The ₹50,000-crore challenge

Raising the corporation tax collection target by 8 per cent in February may have made the CBDT's task more difficult

RAISINA HILL

A K BHATTACHARYA

As many as five associations of chartered accountants are reported to have sent an appeal to the prime minister and the finance minister. The appeal is to request the two leaders to impress upon the Central Board of Direct Taxes (CBDT) the need to avoid exerting undue pressure on taxpayers in its bid to meet the annual direct taxes collection target for 2018-19.

Such an appeal is unusual. What prompted these associations of chartered accountants to plead with the prime minister was an internal circular issued by the CBDT on March 26 to its senior income-tax officers asking them to intensify efforts at collecting taxes and securing recovery of arrears. The chartered accountants, obviously, fear that the internal note could result in harassment of taxpayers.

What was the need for the CBDT to send a circular of this nature to the income-tax officers on March 26, just about five days before the end of the 2018-19 financial year? As on that date, the CBDT had managed to collect about ₹10.29 trillion of direct taxes, against the revised target of ₹12 trillion. In other words, it had to collect another ₹1.71 trillion in just about five days remaining in the financial year.

An internal estimate suggested that the CBDT could manage to mobilise ₹1.2 trillion in those five days, leaving a shortfall of about ₹50,000 crore. The idea of the circular was to make sure that the shortfall was further reduced and the revised target of ₹12 trillion met. Hence, there were genuine concerns over the taxman becoming aggressive and the chartered accountants were only pleading for some relief.

On the other hand, a variety of factors could be responsible for the CBDT facing difficulty in meeting the target. Prospects of lower earnings could be one of them. A slowdown in the collection of tax deducted at source could be another. Yet another reason could be a decline in the recovery of arrears. Hence, the circular had asked the income-tax officers to step up efforts at securing recovery of arrears and early deposits of taxes deducted at source.

However, all these factors would have been less of a challenge had the government not raised its direct taxes collection target by ₹50,000 crore while presenting the revised estimates in the interim Budget on February 1, 2019. The original target for direct taxes was ₹11.5 trillion for 2018-19 — ₹6.21 trillion from corporation tax and ₹5.29 trillion from individual income tax. But the revised estimates raised the target to ₹12 trillion. The onus of the increased tax collection fell entirely on the corporation tax. This is also one of the reasons why chartered accountants sent out that appeal as they were presumably representing a host of companies, which might now be under greater scrutiny of the taxman.

The need to meet the fiscal deficit target was surely the main trigger for raising the revised estimate for direct tax collections. But was the CBDT fully on board in revising upwards the corporation tax collection target? In the last five years, the corporation tax collection target was raised only twice — by ₹25,000 crore in 2017-18 and by ₹50,000 crore in 2018-19. In all the previous three years, the revised target for corporation tax was either reduced or kept unchanged.

Sushil Chandra was the CBDT chairman when the interim Budget was presented on February 1 with the higher direct tax collection target. Chandra, a 1980-batch Indian Revenue Service (IRS) officer, had a reasonably long tenure as the CBDT chairman. He took charge of that key department on November 1, 2016 and got two extensions. In the normal course, his extended tenure would have ended on May 31, 2019. It is possible that given his long tenure and the success in exceeding the corporation tax collection target in 2017-18, he may have agreed to take on the challenge of meeting a higher target once again for 2018-19.

However, on February 14, just two weeks after the interim Budget, Chandra was appointed as the Election Commissioner. And a day later, Pramod Chandra Mody, a 1982-batch IRS officer working as a Member of CBDT, was appointed to succeed Chandra as its Chairman. And Mody, in the normal course, would complete his term in June 2019.

Would it have made more sense if Chandra were allowed to continue to function as the CBDT chairman for a few more weeks and steer the direct tax collection efforts to meet a higher target? Or were there other considerations at work?

CHINESE WHISPERS

A professional and a politician

Janata Dal (United) National Vice-President Prashant Kishor *(pictured)*, who joined politics recently, has not shied away from his official responsibilities of being a brand strategist. It is learnt that he has asked his team specifically to keep working on different "brands and accounts" that his company has been handling so far. His team had apprehensions that since the top boss had joined the JD(U) now, work for other parties or parties in the Opposition would come down. Kishor, however, has made it clear that his plunge into politics is strictly personal, while professional work, even if it is for an ideologically opposed party, must continue in accordance with the plan.

Priyanka in slogans & speeches

With the first phase of the Lok Sabha elections barely 15 days away, the Congress is trying to raise the game in eastern Uttar Pradesh by projecting its general secretary in charge Priyanka Gandhi Vadra as the star campaigner. Slogans such as "Priyanka *nahi hai aandhi hai, Dusri* Indira Gandhi *hai*" have started making their way into speeches of local leaders, who have been sent to various parts of the state to gauge the mood of the voters. However, some ground workers are worried that the party has done little to no campaigning in western UP.

Alimony waits for NYAY

A strange application was filed in an Indore family court recently. In a family dispute, the court had directed a person to pay ₹4,500 per month as alimony to his wife and daughter. However, the matter soon took a political turn when the person submitted an application in the court, saying Congress President Rahul Gandhi had promised to pay ₹6,000 per month under the Nyuntam Aay Yojana (NYAY). He added once the Congress formed the government and started paying, he would pay the alimony to his wife and daughter. The court has taken it in its record and has fixed April 29 as the next date of hearing. But the question is: Does this person qualify for the scheme?

Reserve Bank will go for another rate cut

Shaktikanta Das will join the gang of dovish-pivoting global central bankers to address the growth pangs in the Indian economy

BANKER'S TRUST

TAMAL BANDYOPADHYAY

At the Mumbai launch of former Reserve Bank of India (RBI) governor Y V Reddy's latest book *Indian Fiscal Federalism* (co-authored by G R Reddy), Governor Shaktikanta Das referred to Reddy's tenure as "continuity and change... mixed together appropriately" — something which Reddy himself had said on assuming office in September 2003.

When Reddy's turn came at the launch function, he spoke about the change in the approach of the new governor too. For the record, in his five-year tenure, Reddy had never cut interest rate even once but Das cut the rate at his very first monetary policy meeting. Of course, during the Reddy regime, it was a governor's policy; now the monetary policy committee (MPC) decides on the rate action.

I will not be surprised if there is yet another rate cut on April 4 when the MPC concludes its first meeting in the new fiscal year. But how much? Will it be an encore of February — a 25 basis points (bps) cut? Or, will the RBI front-load the cut, going in for a deeper 50 bps? One basis point is a hundredth of a percentage point.

In February, the RBI cut the policy rate to 6.25 per cent — the first such cut since August 2017. It also changed the policy stance from "calibrated tightening" to "neutral". At that time, taking into account the continuing deflation in food items and moderation in fuel prices and, assuming a normal monsoon in 2019, the RBI revised its retail inflation projection downwards to 2.8 per cent for the March quarter of 2019, 3.2-3.4 per cent in the first half of fiscal year 2020 and 3.9 per cent in the third quarter of 2020, with risks "broadly balanced".

India's headline inflation rose to 2.57 per cent year-on-year in February, driven by the so-called base effects as well as a pick-up in food inflation, reversing a declining trend since July 2018. Indeed, food inflation remained negative for the fifth consecutive month but, on a sequential basis, it rose significantly.

While the inflation has started rising, why should the RBI go for a rate cut? Well, even though the February figure was higher than what analysts had expected, the March quarter inflation will be lower than the RBI estimate and the average retail inflation for fiscal year 2020 is likely to be below 4 per cent. Indeed, the oil price has risen but that has been taken care of by strengthening of the local currency. The RBI is targeting 4 per cent inflation on a durable basis with a 2 percentage-point band on either side.

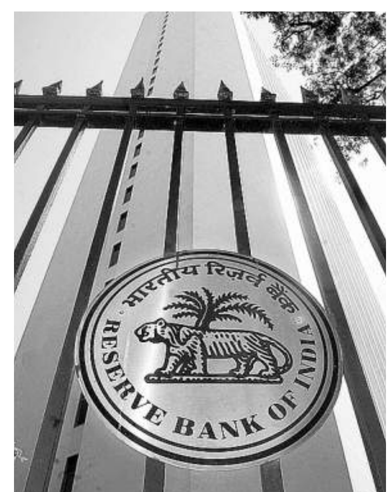
Inflation apart, what has happened between the last policy and now, to warrant yet another rate cut? The economic activities continue to be weak with the index of industrial production (IIP) growth dipping 1.7 per cent in January from a 2.6 per cent rise in December, weighed down by lousy performance of manufacturing and electricity.

Consumer demand is weakening both in rural and urban India and the investment scenario has turned from bad to worse. The heat maps run by some of the foreign brokerages, incorporating data of consumption of cement, steel, power to the sales of automobile and the movement of cargo and freight, among others, are showing not a slowdown but a near-collapse in the investment cycle. Initially, many believed that the liquidity crisis for the non-banking finance companies that started end-August 2019 was the villain of the piece (as credit lines were choked) but now it is evident that the problem is much deeper.

A dovish US Federal Reserve and the softening of global growth too will encourage the RBI to go for a cut. Barring three small pockets — Norway, Argentina and Turky — the entire world is staring at a loose monetary policy regime. The Norges Bank (the central bank of Norway) increased its key policy rate from 0.75 to 1 per cent recently, second rate hike since September, seeing the upturn in the oil-driven economy. There could be another rate hike by June.

Argentina has sharply hiked its key benchmark interest rate to fight inflation and revive the country's peso currency and Turkey's central bank has tightened its monetary stance after the lira weakened.

The euro zone and neighbouring Sweden are mired in negative interest rates even after years of record stimulus and the inverted yield curve in the US — yield on the benchmark US 10-year treasury notes falling below three-month rates first time since 2007 — is being seen as a signal for a rate cut late 2019, if not a risk of recession.



In the February policy, the RBI revised its forecast for India's economic growth in 2020 to 7.4 per cent from 7.6 per cent earlier. Will it cut it further?

Against this backdrop, there are three choices before the MPC:

- A 25 bps rate cut with a dovish undertone.
- A 25 bps cut, accompanied by change in the stance, from neutral to accommodative.
- A 50 bps cut with a change in stance.

Even though many are rooting for a 50 bps cut, I would bet on a 25 bps cut. If MPC wants to wait for more data, it may not change the stance but be dovish in tone. Why no 50 bps cut? The RBI can wait till June for a new government to be in place (the profile of the government will have a bearing on the Budget) and clarity on the monsoon, likely to be impacted by the El Nino weather phenomenon this year.

If the stance is not changed, it may run the risk of losing its sanctity. The previous two rate hikes (in June and August 2018) took place when the stance was neutral; subsequently, it was made tight. In the last policy, the rate cut was accompanied by a netural stance. If the stance is not changed to accompany another cut, a dovish undertone can give the right guidance. The market has already priced in a 25 bps rate cut and it's up to the RBI to signal more cuts are on the table, data supporting. A 50 bps cut may indicate that the RBI is done with the downward cycle.

All six MPC members are likely to be in favour of a 25 bps point cut; at least a couple of them could even pitch for a deeper cut. On changing the stance too, there may not be unanimity.

The first policy of the year will also outline the RBI's take on India's growth story. In the February policy, the RBI revised its forecast for India's economic growth in 2020 to 7.4 per cent from 7.6 per cent earlier. Will it cut it further? Fitch Ratings has recently cut India's growth forecast for 2020 to 6.8 per cent from 7 per cent; Japanese brokerage Nomura also says the likelihood of Indian economy's growth dropping below 7 per cent in 2020 is very high.

In the first week of March, the nation's Central Statistics Office cut its GDP growth forecast for 2018-19 to a five-year low of 7 per cent from 7.2 per cent projected earlier. Its estimate for the December quarter growth is 6.6 per cent, the slowest in five quarters. Das will seize the opportunity of low inflation and join the gang of dovish-pivoting global central bankers to address the growth pangs by cutting the policy rate now and again, if things don't change.

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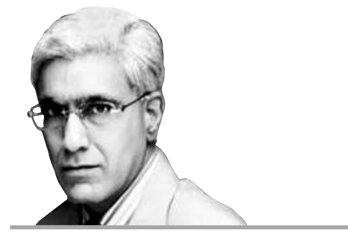
AS I SEE IT

Congress' NYAY: Unanswered questions

Can the party effectively communicate in a way that makes the scheme not just appealing but something that will determine how Indians vote?



KARAN THAPAR

The Congress party's minimum income guarantee scheme, announced by Rahul Gandhi last Monday, is, as he said, intended as a *dhamaka* and "a game-changer". Although he didn't go so far, it's clear Congress is hoping this could swing the election. In which case isn't it surprising that at his press conference Rahul Gandhi should have expressed himself in such a way that he left behind considerable misunderstanding if not confusion about the scheme? When exemplary clarity and focus were required we seem to have been given a garbled presentation.

There are two areas where the impression Rahul Gandhi created turns out to be completely wrong. First, he left many believing that the aim of the scheme was to ensure that every family should earn at least 12,000 per month. Therefore, this was a top up scheme that would lift families earning under 12,000 to the 12,000 level. In fact, two well-known economists, Arvind Panagariya and Surjit Bhalla, have written lengthy articles sharply criticising the scheme on this basis. But this impression turns out to be entirely wrong.

The scheme gives a flat ₹6,000 a month to all its beneficiaries. Each of them gets the same amount. It's on this basis that every beneficiary will receive ₹72,000 a year. Although Rahul Gandhi made this latter point, everything else he said on Monday still left the wrong impression that he was proposing a top-up scheme.

The second wrong impression conveyed by Rahul Gandhi is linked to the first but arguably worse. In conveying the impression that the scheme covers every family earning under ₹12,000 a month, he also led people to believe that 20 per cent of India's population falls into this category. This led to immediate questions on television — and next morning in the newspapers — that in all likelihood the number of people earning less than ₹12,000 was probably sizeably more than just 20 per cent of the population. And, therefore, many asked has Rahul Gandhi got it wrong.

This faulty understanding continued when former finance minister P Chidambaram held a press conference two days later. It's only in a Tiranga TV interview with Praveen Chakravarty, Congress's data analytical head, that the truth emerged. The scheme does not cover every family under ₹12,000. Instead it's targeting the poorest 20 per cent of the population. The two are not the same. There will be some or many who fall between the poorest 20 per cent and the ₹12,000 income cut-off.

The truth is that the ₹12,000 a month figure is simply what the Congress party believes is a decent liveable wage which everyone should have. That's all.

Congress has also made one more assumption. The poorest 20 per cent earn on an average ₹6,000 a month. Therefore by giving them ₹6,000 more their income will go up to ₹12,000. But this does not mean the scheme covers every family earning under ₹12,000. There will be several who earn under ₹12,000 a month but are not part of the 20 per cent poor and, therefore, will not be covered.

Now, if the communication of this critical scheme by the Congress president was so faulty and riddled with misleading impressions, can Congress effectively communicate to the country its principal details in the 10 days left before voting? And can it do so in a way that makes the scheme not just appealing but something that will determine how Indians vote? That, of course, is the key challenge. If the Congress can pull this off, the scheme could prove to be a game-changer that wins the election for Congress or, at least, the wider Opposition. But if it cannot then a potentially great idea will not only have been poorly communicated but its electoral benefits will also not have been reaped.

As of now you have to turn to the interviews Praveen Chakravarty has given — both to *Business Standard* and Tiranga TV — to understand the scheme. Yet the people the scheme is intended for don't follow interviews. Indeed, I very much doubt if they read business newspapers or watch English news channels.

Which brings me to a depressing conclusion. The Congress Party has not learnt the art of communication. Its President is poor at it. Yet communication is often what politics is all about. This election could turn on it.

LETTERS

BJP's poll pitch

With poll dates nearing, things are really heating up in the campaigns in the run up to the election. If Prime Minister Narendra Modi's *(pictured)* modulated speeches in the initial stages of the high-profile election campaign are anything to go by, we can safely say that we are going to have more of jingoism, bellicosity and sabre-rattling, as against a well-argued discourse on the bread-and-butter issues of politics from the side of the ruling Bharatiya Janata Party (BJP).

It could be argued that the BJP and the PM have made hyper-nationalism their campaign pitch as they cannot run the risk of running their campaign on the below-par performance indicators on the economic front. The plank of national security suits the party to divert people's attention away from the economic situation visibly blighted by unemployment and farmer distress. It is an undeniable fact that the overarching appeal of Hindutva nationalism has diminished the passion for secularism and social justice over the years.

Evidently, Modi has adopted an aggressive nationalistic posture and shown his resolve to tap nationalist sentiments to the hilt to enable his return to power. The game plan is to inject an overdose of nationalism to tilt the otherwise disillusioned electorate in its favour.

The virulent nationalism represented by the Hindu right, of which the BJP is a principal and prominent part, is a far cry from true patriotism. But then the BJP has a dubious and diabolical strategy that is to juxtapose *desh bhakts* (nationalists) with *desh drohis* (anti-nationals) to earn brownie points. Nevertheless, most of the time it is the so-called *desh drohis* who take up the political cudgels on behalf of the country's impoverished people.

G David Milton Maruthancode

Adding insult to injury

The political parties are vying with one another to please the gullible voters in this election season. As part of this exercise, the oldest and the largest political party, the Congress, has come out with Nyuntam Aay Yojana (NYAY). In the current scenario, when the political fortunes of this age old party are at its bottom, it is not surprising that they have come up with this scheme especially, after the Bharatiya Janata Party has already implemented its proposal to give direct credit of ₹2,000 to the bank accounts of the identified targeted group. However, what is astounding is that a plan such as NYAY is being backed by the so-called eminent economists who have thrown their sacred economic principles to the winds and rushed to back this uneconomical scheme that would only make this nation a country of idlers and beggars. No self-respecting Indian would like to receive alms and therefore, this scheme is an insult to their honour and dignity.

C V Subbaraman Mysuru

Thanking a *chowkidar*

This refers to "A day in the life of *chowkidar*" (March 30). The article reminds me of my time in the early 70s in Bayana town. I would study late in the night near my window that opened outside to the main street. Every night, one genial Nepali watchman would knock the stick on the road and ask people to be awake at night. Each time, he would pass by my window and inquire about my studies while talking about his son living in Nepal. I would wait for him up to 1 am, as that helped me to stay awake and prepare hard for examination. Gradually, my friendship with the watchman grew. I would offer him tea that I would prepare on stove during the wintry nights of Rajasthan to stay up for cramming notes. I sincerely thank him today as he was the one who made me stay awake and study hard.

N K Bakshi Vadodara

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HAMBONE

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Confusing signal

Indices have surged, but broader markets still in loss

India's financial markets produced a confusing performance in 2018-19. The benchmark big-cap indices produced good returns, but the broader market performance was negative. Foreign portfolio investors (FPIs) were net sellers, while domestic institutions (DIs) bought, on the back of steady retail investments in mutual funds. These dichotomies led to a situation where net market cap grew, but many investors suffered losses. The premier Nifty50 Index was up 14.9 per cent between April 1, 2018, and March 31, 2019. However, only 25 of the 50 stocks in that index registered gains. The mid-cap and small cap indices lost 3 per cent and 11.5 per cent, respectively. The broad NSE500, which covers the 500 largest listed stocks, lost 6.6 per cent. FPIs pulled out ₹44,500 crore in the financial year but that was more than balanced by domestic buying. One important factor that changed the overall scenario in FY19 was the rising interest rates in global markets. But the scenario seems to be changing for the better, with the US Federal Reserve adopting a softer stance, leading to increased flows into emerging markets like India. The European Central Bank is also expected to delay an interest rate hike.

The rupee lost ground, falling from ₹64.99 per dollar in early April 2018 to ₹69.44 by March 30, 2019. The rupee was down below ₹74 in October. The last two months have seen a surge in FPI buying, coupled with a bounce in the rupee as the Reserve Bank of India has cut interest rates and mounted a swap operation after being placed under a new management. Indeed, the Nifty is up 7 per cent in March, and the rupee has strengthened, as the RBI has become more aggressive in its market operations.

Valuations remain high for a market that has seen disappointing earnings growth. Given many companies have missed profit estimates over the last four years and several have lowered their outlook for the last quarter, a significant pickup in earnings growth is unlikely. The Nifty is trading at a price-earnings ratio of 27-plus and smaller stocks have even higher valuations. This is despite poor Q3 results and disappointing high-speed data such as slowing automobile sales and low tax collections in the fourth quarter. As investors look to 2019-20 and beyond, they are not simply discounting earnings growth in linear fashion. The elephant in the room is the uncertainty surrounding electoral politics, though the market is betting on a return of the ruling regime. Any surprise in the results could lead to a haze over policy-making, pushing the market to a prolonged uncertain mood. Reason: The BJP is a known factor with a popular leader, whereas the other potential coalitions are unknown quantities in multiple ways. Though most investors will tend to be cautious until the shape of next Parliament is clarified, there is a significant section which cites data over the past three decades to suggest that elections are mere interruptions; the markets will go back to tracking fundamentals and earnings growth, and can deliver strong returns across political regimes. There will certainly be an increase in short-term volatility due to elections, but on a long-term basis, it may be nothing more than noise.

Beyond accounting

Deferment of Ind-AS for banks is a short-term fix

The Reserve Bank of India (RBI) has decided to defer the implementation of the Indian Accounting Standards (Ind-AS) for banks for the second year running — this time until further notice. The norms, which were to kick in on April 1, would have enhanced the comparability of the financial statements of local banks with those of their global peers. The reason given by the RBI is that adherence to Ind-AS by banks would have required legislative changes to comply with the new disclosures — an amendment to the third schedule of the Banking Regulation Act (1949). What's unsaid is that Ind-AS would also have increased the pressure on capital for banks, especially due to the early loss provisioning aspect in the new accounting format. It would have meant banks make provisioning for borrowing accounts based on their historical loan-loss experiences, and factor in expectations and the economic environment a firm operates in. In short, banks would have to improve their ability to forecast credit losses with precision.

The Ind-AS rollout will now happen only after a new government settles in following the elections this summer, but the reality is when it is introduced, the issue of higher capital in banks will have to be dealt with. One estimate by a rating agency puts at ₹1.1 trillion the additional provisioning banks would have made in the first quarter of the new fiscal year if Ind-AS had been implemented. It would have been particularly worrisome for state-run banks, which would have had to raise substantial capital way beyond the ₹1.9 trillion infused by the Centre recently. Given the state of the fisc, it is anybody's guess how these demands can be fulfilled. The issue is further compounded by the fact that many state-run banks will anyway see a marked increase in their capital consumption, in particular due to the specific accounts identified by the RBI and referred to the National Company Law Tribunal under the Insolvency and Bankruptcy Code, involving huge haircuts.

While the deferment is a breather for banks as well as the Central government, this does not bode well for the health of the banking system, because banks that do not recognise their problems might not be in a position to resolve them. It also rings in other complications from a strictly accounting point of view. While banks will continue to report on the Indian GAAP (generally accepted accounting principles) basis, non-banking finance companies and housing finance companies will be on Ind-AS — they transited to the new regime during the just concluded fiscal year. It can also pose challenges for banks which are associated or have invested in an arm preparing accounts in accordance with the Ind-AS road map. These disparities would entail maintaining two sets of accounting formats, have them audited, and reconcile differences between them.

The bigger picture is that it also shows a lack of coordination between the RBI and the finance ministry. The latter had recommended a road map for banks to the Ministry of Corporate Affairs (MCA) four years ago for implementing Ind-AS. The MCA clarified the applicability of Ind-AS to banks from April 1, 2018, onwards. Based on this, the RBI had issued directions to banks to submit their Ind-AS pro forma financial statements for the half-year ended September 30, 2016, latest by November 30, 2016. Yet nothing has moved since then.

ILLUSTRATION: AJAY MOHANTY

It's about jobs

In the absence of high-quality jobs, we risk a future of social upheaval and frittering away the unique advantage of our young population

INDIA'S WORLD?

NAUSHAD FORBES

In "A contest of content in this election" (*Business Standard*, March 22, 2019), I argued instead of negatives and hate, we need to hear a strong positive message in the current election campaign. In particular, we need an emphasis on economic issues and rapid economic growth. I greatly appreciate the many kind comments received from various readers — and also the many critical comments. I seem to have equally irritated both strong supporters of the BJP and Congress. This article is written in the same spirit. It is about jobs.

India suffers from terribly poor data on employment. Every major country provides accurate and timely employment statistics. By the 8th of each month, the US provides an accurate estimate of how many jobs were added or lost in the previous month. India's last official employment survey dates back to 2011. The 2018 Economic Survey uses the 2012 data on employment and covers just 12 per cent of our workforce of 500 million. The government's refusal to officially release the widely leaked 2018 NSSO Survey of Employment has attracted interest to the survey and given it a prominence no previous survey has ever received! In the absence of comprehensive and up-to-date data on employment, no one knows how many jobs are being created or destroyed overall. We rely instead on assertions: The government argues, validly, that an economy growing at 6-7 per cent a year must be creating many jobs. The opposition argues, equally validly, that demonetisation massively disrupted the informal labour market, which constitutes 80 per cent of Indian employment. But all agree that we need to create millions of high-quality jobs — those with the potential for growing productivity in the long run. We have long known how to grow productivity in manufacturing, and we are learning for services. As the 2017 Economic Survey points out, if our entire workforce had the productivity of our factory sector, we would be 15 times wealthier with an average per capita GDP matching that of South Korea ($30,000). Our economy struggles with just 20 per cent of employment in the formal sector — including larger factories; public services such as government, the armed forces and government schools; and private services such as banks, airlines, airports, organised retail, and hotels. The bulk (80 per cent) is informal — 50 per cent of the workforce in agriculture, a further 30 per cent in micro enterprises and informal services — including domestic staff, security staff, drivers, delivery agents, and those at smaller restaurants. These jobs suffer from limited capability for productivity growth, thus limiting the worker's own growth prospects.

How do we grow millions of high-quality jobs? We need to address both supply (improving the quality and flow of talent) and demand (ensuring high-quality talent gets absorbed).

India leads the world in the potential flow of quality talent — a young population with a growing proportion in the working-age group constitutes the most spectacular potential demographic dividend in world history. We need to urgently address how effectively we skill our population and improve the quality of school education, and how we can get the bulk of our working-age population to participate in the workforce.

Skilling: In 2006, the Confederation of Indian Industry (CII) launched the India@75 initiative. A centrepiece of this initiative was skilling — we targeted skilling 500 million people. In response, the government set up the National Skills Development Corporation (NSDC). Our ambition has since diminished. In 2016, the government's primary skill development programme, the Pradhan Mantri Kaushal Vikas Yojana, set a highly scaled-down target of skilling 10 million people by 2020. An RTI in November 2018 provides an update that half-way into the programme, 1.8 million had been trained, and of those 1 million had found jobs. All this leaves India one of the least skilled countries in the world. Under 5 per cent of our workforce is formally skilled, vs 96 per cent in South Korea, 75 per cent in Germany, and 52 per cent in the US. The NSDC has put in place a great foundation — with detailed skill levels covering hundreds of skills in dozens of sectors. We need to see these efforts bear fruit.

School Education: The 2018 Annual State of Education Report (ASER) illustrates how poorly we fare in giving our children the basic tools needed to function in a modern economy. Only 44 per cent of children in Standard V can read a Standard II level text. Just 23 per cent of children in Standard V can do division. The spread between states is sobering — in the bottom four states (Jharkhand, Assam, Madhya Pradesh and Uttar Pradesh), only a third of Standard V children can read a Standard II text and under 20 per cent can do division. In the "top-performing" states (Himachal Pradesh, Kerala, Punjab and Maharashtra) around two-thirds of Standard V children can read a Standard II text, and a third to a half can do division. ASER sums up that "we are far from becoming an educated nation".

Workforce participation: India has among the lowest female participation rates in the labour force worldwide — in the top 20 world economies, only Saudi Arabia is lower. And this has been getting worse — since 2005, female participation in the labour force has declined from 35 per cent to 27 per cent. Vietnam has over 70 per cent of women participating in the economy. Even Bangladesh has 33 per cent (and rising). The IMF estimates that if female participation in India matches the world average of 50 per cent, we would be 27 per cent richer as a country. If we fully equalise female and male participation (to 80 per cent), we would be 60 per cent richer as a country. Clearly, we have much to do to educate girls better. And we especially need to change the cultural attitudes that keep women away from the workforce — families should encourage women to work and enterprises should actively seek to employ more women.

Addressing these supply issues can fundamentally improve the quality and flow of human capital into our workforce each year. That will create the potential for a massive growth miracle. Fixing the demand for this talent will realise the potential — by growing employment massively in industry, particularly labour-intensive industry, and through mass-employment in formal services. That will be the subject of the second part of this article.

The writer is co-chairman of Forbes Marshall, past president of CII, and chairman of the Centre for Technology, Innovation and Economic Research (CTIER)

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To be concluded

RBI: Still unaccountable and above law?

IRRATIONAL CHOICE

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Does the Reserve Bank of India (RBI) understand the Right to Information Act (RTI) far better than the central information commissioners, judges of high courts, and even those of the Supreme Court (SC)? Since 2006, four RBI governors, dozens of deputy governors and time-serving minions below them seem to think so, to the utter astonishment and despair among citizens and jurists. Will the ire of the Supreme Court end this supreme conceit?

Last Tuesday, the SC threatened the RBI with contempt proceedings for not disclosing annual inspection reports under the RTI Act. Sadly, this unseemly *tamasha* has been going on for years. For the past 10 years or more, the RBI has been turning down dozens of applications under the RTI Act that sought disclosing the list of wilful defaulters and the RBI's inspection reports. Both the apex court as well as Central Information Commission (CIC) had held the RBI could not refuse to put the annual inspection reports of banks in the public domain. But the RBI has continued to be adamant. We, at *Moneylife*, are not surprised. There is a reason for this breathtaking arrogance.

For decades, the RBI has got away, no matter how egregious its bungling is. Its antiquated systems and processes were the main reason behind the securities scam. The governor and deputy governors who live in a rarefied zone were clueless about the functioning of the Public Debt Office and how brokers and bankers were running riot. For 25 years, public sector banks have been looted by borrowers — both big and small — in collusion with bankers. The RBI has nominees on the bank boards, has unrestricted access to the banks' books, approves statutory auditors, gets banks to send reports every month, quarter and year, and has a hand in the appointment of chairmen and executive directors. In fact, it is the only organisation that has a granular and complete view of the heist that has been going on for 25 years at least. But it has escaped any blame for the multiple rounds of bankruptcy and massive periodic recapitalisation of public sector banks caused by bad loans.

Indeed, under successive erudite governors, including "public intellectual" Raghuram Rajan, the RBI has, in fact, helped ever-greening of bad loans through ingenious schemes like corporate debt restructuring (CDR), strategic debt restructuring, the Scheme for Sustainable Structuring of Stressed Assets, CDR2, and 5/25, which have all failed. And even as the RBI's regulatory lapses pile up sky-high, it has instinctively sided with bankers in their anti-customer policies and actions. When *Moneylife Foundation* filed a PIL (public interest litigation) petition in the Supreme Court on the loot of borrowers through the floating rate regime, the court asked the RBI to reply but the RBI has ignored the court directive. Its response makes no reference to the issues raised in court.

Why has the RBI's legal insight on the RTI Act escaped even the judges of the SC? The RBI argues the reports asked under the RTI are "fiduciary information" and, hence, cannot be placed in the public domain. This is ridiculous. A regulator forces regulated entities to statutorily report certain information. How can that be a fiduciary relationship? The RBI has no legal duty to maximise the benefit of any public sector or private sector bank and thus there is no relationship of "trust" between them, argued Prashant Bhushan in the SC. Indeed, the SC has already ruled the RBI is not in any fiduciary relationship with any bank.

Is the end near? Maybe

The question is: How long will the RBI be allowed to be obdurate? Way back in December 2015, the SC told the RBI the banking regulator could not withhold information citing "fiduciary relations" under the RTI Act. Hearing a set of transferred cases, a Division Bench of Justice M Y Eqbal and Justice C Nagappan said, "From the past we have also come across financial institutions which have tried to defraud the public. These acts are neither in the best interests of the country nor in the interests of citizens. To our surprise, the RBI as a watchdog should have been more dedicated towards disclosing information to the general public under the Right to Information Act. We also understand that the RBI cannot be put in a fix by making it accountable to every action taken by it. However, in the instant case the RBI is accountable and as such it has to provide information to the information seekers under Section 10(1) of the RTI Act."

Despite such a clear-cut order, more than three years later, even the SC is struggling to make the high and mighty RBI see sense. Even in January 2019, the SC said, "The RBI ought to act with transparency and not hide information that might embarrass individual banks. It is duty bound to comply with the provisions of the RTI Act and disclose the information sought." Shockingly, the RBI's own circular DBOD No. BC/CIS/47/20.16.002/94, dated April 23, 1994, directed all banks to send a report on their defaulters, which it would share with all banks and financial institutions, "...To make public the names of the borrowers who have defaulted and against whom suits have been filed by banks/FIs."

Also, in Mardia Chemicals Ltd vs Union of India (decided on April 8, 2004), the SC observed that private transactions when large enough took the character of public interest, especially since banks and financial institutions utilised "the money of the people in general namely, the depositors in the banks and public money". It is impossible to believe that RBI officials don't get all this. Perhaps they simply don't want anyone to know how incompetent and collusive they have been in handling bad loans.

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Unravelling the Putin enigma

BOOK REVIEW

OLIVER BULLOUGH

Russia has always been important to American diplomats, but rarely has it troubled civilians as much as it does now. The precise extent of the Kremlin's intervention in the 2016 presidential election remains disputed, but few would deny that its foreign policy has more influence on domestic American affairs than ever before, or that understanding that policy is an urgent priority.

Angela E Stent has written *Putin's World* to meet that need. Ms Stent is a director of the Center for Eurasian, Russian and East European Studies and a professor at Georgetown University, and she has sought to put Russian President Vladimir Putin's difficulties with Western countries into perspective. Her subtitle — "Russia Against the West and With the Rest" — reflects the fact that many nations do not share the Americans' distaste for Russia's approach.

The book is divided into sections analysing Russia's relations with its major partners and adversaries — Germany, NATO, the former Soviet countries, China, Japan, the various Middle East regimes and the United States — all within a broader framing that examines Russian foreign policy from imperial times up to now. Ms Stent's key concept is that Russian policy has been consistent for centuries.

The story Ms Stent relates about the contrast between the American and Russian approaches to the Middle East is particularly telling. Washington has been consistently hampered by the contradictions between its values and its interests — to the great confusion of Egypt, Syria, Libya and almost everywhere else — whereas Mr Putin's Russia has been able to maintain friendships from Israel to Iran.

Sadly, however, the book's usefulness is marred by maddening small errors. It is forgivable, perhaps, to claim that Vladimir the Great converted Russia to Christianity in 988, although Russia didn't exist then and he was the ruler of Kiev. It is also acceptable, if annoying, to refer to Britain and England as if they are interchangeable. But it is simply wrong to state that the Brexit referendum took place in 2015 or that all of Gazprom's gas exports passed to Europe through Ukraine. She says that the Ukrainian president Viktor Yanukovych had a golden toilet (and cites an online photo gallery to support the claim), but I have never seen such a toilet during my own visits to his palace. Although the sections about China and the Middle East break fresh ground, at least for this reader, such inaccuracies make it hard to know how much faith to place in these less familiar sections.

Still, that is not the primary problem with Ms Stent's book. The picture she draws of the Kremlin's foreign policy is consistent, but she never delves into the domestic motivations behind it. We have much description of what Mr Putin is doing — propping up the Syrian regime, targeting former spies in Britain, interfering in elections, giving an island to China but not to Japan — but scant insight as to why.

According to Mr Putin, his guiding priority has always been the restoration of Russian national pride, and a surprising number of people take him at his word. Ms Stent broadly views this restoration as a bad thing, but does not challenge the premise that it is happening. This is odd, because the maintenance of the wealth of his friends and allies, rather than the well-being of his nation, has always been at the heart of what Mr Putin has done, whether that involves bailing out their businesses, handing them fat contracts or silencing journalists who threatened to expose their secrets.

The murder of Alexander Litvinenko in London in 2006, for example, appears to have been ordered to eliminate someone who knew too much about Kremlin business dealings. Interventions in foreign elections have been aimed to undermine politicians who urged action against Russia's richest citizens.

This is not a new observation — many of the State Department cables released by WikiLeaks examined the business interests of the Kremlin elite; one even referred to Russia as a "mafia state" — and no serious analysis of modern Russia can be complete without it. Yet Ms Stent barely mentions money at all.

This oversight appears to derive from her sources. Her four-page bibliography is full of Western writers but contains barely a dozen works by Russians, and she completely ignores the researchers who have most deeply explored the Kremlin's business interests. Alexei Navalny and Boris Nemtsov are mentioned only once each in the whole book, neither time in the context of their work on corruption. The late Karen Dawisha's masterpiece, *Putin's Kleptocracy*, features in the bibliography, but it does not appear to have informed Ms Stent's analysis.

The idea that Russian policymakers are rational actors seeking to defend their interests in an uncertain world, and that they perceive those interests differently from observers in the United States and its allies, is one that Ms Stent gives no attention to. There is a pressing need for greater understanding of the nature of those interests, and the assumptions underpinning Kremlin policy. This book is sadly not the one to provide it.

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PUTIN'S WORLD
Russia Against the West and With the Rest
Angela E Stent
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