Opinion

MONDAY, APRIL 15, 2019

AVERTING DISASTER

Christine Lagarde, IMF managing director

At least the UK is not leaving on April 12 without a deal. It gives time for continued discussions between the various parties involved in the UK. It probably gives time for economic agents to better prepare for all options, particularly industrialists and workers

RationalExpectations

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Is it jobs, GDP, or caste, or Hinduism?

Jobs and low inflation didn't help Vajpayee, caste didn't save VP Singh/Mulayam/Mayawati/Lalu; evidence on GDP mixed

GIVEN HOW CAREFULLY politicians look at the caste of voters, and how often this has worked, from VP Singh onwards, it would appear caste is a major determinant of poll victories. Indeed, that is why the SP and the BSP tied up in Uttar Pradesh (UP); that is also why prime minister Modi came up with the idea of breaking up the OBC quota into various sub-categories since it is the more prosperous OBCs who corner most quota benefits. It is also why Modi pushed a 10% quota for low-income upper castes. But, if it were really so simple, starting from VP Singh, caste-warriors like Lalu Prasad, Mulayam Singh Yadav and Mayawati would still be in power.

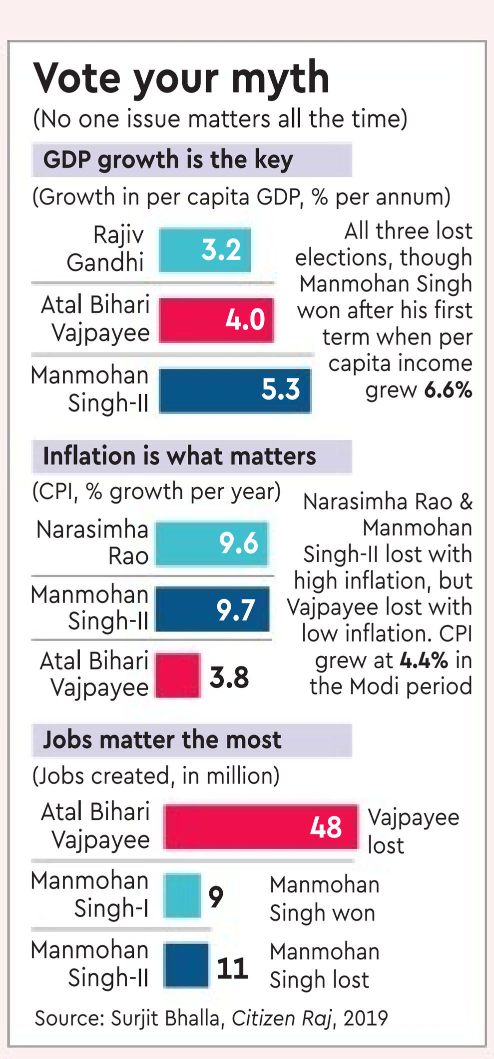
If it was Hindutva, Atal Bihari Vajpayee would never have lost; and even if there are many who felt he wasn't Hindu enough, that can't be said about Modi; and yet, many predict Modi won't come back to power. If the SP-BSP combine stops Modi's victory, does that mean *Mandal* beats *Kamandal*, or quite the opposite of what was said when LK Advani's *rath yatra* resurrected the BJP; of course, the SP-BSP tie-up is not just *Mandal*, it is *Mandal*-plus.

Many say it is the economy that matters, and this is why Modi will lose. Though the revised series suggest GDP grew the fastest in Modi's five years, reputed economists will tell you the data isn't kosher; certainly, high-frequency data like automobile sales or corporate revenues don't quite jell with the macro data. While the government is criticised for its GDP back-series data, though, the methodology to re-base GDP was finalised by the UPA.

If the Modi government is believed to have a problem due to GDP growth, this gets worse when it comes to jobs. The leaked NSS report that talks of a huge jump in unemployment in the Modi years, as this column has argued before (*bit.ly/2X6yin3*), has most likely got it wrong—and Surjit Bhalla had an even sharper critique last week—but it does look unlikely that job-creation was as robust as the BJP is making it out to be; indeed, if it were, why would consumption growth be slowing as it is?

Bhalla's latest book, *Citizen Raj,* on India's electoral history since Independence, examines many of these issues. In the current context, its highlight – assuming Bhalla is right—will be the predictions for the number of seats Modi will win (that's embargoed for now), but the book is more than just psephology which really makes an appearance only towards the end. There is a lot in the book that you can disagree with—it is difficult to buy the argument, for instance, that it is only the old elite that doesn't like Modi, what Modi derisively calls Lutyens Delhi; it is equally difficult to be as supportive of demonetisation as Bhalla is.

But once you get past this, there are several interesting parts to the book; this column deals with some that are relevant in the context of the elections. Caste, as Bhalla points out, can't be as enduring as it is made out to be if the leading caste-warriors had to suffer humiliating defeats at various points in their career.



Source: Surjit Bhalla, *Citizen Raj*, 2019

The graphic, drawn from Bhalla's book, highlights some of the more interesting contradictions in predictions based on economic indicators. Growth, it turns out, doesn't always guarantee success, it is inflation-control sometimes, it is jobs sometimes, indeed it may be national security (Balakot?) at others. In the first 15-20 years after independence, Bhalla points out, the Congress kept coming back to power even though GDP grew in the 3-4% range—on a per capita basis, it was even lower—or the so-called Hindu rate of growth. So, growth didn't matter at this point, political freedom and nation-building were the main issues.

Though Indira Gandhi's first defeat is seen as due to the Emergency, an interesting facet is that GDP per capita grew by just 0.5% per year during her tenure while CPI inflation hovered at just below 7%. So, she may have lost even without the emergency, and despite the Bangladesh halo.

But if GDP alone mattered, neither Rajiv Gandhi nor Vajpayee nor Manmohan Singh in his second stint should have lost since they delivered reasonably good growth. And yet, when Manmohan Singh delivered even higher GDP numbers in his first stint, he got re-elected. So, GDP matters sometimes, but not all the time.

Maybe, as any politician will tell you, what matters more is inflation. It then seems reasonable to argue that what did Narasimha Rao in was the high inflation of 9.6%. Indeed, Manmohan Singh's second stint also had high inflation of 9.7%; but did this do him in, or was it the corruption scandals? By this logic, Modi's re-election should be a shoo-in since inflation has been under control and there have been no major allegations of corruption; despite the strenuous efforts to show Rafale is Modi's Bofors multiplied several times over, the charges don't seem to be sticking, at least so far.

Is it the lack of jobs that will be Modi's undoing? As Bhalla shows, a lot more jobs were created during the Vajpayee regime than during Manmohan Singh's first stint; yet, Vajpayee lost and Manmohan Singh's government got re-elected. And while the second Manmohan government lost the elections, it created more jobs than the first one.

Maybe it is poor agricultural growth that will make Modi lose? Certainly agriculture has fared badly under him, partly due to poor monsoons and partly to do with bad policy. But, Shivraj Singh Chouhan lost in Madhya Pradesh despite good farm growth in the state.

In other words, and thank God for it, there is no fixed formula for victory and no one really knows what clicks for voters, though at different times, different models are used to predict the future based on the fact that they correctly explained what happened in the past; it's a bit like astrologers who are mostly right about what happened in your life, but less so about the future! So, place your bets till May 23, but knowing full well that it's just a shot in the dark.

CowMAD

Assam, Jharkhand incidents show cow lynching is spiralling out of control, thanks to tacit political support

THE LATEST INCIDENT of cow-lynching, in which one person died and three were left injured in a village in Jharkhand after they were attacked by a mob from a neighbouring village, and all that has followed in the aftermath are yet another sign that the madness over bovine slaughter is spiralling out of control. To be sure, some states have outlawed the slaughter of some or all bovine animals—Jharkhand is one of them. But the latest gau rakshak lynching happened when 35 tribals were carving the carcass of an ox that had died a natural death. Apart from the attack itself, what is atrocious is that the police, The Indian Express reports, has booked the three injured under the state's bovine slaughter law.

While locals have said that bovine slaughter and carving/skinning of carcasses were not an issue the past, the failure to act against gau rakshaks—indeed, the ruling party has celebrated lynching-accused in both Jharkhand and Uttar Pradesh—has sent out the message that such crimes will be ignored. This kind of dog-whistling is indeed what encouraged a mob in Assam to force-feed a Muslim vendor pork, over allegations that he was selling bovine meat. The tide of aggressive Hindu-centric politics emboldened cow vigilantism. The Supreme Court had ordered the states to appoint a police officer in each district as the nodal officer to curb cow-vigilantism. But, as long as there is tacit political support, such action means little.

FROM PLATE TO PLOUGH

BOLD PROMISES TO REFORM AGRI-MARKETS WAS WHAT WAS EXPECTED FROM PARTIES' MANIFESTOES, AND WHILE THE CONGRESS'S PLANS LACK A FISCAL ROADMAP, THE BJP'S IS SILENT ALTOGETHER

Of election promises and politics

ASHOK GULATI
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THE FESTIVAL OF democracy started with the first phase of polling on April 11, 2019. Ideally, it should be celebrated like Holi, forgetting past enmity and embracing each other with love. But, unfortunately, it is being fought like a battle of Kurukshetra in the Mahabharata epic. All weapons of politics—*saam, daam, dand, bhed*—are being used. *Saam* reaches for accord with other parties, *daam* uses money power to buy votes, *dand* uses CBI to raid camps of opponents, and *bhed* divides voters on caste/ religious lines. Voters are in a quandary as political parties are promising the moon in their manifestoes. Voters know most of these promises will be forgotten once the elections are over. Yet, one must look at these, since they reflect the best of their intentions. We examine some of these with respect to farmers and the poor, normally agri-labourers. Given that the full list is like a laundry list, we focus only on the big ticket promises.

BJP's Sankalp Patra (manifesto) promises to double farmers' income by 2022-23, a reiteration of its promise made in 2016. Under that heading, it lists 29 promises/schemes. The most notable one is the PM Kisan (Pradhan Mantri Kisan Samman Nidhi Yojana), which will be extended to all farm families. It promises to give each farm family ₹6,000 per year. With an estimated 14.6 crore farm families as per the 2015-16 survey, this would cost about ₹87,600 crore per annum. This may be the largest direct income support (DIS) scheme by the government of India (GoI). But, as the NABARD survey on financial inclusion showed, average farmer household income was ₹8,931 per month in 2015-16, which by now must have crossed ₹10,000 per month (or ₹120,000 per annum) in nominal terms, after adjusting for inflation. So, a support of ₹6,000 per year is a meagre 5% support. Doubling of farmers' income surely requires much more than this DIS.

The Dalwai Committee set up by the Modi government in 2016 had made it clear that the promise to double farmers' income was made in real terms with the base year of 2015-16. It calculated that it would need 10.4% growth per annum in real terms from 2016-17 to 2022-23 to double farmers' real incomes. The past record of growth in real incomes of farmers during 2002-03 to 2015-16 shows that they increased at 3.7% per annum, and this growth follows the growth in agri-GDP very closely. Modi's government's five-year record of agri-GDP is pretty low at 2.9% per annum. This means that for the remaining 4 years, the growth in farmers' real incomes has to be almost 15% per annum. This is next to impossible given the existing set of policies. No wonder the Congress party calls it a Modi government's *jumla*.

> **If India achieves a 4-5% growth in agri-GDP on a sustainable basis, it would need to export aggressively lest it creates a glut at home, adversely affecting farmers' incomes**

We feel that if India achieves a 4-5% growth in agri-GDP on a sustainable basis, it would need to export aggressively lest it creates a glut at home which will then adversely impact farmers' incomes. But the Modi government's record on agri-exports is most pathetic. From a peak of about $43 billion in agri-exports in 2013-14 that it inherited from UPA-2, till date, its exports have remained below that peak, meaning a negative growth through the five years of the Modi government. This is one major reason behind farm distress.

What one was expecting from the main political parties was bold promises to reform agri-markets. But the BJP manifesto is quite silent on this. In that sense, the Congress manifesto scores better by explicitly promising to reform the Essential Commodities Act, repealing APMC, freeing up exports, etc. How they will do it is yet to be seen, but at least the thinking and its intent is in the right direction. Also, Congress promises ₹72,000 per year to the bottom 20% of families under its NYAY (Nyuntam Aay Yojana) scheme, which may include many small and marginal farmers, tenants, and agri-labourers. It is likely to cost the fisc ₹3.6 lakh crore, almost four times what PM-Kisan of BJP will cost. Obviously, everyone is asking where this money will come from. That is not spelt out in the manifesto. But since the Congress manifesto also gives a time frame under which it will be implemented, it seems serious about it.

In both cases, it is clear that India is on the road to a major shift in policy towards direct income support (DIS), triggered by Telangana's Rythu Bandhu and followed by Odisha's KALIA. This move towards DIS can be a tectonic shift in policy if it subsumes at least the food and fertiliser subsidies and, if possible, the power subsidies at state level. Currently, the food subsidy is ₹1.84 lakh crore with pending bills of FCI at ₹1.3 lakh crore as on April 1, 2019. Fertiliser subsidy is ₹75,000 crore with pending bills of about ₹30,000 crore. If all these are merged and given as DIS to identified beneficiaries, that would be the wisest move by whichever party comes to power. Incidentally, much of this was recommended to the Modi government way back in 2015 by the Shanta Kumar panel report, a high powered committee set up by the Modi government itself. Maybe it is time to pick it up and implement it.

There are many other promises. BJP, for example, promises zero-interest loans to farmers of up to ₹1 lakh. The trouble with such schemes is that they lead to a massive diversion of agri-loans to non-agri-purposes. Modi government had made a big move in revamping crop insurance in 2016, but its rollout suffered several teething problems. The test of the existing scheme would be a drought year, but making it voluntary now may shrink its coverage. Then there is a promise of investing massive amounts in agriculture (₹25 lakh crore) without much details. Such promises remain vague and meaningless. But who cares, it is time to see the dance of democracy!

India's data rules: Big carrot, heavy stick

Why aren't the large costs of local data storage capacities deterring American payment system providers from operating in India? The answer is the size of the Indian market

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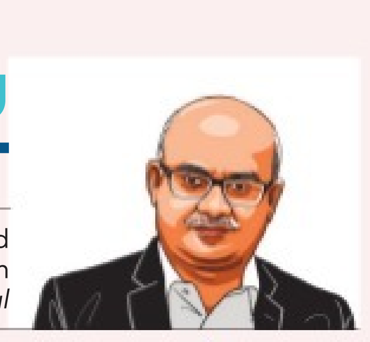

DATA LOCALISATION IS the latest flashpoint in India-US trade relations. The conflict was implicit in the US's decision to withdraw GSP benefits from India, something which alluded to India not providing sufficient market access to US businesses in 'numerous' sectors. Data policies were not specifically mentioned in the decision. But the fact that India's data localisation initiatives began kicking in from around the same time the US initiated a review of India's GSP eligibility cannot be overlooked. The impact of the Indian policies would have been evident given the problems faced by US online retail businesses and payment system providers in India.

What was implicit has now become explicit after the sharp criticism of the policies in the USTR's latest National Trade Estimate Report on foreign trade barriers. The report categorically mentions data localisation requirements as barriers to digital trade between the US and India. According to the report, the policies increase 'costs for suppliers of data-intensive services by forcing the construction of unnecessary, redundant data centres and prevent local firms from taking advantage of the best global services available'. The main rules being alluded to here are data localisation guidelines issued for payment system providers operating in India by RBI and the draft national e-commerce policy encouraging data localisation for growth of 'home-grown' champions.

The USTR's criticism is unlikely to change India's data policies. Indian agencies would actually be vindicated by reports gesturing towards WhatsApp's intention to comply with RBI guidelines for its payments system, WhatsApp Pay. Though RBI had set October 15, 2018, as the deadline for complying with its guidelines, WhatsApp had refrained from doing so. Instead of agreeing to store data exclusively in India, it was looking to 'mirror' or retain a copy of the financial transactions in an Indian server while storing the data in foreign servers. This, though, wouldn't have satisfied RBI, which insists on storage of 'end-to-end transactions' data only in India, though data for the foreign leg of the transaction is allowed to be stored overseas. Recent reports point to WhatsApp moving towards a compliance framework, including the establishing of third-party audit mechanisms for checking compliance.

WhatsApp's decision follows similar decisions taken by Visa and Mastercard earlier. The fact that these major American e-payment businesses, even if reluctantly, are complying with local data storage rules means that they are also looking to invest in such storage capacities, precisely the ones that the USTR considers redundant and cost-escalating. There is no denying that creating local storage capacities would involve large expenses for digital payment services. The costs would include fixed costs for building data servers as well as running operations and maintenance costs, particularly energy costs. There is a possibility of the government of India declaring data servers as critical infrastructure, enabling their developers to obtain long-term tax benefits. That, however, won't offset the initial upfront costs.

But why aren't the large costs deterring American payment system providers from operating in India? The answer, ostensibly, is the size of the Indian market. WhatsApp has an active user base of around 200 million in India. Even if a fraction of this user base begins using WhatsApp Pay, the sales prospects are significant. Financial transactions in India are slowly taking on a 'less cash' character with more transactions turning digital. The Indian e-payments market is projected to reach $1 trillion in the foreseeable future. The scale and scope of the market is enormous—a fact noted by both American businesses as well as Indian agencies.

Major Indian agencies involved in data protection—RBI, ministry of electronics and information technology (Meity), department of industrial promotion and policy (DIPP) and department of commerce—are using the Indian market to employ the proverbial 'carrot and stick' policy. The dangling carrot of the humongous Indian market adapting to digital payments at a fast clip is a tempting bait. It is made more enticing by China having restricted foreign payment systems and the inescapable fact that digital payment users in India would increase along with the greater availability of such payment systems. WhatsApp Pay and Google Pay, amongst others, anticipate great long-term benefits by locking on to India notwithstanding the heavy 'stick' of data localisation.

Indian agencies, though, shouldn't begin celebrating early. Foreign payment system providers are at an advantage compared with their domestic counterparts in the data game. The sheer depth of pockets of the former can make them last longer distances till sales volumes fetch sufficient revenue for recovering data storage costs. The cost disadvantage might see domestic payments systems being bought over foreign systems for obtaining horizontal scale benefits. Much like the famous acquisition of Flipkart by Walmart, similar buy-outs might be awaiting the Indian e-payment industry, making it a turf for mutual competition between American businesses, or between American and other foreign businesses. One wonders whether this is what 'India's data for India's development' meant to achieve.

LETTERS TO THE EDITOR

A halloween Brexit

The political drama continues as levels of anger, anxiety, frustration and fury have gone up. The public, bureaucrats and the EU council, amid the prevailing Brexit dilemma, have been forced to witness a push-back in timelines once again, just when the event was due to happen. As the house has not been able to form a consensus, the larger perception defies the commitment made by the regime, time and again, to deliver support for the negotiable/soft-Brexit deal with the EU. Instead of closing the chapter for good and concentrating on larger issues, in order to improve the business environment and regain public cheer, the matter is still being prolonged. Lacking collaboration, political turmoil, speculations over change-of-guard and uncertainty over availability and pricing of goods and basic necessities have dampened the business sentiment and forced untimely exits for ventures. Institutional investors and market participants are reluctant to explore new avenues. After three years of administrative efforts, absence of crystal-clear exit terms and prevailing ambiguity over the fulfillment of the first referendum are deeply impacting the sovereign's goodwill. Capital markets are fairly range-bound, as the potential turbulence in the near-term poses a risk to the growth of emerging economies too

— Girish Lalwani, Delhi

Supplicant to power

The Supreme Court has slapped a fine of ₹20 lakh on Bengal government for not allowing screening of film 'Bhobishyoter Bhoot'. The SC has noted with anger that freedom is not supplicant to power. The apex court has underlined the need to ensure that speech is not silenced by the fear of the mob

— KV Seetharamaiah, Hassan

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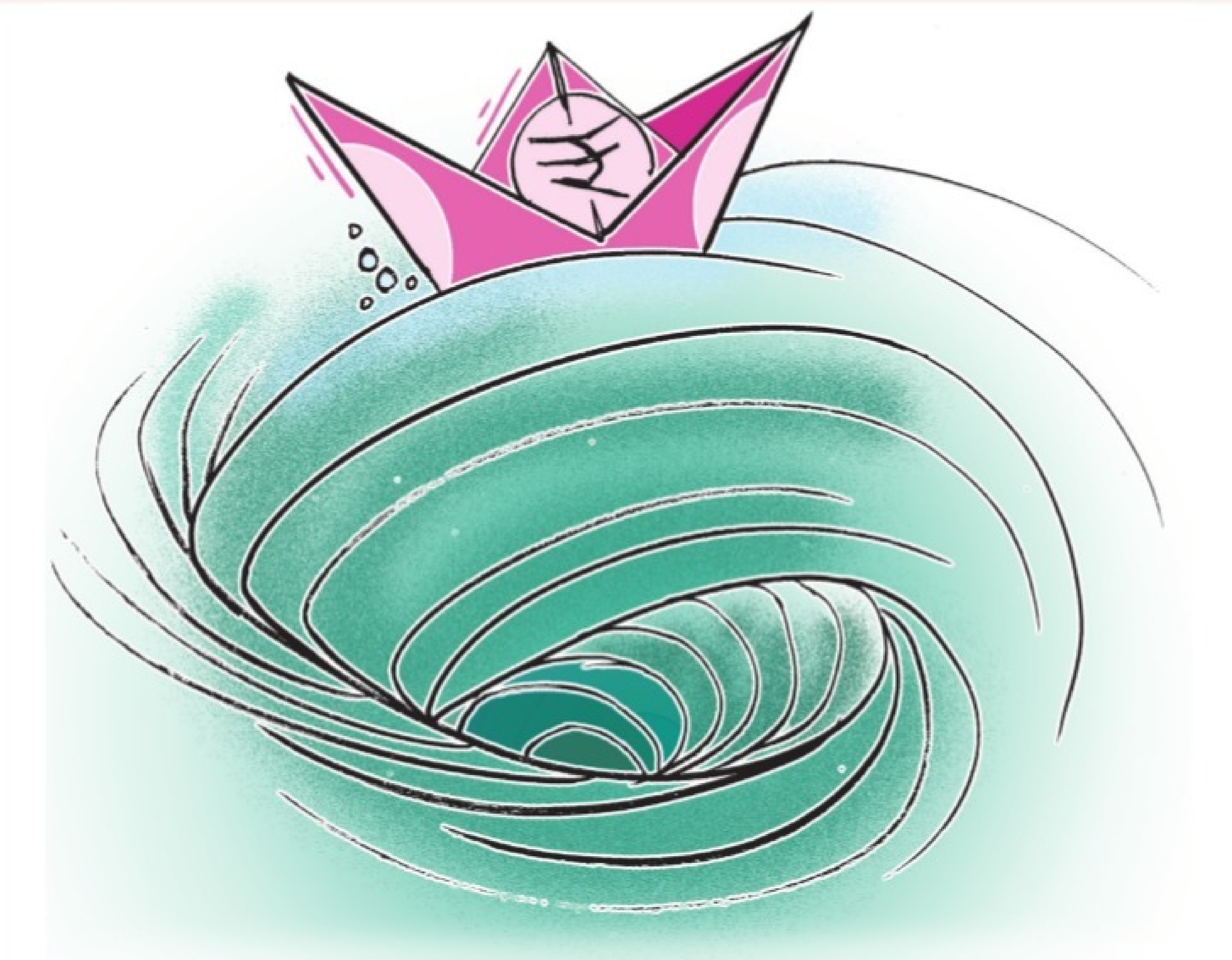

ILLUSTRATION: ROHNIT PHORE

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CURRENCY DEMAND FORECASTING

The devil is in the detail

Leading edge ensemble econometric time series methods yield superior results, both for short term as well as at the desired level of granularities if leveraged with right attributes. Parameters such as withdrawal quantum by member banks, retired currency/soiled notes, amount of currency buffer stock and currencies in circulation used in conjunction with specific dummies yield reliable forecasted estimates

WITH THE ONGOING INNOVATIONS in the financial sectors, forecasting the demand of currency has become increasingly difficult for the central banks, the world over. This is especially true for the developing economies and emerging markets, and the South and South-east Asian countries (India included) are no exceptions to this. Because of a relatively buoyant economy in the recent years, a significant increase in cash holdings was witnessed in many of these economies which have not been anticipated well by some of the central banks. Therefore, the cost of printing currency notes incurred by these banks exceeded budgetary estimates.

One needs to evaluate the most prevalent existing practices of currency demand forecasting against this backdrop. Most of the previous modelling work on money aggregates in these banks had focused on their potential use in monetary policy, either as policy targets or as indicators. The previous empirical work had concentrated more on testing the stability of money aggregate demand functions, with the objectives to identify structural relationships based on economic theory. However, these traditional approaches do not always yield a highly precise outcome, especially for short-term forecasting. Accuracies of these outputs also are not always of the desirable order for granular predictions, particularly at the denominations levels.

In the Indian context, in the recently published Monetary Policy Report (MPR), there is a specific mention on short-term and long-term factors that impact currency demand in India. While the nominal GDP growth rate, rate of deposits and even festive season impact demand for currency in the long run, specific idiosyncratic factors such as elections, demonetisation and even festive demand also impact currency demand, but more in the short run. Specifically, the results show that the income elasticity of currency demand is marginally above unity, implying an almost one-to-one relation between the nominal GDP growth and currency growth.

> The presence and the increased circulation of smaller denomination currency notes in the recent times necessitates a fresh look at modelling currency demand, focusing mostly at denomination levels

Herein lies a contradiction and a possible structural change that might be currently impacting currency demand in a completely different manner. We believe that the presence and increased circulation of smaller denomination notes in the recent times necessitates a fresh look at modelling currency demand, focusing mostly at denomination levels.

For example, the growth in currency in circulation (CIC) to growth in nominal GDP that was on an average just below 1 during FY11-15, has jumped to around 1.5 in FY16 and FY19 (excluding the demonetisation year FY17 and remonetisation year FY18 as outliers). Such a large elasticity reflects primarily increasing and forced transactions through smaller currency notes like ₹200 as larger notes are not getting adequately circulated, vindicated by a plunge in income velocity of money in FY19. For example, preliminary estimates show that the decline in income velocity in FY19 on a year-on-year basis has been the maximum since FY01.

Therefore, even with a 17% growth in CIC in FY19, we are currently looking at a GDP growth slowdown indicating CIC as an inadequate harbinger of economic activity, as it used to be earlier.

As an illustration, let us look at the notes printed in FY19. Approximating based on the indents placed by the Reserve Bank of India (RBI), we forecast that the total amount of ₹2,000 notes in the system is currently around 3.36 billion pieces, while the ₹200 note count could be at 5 billion. Therefore, if a transaction of ₹2,000 is to be substituted with ₹200 only, it implies that ₹200 notes must be printed 10 times more, which will amount to as many as 50 billion pieces. (Interestingly, ₹10 notes are forecasted to be maximum at 35 billion pieces by March 2019). Alternatively, this means that to sustain a transaction of the same amount now, the volume of smaller currency notes goes up and, by default, the value of CIC also goes up, but this might not indicate a direct causation with economic activity.

So, where do we go from here?

We believe that leading edge ensemble econometric time series methods yield superior results, both for short term as well as at the desired level of granularities if leveraged with the right attributes. Parameters such as withdrawal quantum by the member banks, retired currencies or soiled notes, amount of currency's buffer stock and currencies in circulation used in conjunction with specific dummies yield reliable forecasted estimates both for the short term as well as by currency denominations. All such factors when augmented with shock events yield even higher accuracy. The impact of elections, for example, in some of these economies, once factored in the model, provides impressive outcomes.

There could be a number of reasons why a suitably crafted econometric time series model leveraging appropriate factors might be more reliable than the traditional structural demand function. For example, it is highly likely that innovation in payments technologies will have a strong impact on the demand for currency in the long term. As a result, a money demand equation that does not allow satisfactorily for innovation will be inadequately specified. Additionally, the structural relationships in an error correction model will only have an impact on the economy in the long run. So, while a structural model might still be useful for longer-term currency forecasting in some of these countries, for the short term and for granular level predictions by denominations, the approach outlined above (bottom up rather than top down) will always yield superior outcomes.

This is all the more important when the CIC has expanded by a sharp ₹3 lakh crore in FY19 (we leave out ₹5 lakh crore expansion in FY18 as it was the year of remonetisation), against an average of ₹1.5 lakh crore from FY11-FY16.

URBANISATION

Minimising farmers' distress

KK PANDEY

The author is professor, Indian Institute of Public Administration

Policy agenda on farmers' distress must include urbanisation-oriented actions

THE POLITICAL ECONOMY in India has not given due cognisance to the potential of urbanisation and associated expansion of income and employment in the non-farm sector to address farmers' distress. A huge sum of ₹2.3 trillion is extended to farmers under the typology of loan waivers and subsidies. Yet their agony continues. India will witness further increase in surplus workforce from agriculture, as it cannot gainfully accommodate the current size of rural population.

India ignored the potential of urbanisation commensurate to the requirements caused by structural transformation. The ministry of urban development was created only in 1985. Unlike India, urbanisation and development have followed the process of structural transformation across the world. Upper-middle and high-income countries with more than 80% urbanisation levels show 97% GDP from non-farm sector accommodating 83-99% workforce in 2017.

India is facing structural transformation without giving due attention to urbanisation and supplementary development of manufacturing and services. GDP from agriculture has declined at a far faster rate than size of workforce (56% in 1951 to 14% in 2011 and 69% to 43%, respectively). The size of 82% landholdings is less than one hectare, leading to fairly low income to small landowners. The share of landless labourers has gone up from 28% to 55% from 1951-2011. Marginal workers constitute 25% of the total workforce. This imbalance in the job market, resources and divide in rural-urban productivity causes stress among farmers.

Urbanisation should trigger non-farm sector to absorb landless labourers, small farmers and marginal workers for a reasonable access to income and employment. But there is a diagonal divide in the level of urbanisation. A large part of central and eastern India is below the national average of urbanisation and national income. More than 50% of non-farm, non-corporate sector enterprises are located in five states (Tamil Nadu, UP, Maharashtra, Karnataka and West Bengal). Urbanisation is also showing intra-urban divide in terms of concentration of 60%-plus population among top 394 towns, whereas nearly 7,000 small and medium towns (20,000-50,000 population) have untapped competitive edge and demographic dividend for expansion of non-farm sector. The policy agenda on farmers' distress should, thus, include urbanisation-oriented actions. We need to ponder how to expand non-farm sector, which are the locations and what actions are needed?

> A scheme on a mission mode should be launched to implement spatial dispersal of economic activities across India

First, promote spatial dispersal of economic activities containing a balanced development of urban centres across India. The Deen Dayal Antyodaya Yojana-National Urban Livelihoods Mission (NULM) aims to expand non-farm sector, yet is not covering census towns and lacks regional angle. NULM and MSME ministry should prepare time-bound programmes to harness economic potential in the vicinity of 7,000 towns to promote non-farm sector on the basis of local skills, traditional base and agro-based manufacturing.

Second, 3,892 census towns who have undergone structural transformation from farm to non-farm sector in their economic charter (over 75% not-farm sector employment) should be accorded status of statutory towns to be a part of urban planning and local economic activities as above. Third, the 7,000 municipal governments must do rural mapping in the hinterland to identify traditional skills to develop micro enterprises. Fourth, potential census towns from the preliminary survey of census 2021 should be identified and included in the plan for spatial dispersal of economic activities. Fifth, education and health facilities in small and medium towns are essential components to capture demographic dividend/competitive edge from the hinterland.

Finally, a separate scheme on a mission mode should be launched to implement spatial dispersal of economic activities with a particular focus on small and medium towns including census towns, aspirational districts of NITI Aayog, and surplus workforce from structural transformation.

VVPAT SLIP-BASED AUDIT

EC's chance to prove prudent or blinkered

It's important the EC doesn't feel circumscribed by the validating observations of the SC

MOHD HALEEM KHAN

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ONCE I KNOW THE PROPER question, I could solve the problem in less than five minutes," Albert Einstein pronounced. "It's not that they can't see the solution. They can't see the problem," GK Chesterton echoed. By these dicta, one can't escape the conclusion that Indian Statistical Institute (ISI) did not 'know the proper question' or 'see the problem' when it submitted its report to the Election Commission of India (ECI).

On April 8, the Supreme Court (SC) disposed of the writ petition(c) No. 273/2019 *Chandrababu Naidu & others versus Union of India & another*. The court noted "the ECI contends that a query had been posed to the ISI, namely, what would be the reasonable sample size of Polling Stations where VVPAT slips verification is required to be carried out to achieve the object of establishing the credibility and integrity of the electoral process." The SC further noted the ECI averment: "In response, the ISI had submitted an elaborate report, the crux of which is that verification of VVPAT paper trail of 479 (randomly selected) Electronic Voting Machines (EVMs) would generate over 99% accuracy in the election results." The court took on record: "as per Guideline No. 16.6 i.e. verification of VVPAT paper trails of one Assembly Constituency or Assembly Segment in a Parliamentary Constituency would involve verification of VVPAT paper trail of 4,125 EVMs instead of 479 EVMs which is eight times more than what has been reported by the ISI."

It is inconceivable any statistics expert can suggest 99% accuracy by taking out more than 88% (479 out of 4,125) assembly segments out of the VVPAT slip based audit. The ECI and ISI somehow failed to comprehend each other's jargon while trying to define the problem. If one were looking into the infallibility of EVMs per se, the sample size of 479 of the total number of EVMs being used might have been arrived at rightly. But if the problem is, to quote BJP spokesperson GVL Narasimha Rao, "the distrust among political leaders of all hues in voting machines is so high that most losers are wondering if they had been unfairly defeated in polls," then ISI should have eschewed from seeing the individual assembly segment wise problem in aggregate. It should have suggested statistically consistent sample size assembly segment wise. The number of EVMs to be audited must depend on the total number of machines used in that assembly segment after factoring in the impact of polling booth numbers being more or less.

The Supreme Court took on record following guideline: "...16.6.5. The following procedure shall be followed for the conduct of draw of lots:

1. a) White colour paper cards of post-card size shall be used for conducting the draw of lots.

2. b) Total number of such paper cards should be equal to total number of polling stations in the Assembly Constituency.

3. c) The paper cards shall have pre-printed Assembly Constituency/ Assembly Segment number, AC/AS name and date of polling on the top, and the polling station number in the centre. Each digit of polling station number shall be at least (1 inch by 1 inch) size and printed in black ink.

4. d) The paper cards to be used for draw of lots should be four-folded in such a way that polling station number is not visible.

5. e) Each paper card shall be shown to the candidates/their agents before folding and dropping in the container.

6. f) The paper cards shall be kept in the big container and must be shaken before picking up 01 (one) slip by the Returning Officer...."

Even the most finicky losing candidate will find it difficult to find loopholes in the above mechanism. The most ludicrous allegation against the returning officer, however, could always be conceived. Somehow the pooling booth where no rigging took place got picked up in the draw of lot, the poor looser may intone. My purpose of writing this is not to add credibility to such far-fetched insinuations of bias. It is to search for a logically sound and transparent way of saving the election process from political brinkmanship. The solution must upfront save the returning officer from allegations of bias and partisanship.

The Supreme Court has observed: "at the very outset the Court would like to observe that neither the satisfaction of the Election Commission nor the system in vogue today, as stated above, is being doubted by the Court insofar as fairness and integrity is concerned. It is possible and we are certain that the system ensures accurate electoral results. But that is not all. If the number of machines, which are subjected to verification of paper trail, can be increased to a reasonable number, it would lead to greater satisfaction amongst not only the political parties but also the entire electorate of the Country. This is what the Court should endeavour... In this regard, the proximity to the Election schedule announced by the ECI must be kept in mind." The Court concluded "having regard to the totality of the facts of the case and need to generate the greatest degree of satisfaction in all with regard to the full accuracy of the election results, the number of EVMs that would now be subjected to verification so far as VVPAT paper trail is concerned would be five per Assembly Constituency or Assembly Segments in a Parliamentary Constituency."

It is important that the ECI does not feel circumscribed by the validating observations of the SC. It should travel enough distance to achieve the larger objective of enhancing bipartisan faith in our election process. "...to greater satisfaction amongst not only the political parties but also the entire electorate of the Country," to quote the SC. Instead of selection of five booths for VVPAT slip based audit by draw of lots by the returning officer, the ECI must seriously consider options that insulate the returning officer from allegations of bias and partisanship—real or imagined.

Lest this opportunity to mitigate the vulnerability of the returning officer and eschew cost and time consuming process laid down in Guideline 16.6.5 is frittered away, the Guideline 16.6.1 and onwards, which in any case are going to be revised in view of the SC decision, be thoroughly revised. After the completion of the last round of counting of votes recorded in the EVMs for identifying the five polling stations per assembly constituency/segment, the names of two polling stations from the leading candidate and three names from the immediately behind trailing candidate be invited. The candidates/or his agent must furnish the same to the returning officer concerned, in front of the general observer appointed by the commission for that constituency. The returning officer shall give a written intimation regarding the invitation of names of five polling stations for verification of VVPAT slips to the candidates/their election agents well in advance. Since the names of polling stations going through VVPAT slip audit are given by the two candidates who emerged as number one and two in machine-based counting, it shall deny all opportunity to cast aspersions on EVMs. The objective of establishing the credibility of the electoral process shall be achieved and the transparency of the election process enhanced. It shall make the confidence-building measure participatory, too.