Opinion

THURSDAY, FEBRUARY 7, 2019

FACULTY RESERVATION

Prakash Javadekar, Union HRD minister

We are confident there will be justice and reservation will continue as per the earlier system. The government will ensure that reservation for SC/ST/OBC is not hampered

Jubilant does a U-turn, but why was it so greedy first?

Given Domino's pizzas sell on the basis of the US firm's name and not Jubilant's, asking for a royalty was absurd

WHAT EXACTLY CAUSED the promoters of the Jubilant group to change their minds on the payment of a royalty fee to them by the group companies for use of the Jubilant brand is not clear. Tuesday's initial proposal, which envisaged the three group companies paying 0.25% of the annual consolidated revenues to a promoter holding company as royalty for the Jubilant brand, was withdrawn late in the evening. It is clear as daylight that Jubilant Foodworks' pizzas sell because they're sold as Domino's pizzas and the doughnuts as Dunkin Donuts. The company is already paying them a royalty and justifiably so. There can be no conceivable reason to charge royalty for the Jubilant name.

Indeed, the growing trend by which promoters are attempting to pull out money from their companies, on one pretext or another, is disconcerting. Since many of these proposals are seen to be initiated 'in the ordinary course of business' they are not put to vote as special resolutions. However, since they are related party transactions and not part of the 'ordinary course of business', these proposals should be voted on only by minority shareholders. Unfortunately, the directors of the boards of most Indian companies appear to be willing to go along with the promoters even on proposals that are clearly unfair to small shareholders. For all the talk on improving corporate governance, going by the events of the last year, little is happening on the ground. Recently, in the case of Apollo Tyres, the board raised no objections to the managing director's re-appointment even though the remuneration was very high. It was only after minority shareholders voted against the resolution that the board decided to seek an independent view on the remuneration.

Again, the board of IL&FS clearly failed to do its job else the company would not have piled up the kind of debt that it has and would not be defaulting on its loans. Indeed, had the many nominees of banks and other institutional shareholders, as also independent directors, been more responsible, we wouldn't have seen so many companies going bankrupt. The list of companies where the directors have failed to red-flag problems is long—Ranbaxy, Fortis, Suzlon, to name a few. The trouble with corporate India and its many directors is that few are willing to stand up and call out errant promoters for fear of becoming unpopular. The sitting fees are far too lucrative to give up especially when one does not have a full-time job. There is little point in clamping down by way of rules and regulations because promoters seem to know exactly how to get around them. Again, there is little point in having more board meetings or capping the number of boards on which an individual can be a director unless directors want to improve corporate governance.

If Indian promoters, like those of Jubilant, want to charge royalties or brand fees, they need to invest in R&D, but few do. Indeed, even though it is very clear that several foreign brands and their technology—like Suzuki, for instance—are driving the sales of Indian firms, every now and then the government attempts to cap royalty payments by MNCs despite their having spent billions of dollars on developing technology and new products. This newspaper has argued that the outflows are not large. In 2017-18, the royalty and technical fees paid out by the Indian arms of a clutch of 30 MNCs were flat compared with the outgo in 2016-17 while the combined profits before tax of these arms grew 15%. Local businessmen need to build brands and invest in R&D and earn royalties the right way.

Getting real about jobs

Low competitiveness depresses hiring of regular workers

WHILE THE CONTROVERSY over whether employment in the country has not just risen slowly but has even contracted rages on—thanks to a leaked NSSO report in *Business Standard*—it is important to focus on the role of bad policy, including everything that discourages faster growth of labour-intensive exports of the type that countries like Vietnam and Bangladesh have seen. This includes the high cost of capital and poor infrastructure like electricity and expensive office/factory space and time/cost of shipments. Bangladesh's total exports, for instance, grew by 82% in 2010-16 and Vietnam's 145% versus just 17% for India. And while India's overall exports fared poorly—they rose from $179 billion in 2010 to $304 billion in 2018—not only have non-oil imports risen faster, those from China have soared. In the same period, overall imports rose from $288 billion to $466 billion and Chinese imports from $31 billion to $76 billion; rising imports, in turn, restrict local employment.

And there is, then, the elephant in the room, the role of bad labour policy that prevents flexibility like that of hire-and-fire—after paying due compensation—and even overtime and puts a floor to wage levels that are not in keeping with India's competitiveness; unless India is in a position to effectively stop imports via smuggling, India's productivity-adjusted labour and other costs have to be comparable with those in competitor countries like China, Vietnam and Bangladesh if local manufacturing and jobs are not to be hit.

A new study by Radhicka Kapoor and PP Krishnapriya at ICRIER examines the rise of contract labour in India's already small organised sector. While total employment in the manufacturing sector was just around 50 million of India's total workforce of around 450 million, the share of the unorganised sector within this was as high as 72% in FY16. And, as the study found, the share of contract workers in total employment increased sharply from 15.5% in FY01 to 27.9% in FY16, while the share of directly hired workers fell from 61.2% to 50.4%; at 8.4%, the growth of contract employment has outstripped the growth of regular employment at 3.2% over the last decade. While the traditional view has been that states which have more rigid labour laws, and industries that are more labour-intensive, tend to use more contract labour, the study found that this wasn't necessarily true. So, while the share of contract workers rose in states like West Bengal and Maharashtra that have unfriendly labour laws, the same had happened in states like Andhra Pradesh and Karnataka that have better laws. And while the share of contract workers in the leather/handbag/footwear industry rose from 19% to 23% between FY01 and FY14, that in the automobile sector rose from 14% to 46%. And since this growing contractualisation is taking place despite contract wages rising faster than regular ones, the study concludes that contractualisation is a way to keep costs down as well as restrict the bargaining powers of trade unions while imparting flexibility to hiring and firing. So, while politicians may want to raise minimum wages, or raise them for contract workers, if this makes the industry uncompetitive, this will restrict employment growth.

MiningEquality

Allowing increased participation of women in mining is a good move, govt should work towards allowing full participation

GLOBALLY, THE VALUE-BASED, economic and development imperatives for gender equality and women's economic empowerment are well-established. Mining is a sector which has the potential to be a key driver of economic growth, development and job creation in many developing countries. Yet, while mining has been traditionally been male-dominated across the world—a 2013 report by Women in Mining (UK) and PricewaterhouseCoopers stated that the mining industry has the lowest number of women on company boards of any industry group worldwide—India actually had laws that placed several restrictions on women working in the sector. The Mines Act 1952 expressly forbade the employment of women in underground mines, and allowed them to work in above-ground mines only between 6 am and 7 pm.

Now, however, the labour ministry has amended the rules to allow women to work in underground mines during the day time and in opencast mines round the clock. Even so, the yoke of discriminatory labour laws is not fully lifted—women in underground mining can only occupy "technical, supervisory and managerial" positions. While this may help mining engineers—only in 2016 did IIT-Indian School of Mines Dhanbad, the premier mining engineering institute in the country, allow female students into the mining engineering problems—it doesn't help the blue-collar women workers in mining regions. However, with a start being made, the likelihood of further change to allow women miners has gone up. As per the last round of the Annual Employment-Unemployment Survey (EUS), conducted by the Labour Bureau in the year FY16, the worker population ratio (WPR) for females aged 15 years and above was 21.7% as compared to the male WPR of 72.1%. Allowing women to work in the mining sector bodes well for curbing gender disparity and boosting equal opportunities for women.

INFLATION EXPECTATIONS

AS THE OUTPUT GAP CLOSES, WAGES WILL START RISING IN RURAL AREAS AS WELL. THIS WILL PUT PRESSURE ON FOOD INFLATION FROM BOTH THE DEMAND AND SUPPLY SIDE

CPI will start rising to around 5% in a year

SAJJID Z CHINOY & TOSHI JAIN

Chinoy is chief India economist and Jain is an economist at JP Morgan Chase

WHEN HEADLINE AND core inflation diverge so sharply—as is the case in India at the moment—the key question is which eventually converges to which? Does headline eventually converge to core? Or does core converge to headline? With India's headline inflation below 3% and core inflation at almost 6%, the directionality of convergence matters crucially and will determine the outlook of inflation and monetary policy in 2019. There are good theoretical reasons, a priori, for the directionality to run either way. If core inflation were to begin asymptoting towards that, markets will start pricing in an easing cycle. In contrast, if headline inflation starts converging to core inflation, talk of rate hikes will be back on the table. The purpose of this piece is not necessarily to ask why food inflation has decelerated so much. Or what sticky core inflation is telling us about output gaps. It is simply to use India's inflation history to ask a narrower, more technical, question. What does past data tell us? Does headline inflation eventually converge to core? Or does core revert to headline?

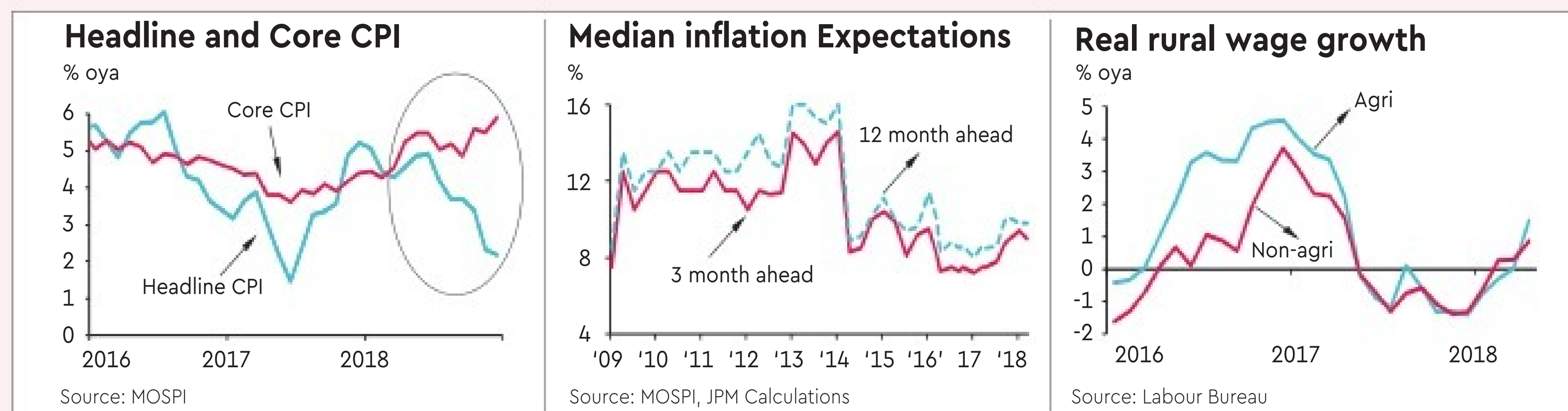
To answer this question, the standard approach followed by Cecchetti and Moessner (2008) and Anand, Ding and Tulin (2014) is utilised and monthly CPI inflation data (year-on-year growth rates) commencing in 2002 is used. In the baseline data, CPI-IW (industrial workers) is used because that enables a longer time series. Then, running the same analysis using the new CPI combined series starting in 2011, the results don't change. For CPI-IW, core inflation is defined as headline adjusted for food and fuel. A finer distinction is not available due to data constraints. In the case of CPI combined, core is defined as headline adjusted for food, fuel, housing, and transport or communication.

The tests that have been run suggest that, in the 2002-2012 period, shocks to food and fuel were either persistent and/or had meaningful second round effects, thereby impacting core inflation. The transmission mechanism was likely through inflation expectations, which subsequently affected wage and price behaviour and eventually impacted core prices. Over time, therefore, core converged to headline. The important role that shocks to food and fuel played in influencing household inflation expectations, and thereby subsequently seeping into core inflation, underpinned the Urjit Patel Committee's choice of headline inflation as the inflation target. Interestingly, however, these results completely turn on their head over the last few years. In other words, over the last 5 years, headline inflation has converged to core, though not completely. To check that convergence has indeed changed over time—and is not an artifact of the chosen time periods—a series of rolling regressions for both equations across sub-samples was run. The results depict that, a decade ago, it was core that used to converge to headline, but over time, headline has progressively converged to core.

The results are both decisive and robust to (i) the choice of CPI series (CPI-IW versus CPI combined) and (ii) different definition of core inflation. But how should one make sense of these results? Prima facie, it points to the evolving role of inflation expectations. To the extent that inflation expectations were elevated and unanchored—as was the case between 2009 and 2014—it is unsurprising that shocks to food and fuel would quickly translate into a more generalised inflation through wage and price-setting behaviour. In other words, second-round effects were large, inducing core to converge to headline. However, given the adaptive nature of inflation expectations, the sharp disinflation in recent years has likely caused expectations to both moderate (visible in RBI's household surveys) and get more anchored. The implication is that second round effects are much more muted, and shocks to food and fuel prices do not propagate as strongly into core inflation. Correspondingly, core inflation is relatively more responsive to slack. In other words, transitory shocks do not get generalised as completely or as quickly. Against this backdrop, it is understandable why headline eventually converges to core inflation, ultimately reflecting underlying slack. This also perhaps explains why food inflation has seen such a sharp deceleration in the last few years and yet core has remained relatively sticky.

What these results suggest is the headline inflation—expected to be in the 3% handle in the near future—will eventually start converging, over a 12-month period, towards core inflation which is currently running above 5%. If this were to come to pass, space for any monetary policy easing cycle—notwithstanding a one-off cute in February or April this year—would virtually evaporate. How would the economic transmission occur, though? It would have to be through wage dynamics. Specifically, as output gaps close, wages would be expected to rise, eventually also translating into higher rural wages, which would be expected to pressure food inflation from both the demand and supply side. Real rural wages have already begun to tick-up, though largely reflecting the disinflation in the rural economy. Expansive fiscal policy—that both expedites the closing of output gaps and targets stimulus to the rural economy to push up wages and food prices—would simply reinforce and accelerate these dynamics. If these results hold, any monetary easing in early 2019, is likely to be transient and shallow.

It is also possible that, one can look at these results and draw the wrong conclusion. If headline inflation converges to core, should RBI target core inflation instead, as developed market central banks do? Why target headline? Reaching this conclusion, however, is fraught with risk. As has been previously found, inflation expectations in India are both adaptive and rational. Consequently, the transition to the inflation targeting framework has also played a role in anchoring expectations and, therefore, de facto contributed to shocks to food and fuel having less pronounced second round effects. In effect, therefore, headline inflation gradually asymptoting to core—and not the other way around—is perhaps the best testimony to the growing efficacy of flexible inflation targeting in India. Any backsliding from there runs the risk of causing expectations to get unhinged again, and for transitory shocks to get more generalised again.



City-level data to boost governance

Changes in the way Indians consume data have yielded a deep base of personal information, from applications such as Ola and Swiggy, and insights drawn from this base can potentially solve some of the most complex and tangled governance issues

DEVASHISH DHAR

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THE APPROACH TO solve issues through a national level analysis perished long time ago in India. Following its demise, state-level and regional analysis informed decisions on reforming governance and growth. The state-level analysis focused on wide ranging indicators such as education and health, economic growth, job creation, police force, rainfall and agriculture output, service-level benchmarks, amongst many others.

This was followed by incessant state-level studies and investment summits. Essentially, states became the fundamental unit of analysis for improving growth and development in India. However, between 2014-16, something changed in how Indians consumed data. The new government launched the Digital India programme which focused on increasing internet connectivity and provisioning of government services.

At the same time, disruptions in telecom industry yielded exponential benefits and smartphone sales continued to clock robust growth. Apps such as Netflix, Hotstar, Amazon Prime, Saavn, Gaana, and Flipkart, amongst others, fuelled the growth in data consumption and literally speak volumes about preferences of music, movies, web-series and shopping at the pin code level. Uber and Ola provide insights on traffic at road level and have already begun to assist city governments in delivering insights on traffic movements. All this builds over the behemoth of digital infrastructure—Aadhaar, payment banks, Unified Payments Interface (UPI) and India Stack.

With this solid foundation, Indian cities are in an extremely sweet spot to disrupt governance and growth in cities. NITI Aayog's *Strategy for New India@75* document outlines strategies that can help cities leverage this opportunity. Under the section, 'Modernizing City Governance for Urban Transformation', it proposes to boost city economy by creating city economic councils and tracking key economic indicators through a city dashboard. Imagine if city dashboards and economic councils have representatives and data of the private companies mentioned above. The synergies can be enormous.

Given that this is a new terrain for city governments, the document also discusses developing model municipal talent and in/outsourcing guidelines to leverage efficiencies generated by technology and outsourcing. For governance, it takes a bold stance by suggesting that ward committees and area *sabhas* should be activated with a technology enabled 'Open Cities Framework' and the use of digital tools for feedback and reporting.

Under the section, 'Smart Cities for Urban Transformation', the document argues for institutionalising cities' capacities to draw benefits from city-level data. It proposes the creation of digital transformation roadmaps for cities which can take a systems approach to all digital interactions in a city, while mapping all assets and using them for key governance activities such as grievance redressal, participatory budgeting, transparent works management, and contractor payments.

It also proposes to create data observatories at city level which will help in policymaking. The highlights of such data observatories will include flexible architecture, open-source accessibility and ensuring the privacy of citizens. If implemented, these policies will empower Indian cities to unbox the benefits of data which is generated within their geographical territories.

Use of technology reduces transaction costs. Initially, the returns are slow but as you accumulate knowledge (and data), the returns are compounding in nature and, after a threshold level, they become exponential. They build over the existing data and insights drawn from this wide and deep base can potentially solve some of the most complex and tangled issues of our times.

It took India close to five decades to move from a pan-India focus and one-size-fits-all approach to a state- and regional-level focus. But in less than two decades thereafter, the focus has shifted to cities. Once the 74th Constitutional Amendment gets fully implemented, it will be a matter of few years for the best practices of city-level innovations to be replicated and scaled across other cities. Thus, it is neither too optimistic nor too romantic to believe that city-level data will provide next the wave of disruption in governance and growth.

LETTERS TO THE EDITOR

Coalition digging its heels in

The Congress-JD(S) coalition in Karnataka appears to be digging its heels in by adopting self-protection measures on the eve of the budget session of the legislature. Despite state BJP president BS Yeddyurappa denying any attempt to topple the government, the coalition is sparing no efforts to be on guard. Yeddyurappa also denied that there were no efforts to table a no-confidence motion against the government. But with the saffron party capable of pulling the rug from under the feet of the coalition and springing a surprise, the government would do well to keep Yeddy and company at bay

— Ravi Chander, Bengaluru

Market high

With the budget out of the way, and consumer-friendly public welfare initiatives expected to run till the General Elections, markets are showing signs of resilience and are pricing-in the likely outcome of key national/global events. Regulators have done well so far to infuse liquidity in the commodity/derivative segment and enforce stringent measures to monitor trade sessions. Although a large influx of capital by foreign funds is welcome, it is important that long-term holdings by institutional investors be encouraged over speculative trading. A balanced macroeconomic strategy and stable leading indicators are the need of the hour. Business-friendly regulations on fund raising and hedging of risks can reduce the cost of borrowings, render a higher liquidity and curtail forex outflow

— Girish Lalwani, Delhi

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OTTs vs TSPs

It takes two to tango

Why telcos and OTTs need to band together to drive our digital future; OTTs are powerfully driving data usage and revenue growth for telcos—one cannot exist without the other

THE TELECOM REGULATORY Authority of India (TRAI) intends to announce recommendations for the treatment of over-the-top (OTT) service providers vis-à-vis telecommunications service providers (TSPs) before February-end. This marks the end of four years of consultations, discussions and debates. With huge consumer interests and economic benefits to the nation at stake, we are in for interesting times.

Incumbent TSPs contributed significantly to Indian telecom: The nation owes much to the private mobile operators who, in 1994, were new entrants to our market and blossomed to be the powerful telcos of today. These operators, as the flag-bearers of privatisation and liberalisation, placed Indian telecom prominently on the world map, and made India the envy of most other nations. They invested nearly ₹10 lakh crore over 25 years to create world-class digital infrastructure with affordable user tariffs—without subsidies or fiscal support by the government. The tremendous growth from this sector provided the government with massive cash inflows. These achievements warrant a far more nurturing treatment of this significant sector than they have experienced till now.

However, it is regretful that these very offspring of liberalisation seem to have forgotten their origins and are displaying an unfortunate incumbent mindset by opposing new technologies and services like OTT, reminding us of the great lament: "There is no remembrance of the former generations." (Ecclesiastes 1:11)

As new entrants and challengers, telcos gained much from progressive policies: In India, till 1994, telecom was regarded a natural monopoly and the rightful preserve of the incumbent government operator, which was not even a separated BSNL, but the service wing of the Department of Telecommunications (DoT). Liberalisation with privatisation was then introduced by bringing in cellular mobile telephone service as a disruptive service.

Cellular entrants were allowed to own networks and were awarded various rights and privileges. The incumbent was heavily opposed to the 'new kids on the block' who began offering competing telephone services on the move. The incumbent created massive challenges by denial/delay in interconnection points, imposition of 'killer tariff' for PSTN (public switched telephone network) to mobile calls, and other hurdles. The fledgling cellular industry would have suffered a prenatal demise had it not been for the unfailing support of the newly-created TRAI, headed by Justice SS Sodhi.

OTT is a gross misnomer. Service is a rich contributor to the economy: OTT refers to media streamed over the internet. Unfortunately, the term suggests a negative and incorrect connotation of 'free riding'. RIA (Rich Interactive Application) is a more appropriate description of the services provided.

OTT or RIA platforms are rich in content and have a median number of as much as 8-9 functions. They have revolutionised every facet of daily life—whether ordering a taxi, or food, getting medicine, communicating through social media and video content, improving business productivity, and much more.

The benefits to GDP growth and personal life enhancement are enormous and quantified by expert bodies like ICRIER and WIK. The German expert agency, WIK, found a high annual consumer surplus contribution of $98 billion or ₹7 lakh crore in 2017 based on a consumer study. An average of $249 is nearly ₹18,000 consumer surplus annually. The reality is that the benefit is increasing exponentially every day. OTTs are powerfully driving data usage and revenue growth for telcos. One cannot exist without the other.

Unfortunately, there are many misconceptions about RIA/OTT apps—promoted by misunderstanding and by specific vested interests. To term the heavily-beneficial RIAs as OTTs is tantamount to stating that the entire internet is 'over the top' of telecom data networks—a patently absurd proposition!

OTTs and telcos cannot have a level playing field; 'same service, same rules' does not apply: One of the biggest misconceptions floating around is about a so-called 'level-playing field' requirement between TSPs and OTTs. It is a well-settled legal maxim that, for fair competition, only persons or entities placed in similar circumstances are entitled to be provided similar or non-discriminatory treatment. In certain quarters, this is wrongfully applied to demand that OTTs be subjected to licensing and stifling regulatory conditions and levies.

Let's look at the facts

The Indian Telegraph Act, 1885, vis-à-vis RIAs/OTTs: Experts opine that the Telegraph Act is most fundamentally based on the definition of 'telegraph' as "any appliance, instrument material or apparatus used or capable of use for transmission of signs, signals..." (Sec.3.1AA). The Act's cognisance of 'message' is as "any communication sent by telegraph..." (Sec.3.3). Again, the key term 'telegraph' comes into focus when Sec.4 clearly stipulates that "...the Central Government shall have exclusive privilege of establishing, maintaining and working telegraphs."

It is obvious from the above that OTT, which is essentially an internet-based app and not owning or working telegraph as defined in the Telegraph Act, cannot be governed by that Act. Moreover, it is universally accepted to be under the Information Technology Act, 2000. Thus, it is incorrect to project any Telegraph Act requirement on to OTTs.

Dissimilar circumstances between RIAs (OTTs) and TSPs: Indisputably, the 'level-playing field' or 'same service, same rules' issue arises between parties only if they are placed in similar circumstances. But are OTTs and TSPs in similar circumstances? The answer is a resounding "no!"

TSPs enjoy several exclusive rights that include (1) the right to interference-free spectrum, (2) the right to numbering resources, (3) the right to interconnect with PSTN, and (4) the right of way to set up infrastructure. Apart from these invaluable rights, TSPs are also permitted to offer a vast basket of monetisable services. RIAs/OTTs have none of these precious rights and privileges. For example, OTTs enjoy no exclusive right to deploy their applications whereas TSPs can, and often do, provide their own OTT applications.

Additionally, TSPs enjoy tariff forbearance in their operations—a powerful commercial advantage vis-à-vis OTTs' virtually free services. The regulator cannot be blamed for the existing low data and voice tariffs when telcos are the masters of their tariff destiny.

When OTT players neither have these privileges nor own network or control the access to infrastructure, how can they be licensed? OTTs are not substitutes of TSPs, but are dependent on them. In fact, going further, OTTs drive the exponential data growth in telecom networks providing large data revenues to telcos themselves.

Security aspects to consider: There are concerns expressed by a few quarters about the dynamic end-to-end encryption service of OTTs. Eliminating this is to attack the very foundation of these unique services—and our fundamental right to privacy provided by the Supreme Court. Any weakening of this aspect could kill the product and seriously harm modern commerce, communication, productivity and the right to privacy.

> If full support is extended by TRAI to OTTs and they are allowed a free play of innovative services, India could jump several higher orbits of digital excellence

The role of the regulator is to be progressive as in the past and accelerate our digital future: For a fair resolution of the issue of TSPs versus OTTs, the role of the regulator is of paramount importance. Thanks to TRAI and policymakers in the past, the original reform of Indian telecom could proceed in the right direction.

Similarly, if full support is extended by TRAI to RIAs (OTTs) and they are allowed a free play of innovative services, India could literally jump several higher orbits of digital excellence for decades to come.

TRAI has time and again demonstrated its visionary outlook to reforms and can be depended on to lead India down the right path again. However, TRAI is neither obliged to protect the revenues of incumbents nor shield them against disruptive innovations, but is expected to ensure healthy growth of the overall sector. Due to various legacy reasons, there are certain issues that are stifling the industry currently. The regulator should lead the charge to separately remedy these aspects urgently.

We are at an all-important juncture when the digital tide is at its flood and could lead on to fortune; omitted, it would surely take us to shallows and miseries.

PENSION REFORMS 2.0

Moving beyond DB-DC trials

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Why we need to think beyond defined benefits and defined contribution

THE FIRST-GENERATION FINANCIAL sector reforms completed 25 years in 2018. In contrast, pension reforms, which began with OASIS Report of 1999 and fructified after a Cabinet decision to create PFRDA in 2003, are recent reforms.

The state, under Article 41, Directive Principles of State Policy, is bound to facilitate provision of old-age income within the limits of economic capacity. This makes pension reforms very important, requiring long-term planning and periodic evaluation to minimise moral hazard. But Article 41 does not specify how the provisions for old-age income support should be organised, i.e. the pension system design and financial engineering, is a matter of policy choice.

Drawing from the theory of actuarial science, a pension fund can take two financial forms—defined benefit (DB) wherein final income drawn after a certain age is defined, and defined contribution (DC) wherein the amount contributed is specified but not how much can be drawn after a certain age. Both methods of pension funding have their pro and cons. While DB offers cover for longevity, DC offers more choices and flexibility under high labour mobility.

The organisation of pension system can also take two forms—the pay-as-you-go (PAYG) unfunded-type financed by tax revenues (directly through budgets or through a special trust) and fully-funded type financed through individual contributions. Depending upon the choices made, there are four possible ways a pension system can be organised.

At times, a pension fund can also have both DB-DC characteristics. The DB-DC type pension funds have both PAYG and individual contributions features. The Atal Pension Yojana (APY) and the new Pradhan Mantri Shram-Yogi Maandhan (PMSYM) fall in this category. Even the EPS 1995, managed by EPFO, is a DB-DC scheme. The exempted PFs are also treated as DC funds with DB characteristics under AS15. India's experiment with DB-DC is quite old. EPS was formed in 1995 by merging the Family Pension Scheme of 1971, much before adoption of NPS. But once PFRDA was formed, the conventional policy thinking of the time agreed that PAYG-DB was unviable and individually-funded DC was the best choice. As a matter of principle, pension policy accepted a separation between 'savings objective' and 'redistribution objective' of the government.

> Pension reforms 2.0 must explore solutions that are conducive to our conditions

But two successive experiments in DB-DC type pension somehow suggest a departure from this principle, blurring the lines between the two. Although these experiments are legal and within the scope of Article 41, they fail on long-term viability. The 'limits of economic capacity' have both short and long-term tradeoffs. In state-sponsored DB-DC pension, these tradeoffs will spread across generations.

Take EPS. The finances of EPS became unsustainable after five years of operation. Long-term simulation of funds using World Bank's software indicated unsustainable finances. Srivastava Committee 2009 suggested parametric reforms to balance the fund. The EPS example shows that DB-DC arrangements are difficult to manage over time.

More recent cases are interesting. APY was launched in 2015-16 as a universal pension scheme to address longevity risks among workers in unorganised sector. Now, PMSYM also covers the unorganised sector workers with monthly income up to ₹15,000. What is the rationale to carve out a new category of individuals in the unorganised sector when a universal scheme is already in operation in the same sector? How will this segment be identified because those earning up to ₹15,000 need not file income tax returns.

For the exact fund position of APY, one has to wait for actuarial valuation report, for which expression of interest was invited in July 2018. However, under APY, for an individual aged 30, to draw ₹3,000 monthly pension, the actuarially determined contribution is ₹347, which is three times what is promised under PMSYM for a similar benefit.

As India approaches 20 years of first-generation pension reforms, one has to ask how to evaluate the progress? On what basis should future policy be formulated? The trajectory of pension policy in India had very different conditions precedent in 1947. Neither had we the war-torn generation like the in Europe, which justified creating PAYG-DB plans, nor we had large-scale industrialisation that led to Anglo-Saxon model of employee-sponsored DC pension funds. Pension reform 2.0 must explore solutions that meet our needs.

A Budget for a 'new India'

Even though it was an Interim Budget, the vision laid out by the government is aspirational

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THE INTERIM BUDGET OF 2019-20, the last one of the current government before the Lok Sabha polls, was always headed towards being populist in nature. The interim finance minister, Piyush Goyal, started off on a very positive note, and proudly stated that the current government has prepared the foundation for sustainable growth, progress and better quality of life for all the Indians.

In his Budget speech, he also highlighted some of the key measures taken by the government over the past five years and the progress made, which ranged from steps taken against corruption, cleanliness, banking reforms and the Insolvency and Bankruptcy Code, demonetisation and the drive to eliminate black money, and farmers' progress, to name a few.

From a tax perspective, finance minister Goyal highlighted a few important measures undertaken over the past five years, which included reduced tax rates (for the common man), reduction in tax burden on the middle class, interface with the tax department being made simpler and largely faceless (returns, assessments, refunds and queries are all handled online), special benefits and incentives provided to small businesses and start-ups, the overall compliance process being simplified, the benefit of presumptive taxation extended to small professionals, and the implementation of GST.

The direct benefits resulting from the above have been increased tax collections from ₹6.38 lakh crore in 2013-14 to ₹12 lakh crore this year, and increased number of returns being filed with an 80% growth in the tax base. The implementation of GST has also resulted in an increased tax base, higher collections and ease of trade.

Goyal also mentioned that the government has approved a path-breaking, technology-intensive project to transform the tax department to be more assessee-friendly. The objective is to ensure all returns are processed within 24 hours and refunds issued simultaneously.

The Budget proposals focus on the middle-class taxpayer. Currently, a tax rebate of up to ₹2,500 is provided for individuals having taxable income up to ₹3,50,000. This threshold limit is now being proposed to be increased up to ₹12,500 for individuals having taxable income up to ₹5,00,000. Accordingly, an individual having taxable income up to ₹5,00,000 will not have to pay any tax. Further, the existing standard deduction for salary income has increased from ₹40,000 to ₹50,000.

From a house property perspective, currently, the annual value (on a notional basis) of a second self-occupied house property is taxable in the hands of the owner. It is now proposed to provide relaxation on the second self-occupied property to owners. In other words, the notional rent on the second self-occupied property would not be chargeable to tax. However, the aggregate amount of deduction under house property on account of interest on borrowed capital, for both the houses, in aggregate shall not exceed ₹2,00,000.

In the past, capital gains arising from transfer of long-term capital asset, being a residential house, shall be exempt if the assessee has purchased one residential house 1 year before or 2 years after the date of transfer or constructed one residential house within 3 years after the date of transfer. It is now proposed that, if the amount of capital gains does not exceed ₹2 crore, the assessee is given an option to purchase two residential houses or construct two residential houses (as compared to one house earlier). However, this option is available only once to the assessee.

With respect to claiming deduction in respect of profits and gains from affordable housing projects, the time limit for getting an approval from the competent authority has been extended to March 31, 2020.

To give impetus to the real estate sector, the annual value of the property that is held as stock in trade and is not let out shall be nil, for a period of 2 years from the end of the financial year in which the certificate of completion of construction of property is obtained (as against 1 year earlier).

From a withholding tax perspective, threshold limits for applicability of tax deduction at source have been enhanced from ₹10,000 to ₹40,000 for interest on bank and post office deposits (the existing limit of ₹50,000 for senior citizens shall continue to apply). Further, from a withholding tax perspective for payment of rent, the limit has been enhanced from ₹1,80,000 to ₹2,40,000.

From a corporate tax perspective, the corporate base tax rate remains unchanged at 30%. For domestic companies with turnover in financial year 2017-18 not exceeding ₹250 crore, the tax rate remains unchanged at 25%. The rates of surcharge and cess shall also remain unchanged for financial year 2019-20.

All in all, while Budget proposals were far and few given the fact that this was an Interim Budget, the overall progress achieved, and the vision laid out by the government, is aspirational.