Keeping it lean

Can Narendra Modi fulfil the BJP's poll promise of reducing the government's size by merging departments?

RAISINA HILL

A K BHATTACHARYA

Later this week, a new government under Narendra Modi will be sworn in. Speculation is rife over who all will be part of the council of ministers. That may involve the fortunes of many leaders of the Bharatiya Janata Party (BJP). But what about the likely size of the central government?

The BJP had released its 2019 election manifesto sometime before the polls began. One of the promises read as follows: "In order to ensure better implementation of policies and coordination, we will merge similar and complementary departments into sectoral ministries. This will allow policy makers to frame holistic and comprehensive policies on the one hand and ensure smooth implementation on the other."

That promise is quite categorical. If this has to be honoured, preparatory steps must be taken right at the start of the tenure of this government. If ministers are sworn in and a decision on merging the complementary departments into larger sectoral ministries is not taken at the same time almost simultaneously, this promise is unlikely to be fulfilled later. Once someone takes charge of his or her ministry, the task of chopping or changing the size and scope of that ministry becomes difficult with insurmountable turf issues taking precedence over the need for reforms and ministerial restructuring.

Merging complementary departments into sectoral ministries is not a completely new idea, but difficult to implement because of these political turf issues. Rajiv Gandhi as prime minister merged all the transport-related ministries under one omnibus ministry. Thus, shipping, railways, civil aviation and roads became departments under a mega transport ministry. But this experiment did not last long, partly because of the lack of conviction on the part of the then prime minister and partly because the political turf issues snowballed into a major political problem.

Can Narendra Modi, strengthened as he is now after the massive electoral mandate, fulfil the promise the BJP manifesto had made to the people? Can the ministries for railways, civil aviation, roads, highways and shipping be converted into a mega transport ministry? Why only talk about the transport sector? Why shouldn't there be an integrated ministry for energy, with three different departments under it looking after petroleum and natural gas, power and renewable energy?

Why should there be almost half a dozen ministries related to industry? Apart from the industry ministry, you have a ministry for heavy industries and public enterprises, a ministry for micro, small and medium enterprises, a ministry for food processing industries, a ministry for chemicals and fertilisers, a ministry for textiles and a ministry for steel. An omnibus industry ministry with all these sectors being covered as departments would help integrate the government's efforts towards reviving the industrial sector of the economy.

Similarly, why should there be two different ministries for the mining sector — one for coal and the other for mining? The need for streamlining would suggest that they should be merged into one ministry with two different departments.

The BJP manifesto has also promised that there should be an integrated ministry for water, "unifying the water management functions to approach the issue of water management holistically and ensure better coordination and efforts." The proposed new ministry for water could take over the functions of the existing two ministries — one for drinking water and sanitation and the other for water resources, river development and Ganga rejuvenation.

The challenge for Modi is that merging complementary departments and ministries would mean reducing the overall size of the Union Cabinet and the number of ministers of state with independent charge. Not that a similar exercise was not attempted in the past. In 2014, the ministry for road transport and highways and the ministry for shipping were brought under one minister — Nitin Gadkari. But that was a half-hearted measure as the other segments of the transport-related ministries like civil aviation and railways were kept under different ministers.

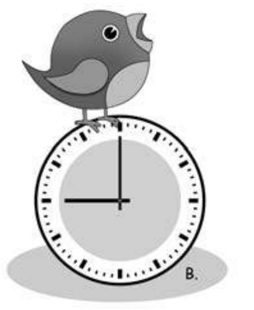
If the government has to be made lean and more effective, the first move should be to merge the complementary ministries and departments by appointing fewer cabinet ministers and ministers with independent charge. This will become necessary as the total number of ministries would decline.

At present, there are 25 cabinet ministers and another 11 ministers of state with independent charge. In addition, there are 34 ministers of state. With Modi as the prime minister, the total size of the council of ministers goes up to 71.

For those tracking Raisina Hill to check whether the new Modi government believes in fulfilling the BJP's manifesto promise of merging complementary departments, May 30 will provide a clear answer. If the structure of the ministries, announced on that day, continues to remain by and large unchanged without any merger of complementary departments, then it is unlikely that such changes will happen at all during the tenure of the new government.

CHINESE WHISPERS

Quick response team



Every Twitter message to the Prime Minister's office that tags Narendra Modi is getting a reply. Since Thursday night, a media cell with the PM has functioned 24X7 to ensure each of those million messages are mapped, replies framed and approved before they are despatched. The cell has set up an internal time check of seven minutes to respond to each of the congratulatory messages and that includes the time taken to translate those into the languages concerned in case a message is not in Hindi. Team members are on rotation to keep the conversation going.

Jagan's gift for Team IPAC

After his emphatic win in the Andhra Pradesh assembly polls as well as the Lok Sabha elections, YSR Congress' YS Jaganmohan Reddy *(pictured)* is all praise for Prashant Kishor and his Indian Political Action Committee (IPAC) team. It is learnt that IPAC members who had worked on Reddy's campaign would be gifted one month's salary each by the man himself. IPAC could also bag some of the more lucrative consultancy projects under the new government. While it is unclear what role the IPAC would play under the new dispensation, Reddy has evinced a desire that the team continue to "support" him in running his government.

Favour all, not one

A Hindu seer in Bhopal who was part of the Niranjani Akhara was sacked over the weekend for performing a "yagna" for Congress candidate Digvijaya Singh in the run-up to the Lok Sabha polls. Mahamandaleshwar Swami Vairagyanand had conducted the ritual for a week, offering 5 kg of red chilli, praying for Digvijaya Singh to defeat Bharatiya Janata Party's Bhopal candidate Pragya Thakur. "It is not the duty of a sage to favour one person and pray for the defeat of another. Sadhus should work for the growth and prosperity of the entire nation," was the official reason cited. Let's wait and see if the seer undertakes a *samadhi* as he had promised to do if Digvijaya Singh lost in the polls.

Six suggestions for the new finance minister

Some unsolicited advice for a government with brute majority and nation's pragmatic chief money man

BANKER'S TRUST

TAMAL BANDYOPADHYAY

We have a rock-solid government at the Centre for the next five years. And a pragmatic governor at the central bank, a doer. The combination encourages me to put on the table half a dozen unsolicited suggestions before the new finance minister. Some of them may sound radical but then the Bharatiya Janata Party-led government is decisive and on a mission mode.

Privatise public sector banks: Under the Banking Act, the Indian government needs to hold at least 51 per cent of the paid-up capital in such banks. Besides direct government holding, the Life Insurance Corporation of India holds significant stakes in such banks and a few public sector undertakings, including some of the peer banks, cross-hold PSB shares, ensuring indirect but complete government 'control' over all PSBs.

Let's change the Act and privatise some the PSBs. In past two years, the government has infused close to ₹2 trillion to keep the ailing PSBs afloat. Historically, the government has pumped in ₹3.5 trillion, a bulk of which (some ₹3.3 trillion) has flown in since 2009. How much money would the government have made had it invested this sum in Bank Nifty?

A panel has recommended creation of a holding company for all PSBs by transferring the government's stake to it to run them efficiently and create value. This may not work as it's difficult for the government to let loose its control. Consolidation (which has started with merger of three PSBs) will not solve the problem. The government-owned banks don't need to have close to 70 per cent share of banking assets. To start with, let some of the smaller PSBs be privatised. The government will not make money selling its stake but save enormous amount of tax payers' money.

Abolish priority sector loan norms: All commercial banks (including foreign banks operating in India) need to channel 40 per cent of their loan assets to the so-called priority sector, consisting of small business units, farmers and so on. The definition of the sector changes periodically. Most banks fail to meet the target; they lend money to microfinance institutions to be on-lent to these segments or invest in certain bonds as stipulated by the Reserve Bank of India (RBI). Indeed, there is need to finance such segments but why not do it directly through the National Bank for Agriculture and Rural Development (Nabard), Small Industries Development Bank of India (Sidbi) and even National Housing Bank (NHB). Two of the three are refinance agencies with some regulatory responsibility thrown in. Let them meet the financial needs of the farmers, small entrepreneurs, low-cost housing and the so-called have-nots and free up the banking system to lend to the private sector.

Put NHB to sleep: Why should we kill NHB? Is this because a few large mortgage companies are in trouble? If this is the reason, shouldn't the RBI too close its shop because of a crumbling non-banking finance company (Infrastructure Leasing & Finance Company Ltd) and a very large public sector bank being hit by the biggest fraud in banking industry (Punjab National Bank)?

No. The reason for setting up NHB in July 1988 was the creation of the mortgage market in India when banks were not giving home loans, fearing asset-liability mismatches. The NHB's mandate was to find ways of long-term finance needed for home loans and create a housing finance market. It has served the purpose and it's time to put it to sleep.

ILLUSTRATION BY BINAY SINHA

The RBI which had contributed the entire capital (₹1,450 crore), divested its stake in NHB in March. Over a period of time, a few powerful housing finance companies (HFCs) almost captured the regulatory role of NHB, turning it into a mere refinance agency. To complicate the problem, it has been liberal in giving licences — now there are 98 HFCs, double the number three years ago.

Look at the arbitraging the HFCs have been doing with dexterity. They take long-term cheap refinance from NHB and lend the money to the realtors. The NHB Act merely says an HFC should have a major portion of home loan assets to get the refinance but doesn't specify how much. This blurs the dividing line between a non-banking finance company (NBFC), regulated by the RBI, and an HFC, regulated by the NHB. And both the regulators cannot make joint inspections of the books of HFCs and NBFCs.

Look at the NHB website to get a feel how it penalises HFCs for violating norms. On August 9, 2018, it penalised Dewan Housing Finance Corp Ltd, a deposit-taking large HFC, a princely sum of ₹6,500 for non-compliance with the provision of para 27(2) of NHB directions 2010. What's this para all about? An asset cannot be upgraded merely by rescheduling "unless it satisfies the conditions required for the upgradation".

The NHB Act allows an HFC to restructure a bad asset only once, but with board approval. In this case, it was done without the board approval. The entire world is aware that till recently the trinity of a private bank and two HFCs were "managing" the quality of many loan assets with innovative accounting and liberal dose of "top-up" loans but when NHB and RBI finally decided to put up a joint drive to check their books, it was too late.

Finally, less than 100 NHB employees are tasked with the inspection of the ₹6 trillion assets of HFCs. We don't need a separate mortgage regulator. Let NHB be merged with the RBI to help the banking regulator set up a new wing to regulate the HFCs.

Fine-tune the insolvency code: The Indian insolvency law is more aggressive than what most developed markets have. In the past couple of years, following the new law, the body language of both the bankers and corporate honchos has changed. The promoters are not taking their empire for granted anymore and the banks are no longer giving them kid-glove treatment.

But on ground, things are hardly moving. Woefully inadequate infrastructure is just one of the many reasons why an insolvency case is not settled within 180 days and even 270 days as envisaged by the law. The National Company Law Tribunal and the National Company Law Appellate Tribunal have been entertaining frivolous cases as the promoters are not willing to give up their empire. If this trend continues, the insolvency law will turn into a joke. We need to find ways to stop entertaining these appeals to delay the process and frustrate the prospective buyers of bad assets and hurt banks' books.

Set up a fiscal monitoring council: It is worth revisiting the proposal of the committee on the Fiscal Responsibility and Budget Management for setting up a fiscal council to monitor the government's fiscal announcements for any given year and providing its forecasts and analysis.

In the US, since 1975, the Congressional Budget Office has been producing independent analyses of budgetary and economic issues to support the Congressional budget process. It is non-partisan; conducts objective, impartial analysis; and hires its employees solely on the basis of professional competence without regard to political affiliation. It doesn't make policy recommendations but each of its report and cost estimate summarises the methodology underlying the analysis.

An independent council is needed as the fiscal deficit figures and the quantum of government borrowings in isolation do not tell the full story. Beyond the official market borrowing to bridge the estimated fiscal deficit, the government agencies such as Nabard, Food Corporation of India, Power Finance Corporation, Rural Electrification Corporation Ltd, National Highways Authority of India, among others, have been continuously borrowing money, with the government backing. Such quasi-sovereign borrowing runs into trillions of rupees. Then, the RBI has been paying interim dividends to the government in past two years. We need something on the lines of the International Monetary Fund's fiscal monitor database for transparency.

Finally, RBI's freedom: The proceedings of the past few board meetings of the RBI, before Shaktikanta Das took over as governor, were not the best illustration of how a central bank should run. With freedom, comes responsibility and the RBI brass must be held accountable to the board. Do all the directors have the expertise in central banking? Should there be directors who can have conflict of interests when it comes to issues such as liquidity and interest rates as they run their own business houses? Should the government have two nominees on the board?

The US Federal Reserve has a two-tier structure — a central authority called the Board of Governors in Washington, DC, and a decentralised network of 12 Federal Reserve Banks across the country. The seven-member board of governors of the US Fed is an independent government agency charged with overseeing the Federal Reserve system. The members, appointed by the US president and confirmed by the senate, serve staggered 14-year terms. Such a long-term is to shield them from political pressures. A board-managed RBI is a great idea, provided we have the whole-time directors with the right calibre. Let's do that.

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INSIGHT

Ideas for India

Above everything else, we must understand that over the last few years we have been held hostage to economic ideas that were governed more by rhetoric than by data-based evidence

SOUMYA KANTI GHOSH & PULAK GHOSH

With the NDA government set to assume office, there is a lot of chatter about the reform agenda. While some of that is purely repetitive, we first need to understand that in last few years we have been held hostage to economic ideas that are governed purely by rhetoric and less by data based evidence. This will also help us identify the immediate priorities of the government.

First, the idea that high real rate of interest is a strong enabling factor for savings is a misconstrued fallacy in the Indian context and it has done enough harm. It may be note that such a debate was first initiated by former Reserve Bank of India governor Raghuram Rajan and has been emphasised repeatedly. Interestingly, in a recent RBI paper it has been conclusively argued that income is the primary determinant of savings in India. Even the empirical evidence in Indian context strongly supports the contention that savings is insignificantly small related to real interest. In fact, the actual coefficients are significantly small and insignificant in most of the cases, suggesting a large change of as much as 3 per cent to 10 per cent in real deposit rates will be needed to change savings rate by 1 per cent and small changes will hardly make any difference, if any. This is perhaps the primary reason why real interest rates in India are so high for the wrong reasons thus hurting investments even as inflation has been materially overshooting. A singleminded focus on moving towards a 4 per cent inflation may have also resulted in keeping real interest rates at a high level.

So, the first thing, the government and the RBI needs to do is to have an honest debate about the sanctity of the 4 per cent inflation target. In 1980s and 1990s, monetary policy in India was subordinated to fiscal policy, but now monetary policy clearly dominates fiscal policy, instead of complementing it. We need to have lower rates, coupled with adequate liquidity and an instruction from RBI to banks for transmission by linking repo rates to an external benchmark like CASA.

Like most advanced economies and several emerging market economies India should target a structural deficit, which serves as an automatic counter-cyclical stabiliser

Second, the clamour for a faster fiscal consolidation. While the idea for fiscal consolidation in the Indian context is always welcome, the problem is that such consolidation often becomes a constraint (as is currently in the quest for government to push growth).

With global debt, currently at close to $250 trillion, there have been a couple of insightful commentaries on the role of debt and fiscal policy recently. Most recently, noted economist Olivier Blanchard in his presidential address to AEA reemphasised that high public debt is not catastrophic, if it justified by clear tangible benefits in the form of public investment. Blanchard also added that aggressive contingent fiscal rules are more important than the level of debt as a percentage of GDP itself and even steady fiscal austerity.

Even Paul Krugman has repeatedly emphasised that governments should be spending money on infrastructure and on health care and education that have huge long-run payoffs.

Back home, a recent RBI paper on emerging market economies using the structural balance approach to fiscal deficit found that in the post-Lehman years (2008-10), the impact of fiscal stimulus turned out to be positive and statistically significant. The study concludes that the observed slump in growth in the post-crisis period would have been much sharper in the absence of stimulus, implying that fiscal activism pursued by these emerging market economies, including India, was largely successful in arresting the growth downslide.

Here is our contention: How far and how fast we can go below current 3.4 per cent as far as the centre's fiscal deficit is concerned against the current demand slowdown? Do we stay put at 3.4 per cent (assuming it is met) for the first two years of the current government and then move down aggressively, as growth comes back to the system? We propose a radical shift in thinking as far as fiscal is concerned. The alternative to targeting fiscal deficit is that like most advanced economies and several emerging market economies India should target a structural deficit, which serves as an automatic counter-cyclical stabiliser.

The FRBM targets that have been set from the outset as a fixed percentage of GDP do just the opposite. The deficit shrinks when growth dips and balloons when growth rises. This pro-cyclical target setting has forced successive finance ministers to look for creative ways of getting around such FRBM straitjacket (off balance sheet financing for example).

Even IMF comes up with the structural fiscal balance for every country. Based on such, projected balance for India as per IMF comes to an average of – 6.3 per cent for the 2018-23 period. Clearly, it looks even the IMF finds it difficult for consolidated deficit to decline meaningfully below 6 per cent in the next couple of years. The question is therefore, do we keep it at current level of 6-6.5 per cent, or go down the FRBM glide path to 5 per cent?

The ideal fiscal rule we must debate is that India sets its own fiscal benchmarks (and not as defined by Maastricht treaty at 3 per cent) but then enact fiscal rules to ensure strict compliance. The policy makers in India thus have two options — to continue to deviate from FRBM-mandated targets or enact country-mandated credible, transparent and achievable fiscal rules.

Apart from these basic initiatives, the government should now find a way to address the issues in the NBFC sector. Does the government issue long tenure bonds to infuse liquidity to take advantage of the current low spreads at long end? These are some of the issues that can be debated.

The other reforms that the government could do is related to the rural sector, banking sector and a comprehensive set of legal, administrative , judicial and police reforms. The government must create a repository of all existing central and state laws, rules and regulations and address the backlog of pending cases.

Clearly, a lot on the plate for the second term of the NDA government.

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Farm price challenge

New govt has to tackle this urgently

A persistent slump in the commodities market despite substantial hikes in the official floor prices of major crops to 50 per cent above their production cost is among the issues the new government would need to address urgently. Most of the commodities for which the government fixes minimum support prices (MSPs) are being traded at 10 to 30 per cent below these rates in the ongoing rabi marketing season. The situation in the last kharif season was no different. The only exceptions are wheat and rice in select areas where these are procured by official agencies and a few others like barley, tur (pigeonpea) and cotton, whose demand outstrips supplies. Though pulses and oilseeds are also purchased in some areas by government-designated agencies, the quantities picked up by them are too meagre to impact the market. The government's flagship price support scheme, PM-AASHA (Annadata Aay Sanrakshan Abhiyan), has remained virtually a non-starter. The losers in the process are the farmers who, it is feared, might resume their protests once the new government settles down in office.

The present commodity price meltdown can, indeed, be attributed largely to factors such as consistent surplus production in the last couple of years, subdued global commodity prices and unfavourable domestic and external trade policies concerning agri-commodities. Besides, some imprudent moves such as offloading previously procured stocks and permitting imports while the domestic crops are still being marketed also seem to have contributed to it. This aside, the PM-AASHA (Pradhan Mantri Annadata Aay Sanrakshan Abhiyan) scheme has been marred by some basic flaws in all the three price support components: Physical procurement of stocks at MSPs, price deficiency payment of the kind tried out in Madhya Pradesh, and a few other states, and the participation of private trade in the procurement and management of farm produce on a fixed-commission basis.

The system of open-ended procurement of staple cereals, notably rice and wheat, has been in operation for decades and has served well to run the world's largest public distribution system but at a huge cost to the exchequer. It has, however, remained confined primarily to parts of a handful of states where the procurement infrastructure exists. Elsewhere, even rice and wheat are traded at sub-MSP rates. Universalising this system to cover all crops all over the country is unthinkable. The price deficiency payment system, too, has failed to deliver the results because of a cumbersome registration procedure; mandatory sale through the regulated mandis dominated by manipulative middlemen; and capping total purchases at 25 per cent of production. The third option of roping in private traders in price support operations has found no takers chiefly because the proposed commission of 15 per cent of the MSP for the operation involving buying, bagging, transporting, storing and disposing of the stocks is too meagre for the task.

Apart from addressing these issues, several other measures may be needed to prop up agri-commodities prices. An export window as an outlet for surplus stocks is a must. This can be created by modifying import-export tariffs with an eye on boosting agri-exports. Besides, the farmers need to be incentivised to diversify their production by growing high-value crops, which could yield better returns without the government's intervention. The overarching objective of the policy regime has to be to strike a balance between the farmers' interests and inflation management.

Ease of investing

FPI panel suggestions make eminent sense

The Securities and Exchange Board of India (Sebi) on Friday asked for comments on the recommendations made by a working group that reviewed the foreign portfolio investment (FPI) regulations. The group, under the chairmanship of former Reserve Bank of India deputy governor H R Khan, has suggested about 50 changes, which, if implemented, will lead to a radical makeover of the current FPI regime and reduce the regulatory burden substantially. The salient changes include increasing FPI limits in listed companies and propose to reduce the paperwork for registration of "well-regulated" entities, overseas insurance companies and pension funds. FPIs will also be allowed to invest in unlisted businesses headed for an initial public offering. The report has further suggested laying down clear regulations for FPIs to invest in real estate investment trusts (Reits), infrastructure investment trusts (InvITs), and alternative investment funds (AIFs), instead of the current practice of clearing such investments on a case-by-case basis.

These appear to be pragmatic and progressive suggestions, and, if properly implemented, should clear the way for an increase in FPI flows. Of course, the implementation will require detailed discussions with the central bank and the tax authorities, which have legitimate concerns about money-laundering and round-tripping. FPIs wishing to invest in Indian assets are often constrained by the 10 per cent limit in listed stocks, which often leads to a limited floating stock. Increasing the limit now requires a resolution from the company's board and shareholders. This is an onerous process, and FPIs are not allowed to invest in unlisted firms.

The sectoral limits are intended to prevent foreign entities from exercising control. But this concern is misplaced because FPIs are passive investors. So far as unlisted start-ups are concerned, the recommendations will help reduce the paperwork. If an FPI wishes to invest in an unlisted start-up now, it has to first open an alternative foreign direct investment (FDI) account. At the same time, there is a shortage of available capital for start-ups. Cutting down red tape allows FPIs to invest in unlisted firms, while making a larger pool of capital available for start-ups. Similarly, in the cases of REITs, AIFs and InvITs, a clear-cut set of regulations will remove red tape and the ambiguities involved in entering these instruments.

It has been recommended that overseas pension funds be treated as "Category I" investors, along with sovereign wealth funds, since these entities are highly regulated in home jurisdictions and their sources of funding are clear. Category II investors include most broad-based FPIs, with over 20 investors. Category III consists of hedge funds and "narrow-based" insurance funds, which need high compliance. Insurance funds, which are also highly regulated, should be moved to Category II. It's also recommended that other FPIs in Category III be allowed to migrate to Category II if they are based in low-risk jurisdictions, and that the definition of "broad-based" be founded on economic ownership, meaning the stakes of major investors rather than the number of investors be considered.

The working group has invited comments from the public till June 14, and the feedback is expected to be generally positive. If the recommendations are accepted, they would make a significant difference to the ease of investing in Indian assets.

ILLUSTRATION: AJAY MOHANTY

What constitutes a good UBI?

The lack of "universality" becomes the biggest problem in any Universal Basic Income scheme since it raises the challenges of effective targeting

ABHEEK BARUA & SAKSHI GUPTA

The idea of Universal Basic Income (UBI) seems to have made a permanent entry into the Indian policy lexicon. The NDA government took its first step with PM-KISAN and the Congress manifesto promised Nyuntam Aay Yojana (NYAY). Telangana and Odisha have had their own cash transfer programmes for a while and Andhra Pradesh, Sikkim, West Bengal and Jharkhand might have their variants soon.

UBI in its textbook avatar rests on three pillars — it is unconditional and universal, and involves a fixed amount of cash transfer. Developed economies including the US, Canada and Finland have run pilot programmes to understand how well a UBI will work. Their principal concern is that of automation creating a jobless society and their versions conform to the textbook model in that all households would receive the same cash transfer.

Developing countries, on the other hand, see UBI largely as an anti-poverty tool. Given resource constraints, their programmes are forced to jettison the first critical feature of UBI — that of universality. This includes Brazil's much-discussed Bolsa Familia, China's Dibao, and all of the schemes proposed or operational in India. These are partial Universal Basic Income schemes if one is willing to ignore the basic contradiction involved in the phrase.

Not surprisingly the lack of "universality" becomes the biggest problem since it raises the challenges of effective targeting. For a targeted UBI, the four key elements that determine its success are captured in the acronym GAM-CAP. These are effective governance (particularly for local administrative bodies), the optimal amount of transfer, the appropriate metric used to identify beneficiaries, and, most critically, the presence of adequate capacities for the supply of goods and services that households are likely to demand with the cash they receive.

Targeting becomes difficult in emerging markets (EMs) principally because of a large informal sector. Since hard data on family incomes is difficult to come by, federal or state governments need to rope in local bodies (the equivalent of our panchayats) to identify the poor. International experience shows that governance standards determine how well this works. Both China (Dibao) and Brazil (Bolsa Familia) implemented their basic income schemes through the support of local governments. However, in China, corruption at the municipal level resulted in rampant misuse while in Brazil, the Bolsa Familia programme was a success due to the effective participation of local bodies.

In cases where cash transfer is targeted at a specific section, alternative metrics could be used instead of income thresholds. It is imperative to choose a metric that ensures that the right people get the transfers. India provides examples of how the wrong choice can lead to both inclusion and exclusion errors — that is of transfers reaching those who should not be entitled and excluding the deserving. Telangana's Rythu Bandhu, which followed a massive exercise to collect and update its land ownership data before the implementation of the scheme, is a good example. By focusing exclusively on land records, it failed to exclude income-tax payers or government employees who held less than the threshold amount of land, resulting in a classic case of inclusion error. Further, by making land records the basis of the benefit transfer, the scheme ended up excluding tenant farmers, who are often the most vulnerable.

PM-KISAN also chooses land holding as the metric of identification and, apart from the daunting task of sifting through the land records (often undigitised), it risks the exclusion of the vast population in the farm sector that deserves transfers the most but do not own land.

The amount of cash transfer also becomes critical. Give too large a sum and the incentive to cheat increases; give too small an amount and it barely makes a dent in living conditions. Under NYAY, the cash transfer proposed seems too large. At ₹72,000 per annum, or roughly 58 per cent of the median household income for the population as a whole, the incentive to game the system is high and could lead to large inclusion errors. Those who believe that the use of BPL cards will do the trick might want to look at a simple case study done on the patients at the All Indian Institute of Medical Sciences (errors of inclusion and exclusion in income-based provisioning of public health care, Bajpai V et al, 2017, NCBI). Of the 374 study subjects, 69 per cent of the poor did not possess a BPL card.

The solution is to impose a self-selection filter making the transfer conditional. For instance, payments can be made in lieu of the work done. Thus, MGNREGA clearly scores over NYAY on this count. If, however, for some reason it has to be unconditional, the design of the UBI transfer amount has to ensure that the incentive to game is minimised.

The capacity issue (the CAP of our GAM-CAP) asks a simple question. If cash transfers create a demand for goods and services, is there enough capacity to supply them? In health and education, which are textbook instances of market failure, should the government spend its resources creating capacity or augmenting incomes, assuming that it has to make a choice? Is a UBI bound to be more successful in Brazil, which spends about 6 per cent of GDP of public money on education whereas India spends 2.8 per cent, and $607 per capita on public health, compared to $59 per capita in India?

Income transfers do not make people lazy. Nor do they encourage spending on sin goods like alcohol. There is a trove of case studies across countries that debunk these myths and show that it can make a significant difference to people's lives. Bolsa Familia, initiated in 2004, led to a 20 per cent drop in inequality and a 28 per cent drop in poverty in Brazil. In Kenya, a $45 pay-out a month cut the number of days children went without adequate nutrition by 42 per cent and increased livestock holdings by 51 per cent.

In our case, there are two critical questions that need answers. Will the government have the courage to phase out subsidies to fund a UBI so that fiscal limits are not busted? Equally importantly, does the design of a cash transfer tick all the GAM-CAP boxes?

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Modi's second innings: The one thing

IRRATIONAL CHOICE

DEBASHIS BASU

From the afternoon of May 23, when it was clear that Narendra Modi was leading the Bharatiya Janata Party-led coalition to an epic electoral victory, email boxes of journalists and editors have been inundated with emails from industry associations, businessmen and financial experts about the many urgent issues that he should tackle. The list is long. India has accumulated many intractable problems over many decades. Now that the BJP has secured an overwhelming popular mandate, everyone who has voted the party to power and also many economic commentators are broadcasting their own wish list for the PM to fulfil.

Such lists are gratuitous. Mr Modi probably does not read them; he does not need anyone's advice, least of all those of columnists like me. Whether good or bad, right or wrong, he makes his own decisions and sticks to them. But while his political victories have been absolute and complete, his economic wins have been debatable, especially since the government has consistently massaged data to make its performance look better. This may be temporarily forgotten, given the current climate of wild euphoria among BJP party members and the blind optimism of the average citizen.

What can a top political performer like Mr Modi do to make his regime an extraordinary economic success as well? For one answer turn to Gary W Keller and Jay Papasan's bestseller *The One Thing: The Surprisingly Simple Truth Behind Extraordinary Results*. They advise asking this simple question: "What's the ONE Thing you can do such that by doing it everything else would be easier or unnecessary?" If India has to succeed in its main objective of pulling millions of people out of poverty rapidly, it cannot waste something that we are perennially short of, which is capital. The one thing India needs is efficient allocation of capital, the lifeblood of economy.

Broadly, there are three types of entities that use capital in India. One, the central and state governments; two, government-owned commercial organisations; and three, the private sector. No matter who uses the capital, it is beyond debate that capital should be used as productively as possible. Now anyone with a rudimentary understanding of how capital is spent in India would tell you that the first entity is a massive waster of capital.

Some 33 years ago, Rajiv Gandhi was seized of this issue and tried to introduce what is called zero-based budgeting (ZBB) in 1986. Under ZBB all budgeting starts from a "zero base" every year, that is, expenses must be justified afresh each year, no matter what was spent in the year before. While traditional budgeting blindly calls for incremental increases over the previous year and tend to perpetuate waste, ZBB puts pressure on spenders to justify expenses each time, and reduce costs. Here is a small example of how ZBB can work. Under the MPLADS (Member of Parliament Local Area Development Scheme), billions of rupees are allotted to MPs each year. Only a fraction of this is spent by MPs and they are allowed to carry it forward. In ZBB, this money will not be allotted to those who don't spend it, allowing the money to be spent where it is needed more or used more effectively. Much bigger gains will accrue when hundreds of billions will have to be justified across the departments. We may also discover useless expenses, ghost employees and what not.

The second-biggest wasters of capital, of course, are failing public sector enterprises (PSEs). We don't know what Mr Modi intends to do here because under him the PSEs are duplicating a variety of work that private sector players are doing better, even in fast-developing areas like financial or digital infrastructure. That apart, there is hardly any effort made to stop the haemorrhage by PSEs in hotels, airline, telephones, steel, fertiliser, engineering, even photo films, apart from the waste at hundreds of state-level PSEs across states (many now BJP-ruled). Both the government and PSEs, as capital allocators, do not have any incentive to reduce waste of money. Put it differently, they have no skin in the game. They need to be pulled out of the game because they are sucking up billions of rupees, which should be available to consumers and businesses.

By contrast, the third kind of capital allocators, those in the private sector, are "supposed to have" skin in the game, whether it is the giant Tatas or a small manufacturer. I write "supposed to have" because it does not always happen. If they don't have skin in the game, it is because the state or its various arms (*netas, babus* and public sector bankers) allow them to behave as irresponsibly as the PSEs (best exemplified as crony capitalism). If the private sector is forced the freedom to compete fairly they would be far better allocators of capital than the first two.

If a government makes effective capital allocation priority, it would mean a smaller state, lower taxes, higher disposable income, and cheaper goods and services. The state can then allocate its capital to areas that facilitate this structural shift such as improved supervision. After the victory celebration ends, will the BJP convert its political mandate into a mandate to effect structural change through this "one thing" which will make so much of other efforts unnecessary?

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Ayn Rand's topsy-turvy legacy

BOOK REVIEW

JENNIFER SZALAI

Ayn Rand liked to see herself as an ardent custodian of truth, but in her own life she had a hard time abiding too much reality. The critical recognition she craved mostly eluded her — her best-selling novels *The Fountainhead* (1943) and *Atlas Shrugged* (1957) were lurid, melodramatic, full of implausible characters and turgid harangues — and as her fame and notoriety grew, she retreated to the safe harbour of her acolytes.

Or presumably safe. As Lisa Duggan explains in *Mean Girl: Ayn Rand and the Culture of Greed*, when Rand's affair with a much younger disciple soured in the late 1960s, her Objectivist movement — which venerated a single, knowable reality, rationally apprehended by gloriously self-interested individuals — seemed on the brink of collapse. "Emotion," Ms Duggan writes, "had brought down the house of reason."

It's the kind of strange, glaring paradox that makes Rand a useful emblem for our topsy-turvy moment, Ms Duggan says. Rand's simplistic reversals — selfishness is a virtue, altruism is a sin, capitalism is a deeply moral system that allows human freedom to flourish — have given her work a patina of transgression, making her beloved by those who consider themselves bold, anti-establishment truth tellers even while they cling to the prevailing hierarchical order. Not for nothing does her enormous fan base include Silicon Valley entrepreneurs, Tea Partiers, President Trump and innumerable adolescents.

But then, her ideas are too rigid to be neatly amenable to any real-world programmes. Ms Duggan's short book includes a long section on neoliberalism that seems, for a while, to lose sight of Rand. Despite her mentorship of Alan Greenspan, who would eventually become the chairman of the Federal Reserve, Rand was "not exactly a neoliberal herself," Ms Duggan writes. She also refused to support the election of Ronald Reagan, deriding him for succumbing to "the God, family, tradition swamp." She was an atheist and a fierce advocate for abortion rights.

Now, almost four decades after Rand's death in 1982, right-wing nationalism and evangelical Christianity are ascendant at the same time as economic globalisation and the erosion of the welfare state. Is there anything that ties this turbulence together? Yes, Ms Duggan says, but it isn't the vaunted rationality that Rand fetishised as much as it is the feelings she validated. "The unifying threads are meanness and greed," Ms Duggan writes of the current moment, "and the spirit of the whole hodgepodge is Ayn Rand."

Rand wasn't an especially sophisticated thinker who delved into primary texts to elaborate her philosophical system; she did, however, have a flair for the dramatic. One of her first jobs after emigrating from the Soviet Union to the United States in 1926 was as a scriptwriter for Cecil B DeMille. She brought that theatrical sensibility to novels like *The Fountainhead*, which, in Ms Duggan's astute appraisal, offers "numerous plot twists but no real surprises." In both *The Fountainhead* and *Atlas Shrugged*, "Ayn Rand made acquisitive capitalists sexy," Ms Duggan writes. The novels "are conversion machines that run on lust."

As befitting machines, the novels seem less literary than engineered. The Randian heroine is a Mean Girl — tall, svelte, severe. The Randian hero is a Mean Boy — tall, muscular, severe. Her villains are short and doughy, cursed with receding chins and dandruff. The undeserving weak exploit the worthy and the strong. The United States she depicts is ahistoric and sanitised for her readers' consumption — "a clean slate for pure capitalist freedom, with no indigenous people, no slaves, no exploited immigrants or workers in sight," Duggan writes.

Ms Duggan, a professor of social and cultural analysis at New York University and the author of previous books about gender, sexuality and cultural politics, says that her "weird obsession with Ayn Rand began many years ago."

What seems to fascinate Ms Duggan most is how Rand — with her unyielding worldview, her extreme, sweeping statements and her intolerance of dissent — has somehow managed to be reclaimed by those she so cruelly deplored. Rand described homosexuality as "immoral" and "disgusting," yet her "rages against the strictures of family, church and state appeal to many LGBTQ readers." But this is what happens when you devise a philosophical system in which every human relationship is transactional: Before you know it, you'll get co-opted and commodified too.

Ms Duggan paints Rand as cynical and shrewd in some ways, and hapless and naïve in others. In 1947, Rand volunteered to appear before the House Un-American Activities Committee as a friendly witness, delivering histrionic testimony that managed to alienate everyone, suggesting that she "never fully grasped" how Hollywood worked, or how government worked, or how the balance of power worked between the two. She liked to affect a steely, imperious persona, but she was deeply insecure and easily wounded. She developed a debilitating amphetamine habit. Her fictional heroes marched forth and conquered life, but real life kept throwing her for a loop.

Reading Ms Duggan on Rand's current fans made me think of the 1946 preface to Rand's early novel *Anthem*, in which she railed against "the people who support plans specifically designed to achieve serfdom, but hide behind the empty assertion that they are lovers of freedom." Surveying the wreckage, such people expect "to escape moral responsibility by wailing: 'But I didn't mean this!'"

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MEAN GIRL
Ayn Rand and the Culture of Greed
Lisa Duggan
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