity through Aadhaar, 300 million households with access to formal banking system through Jan-Dhan accounts and 400 million active mobile internet users growing at 30 million a quarter.

Then there is the all-important India-Stack that makes it possible for JAM to mesh together and enable the delivery of digital services. In the financial transaction context, Aadhaar offers the authentication layer, bank accounts—the vehicle to transact, and mobile phones—the means to transact.

But it is the India-Stack that provides the plumbing to integrate these elements through a set of common protocols and tools that enables companies big and small to simply plug into the system and deliver financial products digitally at a disruptively low distribution cost.

The combination of almost zero distribution and personalization cost, new underwriting approaches and data sets, and a trust factor in mobile transactions that is now firmly established, now offers us the rare opportunity to mimic the three design principles (below) that have made informal sector financing so successful. And we can finally offer it at a price point that unshackles poor households towards building positive financial net worth. Every year.

Synchronize: Match payment schedules (loan repayments, savings contribution, insurance premiums) to when income is generated (seasonal) to avoid refinancing needs

Sachetize: Make the size of contributions and payments small enough to be in tune with the household's daily expense and income streams.

Specify: Build bespoke products to meet the specific goals and aspirations of each household.

When this vision becomes a reality, financing will no longer be a rigmarole, it will turn into alchemy.

Kartik Srivatsa is managing partner at Aspada Investment Advisors. The Bharat Rough Book *is a weekly column on building businesses for the middle of India's income pyramid*.

END

The Code on Wages Bill 2017

As part of labour law reforms, the Government has undertaken the exercise of rationalisation of the 38 Labour Acts by framing 4 labour codes viz Code on Wages, Code on Industrial Relations, Code on Social Security and Code on occupational safety, health and working conditions.

1. The Code on Wages Bill 2017 has been introduced in Lok Sabha on 10.08.2017 and it subsumes 4 existing Laws, viz. the Minimum Wages Act, 1948; the Payment of Wages Act, 1936; the Payment of Bonus Act, 1965; and the Equal Remuneration Act, 1976. After the enactment of the Code on Wages, all these four Acts will get repealed. The Codification of the Labour Laws will remove the multiplicity of definitions and authorities leading to ease of compliance without compromising wage security and social security to the workers.

2. At present, the provisions of the Minimum Wages Act and the Payment of Wages Act do not cover substantial number of workers, as the applicability of both these Acts is restricted to the Scheduled Employments / Establishments. However, the new Code on Wages will ensure minimum wages to one and all and timely payment of wages to all employees irrespective of the sector of employment without any wage ceiling.

3. A concept of statutory National Minimum Wage for different geographical areas has been introduced. It will ensure that no State Government fixes the minimum wage below the National Minimum Wages for that particular area as notified by the Central Government.

4. The proposed payment of wages through cheque or digital/ electronic mode would not only promote digitization but also extend wage and social security to the worker. Provision of an Appellate Authority has been made between the Claim Authority and the Judicial Forum which will lead to speedy, cheaper and efficient redressal of grievances and settlement of claims

5. Penalties for different types of violations under this Code have been rationalized with the amount of fines varying as per the gravity of violations and repeat of the offences. Provision of compounding of offences has been made for those which are not punishable by a penalty of imprisonment.

6. Recently, some news reports have been published regarding the fixation of minimum wage as Rs. 18000/- per month by the Central Government. It is clarified that the Central Government has not fixed or mentioned any amount as “national minimum wage” in the Code on Wages Bill 2017. The apprehension that minimum wage of Rs. 18000/- per month has been fixed for all employees is, thus incorrect, false and baseless. The minimum wages will vary from place to place depending upon skill required, arduousness of the work assigned and geographical location.

7. Further, the Code on Wages Bill 2017, in the clause 9 (3), clearly states that the Central Government, before fixing the national minimum wage, may obtain the advice of the Central Advisory Board, having representatives from employers and employees. Therefore the Code provide for a consultative mechanism before determining the national minimum wage.

8. Some reports have also been appearing in the media regarding the revised methodology for calculation of minimum wages by enhancing the units from three to six. It was purely a demand raised by Trade Unions in the recent meeting of the Central Advisory Board on Minimum Wages. However it is clarified that such proposal is not part of the Code on Wages Bill.

AK

END

The next superpower in global food supply

Russia is often seen as a country that produces little that the world wants except energy commodities. The oil export dependence looks like a major time bomb under the country's future, given the current focus in the West and in China on reducing the use of hydrocarbon fuels. By an ironic quirk, however, Russia appears to be benefiting from the climate change its energy resources are helping to fuel: Its prospects as the world's biggest wheat exporter and a grain superpower are bright, not least because of the rise in global temperatures.

In the last marketing year, which ran from July 2016 through June 2017, Russia exported 27.8 million metric tons of wheat, more than the entire European Union (EU), to claim first place in the world for the first time since the EU has been counted as a unit. In the current marketing year, the US department of agriculture predicts, Russia will export 31.5 million metric tons, increasing its global lead; it's already facing infrastructure constraints because of the fast growth. It's also a leading exporter of corn, barley and oats. Along with Ukraine and Kazakhstan, it's part of the force increasingly shaping global grain markets.

Alexander Tkachev, Russia's agriculture minister, has repeatedly said that he sees grain eventually displacing oil as the country's biggest export revenue source. That's not a view the Kremlin likes to entertain—it would rather hope for a technology boom—but Tkachev's prophecy may be more realistic for a number of reasons.

The first two of these are outside of Russia's purview: The growing global population and climate change. Global grain consumption grew, on average, 2.8% a year in 2011-2016, and the International Grains Council predicts 1.4% annual increases through 2021. At the same time, climate studies show that, compared to the late 1980s, the time of the Soviet Union's demise, which depressed Eurasian agriculture for more than a decade, the temperature in Eurasia's grain-producing areas will increase by up to 1.8 degree Celsius by the 2020s and by up to 3.9 degrees Celsius by the 2050s, with the greatest increase in winter. This means a longer growing season and better crop yields. More carbon dioxide in the atmosphere is also good for crops.

Climate change means Russian farms can expand northward, to lands that were never used to grow grain. But more importantly, it will help Russia, and to a lesser extent Ukraine and Kazakhstan, reclaim cropland that has fallen into disuse in 1991 through 2000—some 140 million acres. Those lands were abandoned in the early years of post-Soviet capitalism because they required too much investment and yielded little if any profit; that's changing, both for climate-related reasons and with technological advances.

These have been relentless in Russia and the neighbouring grain-growing countries in recent years. The Russian capitalist transition and the almost-free but excessively bureaucratized trade in land have created a few dozen large agricultural conglomerates, which have adopted Western technology to increase yields and which have been receiving increased government support since 2005, when the Kremlin declared agriculture a national priority.

These vertically integrated giants are both a blessing for Russian exports—they have driven the growth—and a curse. A collection of scholarly articles on the Eurasian Wheat Belt pointed out that smaller private farms manage land more efficiently and achieve better crop yields than corporations and recommended that Russia, Ukraine and Kazakhstan reform their land regulations to make it easier for individuals to farm.

Russia has a head start in this, since it liberalized land ownership in the early 2000s. Ukraine doesn't even have a legal land market today, which should explain its slower grain production growth in recent years. But given that much of the country's industrial base is now in a war zone, it has to rely more on agriculture; besides, it's under pressure from the International Monetary Fund to allow the free sale of land. While warmer Ukraine benefits less than Russia from climate change, it still has that huge unused resource.

Together, climate change, population growth, the remaining technological lag between Western and post-Soviet agriculture, and the opportunity to fix regulatory inefficiencies create a huge growth potential for Russia, Ukraine and Kazakhstan. Though their political paths have diverged, these three may, to a degree, share an economic future in the post-oil world.

Of course, a focus on agricultural exports still means a commodity dependence and a vulnerability to global trends in a much less concentrated market than the oil one; Russian wheat sold for more than $350 per ton in 2012, but the price is down to $180 now. Besides, in agriculture, growth depends on government support, unlike in the case of hydrocarbons, where the government can passively draw a rent. The export infrastructure, given the Russian state's hold on transportation, is also a bottleneck that requires taxpayers' money to remove. But the support may eventually pay a dividend if Russia succeeds in developing higher-margin agricultural production—that of meat, milk and vegetables, which the country still imports. The Russian government has been trying to stimulate that development by putting an embargo on Western products, and it has spurred growth, but Russian producers lack the expertise and resources for a real breakthrough.
Bloomberg View

Leonid Bershidsky is a Bloomberg View columnist.

END

NITI Aayog calls renewed focus on Nutrition, launches the National Nutrition Strategy

Leader of the Green Revolution Dr. M.S Swaminathan and Padma Shri Dr. H Sudarshan, today, launched the National Nutrition Strategy, along with Vice Chairman Dr. Rajiv Kumar and Member Dr. Vinod Paul.

With a benefit to cost ratio of 16:1 for 40 low and middle-income countries, there is a well recognized rationale, globally, for investing in Nutrition. The recently published NFHS-4 results reflect some progress, with a decline in the overall levels of under nutrition in both women and children. However, the pace of decline is far below what numerous countries with similar growth trajectories to India have achieved. Moreover, India pays an income penalty of 9% to 10% due to a workforce that was stunted during their childhood.

To address this and to bring nutrition to the centre-stage ofthe National DevelopmentAgenda, NITI Aayog has drafted the National Nutrition Strategy. Formulated through an extensive consultative process, the Strategy lays down a roadmap for effective action, among both implementers and practitioners, in achieving our nutrition objectives.

The nutrition strategy envisages a framework wherein the four proximate determinants of nutrition – uptake of health services, food, drinking water & sanitation and income & livelihoods – work togetherto accelerate decline of under nutrition in India. Currently, there is also a lack of real time measurement of these determinants, which reduces our capacity for targeted action among the most vulnerable mothers and children.

Supply side challenges often overshadow the need to address behavioural change efforts to generate demand for nutrition services. This strategy, therefore, gives prominence to demand and community mobilisation as a key determinant to address India's nutritional needs.

The Nutrition Strategy framework envisages a Kuposhan Mukt Bharat - linked to Swachh Bharat and Swasth Bharat. The aim isensure that States create customized State/ District Action Plans to address local needs and challenges. This is especially relevant in view of enhanced resources available with the States, to prioritise focussed interventions with agreater role for panchayats and urban local bodies.

The strategy enables states to make strategic choices, through decentralized planning and local innovation, with accountability for nutrition outcomes.

AKT/SH/VK

END

Centre sets up panel to suggest on new jobs

The NDA government has constituted a new task force led by NITI Aayog vice-chairman Rajiv Kumar to recommend measures to increase employment by promoting labour-intensive exports.

“While the Indian workforce has high aspirations, a majority of the workers are still employed in low-productivity, low-wage jobs in small, micro and own-account enterprises. An urgent and sustained expansion of the organized sector is essential to address India’s unemployment and under-employment issue,” the NITI Aayog said in a statement on Wednesday.

Key strategy

“An important strategy is to enable a shift towards more labour-intensive goods and services that are destined for exports. Given the importance of exports in generating jobs, India needs to create an environment in which globally competitive exporters can emerge and flourish,” the Aayog noted. The committee has been asked to submit its report by November 2017.

END

Social revolution in a JAM

Safe metal box money secure concept symbol vector

In a post on Facebook made on the third anniversary of the Pradhan Mantri Jan Dhan Yojana (PMJDY) last week, the Finance Minister reportedly said: “Just as GST (goods and services tax) created one tax, one market, one India, the PMJDY and the JAM revolution can link all Indians into one common financial, economic, and digital space. No Indian will be outside the mainstream.” The suggestion of equality as a criterion of governance that is conveyed by this is to be welcomed. JAM, deriving from Jan Dhan, Aadhaar and Mobile, combines bank accounts for the poor, who barely had the money to deposit in them, direct transfer of benefits into these accounts and the facility of making financial payments through mobile phones. Aadhaar is the pivot here, allowing the government to ensure that benefits reach the poor and enabling them to make payments through ordinary mobile phones. For furthering the latter the government has devised the Bharat Interface for Money (BHIM) app. The Minister spoke of these developments as a “social revolution”, perhaps alluding to the feature that the poor are the most direct beneficiaries.

There is no doubt that eliminating leakage in the transfer of welfare payments and enabling the poor to have bank accounts are worthy objectives, and when achieved should be considered significant. Indeed, it is damning that a largely nationalised banking sector had done very little to extend banking services to the poor till recently, and credit goes to this government that it made this a priority. But claims of having achieved inclusion by operationalising the JAM trinity appear somewhat exaggerated. A financial inclusion, in the sense of everyone having a bank account and access to reliable and free electronic payments system, is not the same as economic inclusion. At its most basic level, inclusion from the economic point of view would entail equal access to opportunities for earning a livelihood. This in turn implies employment opportunities. As the demand for labour is a derived demand, in the sense that it exists only when there is demand for goods and services, a significant element in ensuring inclusion is to maintain, directly or indirectly, the level of demand in the economy. Next, even when the demand for labour exists, potential workers must be endowed with the capabilities to take advantage of the opportunity offered. The potential of the JAM trinity for bringing about either of these conditions for economic inclusion is limited. This is so because JAM functions in the digital space while much of our life is lived in the brick and mortar world. In the latter space we have seen very little improvement, not just recently but since economic reforms were launched over 25 years ago.

The economic reforms of 1991 were largely in the nature of liberalisation of the policy regime, meant to make it easier for firms to produce while at the same time exposing them to international competition with a view to increasing efficiency in the economy. What a strategy based exclusively on liberalisation overlooks is that an ecosystem of production is constituted not only by the laws and regulations determining the ease of doing business, but also the access that firms have to producer services ranging from water supply to waste management. These producer services require large capital outlay, often deterring private firms. When private entities do provide these producers services they tend to be expensive, deterring their off-take. It is for this reason that globally they are generally provided by governments. In India the case for public provision of producer services, and there is no reason to provide them free of charge, is particularly high as the overwhelming part of employment is in the form of self-employment. These units are scraping the barrel as it is. Even when producer units employ workers they are poorly capitalised, making it almost impossible for them to generate producer services themselves. Thus the public provision of producer services should be an essential part of public policy. Empowerment in the brick and mortar space would require public infrastructure on a gigantic scale compared to what we have now.

Moving from production to being, JAM cannot even claim equalisation, leave alone empowerment. Amartya Sen effectively settled a longstanding debate on the question of the metric to be used to gauge equality when he proposed that it should be human capabilities. These are the endowments that allow individuals to undertake functionings they value. We would have achieved a social revolution when we have equipped all individuals with the essential capabilities. This happens when a society has, at a minimum, universal health and education infrastructure accessible to all.

We have in recent weeks witnessed governance failure on a major scale in many parts of the country. In U.P.'s Gorakhpur district children have died due to systemic failure that meant that a district's only hospital is not able to maintain a steady supply of oxygen. Later a heavy downpour in Mumbai led to a complete shutdown, widespread loss of livelihood and some of life. And most recently, in Delhi's suburb of Ghazipur a garbage mountain came crashing down, again causing death and disruption. But we would need to turn to Bengaluru to recognise the limits to information technology in solving problems of living. Lakes that are toxic when they haven't been gobbled up by the real estate mafia, traffic snarls and inadequate sewerage make life less than easy in this IT hub aspiring to play first cousin to Silicon Valley.

Given the extraordinary challenges faced by India in the provision of public infrastructure ranging from health and education to drainage and sewerage, the claim made for JAM is breathtaking in its simplicity. JAM ensures seamless transfer of welfare payments and facilitates the making payments in real time. Once again, these are worthy objectives, but fall well short of the social revolution the honourable minister claims for them. Our social revolution will arrive when all Indians are empowered through an equality of capabilities. This would require committing resources to building the requisite social and physical infrastructure and investing time to govern its functioning. JAM may have achieved equality in the digital space but is far from having empowered Indians in spheres in which they are severely deprived at present, an empowerment that they clearly value. The government has leveraged IT smartly in operationalising JAM but the possibility of replicating this to transform the ecosystem of production for firms and the ecosystem of living for individuals is limited. The widespread disempowerment faced by the people of this country predates the arrival of Narendra Modi, but his government appears to give false comfort through its claims.

In a market economy one of the markers of what the public think of the government's policies is the response of private investors. Private investment in India has declined steadily over the past few years. Overall growth had however been maintained, partly through the demand generating impact of public investment. But now even growth appears to be stalling. The latest GDP figures from the Central Statistics Office show growth in the first quarter of the current financial year to be lower than the average for 2016-17. Data actually point to a steadily slowing economy with growth having been successively lower in the past five quarters. There appears to be a mismatch between the government's own assessment of its policies and the private sector's valuation of their worth. The jubilation over JAM is an instance of this.

Pulapre Balakrishnan is Professor of Economics at Ashoka University, Sonipat and Senior Fellow, IIM Kozhikode. Views are personal

END

‘Income inequality in India at its highest level since 1922’

According to a research paper by renowned economists Thomas Piketty and Lucas Chancel, income inequality in India is at its highest level since 1922, the year the Income Tax Act was passed. In December, they will release the first ‘World Inequality Report’ where they will compare India’s inequality trajectory with other emerging, industrialised and low-income countries and suggest ways to tackle global and national inequality.

In an e-mail interview, **Lucas Chancel** *discusses the findings of the paper titled ‘Indian income inequality, 1922-2014: From British Raj to Billionaire Raj?’ Excerpts:*

Can you summarise key findings of the paper?

According to our benchmark estimates, the share of national income accruing to the top 1% income earners is now at its highest level since the creation of the Indian Income Tax [Act] in 1922. The top 1% of earners captured less than 21% of total income in the late 1930s, before dropping to 6% in the early 1980s and rising to 22% today. Over the 1951-1980 period, the bottom 50% group captured 28% of total growth and incomes of this group grew faster than the average, while the top 0.1% incomes decreased. Over the 1980-2014 period, the situation was reversed; the top 0.1% of earners captured a higher share of total growth than the bottom 50% (12% versus 11%), while the top 1% received a higher share of total growth than the middle 40% (29% vs. 23%). These findings suggest that much can be done to promote more inclusive growth in India.

You have said the income inequality has been at the highest level?

Since the 1980s, India did not only open-up and liberalise its economy, it did it in a way that was very favourable to top income earners and capital owners.

Top tax rates which were very high in the 1970s (up to 98%) decreased to 30% in the 1980s. Wages set by governments in government enterprises were liberalised after privatisations and the dispersion increased.

It is also likely that privatisations principally benefited richest income groups, those who already had capital, rather than the majority of the population which didn’t access equity.

On the other hand, growth at the bottom of the distribution was notably lower than average growth rates since the 1980s.

Is this finding unique for India?

To better understand the rise in Indian inequality, let’s look at other emerging countries. China also liberalised and opened up after 1978, and in doing so, experienced a sharp income growth as well as a sharp rise in inequality.

This rise, however, stopped in the 2000s so that inequality is currently at lower level there than [in] India (top 1% income share at 14% versus 22% in India, according to our estimates). In Russia, the move from a communist to a market economy was extremely brutal and today has a similar level of inequality as in India. This shows that there are different strategies to transit from a highly regulated economy to a liberalised one. In the arrays of possible pathways, India pursued a very unequal way but could probably have chosen another path. All this data is available on an open-access website, WID.world.

There have been counter arguments to your thesis?

Some commentators argue that without extreme growth at the very top of the distribution, there wouldn't have been high growth in India. There is, in fact, little evidence supporting this claim. The top 0.1% captured more total income growth as the bottom 50% since 1980. Would all income growth have disappeared if the situation had been reversed? We can also doubt this. The highest growth period in Western Europe, after the second world war, was also a period of equitable redistribution of the fruits of growth. Europe grew as a market economy but it was not a market society. It had institutions, rules, norms limiting the power of capital accumulation and of income concentration.

What do these findings mean for India?

There are many options and we do not claim to put an end to debates. Regarding rising inequality at the very top of the distribution, we show that after 1980, in India, top Income Tax rates were brought from extreme levels to much lower ones. Land concentration is also an issue in India. where agriculture remains a key sector. Indeed, access to free and quality education and health is crucial to raise bottom 50% incomes.

END

The ‘3-3-3’ puzzle and what to do about it

That we are in the midst of an unprecedented and alarming widening of income gaps amongst Indian states is becoming accepted as conventional wisdom. My co-author Praveen Chakravarty and I have been documenting this point for the past year, and our research at the IDFC Institute finds mention in last week’s *The Economist* in a very useful report on the topic.

The facts are stark and simply illustrated (*see chart*). The ratio of per capita state income levels as between the richest three and the poorest three of the 12 largest states has been skyrocketing for the past quarter-century, and today stands at well over 300%. We have dubbed this the “3-3-3” puzzle: The three richest states are three times as rich as the three poorest states. It is a puzzle because orthodox economic theory predicts that contiguous economic units which are knitted together by movements of trade and people ought to exhibit convergence, not divergence.

The puzzle deepens because India’s states constitute a federal economic union characterized by—finally, after the goods and services tax (GST)—harmonized taxes and free trade among states. Apart from this, there is suggestive evidence presented in this past year’s Economic Survey that inter-state movement of people is more robust than we had thought. Finally, let us not forget that India’s states constitute not only a customs union and a fiscal union, but a monetary union as well. These are strong forces for convergence that are, evidently, being counteracted by even stronger forces of divergence, leading to widening divergence overall.

The reality of rising regional inequality can no longer be swept under the carpet of rising average incomes across all states. But while the facts are not in dispute, there is little agreement on the causes of, and possible cures for, the 3-3-3 puzzle. Chief economic adviser Arvind Subramanian posits “governance” as a possible explanation, but this theory is unpersuasive. As we document, the data show not only widening income gaps amongst major states, but within those same states: The dubious ascription of state-level governance differences cannot account for this. After all, attributing what one cannot explain to a vague catch-all concept such as governance is little better than providing a label for one’s ignorance.

By contrast, Chakravarty and I have argued that much the most plausible explanation for this pattern of widening divergence is the model of economic development itself, characterized by initial income gaps becoming locked in through economies of scale, network externalities, and agglomeration economies. Our hypothesis is consistent with the fact that, as the chart shows, inequality really began taking off only after the 1991 economic liberalization, suggesting that the move from a state-oriented to a market-oriented development paradigm may indeed be the driver. This is not at all to denigrate economic liberalization—quite the contrary—but to observe that the fruits of liberalization may be unevenly spread, as market-driven differences in opportunities and outcomes overcome the flattening effects of decades of socialist Central planning.

The existence of wide regional income gaps which are not going to go away anytime soon, and which, indeed, are integral to the texture of how our development paradigm has evolved, forces us to think creatively about ameliorative economic policy interventions, forming part of what economists have come to call “place-based” economic policy. These will require, in the first instance, a body of evidence which is lacking at present across a range of policy-relevant domains, even including monetary policy. For instance, computing reliable state-level consumer price indices, using local weights in the basket and local prices, rather than relying solely on a national average and broad aggregates such as urban and rural, would be a very good starting point for exploring the differential regional impacts of pursuing a national inflation target mandate.

Vivek Dehejia is a Mint *columnist and resident senior fellow at IDFC Institute, Mumbai. Read*

Vivek's Mint *columns at* www.livemint.com/vivekdehejia

Comments are welcome at views@livemint.com

END

Capital is back? The fall and rise of the rich in India

A collection of stylised trends makes it seem like the super-rich are back again. | Photo Credit: V.M. Maninathan

To understand the levels and structures of inequality in India, it is necessary to put the rich at the centre of its macro-history.

In Europe and the United States of America (USA) on the eve World War I, wealth held by a fraction of the richest percentile dominated over national income. This wealth fell dramatically over the course of the Great Depression and two World Wars, only to emerge again in the late 1970s. It is this long-run evolution that is at the centre of Thomas Piketty's book *Capital in the 21st Century*.

Much like the developed world, wealth concentration in India seems to have followed a U shape, now recognised as the inverted Kuznets curve. To be sure, India has for centuries housed the richest and poorest people on the planet. My recent research (Kumar, 2017 *Capital and the Hindu Rate of Growth*) asks a question along these lines: Is the state of wealth inequality today a continuation or a sharp break from India's past?

The decline

In 1937, the Nizam of Hyderabad graced the cover of *Time* magazine as the wealthiest person in the world. His land, precious metals, and other assets were equivalent to almost 30% of India's national income. He was by every definition of the word, "Super Rich."

Joining him at the top of India's wealth distribution were other ancestral royalty from India's princely states and a handful of business houses. The establishment of independent India along with its newly drafted Constitution created a new paradox — it guaranteed private property but also made tremendous promises of democratisation. It was on these lines that a large-scale dismantling of incumbent and established wealth occurred over the next three decades. It began with the annexation of private (princely) land during the formation of the Indian union.

Over time, as India's tryst with socialist planning proceeded, much of old wealth was confiscated, taxed progressively and nationalised. In development economics, this period (1950-1980) is often referred to as "The Hindu Rate of Growth." For example in 1966, the top 0.1% in India owned the equivalent of 16% of GDP; i.e. almost two months worth of output. By 1986, this wealth was worth less than 5% of national income.

Had India achieved superb equality? We cannot pretend to answer this affirmatively because the Hindu Rate of Growth was an embarrassment relative to what was happening in East Asia. But much like Europe and the USA, a combination of progressive taxation with anti-capital policies broke up the existing rentier class. Private property was also turned into national wealth — not always efficient but the pace and level of the decline amongst the rich was staggering. The term "Tata-Birla" resonates with the Indian imagination because these (and one or two others) corporate houses were the few that made the journey intact.

Resurgence and metamorphoses

While the speed of the decline owes much to Indira Gandhi, her successor Rajiv planted the seeds needed to rebuild private wealth. By 1986, inheritance taxation was abolished, other direct taxes diluted and private industry began to flourish again. Eventually nationalisation was reversed with sales of public assets and the globalising market became India's friend. The pace of stock market capitalisation since 1989 easily surpassed India’s outstanding GDP growth. Although existing data does not allow a systematic analysis, a collection of stylised trends makes it seem like the super-rich are back again.

The Forbes Rich List published annually showed that by 1996 the richest two persons in India held wealth equal to 1% of GDP. It took thousands of estates to make this figure in 1980. In 2007, exactly seven decades after the Nizam, Mukesh Ambani made the global list as the world’s wealthiest person.

At this juncture, India’s billionaires club was worth almost 20% of national income. All this points to the possibility that India too has a U-shaped evolution of wealth concentration, indeed these trends were matched by income inequality according to work by Mr. Piketty and Abhijit Banerjee.

The resurgence of the rich was accompanied by a metamorphoses — much of top wealth is still inherited, but instead of hereditary royalty it is now ‘corporatised’ primogeniture. Unlike the poor investments made by incumbent aristocrats, inherited assets continue to grow. The families dominate private assets, due to closely held equity. But they are also joined by other smart investors and self-made businessmen. Rankings today change frequently based on entries and exits. These fluctuations are in the nature of wealth at the top. Old wealth has made way for the new and even newer wealth keeps emerging. Will national income be dwarfed again?

(The author is Assistant Professor of Economics at California State University)

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

END

Did liberalization lead to lower income growth for the poor?

One of the strongest justifications for the economic liberalization that began in the 1980s is that it not only raised growth rates, but that growth percolated down to the poorest people. True, liberalization has increased inequality, but that is rationalized as the price to pay for higher growth. After all, it wasn't just us staunch members of the bourgeoisie who said these things—even Comrade Deng Xiaoping advised the Chinese people to "let some people get rich first".

Folks unimpressed by Deng may choose to believe economist Simon Kuznets instead, who said that inequality will increase initially as an economy develops, but will ultimately drop. The resultant Kuznets curve, as this depiction of the trajectory of inequality is named, is an inverted 'U'. So a rise in inequality is perfectly fine, it's just the effect of high growth in the economy. Those of us who are in the best position to profit from that growth, either by virtue of higher initial wealth, or higher educational opportunities, benefit the most, of course. But the important point is that everyone gains, even the poorest.

The French economist Thomas Piketty had poured cold water over this argument in his best-selling book, *Capital in the Twenty First Century*, which debunked our cherished belief that a rising tide of economic growth will necessarily lift everybody's boats. Even so, we assumed that while this may be true for the developed economies as their factories are increasingly automated and their jobs vanish to emerging markets, it was different for developing economies. Surely, the evidence was all around us, as vast populations were able to move above the poverty line, thanks to the higher growth ushered in by liberalization? Surely the forest of satellite dishes in slums, the motorcycles parked in front of thatched huts, the ubiquity of mobile phones all pointed to rising prosperity even among the poor?

Apparently we were all deceived. A much-discussed recent paper by Piketty and Lucas Chancel titled *Indian income inequality, 1922-2014: from British Raj to Billionaire Raj?* denies that liberalization has been beneficial for the poor in India. Baldly stated, their paper finds that while average real annual per adult income growth for the bottom half of the population was 2.2% between 1951 and 1980, it fell to 1.94% between 1980 and 2014 (*See chart 1*). In other words, the bottom half of the population saw higher income growth in the decades before liberalization than in the decades after it. Sure, their incomes too have gone up after liberalization, but at a slower pace than earlier. Were those supposedly socialist decades really better for the poor?

Nor is the paper upbeat about the situation of the "middle class". It finds that what it calls the middle 40% of the population (this is somewhat of a misnomer because it denotes individuals above the bottom 50% and below the top 10%) hasn't done too well from liberalization either.

Average annual real per adult income growth for this "middle 40%" was 1.9% during 1951 and 1980, which went up to 2.02% between 1980 and 2014. The increase was a mere 0.12% per year, an increment any self-respecting worker in the formal economy would laugh at. The saving grace is that growth has been above 2% from the middle of the last decade for the bottom half of the population and from around the year 2000 for the "middle 40%".

Piketty and Chancel do not deny that overall growth went up after liberalization. According to the paper, average annual real per adult growth for the entire population in the 1951-1980 period was 1.7%, well below the 3.25% growth notched up in the 1980-2014 period.

So the question is: in spite of overall growth being so much higher, how is it that people in the lower 90% of the population saw a decline in income growth or just a minor improvement? The rather obvious answer is that the top 10% of the population hogged the lion's share of the growth in income.

Of the total income growth between 1951 and 1980, the bottom 50% of the population captured 28%, the “middle 40%” got 49%, while the top 10% had to remain satisfied with appropriating 24% of the growth (*See chart 2*). But these proportions changed dramatically after liberalization began in the eighties. During 1980-2014, the bottom half of the population got a mere 11% of the growth, the middle 40% captured 23% and the top 10% of people captured two-thirds of growth. With the top 10% appropriating so much of the increase in income, it’s little wonder that the rest of the population saw little benefit from liberalization. It’s also worth noting that the top 1% of the population captured 29% of the growth in incomes between 1980 and 2014.

Interestingly, China, which too went in for liberalization after 1980, saw its middle 40% capture 43% of the growth in incomes between 1980 and 2014. Growth there has been much more egalitarian than in India, although this may partly be the legacy of the earlier Maoist era.

What is income inequality now in India? The paper has data for 2014, which shows that the average income of an adult in the top 1% is about 70 times the average of the bottom half and 35 times that of the “middle 40%”.

The paper concludes that ‘“Shining India” corresponds to the top 10% of the population (approximately 80 million adult individuals in 2014) rather than the middle 40%. These findings will be very controversial as it upsets the established narrative on growth after liberalization. It is certain to start a lively and heated debate. The full paper can be accessed here.

Manas Chakravarty looks at trends and issues in the financial markets.

Respond to this column at manas.c@livemint.com.

END

The dangers of India’s Billionaire Raj

Speaking from the ramparts of Red Fort in New Delhi last month, Prime Minister Narendra Modi was at pains to put fairness at the heart of his political agenda. He promised “a New India, where there is equal opportunity for all” by 2022, the 75th anniversary of independence. But on the most important indicator of this agenda—income inequality itself—the country is slipping dangerously backwards.

This conclusion is inescapable from a paper published last week by the celebrated French economist Thomas Piketty, along with his co-author Lucas Chancel. Its conclusion is striking. The share of national income taken by the top 1% of Indian income earners is now at its highest level since records began, when the British Raj began collecting income tax records in 1922.

Piketty’s new Indian data suggests a pattern that is worryingly familiar from his opus *Capital*, which warned of galloping inequality in the industrialized world. In the West, the relative wealth of the ultra-rich dipped in the mid-20th century before bouncing back in the last two decades. India now shows the same trend, albeit mostly for different reasons.

Piketty and Chancel’s evidence is comprehensive, but far from unique. International Monetary Fund (IMF) research last year showed India, alongside China, to be the most unequal major economy in Asia. A recent study by Credit Suisse, the investment bank, suggested that India’s 1% now own a staggering 58% of national wealth—one of the world’s highest rates, and akin to notoriously stratified nations like South Africa and Brazil.

The same is true at the very, very top. Harvard’s Michael Walton has shown that India has an unusually high proportion of national wealth held by its swelling ranks of billionaires. Piketty’s paper broadly supports this view, showing that the share of income held by the “0.001%” has also increased rapidly. The paper’s subtitle poses a question: Is India becoming a “Billionaire Raj?” In truth, the evidence for this is now overwhelming. The question should be: why does it matter, and what can be done about it?

Over recent decades India laboured under the misapprehension that it was an oddly egalitarian nation. This was partly a hangover from the socialist era, when the rich still lived modestly by global standards. There were no Indians on *Forbes* annual billionaire rankings until the mid-1990s (now there are well over 100, more than in any other country bar America, China and Russia). There were methodological issues too, namely that research often focused on consumption rather than income or wealth, giving a false picture of inequality.

Beneath this there lay a peculiar intellectual consensus. On the right, thinkers like economist Jagdish Bhagwati argued that rapid growth mattered more than its distribution. But even on the left, Bhagwati’s rival Amartya Sen focused more on conditions at the bottom, and the fact that economic expansion had failed to boost indicators of human development. For both, the gap between rich and poor was a secondary concern.

There was a logic to Sen’s argument. Almost all successful economies in East Asia have grown rich by investing heavily in basic health and education, which helps poorer workers to move from farms to factories. Modern India more often looks like a Latin American economy, with a weak social safety net but yawning inequality.

There are good reasons to be worried about this gap too. Mainstream economists often used to be relaxed about inequality, arguing that it at least did little to harm growth. But more recent research, much of it again from the IMF, has overturned this consensus, showing that unequal nations tend to grow more slowly and are more prone to financial instability. Unequal countries also find it harder to form the kind of social consensus needed for structural economic reforms, a point made by Harvard's Dani Rodrik.

The reasons for Indian inequality are complicated. Some of it stems from positive factors linked to liberalization, like entrepreneurs building large companies linked to global markets. Factors such as rising urbanization and increasing returns to education also play a role. Many countries become less equal as they industrialize, only to reverse that trend later.

Still, India appears to be growing unequal more quickly and more starkly than most, a trend that will be hard to reverse later. It is also hard not to conclude that poor public policy, along with problems of corruption and cronyism, are partly to blame.

It also leaves a dilemma. The gap between rich and poor is likely to grow if Modi ever succeeds in his ambition of hitting double-digit growth rates. Certainly, this was what happened during the 2007 boom, a period when India's billionaire wealth rivalled Russia, and Reliance Industries' chairman Mukesh Ambani was briefly thought to be the richest man in the world.

Fixing this problem, so growth is more broadly shared, will be complicated. But there are obvious places to start, not least tax collection, in a country where an improbably tiny 48,000 people admitted to earning more than Rs1 crore in 2015. Beyond this a far more radical agenda is needed, to improve basic social services at the bottom, while using competition policy and regulation to stamp out crony capitalism and entrenched corporate power at the top.

For all of his talk of fairness, Modi is doing little of this. If he does not change course, the Billionaire Raj is only going to grow stronger.

James Crabtree is a senior research fellow at the Lee Kuan Yew School of Public Policy in Singapore, and a former Mumbai Bureau chief for the Financial Times. His book on India, The Billionaire Raj*, will be published in mid-2018 by Random House and One World.*

END

Addressing India’s income inequality

Thomas Piketty has thrown a flaming dart into the Indian economic debate. In a new paper written in collaboration with Lucas Chancel, the superstar French economist has shown that income inequality in India is now at its highest level since income tax was first levied in 1922. The title of the study is suitably eye-catching—*Indian Income Inequality 1922-2014: From British Raj To Billionaire Raj*. The data here has quite naturally sparked off a lot of excited debate about the nature of Indian economic policy.

Indian inequality data has traditionally been derived from consumer surveys that understate the extent of the problem. Chancel and Piketty have calculated inequality from tax data, national income accounts and sample surveys—a much better method, though the way these disparate data sources have been integrated leads to potential methodological tangles that could lead to an overstatement of the extent of inequality in India. For example, the use of tax data for the top 5% and the use of survey data for the rest of the population assumes that only the top sliver under-reports income. How realistic is that?

The two economists show that income inequality has been rising steadily since Rajiv Gandhi became prime minister. This is not a unique finding. The International Monetary Fund has earlier estimated that the Gini coefficient, a popular measure of inequality, rose from 45 to 51 between 1990 and 2013. The LIS Data Centre in Luxembourg has come to similar conclusions. These are far higher than the official Gini estimate of 37 derived from consumer surveys.

The most obvious conclusion to be drawn is that economic reforms have relatively benefited a tiny group at the top of the Indian income pyramid, though absolute incomes have gone up across deciles since 1980 while the poverty ratio has plummeted. However, the uneven distribution of higher growth needs more public attention.

There are two important lessons to be gleaned from a careful reading of the data that has been released. First, the increase in income inequality coincides with the sharp rise in Indian economic growth after 1980. Also notice the very significant drop in income inequality during the stagnant 1970s. This points to the famous hypothesis put forth by Simon Kuznets—that inequality tends to rise during periods of rapid growth thanks to the uneven pace at which people move from low productivity to high productivity activities. Piketty wrote a sharp critique of the Kuznets hypothesis in Capital In The Twenty-First Century, his wildly popular (but perhaps unread) book. The correlation between economic growth and income inequality since 1965 needs to be worked out in a statistically rigorous manner.

Second, income inequality is not just about the share of national income going to the top 1%. There are deeper distributional issues. A comparison with China tells us a lot. Chancel and Piketty show that the share of national income captured by the bottom half in both India and China after 1980 has been broadly similar. The big difference between the two countries is in the fact that the middle 40% in India got 23% of the increase in national income since 1980 while the same group in China got 43%—a massive gap of 20 percentage points. This difference of 20 percentage points was largely captured by the top 1% in India.

So a stylized view is as follows: The Indian top 1% has done extremely well, the Chinese middle has benefited far more than the Indian middle, and the bottom half in both countries has had broadly similar experiences.

This newspaper believes the answer to this paradox lies in the failure of labour-intensive manufacturing in India compared to its massive success in China. The latter could absorb millions of people who left farming because of the rapid expansion of large enterprises, as was the case in most other successful structural transformations in Asia. India has failed on this front. The proportion of the labour force in agriculture has come down, but the workers who have left farms have not got jobs in modern factories or offices. Most are stuck in tiny informal enterprises with abysmal productivity levels.

There are two major political economy lessons that flow from these trends. First, that a sustainable attack on mass poverty should be focused on job creation in the modern sectors of the economy rather than redistribution through fiscal spending that is eventually destabilizing. Second, widening income inequality weakens public support for liberal economic reforms, as economist Dani Rodrik has shown. Economic populism takes over, as was the case during the tenure of the second United Progressive Alliance government led by Manmohan Singh. The gradual drift of the Narendra Modi government in the direction of populism and interventionism deserves to be seen against this backdrop.

It is also apt to once again underline the historical fact that no country has been able to win the battle against mass poverty without rapid economic growth. China is the latest example. Inequality is a problem that deserves more public attention—but the solution is more inclusive growth rather than misplaced nostalgia for the miserable 1970s.

How can India reduce income inequality? Tell us at views@livemint.com

END

www.thehindu.com 2017-9-14

Equality for what?

In 1820 the German philosopher Georg Wilhelm Friedrich Hegel, in his magnificently crafted *Philosophy of Right*, had written with some despair of the moral squalor and of the ravages that poverty brings in its wake. The state of poverty, he argued, is not an aberration, it is a product of industrial society, of the overproduction and underconsumption which marks this social order. But it is precisely society that banishes its victims to the twilight zone of collective life. Here, removed from the advantages of solidarity that civil society offers, the poor are reduced to a heap of fragmented atoms, rabble, *poebel*. When the standard of living of a large mass of people falls below a certain subsistence level, he wrote, we see a loss of the sense of right and wrong, of honesty and of self-respect. “Against nature man can claim no right, but once society is established, poverty immediately takes the form of a wrong done to one class by another.”

Hegel suggests that poverty is a social phenomenon. One, society is complicit in the creation and recreation of poverty. Destitution, that is, is the outcome of a skewed economy. Two, poverty breeds unfortunate consequences, such as suffering, which seriously demoralises human beings. Three, the existence of large numbers of the poor pose a direct threat to the social order, simply because the poor are (justly) resentful of their exclusion from the benefits of society.

We should be seriously reflecting on Hegel’s criticism of a society that refuses to correct the wrongs it has heaped on its own people, in the light of the research findings of the economist Thomas Piketty and his colleague Lucas Chancel.

In a paper aptly titled ‘Indian income inequality, 1922-2014: From British Raj to Billionaire Raj?’, they conclude that income inequality in India is at the highest level since 1922, when the country’s income tax law was conceived, and that the top 1% earners corner 22% of income. These research findings should send a powerful warning signal to power elites, leaders who prefer to concentrate on the politics of beef, brutal repression of dissent, and curtailment of basic human freedoms, even as the lives of thousands of Indians are mired in mind-numbing poverty.

Income inequality in India at its highest level since 1922, says Lucas Chancel

There is more to the proposition that some persons are poor beyond belief, and others are rich beyond belief in India. P is poor, we can say, when she does not possess access to the basic resources which enable q, or s, or m to consume nutritious food, avoid ill health, attend school, take up a job, and own a home, let alone go on holiday or possess a car. This implies that p is not just poor, she is unequal to q, s, or m, since the latter three, unlike p, have access to certain advantages that p does not. Poverty is the effect of inequality as well as the prime signifier of inequality. And inequality is demeaning.

Arguably, inequality is not only a matter of statistics. It is a shattering reflection on the kind of society we live in. Logically, if the economic ordering of society is responsible for ill-being, it is obliged to remedy the wrongs that it has visited upon the heads of the poor. This constitutes a basic code of justice. People who have been wronged are entitled to ask for justice. If justice is not delivered, inequalities are reinforced and compounded over time.

The selfish way to combat inequality

Resultantly, people fated to occupy the lowliest rungs of the social ladder are not only denied access to basic material requirements that enable them to live a decent life, they are likely to be socially overlooked, politically irrelevant except in times of elections when their votes bring parties into power, disdained, and subjected to disrespect in and through the practices of everyday life. To be unequal is to be denied the opportunity to participate in social, economic, and cultural transactions from a plane of equality.

Starkly put, the presence of massive inequality reflects sharply and pejoratively on the kind of social relations that we find in India. Because these social relationships are indisputably unequal, they cannot but be entrenched in massive discrimination and exploitation. Can we reflect on inequality without taking on exploitation and discrimination? And unless we confront these background inequalities directly, will not inequality continue to be produced and reproduced along with the production and reproduction of a lopsided social order, indeed as an integral part of this order?

Let us not understate the implications of inequality, it violates a basic democratic norm: the equal standing of citizens. Persons have equal standing because each human being has certain capacities in common with other human beings, for instance, the capacity to make her own history in concert with other human beings. Of course the histories that persons make might not be the histories they chose to make, but this is not the issue at hand. What is important is that each person realises this ability.

The everyday embrace of inequality

The principle of equal standing generates at least two robust principles of democratic morality. For one, equality is a relation that obtains between persons in respect of some fundamental characteristic that they share in common. Equality is, morally speaking, a default principle. Therefore, and this is the second postulate, persons should not be discriminated against on grounds such as race, caste, gender, ethnicity, sexual preferences, disability, or class. These features of the human condition are morally irrelevant.

These two postulates of political morality yield the following implications. To treat persons equally because they possess equal standing is to treat them with respect. The idea that one should treat persons with respect not only because some of these persons possess some special skill or talent, for example skilled cricketers, gifted musicians, or literary giants, but because persons are human beings, is by now part of common sense morality. If someone were to ask, ‘equality for what’, we can answer that equality assures equal standing and respect, and respect is an essential prerequisite for the making of human beings who can participate in the multiple transactions of society from a position of confidence and self-respect. If they cannot do so, the government is simply not taking the well-being of its citizens seriously.

There is urgent need, in the face of government inaction and insensitivity towards people trapped in inequality as a social relation to invoke the collective conscience of Indian citizens. If the right to equality is violated, citizens should be exercised or agitated about this violation. But for this to occur, for society to feel deeply about the right on offer, we have to incorporate the right to equality into political thinking, into our values, and into political vocabularies. The project requires the harnessing of creative imagination and courage on the one hand, and careful reasoning, persuasion, and dialogue on the other. The task also demands the investment of rather high degrees of energy and time. But this is essential because a political consensus on what constitutes, or should constitute the basic rules of society, is central to our collective lives. The political is not a given, it has to be constructed, as Karl Marx had told us long ago, through determined and sustained political intervention.

Neera Chandhoke is a former Professor of Political Science at Delhi University

END

We need to talk about rural distress

A century ago, farmers in Bihar’s Champaran district were forced to set aside 15% of their land to cultivate indigo under the *Tinkathia* system. Once planted, the farmers were still subjected to a variety of extortionist cesses, or *abwabs*. They rose in revolt but were crushed by the East India Company until the arrival of a barrister from South Africa. Yet, a century after **Mahatma Gandhi fought against the exploitation of farmers**, India’s agrarian community still remains under siege.

At a granular level, marginal farming in India is a highly complex and decision-intensive process. Farmers have to make a variety of decisions starting with the choice of crops (annual or short term) and their time of tillage. Then there are rising prices of agricultural inputs, availability of water, soil suitability and pest management. All these factors create a narrow window of economic benefit for the marginal farmer. A wrong decision can wreak havoc.

This uncertainty is reflected in rural debt levels. A Panjab University study showed that in Punjab, large farmers with holdings greater than 10 hectares typically had a debt-to-income ratio of 0.26, while for medium farmers, 4-10 ha, and semi-medium farmers, 2-4 ha, it was 0.34 — all seemingly affordable. However, small, 1-2 ha, and marginal farmers, less than a hectare, faced a greater burden of debt, with a debt-to-income ratio of 0.94 and 1.42, respectively; over 50% of their loans are from non-banking sources.

With average landholding size decreasing from 2.3 ha in 1971 to 1.16 ha in 2011, and average input prices rising, cultivation costs have also increased. A farmer now typically earns 2,400 a month per hectare of paddy and about 2,600 a month per hectare of wheat, while farm labourers earn less than 5,000 a month. Real farm wages have grown at an average annual growth rate of 2.9% between 1991 and 2012, with farm wages declining between 2002 and 2007. Effectively, about 30.5 million left farming between 2004-05 and 2010-11, seeking employment in the secondary and tertiary sectors. In 2011, the Planning Commission estimated that the size of this agricultural workforce would shrink to less than 200 million by 2020.

Farm suicides get attention of Supreme Court

The consequence is farmers committing suicides. Farmer suicides have also grown primarily in States with limited irrigation and variable rainfall, comprising 87.5% of all farmer suicides in 2015. Over 3,21,428 farmers committed suicide in the last 20 years.

Large farmers in Maharashtra typically have access to modern pumps, consuming huge amounts of water and leaving hardly anything for small and marginal farmers. Fertilizer and pesticide prices have also risen, causing marginal farmers to adopt organic means. The limited availability and high cost of high-yielding seed varieties also hampers agricultural productivity. Given such constraints, farmers have limited scope for crop diversification, choosing to focus primarily on staple crops such as wheat and rice, where the government offers a price guarantee for produce and the availability of post-harvest infrastructure.

Institutional support has been provided in various forms since Independence. Established in 1982, the National Bank for Agriculture and Rural Development has sought to provide financing support for tube-well irrigation, farm mechanisation and other ancillary activities. The introduction of a nationwide agriculture loan waiver in 1990 had a deleterious impact on the provision of rural credit, providing a short-term palliative while breeding credit indiscipline among farmers and leading to a shortfall in rural credit growth.

Why can’t the government provide a higher income for farmers, asks M.S. Swaminathan

The 2004-05 Union Budget sought to double agricultural credit, while a 2% interest subvention was provided in 2006, allowing farmers to avail of kisan credit card (KCC) loans at 7% per annum (up to 3 lakh). Another agricultural loan waiver was sanctioned in 2009, just before the Lok Sabha election. In 2011, the government provided a further 3% interest subvention for farmers making immediate payments on their KCC loans. More recently, the **Uttar Pradesh government's farm loan waiver scheme** has been replicated in Maharashtra, Punjab and Karnataka and estimated to total up to 0.5% of India's GDP. Similar demands are growing in Madhya Pradesh, Rajasthan and Haryana. Small and marginal farmers certainly deserve greater support from the government. However, India's agricultural policy has historically disincentivised the creation of a formal credit culture among farmers. When the next election is likely to bring about another farm loan waiver, why would any farmer seek to pay off his loans early? Such schemes can also prompt farmers to take on risky ventures that are beyond their capacity.

Ideally, India ought not to have rural distress. We have the second largest amount of arable land in the world. Yet, less than 35% of this land is irrigated, with the remainder subject to fluctuations in rainfall.

The writing is on the wall. India's small and marginal farmers will need another agricultural loan waiver. However, this cannot continue in the future. There are other ways to mitigate their plight. Greater subsidies could be extended for the purchase of agricultural equipment, fertilizers and pesticides, while the medical insurance coverage could be expanded through the Rashtriya Swasthya Bima Yojna. In addition, the scope of the Mahatma Gandhi National Rural Employment Guarantee Act could be increased. Allowing marginal farmers to be paid for tilling their own fields could reduce their input costs. Such measures could also increase their net income.

Finally, we need a national conversation on rural distress. Unlike the Champaran Satyagraha, national attention has been curiously lacking. We ought to discuss the Swaminathan Commission's report in a full week's sitting of Parliament and decide which direction India's agriculture goes. With empathy for India's farmers and a truthful assessment of on-the-ground farming reality, we must make the right choices for Indian agriculture.

Feroze Varun Gandhi is a Member of Parliament representing the Sultanpur constituency for the BJP

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

END

Why inclusive growth is indispensable to India

On 15 August India marked 70 years of independence from the British empire, a monumental triumph in social and political liberalization. Today, India is in the midst of an equally monumental struggle in economic liberalization. The stakes could not be higher. An economic future of broadly shared prosperity and vanishing poverty for more than 1.2 billion people is within grasp. To get there, however, calls for advancing inclusive growth.

India's economic performance in recent years has been outstanding in relation to both its own historical record and the global economy. Between 2010 and 2016, for example, annual real gross domestic product (GDP) growth in India averaged 6.7% despite a relatively weak post-crisis global economy that averaged only 2.7% annual gains. Yet the economic optimism in recent years is now tempered by a growing recognition that many deficiencies in the economy remain deep-seated and if not effectively addressed could undermine future growth.

Front and centre is the concern over employment growth.

Despite strong economic growth in the last decade, job growth averaged only approximately 2% a year in the formal sector. Such growth is basically flat when adjusted for the growing population. In the coming decades, some 12-15 million Indians will enter the labour force each year, and if the current job **growth trends persist**, fewer than half of them will be able to secure formal employment of any kind. For those who fail to find formal employment, their only option is to work in the informal economy.

It is estimated that about 80% of **India's labour force** works in the informal economy. Jobs in the informal economy are typically insecure, with neither employment contracts nor regular pay, and very often workers are engaged on a day-to-day basis. The working conditions in the informal economy therefore resemble a low-productivity trap.

Employers have no incentives to invest in training workers who are seen as transient and interchangeable or to invest in better tools and equipment for them. Without some assurance of future income, workers find it difficult to plan for the long term, let alone find the means to invest in learning new skills. The informal economy thus embodies the exact opposite of inclusive growth: workers are effectively excluded from accessing many of the resources they need to make themselves more productive and thereby improve their life chances.

This is why advancing inclusive growth is so important in India today. At the most basic level, economic growth results from labour force growth and productivity growth of workers. With 80% of the labour force stuck in low-productivity activities in informal employment, it is not surprising that the Indian economy is performing far below its true potential.

For the Indian economy to reach its growth potential, ways and means must be found to move workers from informal to formal employment. Ultimately, the economy can reach its full potential only when the hundreds of millions of Indian workers can escape the trap of low productivity.

The good news is that recent reform initiatives are preparing the ground for greater inclusion. The biometric-based unique identification system, Aadhaar, now ensures that the poor are no longer invisible and, therefore, more empowered. A bank account for every adult now ensures universal access to financial services, at least in principle. When combined with Aadhaar, such access will accelerate financial inclusion. The shock of demonetisation and the introduction of the new national goods and services tax will gradually expand India's tax base and eliminate incentives for businesses to operate in the shadow of the formal economy.

Critics of the government's recent reforms are quick to decry their disruptive effects. But this is to miss the woods for the trees. Any reforms that have an impact and are worth doing are necessarily disruptive. Without short-term cyclical effects, there are no longer-term structural gains. Much greater gains will be realized when the different reforms begin to converge to bring more people into the mainstream economy altogether. What is needed is to sustain the push for more reforms, not fewer.

Reducing the size of the informal economy is pivotal to inclusive growth. It allows India to reach its growth potential and deliver broadly shared prosperity for the vast majority. Sustaining a real GDP growth rate of 7% each year until 2040 will quintuple per capita GDP to $28,000 on a purchasing power parity basis. By 2040, India will also reach its maximum share of the working-age population. This is a glittering prize—endowing its youth bulge with meaningful, well-compensated and rewarding formal employment in a society where prosperity is broadly shared and absolute poverty has become a thing of the past.

The historian Ramachandra Guha has argued (*India After Gandhi: The History Of The World's Largest Democracy*, New York: Harper Collins, 2007) that India is both the world's largest and least likely democracy. The odds were daunting that India could hold as a democracy, and yet it did. At 70, what India needs to do next is clear: democratize productivity through inclusive growth to finally reach its full economic potential.

Yuwa Hedrick-Wong and Manu Bhardwaj are, respectively, chief economist at Mastercard, and vice-president, research and insights, Mastercard Center for Inclusive Growth.

END

“Digital inclusion is the foundation of financial inclusion” - sh. Ravi Shankar Prasad

Speaking at a conclave on ‘*Financial Inclusion*’ organized by the United Nations, **Shri Ravi Shankar Prasad,** Union Minister for Electronics & Information Technology and law & Justice said, *“Digital inclusion is the foundation of financial inclusion. We have certain fundamental approach for commitment as far as digital platform is concerned. The first and foremost is, we want to become the leaders in the field digital revolution in the world. Second important attribute of our initiative is, we simply don’t want to digitize India, but we want to create a technology that is transformative, which will empower India, and also empowers Indians.”*

“This is the age of information, and information is power. This is the age of technology, and technology is power; and this technology must empower India. We also want to create a digital ecosystem, which leads to digital inclusion. Digital India is more for poor and underprivileged. WE are undertaking a lot of transformative initiatives like Digital India, Make in India, Start-up India, Smart Cities, Skill India. These are all technology based programmes; digital inclusion must be the common thread.” added **Shri Ravi Shankar Prasad.**

“Three more attributes are important to be kept in mind when we talk about digital inclusion. First, technology must be affordable; second, technology must lead to inclusion, and, third, technology must be developmental.” concluded **Shri Ravi Shankar Prasad.**

On the completion of 3 years since the launch of the Pradhan Mantri Jan Dhan Yojana (PMJDY), one of the largest financial inclusion programmes in the world, India‘s example for leading innovations in financial inclusions, access and technology can provide important learnings for other countries. The United Nations in India is bringing together leaders of this financial revolution, with senior level stake holders from the government, the banking sector, innovators, technology partners, intergovernmental organizations and the UN.

The daylong conclave focused on physical access and infrastructure of financial inclusion, maximizing financial access and literacy for women and marginalized groups and using technology and innovation to determine the way forward.

NNK/MD

END

Building a new India: Pledge to Double Farmers Income by 2022

In order to improve the economic condition of the farmers, Prime Minister, Shri Narendra Modi has set up an ambitious target in front of the nation. The goal is to double the income of the farmers by 2022. It has been for the first time, a Prime Minister has put such a target in front of the compatriots for the welfare of the farmers. Under the able guidance of Prime Minister, Shri Narendra Modi, the Agriculture and Farmers Welfare Ministry has to achieve this target by 2022. The Ministry is committed to making his dreams come true. Farmers and officers are implementing schemes to increase the income of the farmers. Krishi Vigyan Kendras (KVKs) organised pledge taking ceremonies in 562 districts of the country between August 19 to September 11, 2017, as a clarion call to farmers to double their income by 2022 and a total of 47,08,47 farmers and agricultural workers participated in it.

- KVKs organised this program in the 562 districts of the country. The program saw the participation of the State Government and the Central Government officers, Agricultural Officers, Students and a large number of farmers in each district.
- Speaker Smt. Sumitra Mahajan attended one of the events.
- In two places, the Governor of the respective states participated.
- Chief Ministers of three states attended four pledge-taking ceremonies.
- Union Agriculture and Farmers Welfare Minister, Shri Radha Mohan Singh attended five ceremonies.
- 49 Central Ministers participated in pledge taking ceremonies at 79 locations (Districts).
- In 284 places (Districts), Members of Parliament attended the program.
- In 111 locations (Districts), State Ministers attended the program.
- In 350 locations (Districts), the MLAs attended the program.
- In 398 places (Districts), Chairman of District Panchayat attended the program.

Kindly click here for State wise details.

*****

SS/ AK

END

Country of a chosen few

The paper by Thomas Piketty and Lucas Chancel, 'Indian Income Inequality 1922-2014 - From British Raj to Billionaire Raj?', is now in the public domain. Piketty needs no introduction - his Capital in the Twenty-First Century has been one of the most influential books on economics in the past decade. Piketty uses Indian data over the decades - including the "household survey of consumption", "fiscal" and "national accounts data", the newly released set of tax data from 1922 to 2014, as well as UN statistics, and other Human Development Survey data collected between 2005 and 2012 - to estimate the "income distribution pattern" of the population of India, as it evolved between 1951 and 2014. At first sight, the integration of the various data sources, including the necessary adjustments to cover the divergences, appear to have been undertaken with due care, to ensure credibility. Prima facie, the conclusions appear to be compelling. Note that Piketty has not referred to "black" income in his computations - the income disparities would be sharply higher than estimated by him.

In brief, what are the paper's main findings? Between 1980 and 2014, the share of the top 1 per cent of India's population in income increased from 6 per cent to 22 per cent. During the same period, the share of the top 10 per cent increased from 30 per cent to 50 per cent; the share of the middle 40 per cent (the middle class) fell from 43 per cent to 30 per cent; the share of the bottom 50 per cent fell from 24 per cent to 15 per cent. More astonishingly, the top 0.1 per cent of earners captured a higher share of the total growth than the bottom 50 per cent (12 per cent vs 11 per cent). These are astounding figures.

The period after the year 2000 saw the highest growth of the economy compared to the five preceding decades. In other words, the period 1980-2014 saw the top 0.1 per cent grow at 550 times the rate of the bottom 50 per cent. The top 1 per cent grew at 130 times of the bottom 50 per cent. The middle 40 per cent grew at a three times higher rate than the bottom-half. Note that more segregated data in percentiles is not computed for the bottom-half. Assuming the same skewed growth pattern within the bottom-half, for the bottom 10 per cent these ratios would be significantly higher. Ten per cent of India is about 14 crore, a population higher than that of most countries.
Let us assume for a moment that Piketty is largely right in his conclusions - there is no reason to question his logic or methodology, or indeed his findings. Why has this state of affairs not been brought to our notice by our economists and statisticians? Have Montek Singh Ahluwalia and economists of his generation forgotten that every economics lesson in the London School of Economics on "income generation" would have a parallel connection with "income distribution"?

Perhaps the next generation of economists, who imbibed their lessons at Harvard or Chicago had not heard of the "Gini coefficient" or such concepts like "Theil or Entropy Index". Perhaps these were not seen to be applicable to Indian conditions. The fact is that most of our economists learnt their trade in the foreign conditions of developed countries, where the land/capital/labour inter-relationships are quite different to those in India. Economics was always considered an esoteric, abstruse "science" in India - our politicians had left our economy in the hands of our economists, with, as can now be seen, disastrous results.

It is astonishing that we have not built "inclusion" and "income distribution" as an integral part of every national policy. High-income differentials are possibly tolerable, subject to the lowest strata having minimum living conditions. This is not the case in India. Kamban, who brilliantly wrote the Ramayana in Tamil, some say with even greater elegance and poetry than Valmiki, had described "Ram Rajya" as a place where "Everyone had everything he needed and therefore there was no 'rich' or 'poor'."

In short, there has been no "inclusive growth", to put it mildly. Apparently, this country is meant only for the rich. We had been ruled by the British and the Mughals, by sultans, nawabs, and zamindars. The new rulers are the politicians, the businessmen - nothing has changed in this "democracy". Even not accounting for the wealth stashed away in the Cayman Islands and Lichtenstein by the business community, or the benami property of ex-chief ministers and their kin, or the 30-odd bank accounts of the sons of ex-ministers, and the election expenditures of our legislators, the Piketty-computed income share in the top-most brackets seems obscene.

Is the country sitting on a powder keg? Does India belong to a chosen few? Surely, the arrival of Digital India, 4G etc would convey graphic details of the lifestyle of those driving Lamborghinis or living in gated communities to the poorest in the rural countryside. In a situation where there is an inability to increase employment, this is a dangerous mix for the stability of our democracy.

Tony Atkinson recently defined the necessary conditions to be followed by state policy to bring in inclusivity, and mitigate income disparity. While one may not agree with all his prescriptions, it may be worthwhile to examine them to assess their applicability in Indian conditions. With the advent of technology, coupled with poor education standards, unemployment could become a major issue in a country like India, compared to developed countries. The taxation structure also needs to be looked at for examining correctives like "gift tax", "wealth tax", "estate duty" and the like.

The present skewed income growth pattern needs to be sharply curbed. The prime minister has promised to double the real income of the farmers within five years. This commitment needs to be fulfilled. He surely means this with great sincerity and purpose but where is the roadmap? Will the system be able to overcome large vested interests to meet this goal?

The country has learnt through bitter experience not to trust politicians. Politics is too important to be left to politicians. Likewise, the economy is too vital to be left to economists.
The writer is a former Cabinet Secretary

END

There are 1.77 million homeless in India, but the State is blind to them

They can be found everywhere but somehow the Indian State fails to notice them. They are the homeless people of India. According to the government's definition, homeless or houseless are those who live in "the open or roadside, pavements, in hume-pipes, under flyovers and staircases, or in the open in places of worship, mandaps, railway platforms etc." Yet when it comes to providing them the basic needs, governments have been failing to spend even their allocated funds. There are 1.77 million homeless people in India.

Last week, the Supreme Court took the Centre and states to task, saying that there should be an audit by the Comptroller and Auditor General of the money disbursed by the Centre to the states for a scheme under the National Urban Livelihoods Mission (NULM), and observed that these funds, which are meant for a specific purpose, should not be diverted.

This is not the first time the SC has rapped the Centre. In 2016, the apex court slammed the Centre and states for their lackadaisical approach in providing shelters to the poverty-stricken in urban areas despite availability of sufficient funds.

It had also observed that the mission of the NULM scheme "remains a distant dream even after lapse of a long period."

The NULM was launched in September 2013 to reduce poverty and vulnerability of urban poor households. The Centre had earlier told the court that an amount of Rs 1,000 crore, released under the NULM, does not pertain only to urban homeless but to other activities also.

The good news is that there has been an overall decline in the houseless population from the last Census. While there has been a 28% decline reported from rural India, there has been a 20% increase in houseless people living in the cities. But still there is a long way to go.

But only spending money will not solve the problem. Here's what needs to be done.

First, the State needs to identify and address the structural causes of homelessness; second, a national moratorium on forced evictions and demolitions should be introduced; third, enhanced policy coherence and convergence between housing schemes in urban and rural areas and schemes for the provision of water and sanitation; fourth, the central and state governments should put in place effective and timely mechanisms to collect data on evictions, including with disaggregation of the persons who are evicted by age, gender, disability, caste and religion.

Prime Minister Narendra Modi has set a target for the nation – every Indian must have a house by 2022. This is a tall order. However it is possible if the state undertakes the right sort of planning and judicious spending of funds.

END

What does the wage data say about the economy?

There is now an emerging consensus that the economy is in a downward spiral with little hope of it reviving in the near future. While this is certainly evident from the quarterly national account estimates released last month, data released subsequently by other sources confirm the trend is continuing.

It is also clear that much of the distress which has now become obvious has been going on for quite some time even though the situation has worsened after the twin shocks of demonetization and hurried implementation of the goods and services tax (GST).

Much of the impact of these two shocks is still unfolding but it is now evident that domestic demand in the economy has slumped with the agricultural and unorganized sector being the largest casualties. Some of this was already made clear in the second volume of the Economic Survey presented last month.

The second issue, which continues to plague the economy is the absence of job creation, which has also been recognized by most economists as the biggest pressure point on the economy. This again is now more or less confirmed by data from various sources, public as well as private.

While the government has continued to remain in denial mode on most indicators, citing an absence of concrete data or has taken recourse to blaming “technical issues”, the reality is that there is now much more convergence by various data sources on the state of the economy than what the government would like to believe.

An important source of data in this regard is the trend in real wages of casual workers in agriculture and non-agricultural areas in the villages. These remain incontrovertible and an important measure of the state of the economy. In fact, wages are not just an indicator of the earnings of salaried and casual workers—they are also an independent source of information on the labour market.

The information on wage data is available from the labour bureau on a monthly basis, the last being June 2017. These are available for various agricultural and non-agricultural occupations, including general agricultural labourers and non-agricultural unskilled workers.

The trend from these shows a sharp deceleration in real wages for both agricultural and non-agricultural sectors since 2013-14. Real wages of casual workers in agriculture and non-agricultural areas were increasing at 7% per annum between 2007-08 and 2012-13. As against this, real wages in agriculture between 2013-14 and 2016-17 have slowed to 1% per annum. Unlike agriculture, real wages in non-agricultural occupations have actually declined in real terms with wages of unskilled workers declining in real terms by 0.1% per annum.

The increase in real wages of casual workers during 2008-2013 was not just responsible for insulating the economy from a severe shock following the financial crisis and the drought of 2009, but it also contributed to poverty reduction between 2004-05 and 2011-12.

The increase in wages was a result of many factors, including the increase in agricultural productivity but was supported by buoyancy in the construction sector which absorbed a large number of workers released by the agricultural sector. It was also helped by the expansion of the National Rural Employment Guarantee Scheme (NREGS) which not only contributed to tightening the labour market in rural areas but also provided a floor for private wages with NREGA wages being pegged at minimum wages.

The deceleration in real wages was evident even before the present National Democratic Alliance government took over, with real wages turning negative in 2013-14. The subsequent collapse of the rural economy in the wake of the commodity price crash and back-to-back droughts further aided the deceleration.

The cutback in expenditure on NREGA since 2011-12 has worsened the situation. Not only did the government cut back the expenditure, but it also froze minimum wages, depriving rural workers of alternative opportunities. Some of these could have been reversed but for the twin shocks of demonetization and GST roll-out which hurt the rural economy and the rural informal sector.

The deceleration in real agricultural wages and a real decline in non-agricultural wages not only confirm the worsening demand situation in rural areas but also confirm the lack of job creation in rural areas.

The last time real wages decelerated on this scale was the period between 1998 and 2003, a period of crisis in rural areas, particularly in agriculture. The deceleration this time not only coincides with a similar phase of rural distress and agrarian unrest but also a decline in construction activity which had contributed to insulating the economy from the vagaries of monsoon failure and price fluctuations. The deceleration this time is confirmation of a collapse of demand in rural areas. Given the government’s denial of jobless growth, the collapse of rural wages is clear evidence of the lack of employment creation in the last three years in the economy.

The decline in wages is not just a serious and indisputed indicator of the state of the economy but it is also a pointer to the stress in the rural economy. Given that almost one-third of all rural workers and households are dependent on wage work, it will certainly affect the significant gains in poverty reduction that were achieved in the previous decade. But the sheer size of the rural casual workforce also implies that any attempt at reviving the economy will have to include efforts to create employment and raise wages in rural areas.

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

END

First ever National Conference on “Mission Mode to address Under-Nutrition” to be held in New Delhi tomorrow

First ever National Conference on “Mission Mode to address Under-Nutrition” to be held in New Delhi tomorrow

Three States to be awarded for reducing prevalence of stunting in population

The Ministry of Women and Child Development will hold the first ever National Conference in New Delhi tomorrow on *Mission Mode to address Under-Nutrition* in the country. In his curtain raiser briefing in New Delhi today, the Secretary WCD, Shri Rakesh Srivastava said that this conference is being organized by the Ministry of Women & Child Development in collaboration with Ministry of Drinking Water and Sanitation and Ministry of Health & Family Welfare, keeping in mind the goal of **“Malnutrition Free India-2022”**.

Giving details about the conference, the Secretary WCD said that the Government has decided to lay focused attention on this issue and for this said purpose, Ministry of Women and Child Development has identified 113 districts across the States/UTs based on the composite index of NITI Ayong and prevelance of stunting from NFHS-4 data. At least one district has been selected from each State/UTs so that the action taken in the selected district can be emulated in the other districts also, he explained.

Shri Srivastava said that the National Conference, first of its kind, aims at bringing convergence at District/Block levels of the three key Departments (Health & Family Welfare, ICDS/Social Welfare and Drinking Water and Sanitation) wherein a roadmap would be drawn to evolve an appropriate strategy in tackling the problem of stunting, under-nutrition and wasting comprehensively and conclusively.

The conference would be sensitizing the District Collectors/Deputy Commissioners/District Magistrates as well as the District-level officers of Health & Family Welfare, Nutrition (ICDS/SW), Drinking Water & Sanitation Departments in the 113 High Burden Districts along with the Principal Secretaries/Secretaries, in-charge of these three Departments of all States/UTs on a multitude of topics relating to stunting, under-nutrition and wasting and the key strategic interventions which are urgently required.

The District Magistrates/District Collectors/Deputy Commissioners in these 113 high burden districts, through a dashboard, will regularly monitor and review the schemes covering the aspects of nutrition across the line departments within their jurisdiction at least once in a three month period. Such a review and monitoring at district level would be done in an exclusively and dedicated manner (between 1st to 10th of January, April, July and October every year) to address implementation of schemes having a direct bearing on nutrition and Health.

Shri Rakesh Srivastava said that three States will be awarded at the conference tomorrow. These three states will be awarded for showing good progress in the area of reduction in stunting as measured between NFHS-3 and NFHS-4. These States are Chattisgarh, Arunachal Pradesh and Gujarat.

Joint Secretary WCD, Dr. Rajesh Kumar said that several important steps have already been taken by the WCD Ministry recently for a multipronged strategy to manage malnutrition. This includes training ICDS functionaries, developing a curriculum for ECCE, food fortification guidelines among others. He further stated that the WCD Ministry has developed a world class software 'ICDS-CAS' for real time monitoring of nutrition related parameters in 8 States. This system is one of its kind in the world and 60,000 Anganwadis have already been given tablets to report growth parameters on a daily basis with the help of this system, Dr. Rajesh Kumar explained.

The problem of malnutrition is inter-generational and is dependent on multiple factors which inter-alia, include proper Infant & Young Child Feeding (IYCF) practices, Immunization, Institutional Delivery, Early Childhood Development, Food Fortification, Deworming, access to safe drinking water & proper sanitation (WASH), Dietary diversification, full ANC checkup, early initiation of breast feeding, ICT enabled real time monitoring and implementation of Anganwadi Services, Improving infrastructure of Anganwadi Centres along with training of Anganwadi workers and other related factors. These factors can also be Area specific or dependent on particular geographical conditions. Further, it requires a convergent approach among all the three departments i.e. Health & Family Welfare, ICDS/Social Welfare and Drinking Water and Sanitation to tackle the issue of malnutrition comprehensively and conclusively.

Some of the important sessions at tomorrow's conference include efficacy of food fortification, sustainable solution through breast feeding, dietary diversification, improving maternal & child health through Mission Indradhanush, improving program delivery effectiveness, accelerating Real Time Monitoring among others.

*****

NB/UD

END

Cabinet approves increase of cost norms for Supplementary Nutrition provided in Anganwadis and in the Scheme for Adolescent Girls

Cabinet approves increase of cost norms for Supplementary Nutrition provided in Anganwadis and in the Scheme for Adolescent Girls

Cabinet also approves annual cost indexation for increase in rates in future

Government will, over the next three years, invest an additional Rs. 12,000 crore for the nutrition of pregnant and lactating women, children in the age group of 0-6 years, and out of school adolescent girls

The Cabinet Committee on Economic Affairs chaired by the Prime Minister Shri Narendra Modi, has approved the proposal for revision of cost norms with annual cost indexation for Supplementary Nutrition (SN) for the beneficiaries of Anganwadi Services and Adolescent Girls (out of school 11-14 years) under the Umbrella ICDS Scheme. This addresses a long standing anomaly and ensures that the changes in norms keeps pace with changes in costs on an annual basis.

This follows the decision by the Government to provide cash benefits to pregnant and lactating mothers under the Pradhan Mantri Matru Vandana Yojana, and is part of an intensive effort to improve the nutritional status of women and children.

The revised Supplementary Nutrition cost norms for the beneficiaries of Anganwadi Services and for Adolescent Girls (11-14 years out of school) under the Umbrella ICDS Scheme, as approved by the Government are as under:

S.No.	Category	Existing Rate Rs./day/beneficiary	Revised Rates Rs./day/beneficiary
1	Children (6-72 months)	Rs.6.00	Rs.8.00
2	Pregnant Women & Lactating Mothers (PW&LM)	Rs.7.00	Rs.9.50
3	Severely Malnourished	Rs.9.00	Rs.12.00
4	Adolescent Girls (11-14 years out of school)	Rs.5.00	Rs.9.50

The revision of cost norms for SN for beneficiaries of Aanganwadi Services would cost additional expenditure of Rs.9,900 crore and for beneficiaries of Adolescent Girls, it would cost Rs.2,267.18 crore as GoI share for a period from 2017-18 to 2019-20.

The revision in the cost norms of SN for the beneficiaries of Anganwadi Services and Adolescent Girls would impact the health and nutritional status of about 11 crore beneficiaries per annum.

*****

AKT/VBA/SH

END

The missing jobs

Not even a tenth of the 30.67 lakh youth who had received or were undergoing training under the Pradhan Mantri Kaushal Vikas Yojana (PMKVY) as on early-July have obtained job placement offers, according to a report in this newspaper. The percentage could be even lower if actual placements, as opposed to offers, are taken. So, can this be seen as a failure of the Narendra Modi government's flagship skills training and certification scheme? Jobs are not simply a function of the country's workforce acquiring formal skills making them employable. More fundamental to job creation is a vibrant economy, in which investment and consumption fuel demand for labour, skilled and unskilled. We did see this happen, for instance, between 2004-05 and 2011-12. During that period, an estimated 52 million non-farm jobs were created, nearly half in construction and the rest in the services and manufacturing sectors. Today's crisis is not one of employability, but of investment and economic activity leading to shrinking job opportunities, whether for IT service professionals, draughtsmen, masons or fitters.

The problem with PMKVY is not its poor job placement record. The question to ask is whether a scheme of this kind - seeking to impart industry-relevant skill training to 10 million youth over four years (2016-2020), largely through private accredited "training partners" and with the Centre meeting the entire fee expenses - is required at all. Ideally, the government's focus should be on providing decent education. That would mean ensuring minimum standards in schools, colleges, polytechnics and industrial training institutes (ITI). If just over 43 per cent of class VIII students in rural government schools can solve three-digit by one-digit division problems and only 45 per cent are able to read simple sentences in English - as the NGO Pratham's Annual State of Education Report for 2016 reveals - that's what needs fixing. Training of broadband and mobile handset repair technicians, CNC machine operators, customer care executives, air hostesses or beauticians are better left to the private sector. The Rs 12,000-crore outlay for PMKVY - mainly towards training modules of 150-300 hours duration, whose utility is doubtful - can instead be used to beef up the infrastructure and course content in 2,284 government ITIs.

This is not to say that formal skilling - currently restricted to hardly three per cent of India's workforce - isn't important. But skills are mostly job-specific and acquired at the workplace. The government would do a great job by just concentrating on basic education, labour reforms and improving the ease of doing business. The market has ways to address skills gap: You don't need PMKVY or a ministry of skills development for that.

END

What ails rural Rajasthan

After Maharashtra and Madhya Pradesh, farmers from Rajasthan came out on the streets demanding loan waiver and implementation of the Swaminathan Committee report. Protesting against government policies and demanding their share in the country's development, which they argue have been denied to them, the farmers have shown unity across caste and class lines. However, it is not merely the farm-related economic anxieties that explain this massive farmer's mobilisation. These movements have to be contextualised in the evolution of the present model of development and the way it has reshaped societies.

Much like Maharashtra and Madhya Pradesh, where the farmers' agitations were located in the economically better-performing districts, the epicentre of the farmers' movements in Rajasthan were districts that have seen a qualitative change in the rural economy and society in the past three decades - Sikar and Sri Ganganagar. One can see shops selling branded items and luxury cars on the roads in Sri Ganganagar. There are similar shops in Sikar as well. Today, Sikar looks very different from what it was 10 years ago.

The district has seen the emergence of a strong private education sector in the last three decades which has given a boost to its economy. Sikar's proximity to Jaipur has also resulted in the emergence of a new middle class which has urban aspirations. Government data shows that in 2009 there were around 94 colleges in Sikar which increased to 124 in 2013. Coaching centres have also mushroomed in the district.

Traditionally, Sikar has been amongst the few districts in Rajasthan (also Jhunjhunu and Churu) which have a large number of educated people. Despite economic hardships, dependence on rain-fed agriculture and a lack of alternative income resources in the rural areas, the district has a relatively high literacy rate of 70 per cent. Two-and-a-half decades ago, the educated youth was an active participant in the organised sector. However, since 1991, the state has gradually withdrawn from providing jobs in general and in the education, health and engineering sector in particular.

Sikar's educated youth got accommodated in the private education industry in the region due to growth in engineering, medical and other private enterprises. However, with the state's withdrawal from various employment generating avenues and the gradual decline in employment opportunities in the private sector - a regular feature of Rajasthan's political economy in the past few years - the youth have no other option but to go back and work on their farms. They also look for employment opportunities in the informal education sector.

Sri Ganganagar and the nearby district, Hanumangarh, has also witnessed significant rural-agrarian change in the past three decades. The two districts are beneficiaries of the Green Revolution with irrigation water from the Ganga Singh Canal and Indira Gandhi Canal available to them. In the initial years, the region benefitted from using new agricultural technology. A new wealthy agrarian class emerged, which has invested heavily in an urbanised life style and also in the education of their male children. The cropping pattern in the region has also shifted towards cash crops like mustard and cotton (Sri Ganganagar contributes 18 per cent of Rajasthan's cotton production). A gradual increase in the cost of farm inputs has led to a rise in the cost of agricultural production.

Increasing access to education and high income levels in the two districts has led to consumerism among the rural youth. This economic change was, however, not accompanied by changes in social and cultural values. The youth became urbanised but have retained their rural cultural essence. The older values of rural community prestige have been clubbed with the urban values of extravagant marriages, heavy spending on rituals or religious activities, wealth accumulation and, above all, an individualised life.

This gap between the social and economic spheres is clearly visible in Sri Ganganagar and Hanumangarh districts. Despite a high per capita income, Sri Ganganagar has a very poor sex ratio. A large part of the farmers' income in these districts goes in dowry or in rituals related to birth and death or in organising satsangs and jagrans. The Dera Saccha Sauda enjoys a lot of support in the two districts. In the last few years, expenditure on education and health has increased in the districts. The areas are also victims of a health crisis created by the overuse of chemicals in the production of food items, including vegetables and fruits.

The emergence of an expensive yet non-productive lifestyle on the one hand, and the state's withdrawal from the job market on the other, has created a severe socio-economic crisis. There are a large number of educated yet unemployed youth in all these districts. In their bid to bridge the gap between social aspirations and economic realities, they fall into a debt trap. Falling farm incomes, lack of jobs and absence of alternative sources of income on one hand, and increasing expenditure on health and education on the other, has destroyed the rural economy in these newly emerging zones of prosperity.

Demonetisation delivered the final blow to the economy and society of these regions. The rural-agrarian cash economy which used to provide some income to the youth in the countryside collapsed after demonetisation. The state has tried to preserve traditional ethos and cultural traditions, rather than promote scientific temper amongst the younger generation. The situation was thus rife for a psychological outburst.

The state's policy towards rural development has been ad-hoc and devoid of a long-term vision of sustainable development. The Sikar, Sri Ganganagar and Hanumangarh models, despite their differences, have produced a generation of people who have expectations but lack the opportunities to fulfil them. Farmers are the worst victims of this unguided and unplanned process of change. In the changing nature of the rural structure, they have been left with no option but to agitate and demand short-term relief from the state.

END

Stairway to prosperity

The World Bank's *Atlas of Sustainable Development Goals* paints a striking image of India's poverty reduction record in the past 25 or so years. India extricated 120 million people from extreme poverty between 1990 and 2013. However, this process was relatively slow. Over the same period, China reduced the number of people living in extreme poverty from 756 million to 25 million.

If we factor in economic growth, between 1995 and 2012, the growth elasticity of poverty reduction for India is just over 0.12. By contrast, countries such as Brazil, Mexico, Ecuador, and Thailand - that witnessed relatively low economic growth rates - emerge as positive outliers, exhibiting higher growth elasticities of poverty reduction than many high-growth countries, including India. While the growth elasticity of poverty reduction for China is a little over 0.28, the numbers for Mexico and Brazil are 3.28 and 1.14 respectively.

In the popular children's game Snakes and Ladders (now called Chutes and Ladders), rapid upward mobility is matched by equally rapid descent. This is an apt metaphor for the resistance of poverty to rapid growth. Growth - the ladders - is an uncertain process for many individuals; benefits are elusive and, if attained, always at risk. Therefore, an essential element in any enduring poverty alleviation strategy is the prevention of large declines in household incomes that are caused by a variety of shocks - in effect, blocking off the chutes.

In each of the positive outliers mentioned above, state-sponsored anti-poverty and social protection schemes have played a significant role in reducing poverty. The World Bank's Francisco Ferreira estimates that in the absence of redistributive transfers, the headcount index in Brazil would have been higher by approximately five percentage points in 2004. Research - most notably by Martin Ravallion - also contrasts Brazil's experience with that of India, where rising inequalities have been found to dilute any impact growth had on poverty reduction. Studying poverty reduction in Kazakhstan, Kudebayeva and Barrientos (2017) find that growth was responsible for about four-fifths of the poverty reduction between 2000 and 2009. But, when the "poverty gap", which takes into account the distance of households from the poverty line, is considered, the contribution of redistributive social assistance measures increases to nearly one-third of the reduction in poverty.

Conditional Cash Transfers (CCTs) have been proposed as an effective instrument in this situation. An added attraction of such schemes is that, beyond the immediate safety net objective, they could also serve longer term objectives through behavioural changes in households. Explaining the channels through which CCTs can reduce poverty, Ferreira and Robalini (2010) explain: "The objective is to alleviate current poverty while simultaneously seeking to break the inter-generational transmission of poverty by encouraging investment in the human capital of poor children."

But do the desired behavioural changes actually take place? In Declining Inequality in Latin America, editors Lopez-Calva and Lustig conclude that while education attainment among the poor has increased, the redistributive momentum is at risk of being lost due to persistent divergences in the access to quality education: "The poor and middle ranges of the distribution receive an education of significantly lower quality than the top 10 per cent, members of which usually attend better-quality private schools." Research from Brazil similarly estimates the failure to advance is higher by four percentage points for CCT-covered children than others.

Even for health outcomes, research finds that the Brazilian CCT Bolsa Familia has failed to increase child immunisation rates, and has had no impact on health indicators of children between

12 and 36 months. Similarly, the impact of Mexico's Oportunidades on health outcomes has been inconsistent, owing to variations in the quality of health infrastructure, scarcity of medicine, low level of care, and discourteous treatment by health professionals.

The lesson that emerges is the ability of cash transfers to serve as both "ladders" and for blocking off "chutes" depends on how education and health outcomes for the poor change, which in turn is predicated not just on the behavioural changes the transfers induce, but also on the quality of social infrastructure. Cash transfers are able to act as effective ladders and reduce long-term poverty only as long as they are supported by a social infrastructure that facilitates an improvement in outcomes. As Fiszbein and Schady (2008) write: "Policy makers and program managers for CCTs in Latin America, the region where such programs have the longest tradition and the most established status, increasingly are casting CCTs as part of a broader system of social protection."

India's strategy to address both persistent and recurring poverty among households would be well served by addressing both the ladders and the chutes dimensions of the problem. India's latest Economic Survey has mooted a Universal Basic Income as a "safety net against health, income and other shocks." The UBI has been hotly debated on both feasibility and desirability considerations. However, drawing on the discussion above, at a conceptual level, it focusses squarely on the "chutes" aspect of the poverty problem.

The Survey makes clear that the primary function of the UBI is to block the chutes that threaten to subsume the poor. While blocking the chutes smoothens the consumption curve temporarily, even the most ambitious cash transfers will fail to reduce poverty permanently, unless they are complemented by a well-functioning social infrastructure that is able to provide quality education, health, and nutrition, across the board.

To maximise the bang for the buck, an effective poverty strategy should pay attention to the short-term safety-net aspects of any transfer-based programme, the medium-term behavioural effects, and perhaps most critically, the longer-term changes in outcomes.

The aim therefore should be to minimise the chutes and maximise the ladders - for this, access to the right mix of social services is critical.

END

Aspiring Business Leaders should to build a culture of Inclusiveness: Vice President

Inaugurates 15th edition of ISB Leadership Summit 2017

The Vice President of India, Shri M. Venkaiah Naidu has said that aspiring business leaders should to build a culture of inclusiveness and shape their actions to have a positive impact in the lives of those who need support. He was addressing the gathering after inaugurating the 15th edition of ISB Leadership Summit 2017 at the Mohali campus of the Indian School of Business on the theme “Transforming Tomorrow: The Future Unraveled”, in Mohali, Punjab today. The Governor of Punjab & Administrator of UT Chandigarh, Shri V.P. Singh Badnore, the Minister of State for Civil Aviation, Shri Jayant Sinha and the Minister of Health & Family Welfare, Research & Medical Education, Parliamentary Affairs, Government of Punjab, Shri Brahm Mohindra were also present on the occasion.

The Vice President said that an area of concern has been the growing inequalities and exclusion of certain sections of our population. He further said that we must be attentive to these trends and see that we build a culture of inclusiveness. He advised the ISB students that the *antyodaya* approach advocated by Gandhiji, Dr. Ambedkar and Deen Dayal Upadhyayaji should serve as our guiding principle. The students must listen to diverse voices, especially those which are feeble and almost inaudible now, he added.

The Vice President said that the students should break new ground. He further said that innovation, thinking outside the box and accessing knowledge from across the globe and adapting it to our country context would be crucial. He also asked them to mindful of the ethical dimension while building the physical, material and intellectual wealth. Let us remind ourselves of what Gandhiji had said about the means and ends, he added.

The Vice President called for a collective resolve to root out corruption and undesirable elements like communalism, casteism, fundamentalism, criminalization of politics, gender discrimination and atrocities on women and weaker sections. We must recognize the devastating impact of terrorism and launch a coordinated strategy to root it out, he added.

The Vice President pointed that there was a general recognition, echoed in the assessment of the World Bank in 2017, that India is the fastest growing economy in the world, and said that it was time to capitalize on the demographic dividend by enthusing, equipping and empowering youth who constitute 65 per cent of country’s population.

The Vice President said that while the country could be legitimately proud of what was accomplished so far, the India of tomorrow will have to be a country which would translate the dreams of our freedom fighters into tangible reality.

- It will be an India that will transform the quality of life of the citizens.

- It will be an India that will internalize and live the values of democracy and inclusion as a way of life.
- It will be an India that places ‘people’, especially those who are the poorest of the poor at the centre of the development process.
- It will be an India that encourages each Indian to realize her or his own potential.
- It will be an India where women get equal opportunities along with men.
- It will be an India that will foster innovation in all spheres.
- It will be an India that will celebrate its infinite diversity and rich cultural heritage.

If this is the future India we wish to unravel, we have to build it individually and together, he added.

***

KSD/BK

END

Government provides additional Rs.12000 Crores to tackle malnutrition

The Government has provided an additional Rs.12000 Crores to fight malnutrition over next three years in the country by revising cost norms for supplementary nutrition provided in anganwadis and in the scheme for adolescent girls. Briefing media persons in New Delhi today, Secretary, WCD Shri Rakesh Srivastava said that the government has effected a quantum increase of about 33% in cost norms, which have been revised for the first time since 2011 in the case of ICDS. In the case of Scheme for Adolescent Girls, cost norms have been increased first time since 2010. With this, an additional Rs.9900 Crore have been given for supplementary nutrition in anganwadis over the next three years and Rs.2276 Crores in the scheme for adolescent girls over the next three years, he explained. This reflects commitment of the government to tackle malnutrition on a war footing as reflected in Prime Minister Narendra Modi Ji’s vision, Shri Srivastava said.

The cost norms have now also been linked to the Food Price Index which will enable the government to increase the cost norms annually without any hindrance. Shri Srivastava disclosed that in the recently held national conference on malnutrition, the district collectors and district magistrates have been asked to take responsibility for eliminating malnutrition in their districts. They have been asked to review comprehensively the nutrition/helath status of children and women once in three months and also ensure 2% to 3% decline in malnutrition/stunting per year.

The WCD Secretary announced that a separate policy/protocol for Severly Acute Malnourished Children will be released at the earliest to enable States to deal with this problem effectively.

The revised Supplementary Nutrition cost norms for the beneficiaries of Anganwadi Services and for Adolescent Girls (11-14 years out of school) under the Umbrella ICDS Scheme, as approved by the Government are as under:

S.No.	Category	Existing Rate Rs./day/beneficiary	Revised Rates Rs./day/beneficiary
1	Children (6-72 months)	Rs.6.00	Rs.8.00
2	Pregnant Women & Lactating Mothers (PW&LM)	Rs.7.00	Rs.9.50
3	Severely Malnourished	Rs.9.00	Rs.12.00
4	Adolescent Girls (11-14 years out of school)	Rs.5.00	Rs.9.50

*****

NB/UD

END

Solving food challenges with more research

The world's population is booming. According to estimates, the global population is likely to exceed 9 billion by 2050, with 5 billion people in Asia alone. The capacity to produce enough quality food is falling behind human numbers. Food production in the region must keep pace, even as environment sustainability and economic development are ensured. The answer to these challenges lies in research for sustainable development. As the second goal of the UN's Sustainable Development Goals says: "End hunger, achieve food security and improved nutrition, and promote sustainable agriculture."

India's fivefold increase in grain production over the past 50 years is largely the result of strong scientific research that has focussed on high-yielding crop varieties, better agronomic practices, and pro-farmer policies. However, India continues to face challenges such as food insecurity and malnutrition, particularly in rural areas.

Providing the world's growing urban population with safe and healthy food requires both a rural and a peri-urban agricultural movement — a huge challenge, but also an opportunity for ingenuity. Integrating agricultural production, nutrition, and health is emerging as a key focal point throughout Asia, with policymakers shifting their attention to the role of biodiversity and the power of local farming systems to improve nutritional status.

There is considerable potential in targeting underused crops such as millets, pulses, and vegetables as a sustainable means of increasing agricultural production and improving nutrition and health in high-need areas. In one project, researchers tested the sustainable use of traditional crops, vegetables, and fruit trees, as well as greater livestock diversity, to increase income and improve food and nutrition security in rural India. This project demonstrated that in three Indian "agro-biodiversity hotspots", home gardens could provide households with up to 135 kg of legumes, vegetables, tubers, leafy greens, and gourds per year — more than double the amount of vegetables they were buying in local markets. These crops add value to existing farming systems by providing an additional source of income and/or more nutritious food for the family. The Food Security Act of 2013 was welcome, as was the inclusion of millets in the Public Distribution System as millets are superior to common grains in many ways and are also climate-resilient. Bio-fortification is also important in overcoming hidden hunger caused by micronutrient deficiencies such as iron, iodine, zinc, vitamin A, and vitamin B12.

Studies show that women make up nearly half of agricultural labourers, yet they carry out approximately 70% of all farm work. Women are among the most disadvantaged because they are typically employed as marginal workers, occupying low-skilled jobs such as sowing and weeding. Our research shows that empowering women is one of the best ways to improve nutrition. Research needs to continue focussing on the needs of women farmers to ensure that they are the direct recipients of development impacts, such as access to markets and income, to improve theirs and their children's access to adequate and diversified diets.

Most importantly, it is crucial to continue to identify issues and seek evidence-based solutions through research. Building on the momentum of recent efforts by the government to improve understanding of India's nutritional situation, there is considerable potential in building partnerships to extend the reach of research for development and to improve the connections between agricultural and nutritional research with extension services and policy. Taking a multisectoral approach that links agricultural and nutritional outcomes will help India sustainably grow, feed its people, and maintain the agricultural sector over the coming decades.

India's research community is poised to be a leader in meeting new food challenges by increasing food quantity and quality to improve food security and nutrition. The world needs to tap into India's research excellence to experiment, innovate, share knowledge, and scale up effective solutions.

M.S. Swaminathan is the founder of the MS Swaminathan Research Foundation, and Jean Lebel is the President of Canada's International Development Research Centre

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

END