

Opinion

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IMPROVING AGRI-INCOMES

Trilochan Mohapatra, director general of ICAR

We have to increase the production of crops and animals. We also have to use our natural resources efficiently. This has to be done despite the challenge of climate change while still ensuring better returns to the farmers

INFLATION EXPECTATIONS

AFTER THE SHOCKS THAT HAVE HIT INFLATION (GST, OIL, FOOD, ETC) DISSIPATE, EXPECT CORE INFLATION TO STABILISE AT MUCH LOWER LEVELS, AND HEADLINE TO CONVERGE TOWARDS IT

India's lack of inflation



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INDIA, AN ECONOMY infamous for high and sticky inflation, is currently coming to terms with the opposite phenomenon—inflation over the last year is not just falling, but falling more than expected. Inflation forecast errors have become one-sided. Moreover, inflation components continue to confound, with persistent divergence between food and core prices. In the latest reading, food inflation is at -1.3% and core inflation is at 5.8%, with a mysterious 7 percentage point gap between them. Headline inflation at 2% is well under the 4% target. The big questions doing the rounds are: why hasn't headline inflation been converging to core over the last year, as the academic papers testing for the post-2013 period suggest? Despite inflation expectations being better anchored since 2013, why is core inflation rising? Will headline inflation eventually increase all the way to 5.8% (where core currently stands)?

Does core converge towards headline or the other way around? After testing this, there is strong evidence of what some other papers have also found—that the pre-2013 period was characterised by core inflation converging to headline, and the post 2013 period being characterised by headline inflation converging to core. A combination of two forces have defined the distinct phases: (1) the nature of food price shocks and (2) the leanings of monetary policy. The pre-2013 period was characterised by rising food inflation and loose monetary policy (as characterised by real rates). Inflation expectations became unanchored. Core inflation was elevated as transitory shocks got gen-

eralised more easily. And all of this manifested in core inflation converging rapidly towards headline.

The post-2013 period is characterised by falling food prices and tight monetary policy. A combination of low global commodity prices and good harvests pushed food inflation down. Alongside this, as RBI embarked on inflation targeting, it consciously kept real rates in the positive terrain. As a result, inflation expectations became more firmly anchored. Transitory shocks began to fade away more quickly. All of this is resulting in headline converging towards core. So, if we are in a phase where inflation expectations are better anchored and there is evidence that headline is converging more towards core, why have headline and core inflation been moving in opposite directions over the last twelve months?

There have been a slew of price shocks that have distorted relative prices (of both food and core) and hindered convergence over the last year. While food inflation had been falling since 2011, the decline picked up pace in early 2018. This was led by both structural and cyclical factors. As demand recovers, the cyclical pressures could reverse. Core inflation is not in equilibrium. It is in flux, grappling with a multitude of shocks, which need careful pars-

ing through. Expect it to stabilise at lower levels. Once the relative price distortions ease, food inflation will tick up gently and core inflation will fall to a more stable level. It is then that headline inflation will converge towards core. When thinking about inflation convergence, it is important to make note of any shock that may be prevailing during the period. In the face of price shocks, particularly those which may prevail for an extended period, headline inflation may appear not to converge to core.

What is keeping core inflation excessively elevated? How long will the shock last? Core inflation suddenly spurred up in October 2018, led by the health and education components, particularly in rural India. What were the causes? There is econometric evidence that, over time, education inflation converges back to core inflation (and core inflation does not converge to education inflation). This means that shocks to education inflation are more idiosyncratic in nature, and tend to fade away eventually. A similar test for convergence throws up evidence of both health inflation converging to core and core inflation converging to health. This suggests that health inflation may be susceptible to both short-lived and long-lasting shocks.

This time around, there are media reports suggesting that the spike in health inflation could have been led by any of these: (1) Since September 2018, the agency that collects rural health data has been changed from the postal office to NSSO; (2) ban on certain popular generics in India; (3) a crackdown in polluting factories in China from where a lot of medicine ingredients come, and (4) impact of the new health scheme - Medicare. While it is difficult to ascertain the exact reason of the spurt, it is worth noting that, if it is a one-time jump up in the health index (for instance, led by a change in the way data is collected), it would stay in the inflation data for a year, but dissipate thereafter. Oil at \$85/barrel in mid-2018 coupled with a sharply depreciating rupee was a perfect recipe pushing core inflation higher. The fall in oil prices to the \$65/b barrel and some stabilisation in the rupee is likely to ease that pressure with some lag.

Higher GST rates, particularly for the services sector (like luxury hotels and some financial services), could have pushed up the core inflation index. This rise is likely to remain in the core inflation data for about a year, before fading. The selective cuts in GST rates over the last few months is likely to hasten the normalisation in core inflation. Once these shocks fade, core inflation could fall by 100 bps one year from now. (The risk is that some of the shocks turn out to be more long-lasting than those accounted for, keeping core inflation elevated for longer).

Once core inflation is on a stable footing at the 4.5-5% range (depending on the exact definition), and food inflation begins to normalise to the 3.5% levels, led by improving rural incomes and a low base, expect headline inflation to converge gradually towards core, resting at the 4% ballpark one year from now (Jan-Mar 2020). Until then, however, headline inflation could remain under 4%. Expect a 25 bps repo rate cut in the April meeting, taking the policy repo rate to 6%. Even with this, real rates will remain in the positive terrain, anchoring inflation expectations further and strengthening the process by which headline inflation converges to core.

Edited excerpts from HSBC's *India's Lack of Inflation* (February 18)

With inputs from **Aayushi Chaudhary** and **Deep Nagpal**, an economist and associate with HSBC respectively

LETTERS TO THE EDITOR

Get smart

Initiatives on the part of international forums and UN bodies are often found wanting when it comes to action against rising insecurity in developing regions. Decorum and solidarity ought to be prioritised over politicisation of issues. Unsubstantiated allegations, berated remarks, adversities and internal conflicts, with a potential to hamper the geopolitical stability and public welfare, should be dealt with stringently/promptly. It is important to develop a constructive vision, viable enough to achieve in a cost-effective manner. When it comes to security on the border-line/corridors, authorities should take cognisance of additional surveillance needs, shoulder greater responsibilities and manage administrative costs/overheads efficiently. Long-term bilateral relations require much more than eye-wash/superfluous attempts, especially when one-sided cordial gestures in the past have gone down the drain

— Girish Lalwani, Delhi

True enemies

The Pulwama attack is heart-wrenching for every Indian. As reports of attacks on Kashmiri students and residents emerged from various parts of India, it is not good for the sake of the country. In this critical situation, we are duty-bound to maintain peace and communal harmony. A sinner's punishment can not be given to an innocent man. Some of the shocking developments in different parts of the country are unacceptable. Those who are seeding hatred, more enmity and disturbing communal harmony are the real enemies of India

— Wali Mohammad, Mumbai

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Linking loan rates to external benchmarks a bad idea

Loan rates must be linked to the cost of funds. If banks' margins don't cover cost, they will resort to lazy banking

RBI HAS SUGGESTED banks link their floating rate retail loans and loans to micro and small enterprises to an external benchmark. This would hit lenders' margins since retail deposits account for the bulk of their resources. To be sure, there is a case for more transparency in the lending practices and processes; customers' complaints, that banks are not always passing on a saving in the cost of funds, are probably true. The Janak Raj committee found banks are inflating the base rate by deviating in an "ad hoc manner" from the methodologies prescribed for calculating the base rate and the MCLR (Marginal Cost of Funds Lending Rate).

Moreover, they are tweaking the rate to make sure it doesn't fall in proportion to the drop in the cost of funds. Apart from "inappropriately" calculating the rates, new components have been brought in to get the rate to a desired level. These are clearly not desirable. However, the solution probably lies in regular monitoring and penalising lenders if they deviate from the norms enough to make it hurt. Stiff penalties should ensure banks fall in line.

Loan rates need to be linked to the cost of funds. Unless banks make enough of a margin to cover their costs, they will resort to lazy banking. They need to keep interest rates on deposits at attractive levels, else they will not attract enough resources to be able to lend. This is important at a time when the rate of growth of deposits is relatively slow vis-à-vis the growth in loans. The committee has noted that, although bank deposits have some distinct advantages in the form of stable returns (vis-à-vis mutual fund schemes) and liquidity (vis-à-vis small saving schemes), they are at a disadvantage in terms of tax-adjusted returns in comparison with these schemes. The rate of growth of deposits has stayed below 10% for nearly two years now whereas loans are growing at a faster pace.

External benchmarks suffer from one flaw or another. The main challenge in using either T-bill rates or CD rates as the benchmark, as the committee has observed, is that these markets are not deep enough and are therefore vulnerable to manipulation. Moreover, T-bill rates may, on occasion, reflect fiscal risks which will automatically get transmitted to the credit market when used as a benchmark. CD rates are highly sensitive to liquidity conditions, credit cycles, and seasonality. Again, the repo rate, while reflecting the appropriate rate for the economy, suffers from the lack of a term structure; also, banks have limited access to funds at the repo rate.

The other proposal that banks are miffed about is that the spread—cushion over the base rate or MCLR reflecting the credit profile of the borrower—be left unchanged unless there is a change in the rating. So the spread can be raised only if the credit profile of the borrower deteriorates. Banks are guilty of playing around with the spreads—the committee notes these are changed arbitrarily for borrowers of a similar quality. Some banks are believed to be charging spreads that are excessive and are doing so consistently. This is unacceptable and RBI should insist the spread remains unchanged during the life of the loan.

Need jobs, not wage hike

Sharp hike in minimum wage will lead to reduction in staffing

EVEN IF YOU choose not to pay attention to the leaked report of the NSSO, which shows a surge in unemployment rates in 2017-18 rising up to 15-20% levels among the youth, the Labour Bureau's annual employment-unemployment survey shows pretty similar results for 2015-16. While unemployment rates were 3.7% across the country, they were as high as 10.3% for those in the 15-29 age group and, within this, as high as 30% for graduates; essentially, the Labour Bureau data showed that unemployment rates rose as people got more educated. Such high levels of unemployment are unfortunate at any point in time but, in an election year, can spell disaster for those seeking re-election.

It is not clear how accurate even the labour bureau data is, though some other evidence suggests it may not be totally inaccurate either. Exports growth, particularly in labour-intensive sectors like ready-made garments, creates a lot of jobs, but this has been quite poor over the last few years—while overall exports contracted from \$314 bn in 2013-14 to \$304 bn in 2017-18, ready-made garment exports rose by under 12% in the four-year period. Construction of housing is another employment generator, but a combination of demonetisation, RERA and the overall war against black money has hit its growth.

In such a situation, why the government would want to more than double the minimum wage, from ₹4,576 per month today to a suggested ₹9,750 is not clear; a report by the VV Giri National Labour Institute Fellow, Anoop Satpathy, made public by the labour ministry, suggests this. Over and above this, it recommends an additional house rent of ₹1,430 per month for urban workers. The proposal, once the Central government accepts it, needless to say, is not binding on states—various region-specific rates have been suggested in the report—but once the Centre moves on this, there is pressure to raise wages; more so, given the number of states ruled by the BJP.

In a period of high growth, when firms' profits are growing fast, along with turnover, such a wage hike can probably be absorbed. But when, as now, economic growth is slow and profits squeezed, the impact could be to reduce labour-intensity. In such a situation, chances are employers will look to find ways to replace labour due to the steep hike. This was happening even well before the current controversy over jobs-growth—Crisis analysis shows a lowering of labour-intensity across most sectors—and this could reduce growth further. A cynical view may be that workers may be influenced more by the wage hike than the possibility of jobs reducing, but a useful corollary is that of MSPs for farm products. The government increased them dramatically to get farmer votes but since this was not matched with an increase in procurement, farmers remained unimpressed; and that, then, necessitated the minimum-income package in the budget.

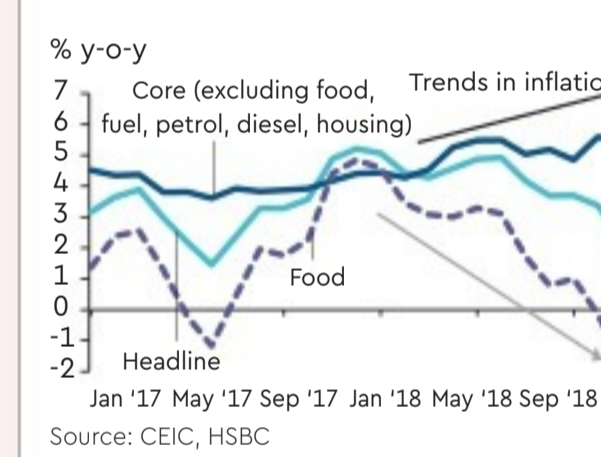
JFactor

While caste's hold on household incomes is falling vis-a-vis education, research shows gender has a complex interplay with sub-castes

DATA FROM THE ICE PRICE 360° survey shows that caste is getting increasingly irrelevant to the income status of households. What matters is the level of education attained by the earning member(s). But, much of the government intervention for socioeconomic empowerment remains caste-focused. Worse, as research by Shareen Joshi and Nishtha Kochhar of Georgetown University and Vijayendra Rao of the World Bank Development Research Group, that became part of the book, *Towards Gender Equity in Development*, shows, when it comes to interplay with gender, whatever limited efficacy (going by the PRICE 360° data) caste-based interventions could be having is further marred by the fact that it is *jatis* (sub-castes) that influence the impact of interventions more than caste-based classification of government-programme/policy targets. Perhaps, a 'one-size-fits-all' approach successive governments have had for decades could be exacerbating intra-caste inequalities when it comes to gender. The complex interplay between *jati*, class and gender thus merits much greater attention than it has received.

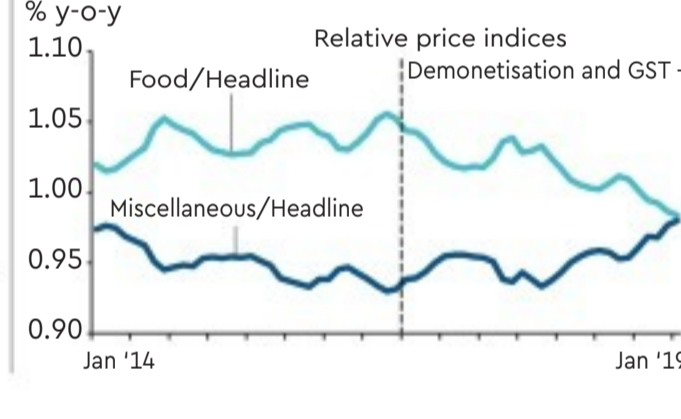
The authors admit that placing sub-castes within the boundaries of the varna system or government-classification of caste is a very complicated issue, but cite earlier research that shows *jati*-based networks have a considerable influence on an individual's prospects of marriage, employment and out-migration. They also cite research that separately show that there are large "differences in the allocation of benefits within the Scheduled Caste classification by *jati*" and *jati*-level population proportions "have significant implications for electoral outcomes". The author's analysis of caste-level and *jati*-level data shows that women's autonomy relating to key household decisions and participation in the labour force broadly gains in strength as we go down the pyramid of caste-based "hierarchy" in three states—Bihar, West Bengal and Odisha. Within *jatis*, in Bihar and Tamil Nadu, women from the most marginalised *jatis* show a greater degree of autonomy on labour participation and socioeconomic decisions. In Odisha, while the Schedule Caste women have greater autonomy on labour force participation than their general category peers, on mobility, tribal women have significantly more autonomy. There will, of course, be regional variations, but empowering women could need a keener look at *jatis* if true gender equity is to be brought about.

A mysterious gap of 7ppt between food and core inflation

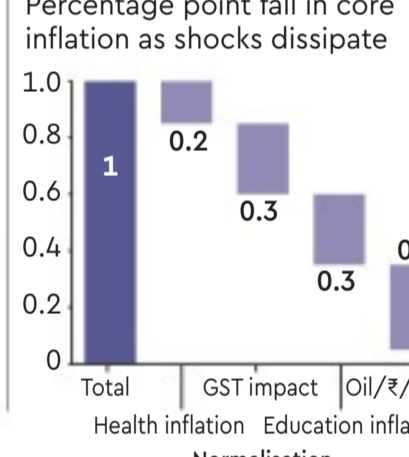


Source: CEIC, HSBC

A slew of price shocks have distorted relative prices—food is falling and services (proxied by miscellaneous) are rising



As shocks dissipate, core could fall by 100bps



Interpreting India's jobs crisis

Actual investments on the ground will be a key metric for assessing the employment scenario, as opposed to headline budgetary allocation numbers

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THE INDIAN JOBS crisis has been brewing for some time now. The recently revealed NSSO data, confirming a 45-year-old high unemployment rate of 6.1% has triggered fresh debate eliciting diverse perspectives on how to interpret this vital piece of data. However, there are few important facts about India's real economy which yield an easier consensus: Firstly, agriculture, which employs more than half of India's population—including disguised unemployment—will employ a progressively lower number of people, due to unresolved structural issues. In rural India, income per farmer is about a third of the income of an average non-farm worker. Plus, more than 60% of existing farmers prefer a job in the city, a survey reveals. Secondly, India's dynamic non-farm job-creating sectors (such as construction) have slowed down in the past few years. Thirdly, exports, including that of labour-intensive sectors (like textiles), have been underperforming, thanks in part due to weak global demand.

The construction sector has been one of the most dynamic in terms of job creation—second only to agriculture. Between 1990-91 to 2015-16, about 36% of all new non-farm jobs created were in construction. Due to rapid urbanisation, construction is going to remain a robust job creator in the long-term. Segments like warehousing, commercial/residential realty, and infrastructure are promising job-creating sectors for the long-term. Rural construction also has been a major contributor to employment in the sector.

The Economic Survey of 2018 anticipated realty and construction to generate 15 million jobs by 2022, while the National Skill Development Council (NSDC) put the demand for labour in real estate and construction (by 2022) at over 66 million. But the construction sector has

been going through a downturn after a long period of boom. According to the National Accounts Statistics of 2018, the Gross Value Added (GVA) in construction during 2012-17 was 2.5%, compared to 10.1% between 2003-11. Various factors contributed to this slowdown, including demonetisation, indebted developers and unsold inventories.

The government's Pradhan Mantri Awas Yojana (PMAY) has also not kept up pace. Till August 2018, only 8.34 lakh housing units were built under PMAY, against a target of 2 crore houses by 2022. Bestowing infrastructure status on housing does not seem to have produced any substantial result on the ground, yet. The infrastructure sector—a key segment for construction—has not been performing very well either. Bank credit to infrastructure sector has been growing slowly or contracting, with the spectre of stalled projects and mounting non-performing assets (NPAs) looming large. However, the rate of construction of rural roads under Pradhan Mantri Gram Sadak Yojana (PMGSY) has grown from 100 kms per day in 2014-15 to 134 in 2017-18. The 2019 budgetary push for rural infrastructure, through an allocation of ₹19,000 crore for development of roads in rural areas under PMGSY, will potentially create additional jobs in rural construction.

Exports are significantly correlated with employment. Labour-intensive industries like textiles/apparel (employing more than 50 million directly) and gems/jewellery (employing about 5 million directly) make up more than 30% of India's export basket. The annual growth rate in India's exports has, since 2014, been tardy and has also ventured into negative territory. The value of textile and apparel exports from India rose marginally in the last four years, from \$37.57 billion in FY14 to \$39.20 billion in FY18.

During the same time, Bangladesh and Vietnam took much faster strides, with their textile/apparel exports—growth clocking high growth rates. A focus on apparel and textiles is beneficiary for employment as it requires relatively low investment per job. MSMEs, which account for 40% of India's total exports, have also been facing declining credit growth rate. The flagship MUDRA scheme entails provision of loans to MSMEs without collateral or security. While admirable in scope, 90% of MUDRA loans are of a ticket size of up to ₹50,000, which, as investible capital, does not reflect very bright prospects for additional job creation.

Amongst the prospective services sectors where employment is expected to grow are travel and tourism and information technology. After a slowdown, the IT sector is expected to add 250,000 jobs in 2019. The travel and tourism sector in India meanwhile is expected to add 1 million jobs annually on an average until 2028, according to an estimate by the World Travel and Tourism Council.

It would need substantial re-skilling and up-skilling to achieve this forecast, given the evolving face of tourism and hospitality, particularly its growing tech-centricism. Sectors which show promise also need a push from the government, both in terms of budgetary support, as well as through incentives. Schemes such as Swadesh Darshan Scheme, National Mission for Pilgrimage Rejuvenation and Spiritual Augmentation Drive (PRASAD), and Heritage City Development and Augmentation Yojana (HRIDAY) are well-placed to tap the enormous potential of the sector. However, actual investments on the ground will be a key metric for assessing the employment scenario, as opposed to headline budgetary allocation numbers.

From private to public entities

KARAN MARWAH

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Helping start-ups in India raise capital on domestic bourses

START-UPS IN India have been coming out with innovative products and solutions catering to various segments and at multiple price points. As the ecosystem grows, the need for funding at the right cost and right time is integral to ensure that companies with the right revenue model and potential are able to raise capital. While a number of start-ups have been able to raise funding from private equity and venture capital, investors have become discerning. A way start-ups can raise capital is by listing in public markets. SEBI had introduced the Institutional Trading Platform (ITP) in 2015 to facilitate listing of start-ups, to cater to their funding requirements and facilitate trading of their shares on stock exchanges. While well-intentioned, ITP never really took off due to the onerous requirements and restrictions on the types of investors. SEBI then constituted an expert group to review the framework and suggest improvements. The group submitted its recommendations to SEBI, and the Board, in principle, approved some changes in its meeting on December 12, 2018. SEBI approved the following proposals:

1. Platform to be renamed Innovators Growth Platform (IGP);
2. To be eligible for listing on IGP, the issuer shall be a company intensely involved in using technology, IT, IP, data analytics, biotechnology or nanotechnology to provide products, services or business platforms with substantial value;
3. 25% of the pre-issue capital, of the issuer company for at least a period of two years, should have been held by:
 - a. Qualified institutional buyers,
 - b. Family trusts with a net-worth of over ₹500 crore,
 - c. Category-III foreign portfolio investors,
 - d. Pooled investment funds with minimum AUM of \$150 million and registered with a financial sector regulator in the jurisdictions where it is resident. The fund should be a resident of a country whose securities market regulator is a signatory to IOSCO's MMOU (Appendix B signatories) or a signatory to Bilateral MoU with SEBI and not a resident in a country identified in public statement of Financial Action Task Force as deficient in AML and combating financing,
 - e. Accredited investors for the purpose of IGP to include:
 - (i) Any individual with total gross income of ₹50 lakh annually and who has a minimum liquid net-worth of ₹5 crore, or (ii) any body corporate with a net-worth of ₹25 crore.
4. Not more than 10% of the pre-issue capital may be held by accredited investors;
5. The existing requirement of cap on holding not more than 25% of the post-issue capital by any person individually or collectively with persons acting in concert to be deleted;
6. The minimum application size and minimum trading lot to be ₹2 lakh and in multiples of ₹2 lakh thereof;
7. There would not be any requirement of minimum reservation of allocation to specific category of investors;
8. Minimum number of allottees to be 50;
9. Minimum net offer to public should be in compliance with the Minimum Public Shareholding norms and minimum offer size to be ₹10 crore; and
10. IGP to be designated as a platform for start-ups with an option to trade under regular category after one year of listing, subject to compliance with exchange requirements.

These changes proposed by SEBI can make the platform viable for start-ups to unlock value and raise capital on domestic bourses. While there have been large private investments in the start-up ecosystem, we are yet to see global companies tap the public markets. This is unlike the larger scenario, especially in the US, where a number of large start-ups and unicorns have gone public or embarked on the journey to go public. The hope is that this creates the right ecosystem for Indian start-ups and unicorns to become public entities.

Depending on the response it receives, it may be worthwhile for the regulator to consider further easing restrictions on pre-issue holdings. Some relaxations may also be granted for the initial filing and regulatory requirements together with the recurring reporting requirements for such companies based on defined thresholds in order to ease their transition journey, from being private to public entities.

While there have been large private investments in the start-up ecosystem, we are yet to see larger companies tap the public markets

stream to individuals as part of poverty alleviation has never been part of the Indian welfare system. To effectively eradicate poverty, it is necessary that we take this leap and focus on the individual. The same applies to the idea of providing basic income every month since the regularity of income provides a sense of security and has a strong positive psychological effect on individuals.

Coming to the question of cash versus in-kind transfers, it appears that to a large section of the intelligentsia, the idea of giving cash to the poor is highly objectionable because of its fungibility. Basically, it is the mistrust in the poor—that they will not spend cash for the intended purpose, and that giving cash entails the risk that the recipient may use it for entertainment and temptation goods. That is the reason the tendency of the Indian state has always been to give subsidised or free goods such as foodgrains, cooking gas, blankets, bicycles, school bags and uniforms, sarees, etc. The global research evidence, however, points to the contrary. Even the findings of the Madhya Pradesh pilot study debunk the myth that the poor will misuse cash. This tendency of our politicians and policymakers smacks of a very deep-seated paternalism, which we need to change.

Then we have the question of understanding basic income as a 'right'. For any basic income programme, there are two kinds of insurance necessary. One is insurance against the vagaries of political regimes. The best protection against this is to make basic income provision a law rather than just as a scheme, so that it cannot be withdrawn. Secondly, the real value of the basic income needs to be protected against inflation. Which means that it needs to be inflation-indexed so that the real value of the money does not get eroded with the passage of time and rise in inflation. We could think of a lead time of five years before we make a law.

Lastly, the 'unconditional' nature of basic income. This is perhaps the most radical of all the elements of UBI, and also happens to be most alien to our welfare grammar. All welfare schemes have conditionalities because we see the task of poverty alleviation as a matter of charity—a paternalistic act of giving alms to someone who has fallen behind in the race. This attitude completely overlooks the fact that large sections of the population are in a state of deprivation because of unequal opportunities; and that they have the right to partake at least minimum support from the fruits of the community as a matter of right rather than as charity. Our excessive emphasis on private property and private inheritance hides the fact that natural resources and national wealth belong to the people collectively, and that the state is just a custodian.

And that there is something called public inheritance and the members of a community have a right over this public inheritance. A major transformation of perspective is needed for us to see these distinctions.

Conditionalities are repugnant for another important reason. Conditionalities automatically create an army of inspectors and supervisors who get to wield enormous discretionary powers. This results in the worst forms of corruption, and leads to wastage and leakages of welfare money.

Let me now conclude by emphasising that basic income is a good idea for India. It is the foundation of a more equitable and inclusive society. It provides to every citizen of India a minimum floor to stand on. To implement it meaningfully, however, we need to innovate on several fronts. And we can do that.

(Concluded.)



ILLUSTRATION: ROHINIT PHORE

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Basic income: The Indian dilemma

Basic income is a good idea for India. It is the foundation of a more equitable and inclusive society. It provides to every citizen of India a minimum ground to stand on. To implement it meaningfully, however, we need to innovate on several fronts

called investment money to farmers twice a year at the time of the sowing season. In order to avoid targeting problems, the Rythu Bandhu programme was made both universal to all the farmers and also unconditional. All the 7 million farmers in the state were entitled to the money, and there were no conditions laid out at all—not even that a recipient farmer should necessarily cultivate her land. The recently announced PM-KISAN is a traditional model of both targeting and also adding exclusion criteria within the selected target population. But these schemes are addressing just one section of the population.

What do we do when we face a situation announced by Rahul Gandhi—the Minimum Income Guarantee for all the poor? How does one then give to all the 'poor'? Is there a way of simplifying the challenge of 'targeting poor'? We are yet to come up with an innovative way of addressing this issue.

Can there be another way of looking at this puzzle? Instead of searching for inclusion criteria, should we be looking at exclusion criteria? Even this route may not be easy to implement. If we exclude, for instance, all income-tax payers, the percentage of population we will exclude will be less than 5%. Arvind Subramanian, the former Chief Economic Advisor, speculated we should give basic income to all the women, which would ensure that the money goes to almost every household. This may be seen as discriminating against men. So, how do we solve this puzzle? That is our biggest challenge in India.

Coming to the two other elements, 'individual' and 'monthly', we observe that, in India, but for educational scholarships or old-age pensions, the general poverty alleviation grammar has always been to focus on the household. Lately, in the context of promoting women's empowerment and agency, women members of the households have been the focus—interest-free loans, subsidised cooking gas, etc. Providing income

All welfare schemes have conditionalities because we view poverty alleviation as charity. This attitude overlooks the fact that a lot of people are in a state of deprivation because of unequal opportunities

WITH 1.3 BILLION POPULATION, the 'universal' part of the Universal Basic Income (UBI) is the most difficult to tackle in India. If we adhere to the purity of the concept and make it universal, then in the Indian context there is a great risk of diluting it since the amount that may be given to each individual may be too small to have any significant impact on people's lives.

That now pushes us back to targeting, which, through experience, we have seen that it is riddled with errors of both inclusion and exclusion. The question is: Whether targeting is inevitable to roll out a meaningful basic income? If that is so, it is necessary that we simplify it as much as possible?

A recent initiative by the Telangana government through its programme Rythu Bandhu is a case in point. This programme gave what the government

PM-KISAN

Too little, too late?

PM-KISAN is a positive step, but it can, at best, provide a basic minimum income, which needs to be supplemented by other schemes and by state governments

CSC SEKHAR

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AN IMPORTANT ANNOUNCEMENT in the Interim Budget was the one relating to direct income transfer to farmers—under the Pradhan Mantri Kisan Mantri Nidhi (PM-KISAN), ₹6,000 per year will be provided to each farming family with cultivable land up to 2 hectares (5 acres). This amount will be provided in three instalments of ₹2,000 each, and will be deposited directly into beneficiaries' accounts. PM-KISAN is fully funded by the Centre and is expected to entail annual expenditure of ₹75,000 crore. It is expected to benefit 12 crore small and marginal farmers. The support, although it appears too little and too late for farmers, may not be too late for the government, coming on the eve of the general elections.

PM-KISAN follows PM-AASHA (Pradhan Mantri Annadata Aay Sanraksha Abhiyan), announced in September 2018. Measures like PMKSY (Pradhan Mantri Krishi Sinchayee Yojana), PMFBY (Pradhan Mantri Fasal Bima Yojana) and eNAM (Electronic National Agriculture Market) have been launched in the last four years to address the problems facing the agriculture sector. However, the outcomes have not been very encouraging. In the Union Budget of 2018-19, an increase in MSP to cover at least 150% of the cost of production was announced. PM-AASHA, an ambitious three-pronged programme, was launched to operationalise the hiked MSP. The first component of PM-AASHA is public procurement, which has been in operation for rice and wheat for over five decades, and the related problems of over-

stocking and leakages are well-known. The second component is the deficiency payments system, wherein the farmer is free to sell in the designated APMC market during a specified period, and if the market price falls below MSP, the government steps in and makes a payment (called the deficiency payment), which is equal to the difference between MSP and the market price. This scheme has been implemented in Madhya Pradesh and the experience showed that the system needed a lot of improvement before being scaled to the national level. A major problem with this system is delinking of supply from market demand, because of the assured price and the consequent supply-demand imbalance. The third component is private participation, wherein some designated private agencies carry out procurement of oilseeds at MSP and will be compensated

up to 15% of MSP, if the market price falls below MSP. The private agency is responsible for storage, distribution, sale and related losses, if any. Because market prices of oilseeds in most states were lower by more than 20% of MSPs, the private sector was not keen to carry out pilots in any of the states. Thus, PM-AASHA has not yielded desired results and the desired outcome of ensuring higher MSPs to farmers was not realised. This resulted in discontent among farmers and threatened to hurt the electoral prospects of the ruling party. This prompted a quick rethink and a realisation that more needed to be done. Thus emerged PM-KISAN.

The significance of PM-KISAN is that, for the first time, an attempt has been made to transfer income directly to farmers without using price policy (of either inputs or output). In most of the pro-

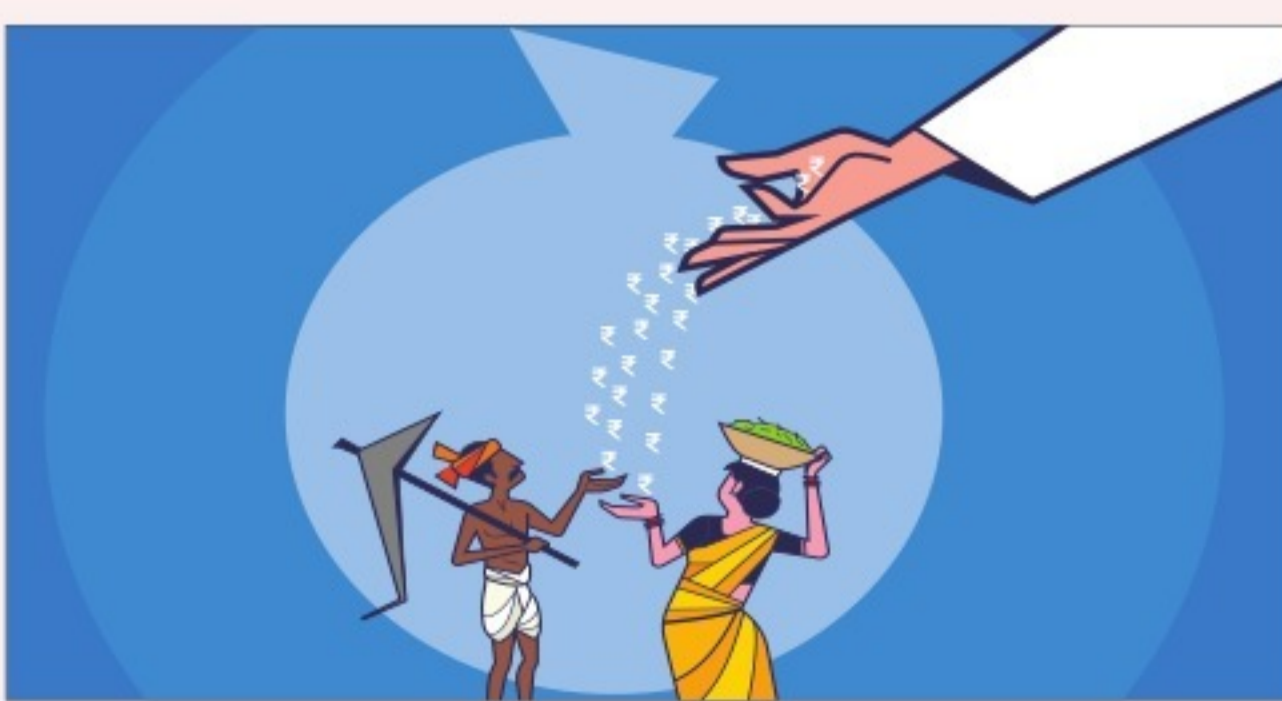


ILLUSTRATION: SHYAM KUMAR PRASAD

grammes in the past, including those of previous governments, the policy instrument used has always been price. The focus has mainly been on provision of inputs at lower price (input subsidies) and provision of a higher output price (MSP). Output price support is useful when the objective is to direct allocation of resources (on the supply side) in a particular direction, but when the objective is to increase farmers' income, it is a rather weak instrument. This is because the demand side is not factored in and, therefore, needs increasing intervention of the government. Input subsidies have resulted in gross overuse of some of the resources, resulting in soil degradation and declining water tables in states like Punjab. When raising farmers' income is the main objective, direct transfer may perhaps be a more appropriate instrument.

What are the advantages and limitations of PM-KISAN? The main advantage is that the benefits are not linked to production of any crop. And since the benefits are not linked to production, the resultant supply-demand imbalance is expected to be minimal, unlike in the case of MSPs. Also, there is no need of procurement, storage and distribution of all the commodities. Instead, procurement can be limited to only those commodities that are needed for public distribution system. This should lead to much lower fiscal costs and lesser storage infrastructure.

On the flip side, since the benefits of PM-KISAN are linked to legal possession of land, no assistance can be provided to tenants, landless agricultural labourers or other vulnerable sections of the rural society. In that respect, the KALIA scheme of Odisha provides a more comprehensive

coverage. Another major limitation of PM-KISAN is poor maintenance of land records, except in states such as Telangana. This may largely limit its usefulness, although there are some efforts recently, after the Interim Budget, to get updated information from states. The benefit of ₹6,000 per year (which is the upper limit) appears inadequate. This works out to a mere ₹1,200 per acre per year. This amount is inadequate considering the fact that the (weighted) average cost of cultivation, as per the latest available data, works out to more than ₹8,000 per acre per year for cereals, pulses and oilseeds. Thus, it becomes absolutely necessary for state governments to top up the amount provided under PM-KISAN from their own funds. After all, agriculture is a state subject and the major responsibility for implementation is on states. It is worthwhile to note here that non-govt state governments, except Telangana, have not carried out the reforms needed in state APMC Acts to benefit from eNAM. However, PM-KISAN is different, in the sense that part of the funds are already provided by the Centre, and states only need to supplement to ensure effective support to farmers. Even then, the assistance under PM-KISAN may not be adequate and there is a need to continue to provide support under other programmes such as PM-AASHA.

PM-KISAN is a positive step to provide direct income support to small and marginal farmers. But it can, at best, provide a basic minimum income that needs to be supplemented by other programmes and by state governments.