Opinion

SATURDAY, JULY 13, 2019

ON BITCOINS
President of USA, Donald Trump

I am not a fan of Bitcoin and other Cryptocurrencies, which are not money, and whose value is highly volatile and based on thin air. Unregulated Crypto Assets can facilitate unlawful behavior

Falling morbidity shows Swachh Bharat impact

Economic Survey shows the mission could have contributed to the falling incidence of killer diseases like malaria, diarrhoea

IT HAS BEEN clear for a while that judging the Swacch Bharat Mission's (SBM's) impact from the toilet coverage effected under the programme—99.43% for individual household latrines (IHHL)—alone could be flawed. Indeed, a study by the Research Institute for Compassionate Economics (RICE) shows that, while toilet coverage is significantly up, usage tells a different story. As per official SBM data, Madhya Pradesh (MP), Uttar Pradesh (UP) and Rajasthan have already achieved 100% IHHL coverage. Yet, 44% of the rural population in Bihar, UP, MP and Rajasthan, as per RICE data, still defecates in the open. The RICE study found that SBM helped drastically improve rural sanitation coverage in the four states—up from 37% in 2015-16 to 71%. But, behavioural change in favour of sanitation is, perhaps, still a concern. Against this backdrop, the Economic Survey examines an important metric of the SBM's impact—the impact of improved sanitation on health—that may be used to nudge the behavioural change key to the programme's vision.

Diarrhoea, whose prevalence is negatively correlated with the spread of sanitation, is a leading cause of death among children under the age of five. The Economic Survey looks at SBM's impact on diseases like diarrhoea and malaria in children aged under five, and on incidence of still birth and low birth weight between 2015 and March 2019, in two groups of districts—one with a lower IHHL coverage than the 2014 national median of 33.5% and the other with a higher IHHL coverage than this median. Given how IHHL coverage would have shown drastically higher improvement in the first group after SBM's implementation, the Survey notes, the impact on health was also expected to be larger for it than the second group. Diarrhoea cases fell from 6,968 and 5,262 in 2015 to 5,683 and 4,550 in 2019 in the first and the second group of districts, respectively. Malaria dropped from 761 and 273 to 222 and 113, still births from 540 and 403 to 456 and 368, and incidence of low birth weight from 3,890 and 3,230 to 3,686 and 3,198. The Survey acknowledges that other factors, like distribution of mosquito nets, increased fogging, etc, along with steps taken under the National Vector Borne Disease Control Programme, the Integrated Action Plan for Prevention of Pneumonia and Diarrhoea, and numerous state initiatives, could have played an important role in the decline of these diseases. A ministry of drinking water and sanitation study in five states shows that the prevalence of diarrhoea in non Open-Defecation-Free (non-ODF) areas was higher than that in ODF areas. Another study, by WHO, shows that while, in 2014, there were an estimated 140,000 diarrhoeal deaths attributable to lack of proper sanitation, this had declined to an estimated 50,000 in 2017-18. The positive for health from SBM should translate into economic gains for a household—a Unicef study shows, on average, every household in an ODF area saves about ₹50,000 due to lower likelihood of disease due to using toilets and adopting sanitary habits. The poorest households benefit most from the spread of sanitation—the Unicef study, comparing costs and benefits of having a toilet over a 10-year period, found, financial savings exceed costs by 1.7 times on average, and 2.4 times for the poorest households under conditions of 100% IHHL coverage. While SBM must contend with challenges on effecting behavioural change, especially in the next phase where waste management is the focus, the gains of the programme are likely to soon become evident in the form of improved morbidity indicators across the country.

Fix govt spending on schools

Govt schools lag pvt ones, despite larger per-student spends

THE FY20 BUDGET has the largest absolute outlay for school education in the past 11 years. If the sheer quantum of the outlay for a department were a metric of the importance that a government attaches to the former's work, the ₹56,536 crore outlay in finance minister Nirmala Sitharaman signals that the Modi government is significantly recalibrating its focus on school education—NDA-II had drastically shrunk the allocation in FY16 (at ₹41,798 crore), compared to UPA-II's FY14 outlay of ₹46,856 crore. The Modi government, in its first term, talked of reorienting the National Education Mission by focusing on school education in a holistic manner, under the Samagra Shiksha Abhiyan—earlier, the Sarva Shiksha Abhiyan targeted elementary education while the Rashtriya Madhyamik Shiksha Abhiyan targeted secondary education. Samagra Shiksha would lay emphasis on increasing digitisation in pedagogy, proper deployment of teachers, strengthening infrastructure and, most important, improving learning outcomes. Given how, as recently as FY18, just 63.14% of government schools had electricity connections, as per data from the Unified District Information System for Education, analysed by *The Indian Express*, Samagra Shiksha's infrastructure focus should be some succour. But, the findings of ASER studies over the years and the National Achievement Survey (NAS) 2018 show that if the government—the Centre and the states—must spend on school education, it must allocate the bulk of its spending for improving learning outcomes—via "teaching at the right level", with computer-aided learning and other such measures. NAS—that tested learning outcomes in English, maths, science, social science and Indian languages—found that while 64% of Class III students surveyed at state board, CBSE and ICSE schools were able to correctly answer a maths question, in state-board schools, it fell to 54% in Class V, 42% in Class VIII and less than 40% in Class X (except for Andhra Pradesh). For English, the corresponding figures were 67%, 58%, 52% and <42% (except in Manipur). Fanned by bad policy like the now-scrapped "no detention rule" under the Right to Education, school education has suffered from the disparity in learning levels within classrooms—this showed in the spurt in dropout levels in the higher classes; as per the HRD ministry's Educational Statistics 2016, secondary dropout rate was over 18% while, at the upper primary level, it was less than 5%.

The draft National Education Policy "unequivocally commits to raising investment in education substantially—including a significant increase in public financial investment" and many experts would concur, especially on increasing public spending on school education. However, according to a 2014 study by the Accountability Initiative, while the median spending per elementary level student in government schools in 2011-12—this varied widely from state to state—was ₹12,768, the private expenditure for students enrolled in private aided and unaided schools ranged from just over ₹3,100 (Uttar Pradesh) to over ₹11,120 (Himachal Pradesh). Given private schools have consistently had better educational outcomes, to realise the learning outcomes that it is eyeing in the long run, the Modi government would do better if it were to subsidise private school education for those who can't afford it—Jan Dhan and Aadhaar can make this easy, and efficient too.

BodyBLOW

A new report finds that 75% of under-five children with disabilities do not attend any school

A RECENT REPORT by Unesco and the Tata Institute of Social Sciences, *State of the Education Report for India: Children with Disabilities*, finds 75% of five-year-olds with disabilities do not attend any schools in India—20% of children with hearing and visual impairment have never been in school—and that one in four in the 5-19-year-old cohort are not enrolled in an educational institute. The report is based on Census 2011 and takes into account 78,64,636 children with disabilities (CWDs) in India—1.7% of the total child population. Compared with children with learning disabilities, those with multiple disabilities see a much lower enrolment in schools and their dropout rate is also higher. The report also mentions that there are fewer girls with disabilities enrolled in schools than boys.

Against the backdrop of the stated inclusion goals of the government for persons with disabilities, the report shows that access to education will pose perhaps the toughest challenge. The Right to Education has provisions for enrolments of CWDs, but crucially has no clause for providing resources for them. As of now, most CWDs enrol in National Institute of Open Schooling, but, there has been a decline in enrolments from 2009 to 2015. The report makes several recommendations, one being amending the RTE to make it aligned with the Rights of Persons with Disabilities Act, 2016. It also mentions the need for driving an attitudinal change amongst parents and children—without this, any effort to build inclusion will flounder.

NO PROOF REQUIRED

TO ADVANCE PRIVATE INVESTMENT AND BECOME A $5-TRN ECONOMY, INDIA MUST REDUCE CORPORATE TAX RATE TO 22%, AND REDUCE MISGUIDED RATES OF PERSONAL INCOME TAXATION

Tax policy: Maximise, not moralise

SURJIT BHALLA & KARAN BHASIN

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Views are personal

BUDGET 2019-20 CONTAINED major tax changes to direct taxes, both personal and corporate. It may have been the last time that we witnessed such changes. Very likely, when Budget 2020-21 is presented, the government would have accepted the direct tax code report, and direct taxes will go the way of excise taxes—out of the budget.

The Budget reduced the corporate tax rate (CTR) from 30% to 25% for all firms with a turnover of ₹400 crore. Earlier, the 25% slab was applicable for firms with a turnover of ₹250 crore. The FM stated that this move would cover 99.3% of all firms in India; however, it is unclear as to how much of the total corporate taxes is accounted for by these 99.3% of firms. Speculation abounds—is it as low as 10%? We do not know.

Tax rates are always an item of discussion and debate, and now more so than ever. President Trump lowered the CTR for USA from 35% to 21% in 2018. As shown below, the lower tax rate was well-chosen by Trump because that is close to the optimal tax rate. But, that is getting ahead of the story.

OECD has recently released a comprehensive set of data on corporate taxes, for close to a 100 economies (*bit.ly/2EmYh3t*). The data reveals what has been feared (and argued) for a long time—India has one of the highest (actually the highest) corporate tax rate in the world. And, according to OECD, it also has the highest effective corporate tax rate (ECTR), and that too by a huge margin. India's ECTR is estimated by OECD at 44%; their definition includes all taxes paid by corporates in different countries—e.g., corporate tax, dividend tax, capital gains tax. Incidentally, the second highest ETR is for Argentina and it is 9 percentage points (ppt) lower than India, and third is France, 11 ppt lower. China's ECTR is 20 ppt lower than India's at 23.6%! One reason why China has got all the investments, and growth, at least relative to India?

In this age of globalisation, no country is an island. Competitiveness is affected by tax rates, interest rates, exchange rates, and labour costs. However, gone are the days when countries could devalue their way to prosperity. China accomplished this via massive undervaluation for about 20 years, from 1990-2010. Their success ensured that such undervaluation (read currency manipulation) would never again be allowed by the Western powers. It is likely that Trump's trade war would not have occurred if China had been more responsible with the setting of its exchange rate.

What can a country do to improve its competitiveness, given that the mercantilist route is no longer an option? It can reduce its cost of capital, make labour more competitive, make industry more competitive, and rekindle animal spirits. On the first three counts, the Budget has moved in the right direction. Sovereign bond borrowing is an idea whose time has definitely come, notwithstanding the perennial naysayers and those not comprehending the fundamental nature of change in the world. Inflation nowhere (including India) is the bogey it once was. Also, naysayers should note and answer the following question—between fiscal years 2004 and 2011 (the so-called Golden Age of Indian growth) the real repo rate averaged minus 1%. For the fiscal years 2016-2018 real repo rates averaged 2.3%. Go figure the growth implications.

Since Shaktikanta Das assumed Governorship of RBI, there has been considerable improvement in communication and a gradual lowering of policy rates, but this has also been accompanied by a more than equal lowering of inflation, i.e., the real repo rate has yet to move below 2.3%. The sovereign bond issue will help, but don't look for a quick acceleration in GDP growth.

Exchange rate change is no longer operational, labour codes are too slow to change, and monetary policy is sluggish in its operation and impact. The only real growth option for Indian policy makers—cut tax rates to internationally competitive levels. And what that might be? Around 22% for all firms, and we obtain that result from a comparative study (see graphic).

But first, a comment on the personal income tax (PIT) rate increase in the budget. The move to increase PIT rates to developed country levels is *not* in the right direction. It seems that there was more old-fashioned morality (tax the rich) than revenue maximisation at play. At best, the government plans to raise ₹5,000 crore more by socking it to the rich (total personal income tax collection is budgeted at ₹500,000 crore). And, even that may not happen as tax arbitrage between the much lower corporate tax rate and the near highest individual income tax rate (only 10% of countries have a higher than 43% top PIT rate) will move animal spirits towards payment of corporate tax. And, if not tax arbitrage, tax evasion may lower gain in PIT collection.

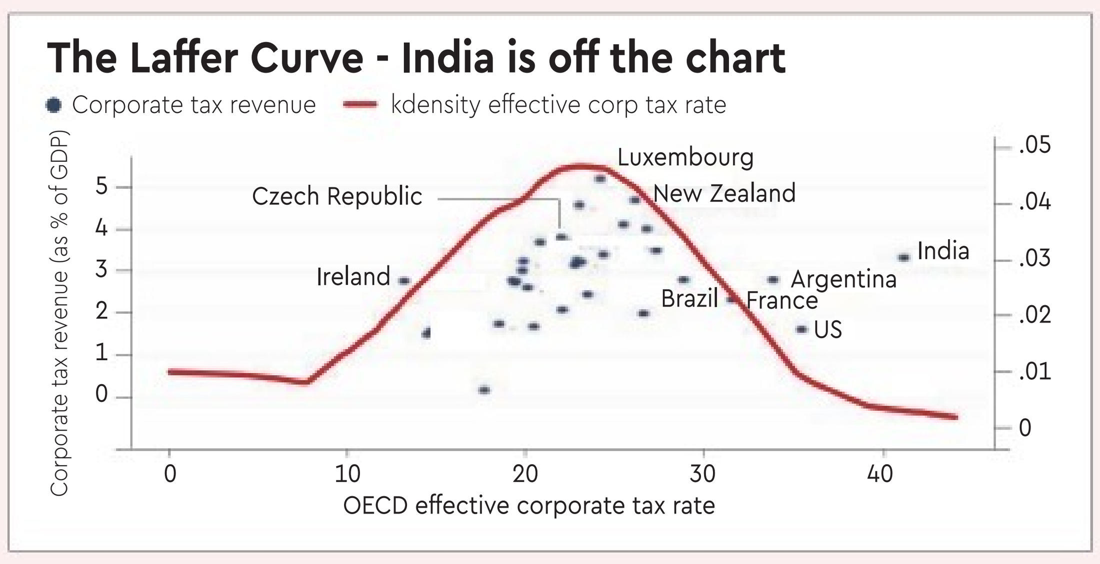
Ostensibly, tax rates are set to maximise tax revenue—and tax revenue depends on both income and tax compliance. Tax compliance can either be considered as more firms filing taxes or more firms revealing a closer approximation to true income. Improving compliance alone can ensure greater resource mobilisation through taxation—and without increasing the tax rate (and may indeed occur if the tax rate is reduced!).

The non-linear relationship between tax rate and tax revenue (as % of GDP) is revealed by the famous Laffer curve—i.e., with zero tax rates, you get zero tax revenue and with 100% tax rate, you get zero tax revenue. In-between, logically, the share of tax-revenue increases, before peaking and declining toward zero. Several "truths" become evident from even a cursory glance at the chart. First, that OECD cross-country data for 2017 conforms (fits) the inverted U-shaped curve rather well—and the inverted U is a close approximation to a normal distribution (see graphic). Second, that the lowest bang for the tax buck is obtained in India—possibly because tax rates are set on the basis of morality rather than revenue maximisation. In India, we tax at 44% to get 3.5% of tax revenue (as % of GDP). Both Korea and Israel (and other countries) obtain this same amount of revenue with half of India's taxation levels. As the graphic shows, the tax rate level at which revenue is maximised is around 23%, i.e., half of India's tax level.

Why is the effective tax rate in India so high? In India, firms must pay a corporate tax, which is followed by a surcharge and an additional 15% dividend distribution tax (DDT). The revenue mobilisation from DDT is marginal compared to the overall tax revenue from corporate taxes. Estimates suggest that the resource mobilisation from DDT is just around 8% of the total corporate tax revenue. A steep 15% DDT only dissuades firms from issuing dividends to their shareholders. Forget about double taxation as there's another moral Indian tax icing—if an individual earns more than 10 lakh of dividend income, she must pay an additional 10% tax. So, the same income is taxed thrice in India—and only in India.

Both the Budget and the Economic Survey focused on revival of private investment to ensure sustained long-term growth. Thus, there is strong case for further and aggressive reduction in tax rates on the grounds of revival of investment, and helping India become a $5 trillion economy. With another budget just six months down the line, there is hope that the government will realise its mistake and depart from misguided taxation policies.

The Laffer Curve - India is off the chart



Indigo shareholders deserve better

IndiGo should be rewarding its shareholders by consolidating its leadership position and filling the gap left by Jet, especially on overseas routes. Instead, the founders are busy picking fights

ANDY MUKHERJEE
Bloomberg

THE CO-FOUNDERS OF India's No. 1 airline are engaged in a bitter feud. Their quarrel couldn't have come at a worse time for minority shareholders of InterGlobe Aviation Ltd., the company that owns IndiGo.

Investors were just starting to enjoy the fruits of a frenetic expansion that saw the no-frills carrier, Asia's largest, double its capacity in the three years through March. Full-cost rival Jet Airways India Ltd. tried to keep up, until it was forced to ground its last plane in April under a truckload of debt. Meanwhile, InterGlobe has put together a cash war chest—net of debt—of nearly $2 billion.

This is the time for IndiGo to be rewarding shareholders by consolidating its leadership position and filling the gap left by Jet, especially on overseas routes. Instead, the founders are busy picking fights.

Rakesh Gangwal, a former CEO of US Airways Group Inc., has dashed off a letter to the Indian stock-market regulator alleging corporate-governance lapses. He says partner Rahul Bhatia, who owns 1 percentage point more than US-based Gangwal's 37% stake, is dragging IndiGo into transactions with his other businesses, which are mostly housed under InterGlobe Enterprises Ltd. (IGE Group), without adequate auditing. The airline pays rent to IGE's real-estate unit; the crew stays at hotels operated by Bhatia's joint venture with Accor SA; pilots are trained at IGE's flight simulator, a collaboration with Canada's CAE Inc.; a Bhatia firm has also acted as a sales agent for IndiGo.

What amounted to $22 million of related-party transactions, for a carrier that took in $4 billion in annual revenue, doesn't exactly smack of a governance scandal. Not at an airline that thrives on keeping its costs under control. Bhatia, for his part, wants to know why Gangwal is questioning the arrangements now when he "did not raise for 13 years a whisper." The India-based partner says he took most of the economic risk when setting up the airline. Besides, Gangwal isn't denying entering into a shareholders' agreement that gives Bhatia control, including the power to nominate half of the six-member board and most of the top managers.

Gangwal's letter mentions whistle-blowers. Unless those charges are serious and material, the battle looks more about monetising a business that he never wanted any part of until a persistent Bhatia talked him into it.

Today, the co-founders can be legitimately proud of IndiGo, a rare success story in global aviation, achieved in a brutally price-competitive and fast-growing market. The problem seems to be about dividing up that success fairly.

It probably rankles billionaire Gangwal, the strategy whiz, that his 37% stake is perhaps worth less than the market value of roughly $3 billion, while his money-man (former) friend's 38% stake is worth much more. After all, any airline or a buyout firm willing to write that big a check would want a measure of influence over the airline's future: That's something only Bhatia can give. If that's the real reason Gangwal is seeking to enlist the regulator's help "to make necessary changes to the unusual controlling rights available to the IGE Group," then it's a failure of mediation.

From the shareholders' perspective, it's a dangerous lapse. Indians' trust in business and business tycoons, finance and financiers, accounts and auditors has probably never been lower. Any suggestion of impropriety now can spiral out of control. No wonder the infighting dragged InterGlobe shares down nearly 11% on Wednesday, as investors braced themselves for a protracted and unpleasant legal and public-relations skirmish—much like the one that flared up at the Tata Group in 2016, after it fired then-Chairman Cyrus Mistry, who also happened to be a large shareholder.

IndiGo became No. 1 by making flights take off and land on time more often than most other large global airlines. To investors' horror, the messiness the carrier so studiously avoided in its operations—by relying on a single type of aircraft (the narrow-bodied Airbus), deploying its fleet efficiently and growing it strategically—has finally come back to haunt it. Not at the tarmac, but in the boardroom.

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LETTERS TO THE EDITOR

Amendment to POCSO Act

The amendment to POCSO (Protection of children from Sexual offences Act) law with an intent to award death penalty to those who perpetrate heinous sexual crimes against children doesn't qualify to be both a pragmatic and an effective measures to protect children from being ended up as a victim to sexual violence. Increasing instances of sexual abuse of children is a matter of grave concern, but death penalty cannot be an effective deterrent to sexual crimes. Poor conviction rates in sexual abuse cases aided by shoddy investigation and prosecution needs to be changed at first place. It should be noted here that it is not the severity of punishment, but certainty of punishment would act as a powerful deterrent.

— M Jeyaram, Sholavandan

Housing options

This is with reference to news report "*Housing still too costly for most*" (12 July). Against this backdrop there are innovative ways where to some extent it can be tackled and cushioned on immediate basis. There is good scope to rent out single rooms to construction workers on rent basis. Besides, students look for studio apartments in big cities. A major business waiting to be taped in big league is PG accommodation.

— NK Bakshi Vadodara

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SKILL INDIA'S DANGEROUS MISADVENTURE

Barking up the wrong tree

All that India needs is to identify emerging industries, engage with stakeholders there and let well-intentioned capital build capacity. Chase demand, and markets are smart enough for supply models to evolve themselves

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LET'S FACE THE ELEPHANT in the room first. Skill development programmes in India have just not worked. Period. Decades of programmes, schemes, *yojanas* and *prayojanas* to uplift the bottom-of-the-pyramid into white and blue collared jobs have just not been able to keep pace with the 12 million Indians that enter the workforce every year (versus the 5.5 million jobs created annually).

Thus, India faces a unique paradox. On one hand, a majority of Indian engineers are unemployable. On the other hand, you can't find a decent plumber to fix your sink. Somewhere in this disequilibrium lies the saddest evidence of India's failed skill development policies.

Requiem for a dream

India's skill development policies have been structured around the following questions:

1. How do we build more skill development centres? How do we fund them?
2. What course duration, curriculum, language, pedagogy and practical trainings should our programmes have?
3. Who is the 'competent authority' for teacher selection and allocation?
4. Should we leverage MOOCs, flipped-learning models for skills training?
5. At what frequency should we organise career fairs?

Despite decades of intent and capital infusion, India as a nation has failed at its skill development journey. And if the NSDC data is to be believed, miserably so (less than half of those getting certified get placed into jobs).

My hypothesis is very simple. We have been asking the wrong questions.

Demand > supply

We have been asking, how our youth would become employABLE; not employED. Let me explain.

As important as supply-side thinking is, India is missing out by ignoring the demand-side of the skills equation. Our policymakers, as well intentioned as they are, have not bothered enough about what skills the industry needs, and how an effective pipeline is built into it.

Instead of a wing-to-wing view, our policy suffers a selective definition of the problem. In some ways, it's like a restaurant kitchen churning out food that no one is ordering. And while the kitchen's dashboard looks great, we really aren't solving the hunger problem.

A personal anecdote

Back in 2015, I brought the World Toilet Summit to India. This was the first time since the Swachh Bharat Abhiyan was announced that the central government, state governments, multilateral agencies, corporates and NGOs all came together for PM Narendra Modi's mission to make India open-defecation-free.

Organised in partnership with the ministry of urban development, and attended by Cabinet ministers, MPs and senior bureaucrats, it was a very visible statement to the government's intent to solve the sanitation crisis.

It was interesting to find stakeholders primarily discussing supply-side like construction materials, logistical capability, district-wise targets, etc. On the other hand, we had three, simple, demand-side suggestions:

1. Open Defecation Free (ODF) projects wouldn't work till toilets are aspirational; till people wanted to break habit; and choose to use them. Behavioural change is not just critical, but had to be the starting point. (*Creating demand for toilets.*)
2. Measure the success of the programme in ODF numbers (output metrics), rather than construction targets (input metrics). This avoids the reeking reality where toilets are constructed, but used as storages or chicken coops. (*Creating demand for results, not action.*)
3. If you can have training and certification for other vocations, why not have a 'certified sanitation technician'. It kills the cultural stigma associated with 'toilet staff', and feeds skilled janitors to maintain these toilets. (*Creating demand for sanitation jobs.*)

The fascinating part was this. As intuitional as our suggestions may have sounded, the 'system' took a while to get around it. Stakeholders debated endlessly, often taking a very condescending view towards the demand-side of the equation. A very senior delegate pulled me aside to mock my view through an old Hindi adage: "You can take a horse to the grass, but it's his job to eat it."

Bureaucratic machinery has started ads around increasing usage of toilets. The 'system' now understands unused toilets can be a bigger disaster—in terms of optics, and in terms of health hazard.

The system now understands 'supply' is meaningless without 'demand'.

Demand-based thinking

As the world moves towards demand-based economy, so should feeder industries, including India's biggest offering—its talent. India skills policies have been plagued historically, unable to channel our demographic dividend towards this demand. In the 1980s and 1990s, private players like NIIT and Aptech built the pipeline for emerging tech jobs. Around the turn of the century, mom-and-pop 'accent coaching centres' sprouted across B&C towns to feed the BPO/ITeS engine.

While it is absolutely desirable that the private sector fill these gaps, the government cannot shy away from its share of the responsibility. The government may not be as agile or responsive as private players, but may want to institutionalise demand-based thinking into its skill development initiatives.

The five-point framework

Policy development in the new age should start at the end of the value chain, and reverse engineer to create supply (of skills). I suggest a five-point framework.

1. Industry outreach: In most other industries, surveys, voice-of-customer studies and focus groups define product specs and output. In our policymaking, though, economists rule the roost. That our economists are primarily (a) academicians and theorists (as compared to having real-world experience), and (b) educated outside India, albeit in world-class universities—this ensures that the ear-on-the-ground is missing. Current engagement with the industry is limited to the 3Cs: committees, conclaves and conferences. Most of these are platforms for sharing views. But unless a more tactical bridge is built, there's limited chance of truly understanding demand.

2. International outreach: The construction boom in Doha, the hospitality industry in Singapore, domestic helpers in Hong Kong, all need feeding. India is missing a huge opportunity to uplift its poor, by not engaging effectively with these receptacles. The Philippines and Indonesia, on the other hand, have grown as huge exporters of talent. Purely from a humanitarian perspective as well, many impoverished Indians are lured into lives of virtual slavery by unscrupulous touts and agents. Consolidation and disintermediation of these 'agents' will not just protect vulnerable Indian citizens, but help talent exports grow as well. Assam is exploring an ambitious project with South East Asian countries. If that works, it would provide a great template for other states to emulate.

3. PPP, without a P: Public-private partnerships have become the cornerstone for infrastructure development; the model can be extended across social-impact projects as well. However, the PPP model is premised on the congruence of objectives. In the case of skill development, though, the government is chasing social goal; the corporates a tactical goal. The answer is bound to be different when the question is. Time horizons, location strategies, curriculum are rarely at intersection. Instead, why not allow private players to create their own pipelines? It's not unimaginable to see the auto component industry in Chennai get together to set up a polytechnic for machine-tool operators, or for the textile industry in Tiruppur to set up their own tailoring schools. All that needs to happen is for the government to give them the authority, and probably a re-purposed out-of-use engineering college (ouch!).

4. Impact capital: The problem with public goods is everyone wants to use them, but no one wants to pay for them. This is where venture philanthropy and impact capital comes in. Even before the mandatory 2% CSR kicked in, Indian businesses had ingrained social responsibility in DNA. The Tatas built hospitals and townships, family-run enterprises built *dharamshalas*, micro-enterprises set up a *piau* (free water for strangers passing by) outside their shops. However, most of this intent is currently directed towards expenses, not investment. An interesting 'demand' to fulfil might be catering to the need of a donor to build something sustainable and visible. Let venture philanthropy solve what public expenditure and private capital cannot.

5. Quality, not quantity: Clearly, India needs to solve the quantity problem (of 12 million new entrants into the job market). In parallel, we need jobs that continually move people up the value chain. Efforts like Make in India, Digital India, Startup India, etc, may create a catchment area, albeit isolated clusters of jobs. India's domestic consumption and increasing prosperity definitely creates the need for more involved skill sets. India needs to think of building capacity in the talent pool to realise these higher-level dreams. More importantly, India needs to figure out what these needs are, and stop looking at skill development solely as a poverty-alleviation tool.

6. Bonus tip—use Excel, not PowerPoint: Demand is ground-up. Demand is a tactical aggregation of pockets-of-need. Most policymaking, however, is strategic—a bird's-eye-view of macro-level numbers. The scholarly pursuit of macroeconomics and public policy, as lucrative as it may be, doesn't necessarily translate to implementability. GDP numbers, unemployment rates, Forbes and World Bank ratings are great indicators, but not solution-tools. Genuine solutions to the skills challenge can emerge only from a micro, tactical approach.

In short, all that India needs is to identify emerging industries, engage with stakeholders there and let well-intentioned capital build capacity. Chase demand, and markets are smart enough for supply models to evolve themselves.

All I'm suggesting is a chapter from Hospitality Management 101. It's time policymakers reached out to stakeholders and asked, "How may I help you today?"

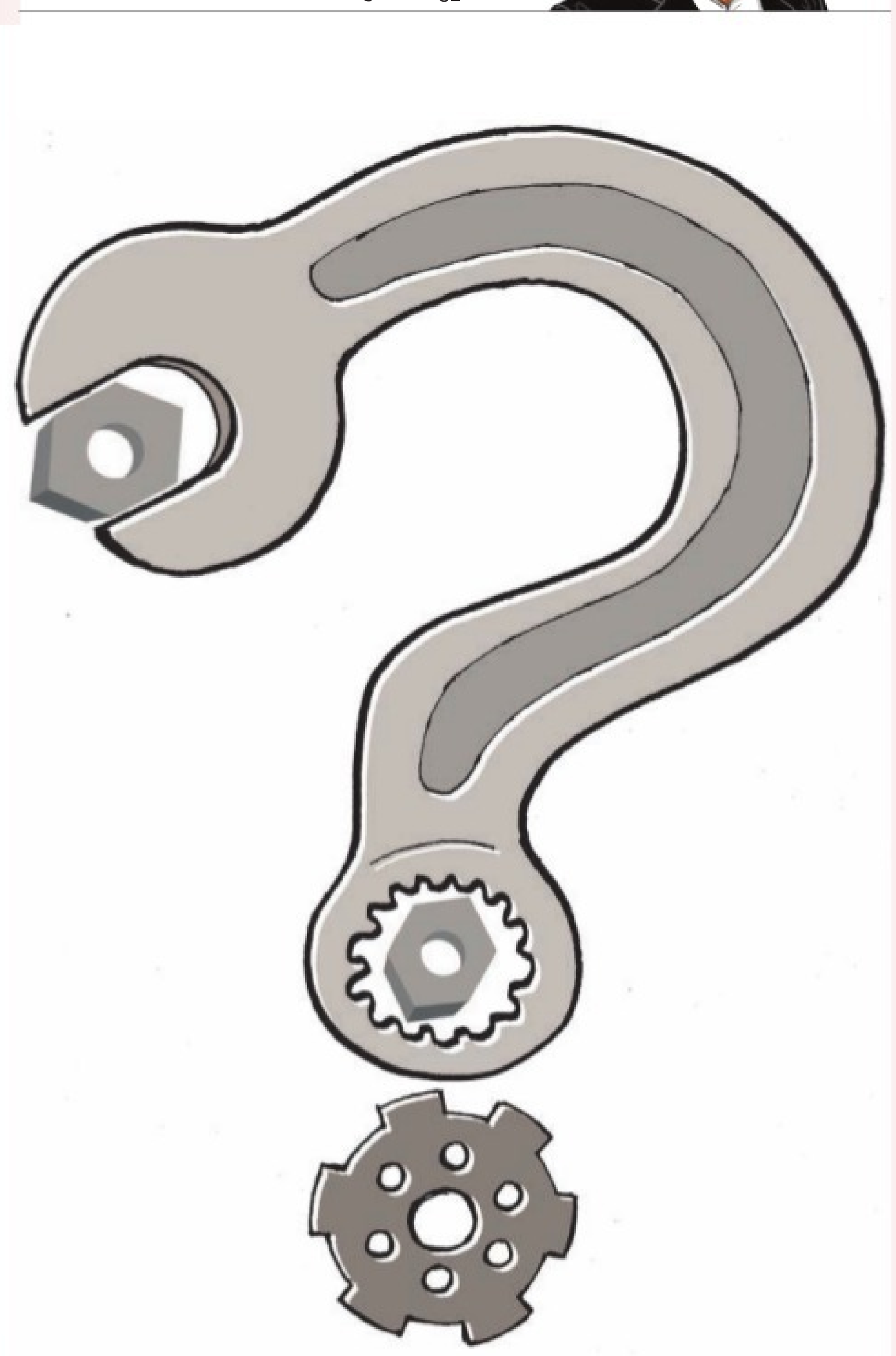


ILLUSTRATION: ROHNIT PHORE

DATA DRIVE

Little wiggle room for Centre's spending

WHILE THE GOVERNMENT stressed upon importance of higher investment to spur the economy, it has not increased the allocation for capital expenditure—₹3.4 lakh crore or 7% higher than FY19 (RE)—as it had little scope to do so, given committed revenue expenditure and high fiscal deficit. It has retained its estimates of capital expenditure made in the Interim Budget.

The overall capital expenditure of the central government and central public sector undertakings is lower than last year. Over the years, the share of government's capital expenditure has been declining, with several of the public sector undertakings funding capital expenditure through internal accruals and market borrowings or internal and extrabudgetary resources (IEBR). The off-balance sheet borrowings of the government have been growing over the years.

An analysis shows that the IEBR portion of the total capital expenditure of the ministries associated with investment in infrastructure has shot up over the past few years. However, internal accruals have not picked up, which means that several quasi-government entities such as the NHAI and the Indian Railways have to borrow money from the market. This trend, in fact, has led to high levels of market borrowings of government and quasi-government entities, despite the Centre reducing its capital expenditure and fiscal deficit.

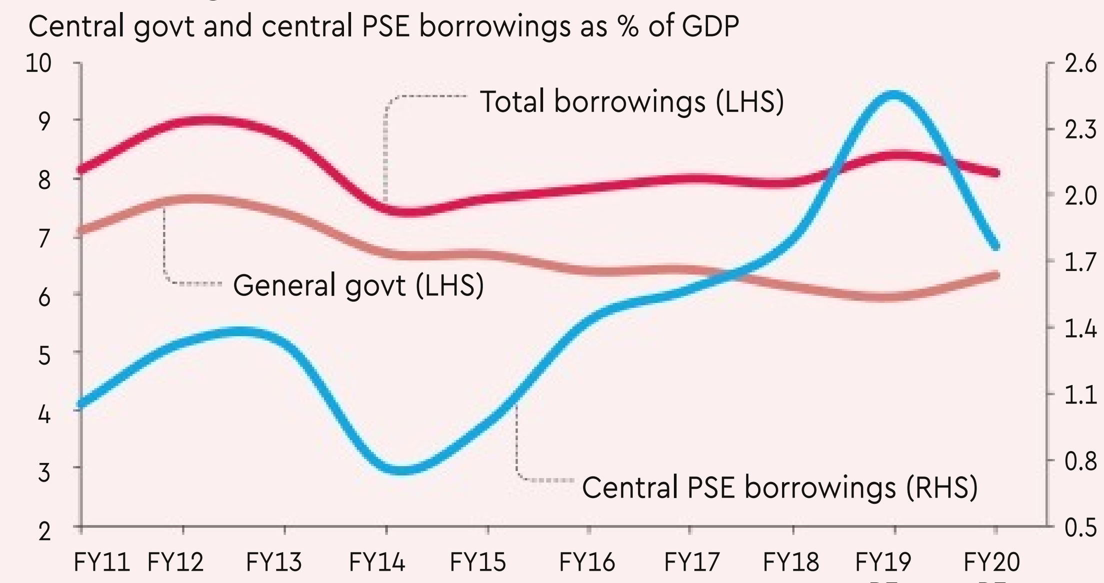
The high consolidated fiscal deficit of around 6.1% (including states) will have a limited impact on RBI's accommodative monetary policy with market interest rates staying high despite 75 basis points rate cut this calendar year. Also, high government and quasi-government market borrowing through government bonds, PSE bonds and small saving scheme funds will results in crowding out of the private sector and stymie private investment rate.

Data from CMIE show that investments in new projects plunged to a 15-year low in the three months to June this year, indicating a grim picture of an investment-starved economy. Investment in private sector projects fell 89% in the quarter as compared to last year.

Interestingly, the government has increased allocation to various social welfare schemes to ₹4.3 lakh crore, which is 22% higher than ₹3.5 lakh crore in FY2019 (RE). It kept the outlay for the PM-KISAN (farm income support) scheme at ₹75,000 crore, same as in the Interim Budget.

Central PSE borrowings have kept overall borrowings at elevated levels

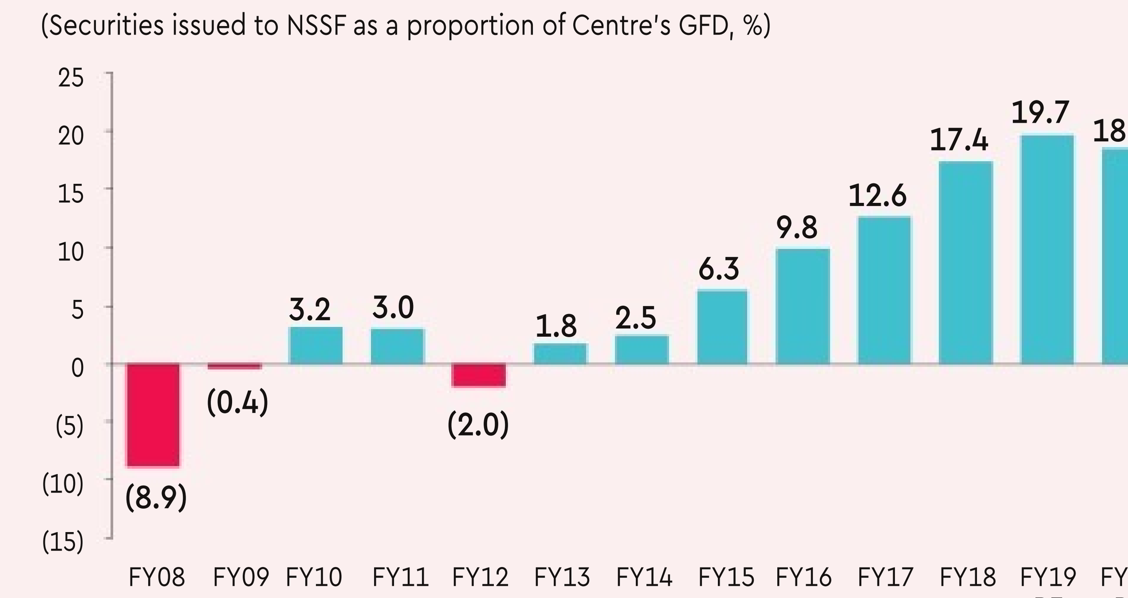
Central govt and central PSE borrowings as % of GDP



Notes: (a) Central PSE borrowings includes bonds, ECB/suppliers' credit, and others

Fiscal deficit funding is becoming reliant on National Small Savings Funds

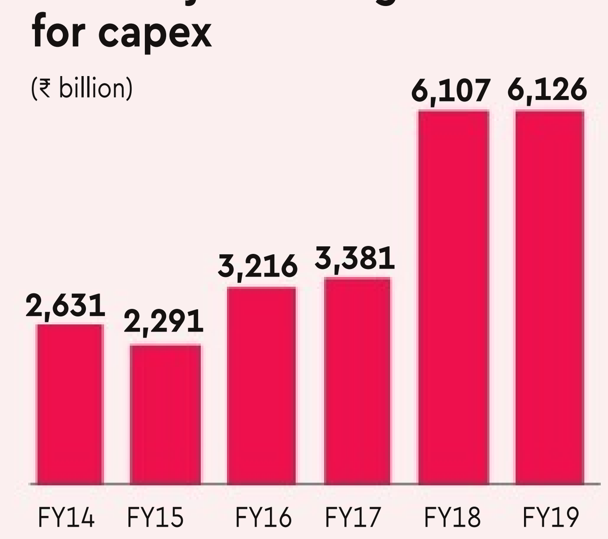
(Securities issued to NSSF as a proportion of Centre's GFD, %)



Source: Budget documents, Kotak Institutional Equities

IEBR major funding source for capex

(₹ billion)



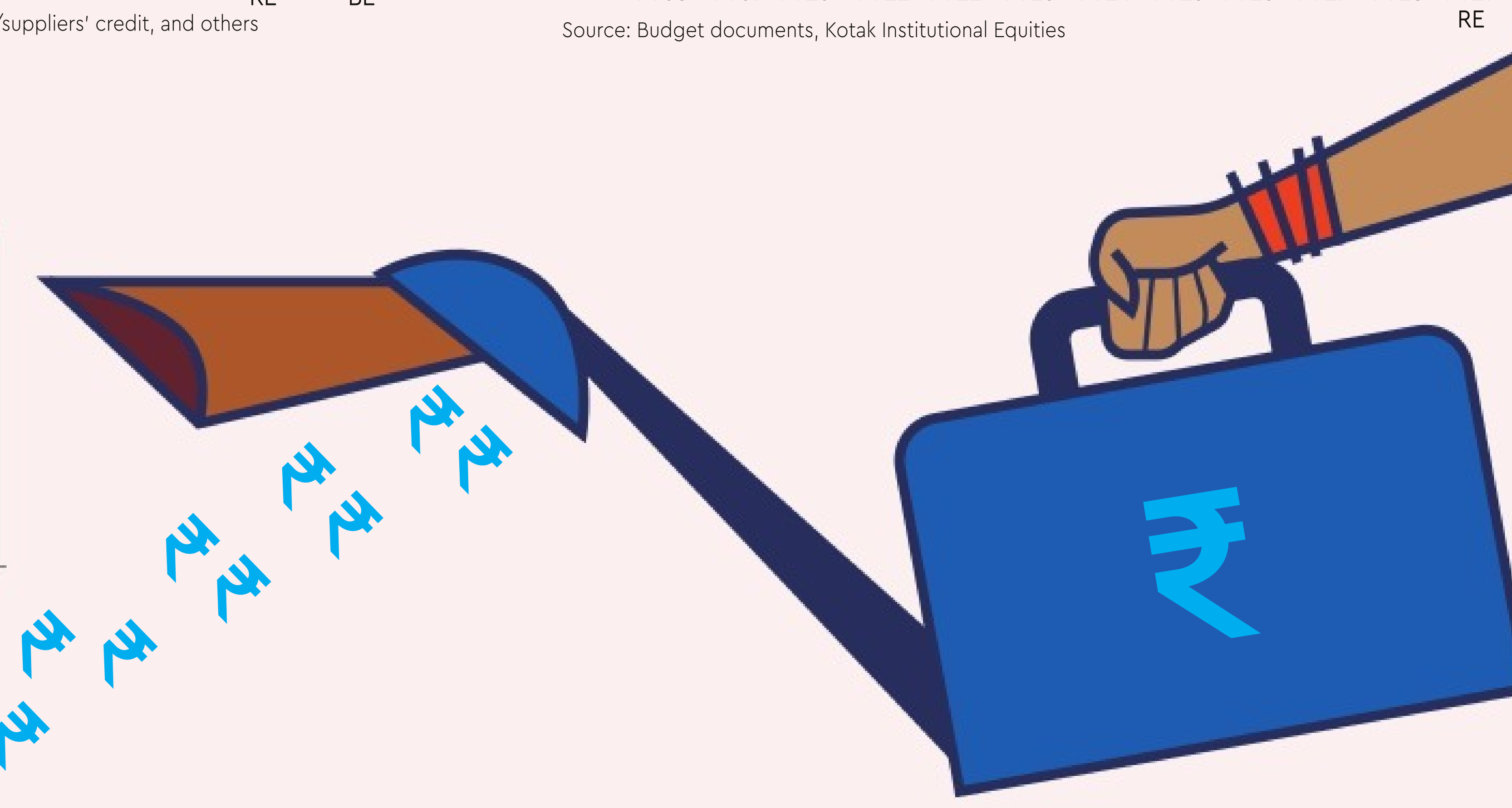
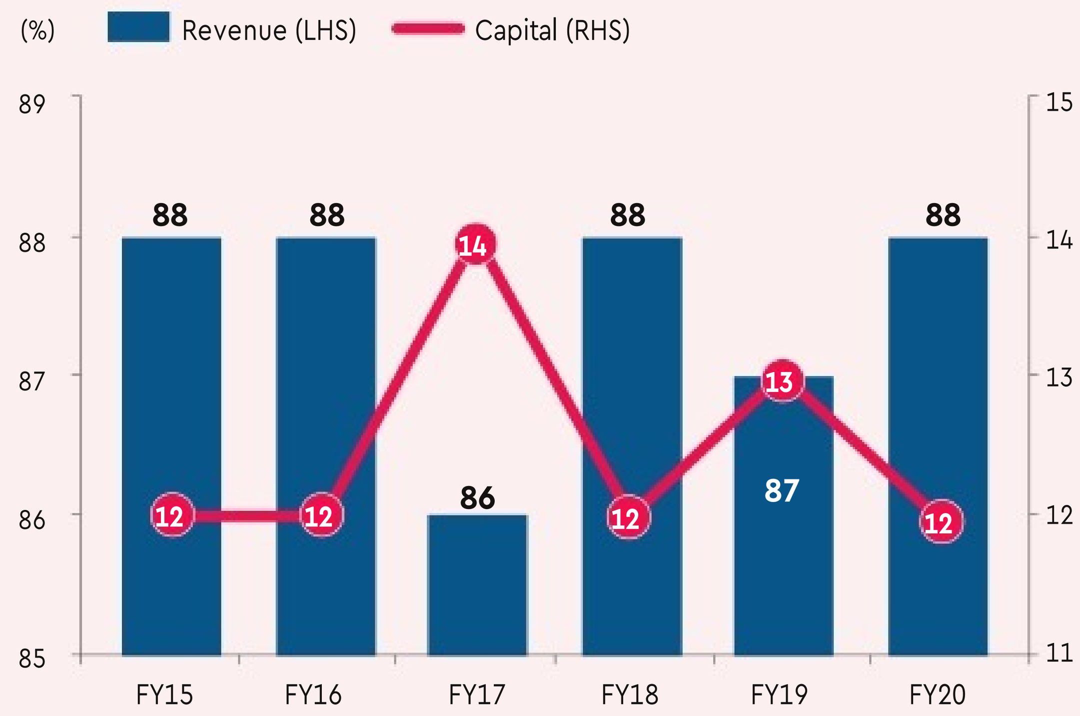
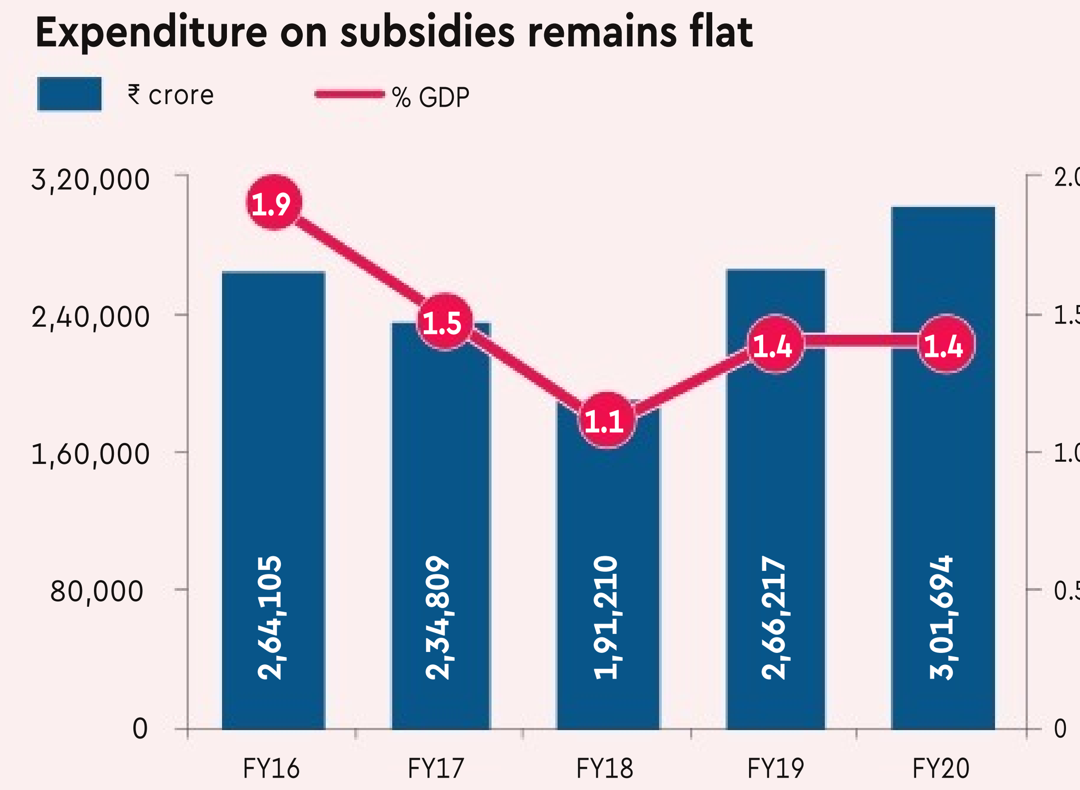


ILLUSTRATION: SHYAM KUMAR PRASAD

Share of capital expenditure remains low



Expenditure on subsidies remains flat



Rural spending grows

(₹ billion)

Source: Budget documents