The other side of the story

Poor resource allocation and swankier private competitors are two of the many reasons government schools are losing students rapidly

OUT OF THE BLUE

ANJULI BHARGAVA

The government primary school at Buddi village in Uttarakhand is more an aberration than the norm. Run by a highly motivated 56-year-old head teacher, the school has 86 Muslim children across five grades. It, however, has only four teachers, including the head herself, to teach the five grades. Not long ago, the school functioned with three teachers but after the recent thrust on Urdu, a new Urdu teacher was allotted to the school, taking their count to four.

Not far away in Bhoodpur village, a single teacher manages a total of 35 students across five grades, leading to a chaotic school day. The days when she takes a casual leave, the school in Buddi sends one of its teachers to substitute, more as a goodwill gesture than because of any directive. In yet another primary school in the same cluster — it has seven in all — there are two teachers (a head and an assistant teacher) managing a total of 12 students. In many schools that have few students, teachers spend the day sitting in the sun, eating peanuts and playing cards.

The three primary schools highlight a plight faced in almost every district in the state — and in many states in India —where poor resource allocation leaves teachers struggling to manage classes along with all the other duties they are required to do. On the day I am at the schoolin Buddi, the head teacher is busy with parents who are there for some purpose, one teacher is absent and the other two are trying to manage the 80-odd students present. The school has no sweepers, no peon or any other ancillary staff. Students clean toilets and sweep under the direction of the teachers. A "bhojan mata" hired for ₹2,000 a month cooks the mid day meal for which the school is reimbursed ₹4.48 per child per meal. The meal looks rather unappetising to me — a watery mix of rice and yellow dal but I observe the children eating eagerly.

Meagre takes on a new perspective when I learn how little the school manages with. Till very recently, the budget for maintenance and contingencies was ₹12,000 a year, an amount that has now increased to ₹25,000 to their delight. The teachers themselves earn upwards of ₹50,000 a month with the head teacher drawing a take home of almost ₹80,000, a mini fortune in the village. For the first time ever, the school has a fund of ₹5,000 towards sports. They're planning to add a basketball ring and a net for badminton or volleyball.

The other good news for this particular school is that while it routinely loses students to the private schools in the vicinity, it often gets reverse migrations. The private schools have better buildings and infrastructure and take students at three years plus. Parents often don't want to wait till five years to admit their wards and the Buddi school loses students to the private alternatives. Moreover, the marginally better infrastructure at the private schools attracts parents especially those with boys as they feel they will get a better deal. The head teacher, however, proudly introduces me to three boys — all cases of reverse migrations, that is, those who soon realised the private option wasn't any better. The parents woke up to the fact that better buildings don't necessarily translate into better learning and they were paying for no additional value.

To stem the outflow from government schools, the head teacher at this school is of the firm view that the government schools must start admitting children from the age of three as no parent is willing to wait till the child is five plus. Once they have admitted the child in a private school and she is settled, they are reluctant to withdraw even if a government option which is free is available.

While they admit that many government teachers are not motivated and take the job for granted, the Buddi school head teacher and her team argue that it's unfair to paint everyone with the same brush. Her teachers are rarely absent. The three teachers at this school do seem quite motivated and as I watch two of them conduct a Class I and observe that they are rather involved with the students.

She and her team argue that delivery outcomes of government schools often suffer as no one is available to do actual teaching. There are innumerable administrative chores, forms to be filled, norms to be met and guidelines to be followed. All this accounts for a large percentage of school day and there are days when the actual teaching is limited to just a couple of hours since no one is free from other tasks. The day I visit the Buddi school, the head teacher is busy helping parents fill forms that entitle them to a ₹300 a month per child scholarship. Since almost all the parents are illiterate, the task of form filling falls squarely on her. If it wasn't for the scholarship and the mid-day meal, many of the girls would be withdrawn, she explains. So it's in everyone's interest to get the job done. This is just one of the endless non-teaching related obligations they are required to fulfill. As the tasks pile up, often many or sometimes all the teachers are pulled into administrative and other non-teaching duties. This is the single biggest factor why the performance of students fails to meet expectations.

As I sit and talk to the head, I realise half the battle is won if one has the right attitude. Despite having very little, she has no complaints barring one. "We don't need teaching aids, training workshops or guidance from NGOs. All we need is to be left free to do what we were hired to do," she says. In her case, it is also what she really loves to do: Teach

CHINESE WHISPERS

Ready for the next round

With less than two and a half years left for the 2022 Uttar Pradesh Assembly elections, the Samajwadi Party (SP) and the Congress have upped the ante against the ruling dispensation, but the Bharatiya Janata Party (BJP) leadership is drawing succour from the fact that the two main opposition parties are trying to hobble each other in their bid to position themselves as the "main opposition party". On its own, the Bahujan Samaj Party (BSP) is in no position to put up a fight. The SP and the BSP, which came together for the Lok Sabha polls, broke off their alliance because of an unexpectedly poor performance. In the recent by-polls, the SP bagged three seats while the BSP logged zero. The Congress, though failing to open its account, did better than the BSP. It finished second in two seats and was a close third in five. The party ascribed this to the recent rejig of the party's state unit. The SP has already declared that going solo in the recent by-polls worked in its favour and nothing can stop it from regaining lost ground if it followed the same formula.

Wrong address

Bharatiya Janata Party (BJP) legislator Rahul Narvekar, an MLA from Mumbai's Colaba Assembly constituency, landed up briefly at the Yashwantrao Chavan Centre at Nariman Point, where the Nationalist Congress Party (NCP) was holding its meeting to decide on its strategy relating to the Maharashtra impasse. Narvekar left immediately, telling journalists who had been waiting outside that his driver had mistakenly brought the car there. Narvekar was formerly with the NCP. He had joined the NCP after quitting the Shiv Sena. His father was in the Shiv Sena, and his father-in-law is in the NCP.

Made-for-TV devotion

A leading Hindi news channel, in its zeal to capture the sentiment after the Supreme Court's Ayodhya verdict, took it upon itself to "manufacture" the sentiment. A camera person of the channel was seen egging on the crowd gathered in the media lawns of the Supreme Court to follow his cue and chant *Jai Shri Ram*. As many joined in, the court precincts reverberated with the religious chant. Of course, it was not the journalists alone — earlier, some *sadhus* had also given a shout out to Ram as they entered the premises — but their on cue performance surely made for great prime time television.

The fight over online prices

As traders prepare to hold a nationwide agitation against Amazon and Flipkart this week, the government weighs its options

VIVEAT SUSAN PINTO

Online and offline retailers in India have been at loggerheads with each other for long. But the chasm appears to have widened in recent months, as the consumer slowdown gets worse and purchase baskets shrink.

Market research agency Nielsen has lowered its growth forecast for the consumer market in the October-December period to low-single digits from mid-single digits in July-September, saying sentiment remains weak.

Traditional traders, especially, small retailers, corroborate the view, saying deep discounting, online-only launches by manufacturers and a growing preference for e-commerce in the value chain has further vitiated the atmosphere, resulting in a sharp decline in business for them.

National traders body Confederation of All India Traders (CAIT) will begin an agitation this week against Amazon and Flipkart as they harden their stand against e-tailers.

"This year's festive season has been very bad for small retailers and even larger stores across the country," says Praveen Khandelwal, general secretary, CAIT.

"While the consumer slowdown has impacted business, what has made matters worse is the lack of a level-playing field for us. Since September-end and into the month of October, there were multiple online festivals held by e-tailers, where products were sold at deep discounts to consumers. Business has suffered as a result for traders," says Khandelwal.

According to market research firm RedSeer, e-commerce players including Amazon and Flipkart had clocked $3 billion in gross merchandise value (of goods sold) during the six-day festive sales it ran at the start of October. By the end of October, both firms, RedSeer estimated would have doubled GMV to $6 billion, given that festive sales continued through the month on both platforms.

INDIAN RETAIL MARKET

Year	$ trillion
2019	0.85
2022	1.20

Source: Deloitte

MARKET SHARE (%)

Segment	2019	2022
Traditional trade	88	75
Modern trade	9	18
E-commerce	3	7

Khandelwal argues that deep discounting by e-tailers has happened in violation of the foreign direct investment (FDI) rules for the sector that were implemented earlier this year. The rules stipulate that marketplace entities cannot buy more than 25 per cent from a single vendor nor can they offer products from sellers in which they hold an equity stake. They cannot manipulate product prices and offer deep discounts or push for exclusive launches.

The head of a popular electronics retail chain that has stores in Mumbai, Delhi and other parts of India says that festive sales picked up during the five-day Diwali week only, stretching from October 25-29.

"Earlier, people would come out to shop around a fortnight before Diwali. This subsequently came down to about seven days before Diwali. This year, we saw footfalls during the Diwali week. These were the last-minute shoppers who had missed out on the online sales of e-tailers. Though we were able to make the best of this rush, this trend is not good," he says.

Experts have argued that it is impossible to turn the clock back as far as retail growth goes in India. "Let market forces decide which part of the business deserves attention," says Harish HV, managing partner, Ecube Investment Advisors, who has observed the growth of e-commerce closely in the country, both as a consultant and investor.

"Traditional trade is a significant part of the retail market here. However, consumer preference for e-commerce has been growing in India over the last few years. Convenience has been a key reason besides price. Also, the cost incurred to set up and maintain a physical store doesn't exist as far as an online platform is concerned. These gains are passed on to customers," he says.

At the India Summit of the World Economic Forum last month, US Secretary of Commerce Wilbur Ross admitted during a debate on trade partnerships that e-commerce resulted in lower prices for consumers.

"If a hundred years from now, India still has as many small retailers as now, it would hold back the growth of the country immensely," he said.

But Ross's counterpart Piyush Goyal, India's Commerce and Industry Minister, believes small retailers require protection from large players, flush with capital from global investors and multi-national companies. Walmart paid $16 billion to acquire Flipkart last year, while Amazon has committed $5.5 billion for the India market.

"Around 120 million are dependent on small retail here. There are 50-60 million small shops across the country. We welcome all e-commerce companies to work in India as an agnostic platform. However, they cannot become platforms that engage in predatory pricing, putting small retailers out of business," he said at the WEF summit.

Estimates by audit and consultancy firm Deloitte peg the current size of the total retail market in India at $850 billion. Of this, traditional trade is around 88 per cent, while organised or modern trade is around 9 per cent and e-commerce is around 3 per cent.

In the next three to four years, Deloitte says the total retail market in the country will touch $1.2 trillion in size, led by growth in e-commerce. From 3 per cent, e-commerce will constitute nearly 7 per cent of the total market. Traditional trade will shrink to 75 per cent, while modern trade will double to 18 per cent.

Anil Talreja, partner, Deloitte India, says online and offline retailers will have to co-exist. "Both consumers and brands are happy. I don't see what the debate is about," he says.

ON THE JOB

Warning: Analysis can cause paralysis

MAHESH VYAS

Until the Ministry of Statistics and Programme Implementation released the Periodic Labour Force Survey (PLFS) report in late June 2019, the dominant narrative on employment from the establishment was one of denial that jobs were being lost or that there was stress in the labour markets. After the release of the PLFS, such summary dismissal of the problem has declined.

This is because the PLFS itself has shown that the unemployment rate in the country in 2017-18 was at a 45-year high. There was only a brief attempt to insist that the PLFS was not comparable to earlier surveys. But, that did not stick and gratefully the argument was not pursued aggressively.

In October 2019, two papers published by researchers compare the results of PLFS with the earlier NSSO surveys. One of them, "Emerging Employment Patterns of 21st Century India-I" by Laveesh Bhandari and Amaresh Dubey is at the invitation of the Economic Advisory Council to the Prime Minister. The second "India's Employment Crisis: Rising Education Levels and Falling Non-Agricultural Job Growth" by Santosh Mehrotra and Jajati Parida is published by the Centre for Sustainable Employment at Azim Premji University.

Both papers have no hesitation in comparing the PLFS with the EUS (Employment-Unemployment Survey). The former does not fuss over comparability and the latter asserts that the two are comparable.

The paper by Bhandari and Dubey for the EAC-PM shows an increase in employment between 2011-12 and 2017-18 — from 433 million to 457 million. However, the paper by Mehrotra and Parida shows a fall in employment from 474 million to 465 million in the same period.

The difference is not small. There is a difference in both magnitude of employment and in the direction of change. First, employment estimates of Mehrotra and Parida are systematically higher than those of Bhandari and Dubey. Second, Mehrotra and Parida imply a 9 million decline in jobs while Bhandari and Dubey suggest an increase of nearly 24 million jobs over the same six year period.

Mehrotra and Parida have explained this difference in a separate note. They explain that while their estimates are based on the usual principal and subsidiary status of employment (UPSS), those of Bhandari and Dubey are based on only the usual principal status (UPS). Researchers who use the NSSO surveys usually use the UPSS to estimate aggregate employment in India. Laveesh has explained to this author that it is principal status that is important and subsidiary status is mostly unpaid family labour and disguised employment or under-employment. However, unpaid family labour is not small. Jajati tells me that 22 million jobs were lost here and another 26 million were lost in casual labour.

Using both estimates, we could infer that while UPS employment has increased smartly (by 24 million) as demonstrated by Bhandari and Dubey, subsidiary employment has declined so sharply that it has caused a decline in overall employment as suggested by Mehrotra and Parida.

But, Mehrotra and Parida point out a second source of the difference between the two papers. This is the projected population in 2017-18 to estimate the absolute numbers of employment from the ratios provided by the NSSO. Bhandari and Dubey have used a slightly higher rate of growth in population than the projections made by Mehrotra and Parida.

Nevertheless, it seems to be clear that while employment as defined by principal status has increased, there was a massive fall in employment as defined by the subsidiary status between 2011-12 and 2017-18.

I may conjecture here that employment in the unorganised sectors also declined and this is where all the unpaid family workers were engaged. GST came into force in July 2017 and brought grief to small and micro industries. Employment in these units is predominantly informal and these are also the ones that provide the subsidiary employment of the non-agricultural sectors.

The PLFS survey was conducted from July 2017 through June 2018, a period of substantial distress in the unorganised sectors. It is also the period when the organised sector gained market share from the unorganised sector that was cracking up. Excluding subsidiary status employment during this period would reveal this increase in market share of the organised sector but it would not tell us the rest of the story.

Here is one evidence of the fall in employment in the unorganised sectors. Mehrotra and Parida's paper tells us that employment in manufacturing declined from 59.8 million in 2011-12 to 56.4 million in 2017-18. Separately, the Annual Survey of Industries tells us that employment in organised manufacturing increased from 13.4 million to 15.6 million in the same period. We can therefore deduce that the employment in unorganised manufacturing declined from 46.4 million to 40.8 million — that is, a fall of 12 per cent.

Neither of the two sets of researchers have spoken their last word on the subject and, more will dissect the data. Hopefully, these will not paralyse us with too many contradictory views but will thaw the establishment out of its paralysis by denial.

The author is the MD & CEO of CMIE

LETTERS

The real picture

This refers to "Moody's rating action and the ₹28 trn push" by Soumya Kanti Ghosh (November 11). The writer wrongly sees the asset quality review of the banks and the imposition of prompt corrective action (PCA) norms as a way of penalising the banks for past actions. This is not true. This was done to know the real quality of the advances of the major, true level of non-performing assets (NPAs) and temporarily restrict the lending activities etc to conserve capital, stop reckless lending and strengthen the concerned banks. The state of affairs in the banks had less to do with procyclicality and more to do with politically induced reckless lending to dodgy borrowers. It was to protect the interests of the depositors of these banks, a fundamental duty of the Reserve Bank of India. Second, before liberally allowing NBFCs to access liquidity, it is imperative that an AQR of advances portfolio of big NBFCs/HFCs be carried out to know the quality of assets they hold and level of actual NBFCs. For too long, we have treated public tax money and central bank money as milch cows that can be milked at will to paper over serious problems in the financial system. There must be an end to band aid treatment where serious surgery is required. Third, I agree about the suggestion of monetising/privatising state assets.

Arun Pasricha New Delhi

Soumya Kanti Ghosh responds: No one can deny that AQR has nudged banks to start recognising restructured assets as NPAs. Simultaneously, it has forced banks to start rethinking about ways to resolve the ever-growing menace of NPAs. But it is also a fact that prior to this, restructured assets were seen largely as good assets but buffeted with policy issues. And it is also true banks were restructuring such assets as per regulatory guidelines. They were not doing it on their own or flouting any regulatory prescriptions. Post AQR, all of a sudden, all such restructured assets turned NPAs and banks, especially the bigger ones, were suddenly grappling with the rising provisioning cost for such assets. Thus, intrinsically, the problem arose not because of the banks, but because of the earlier recognition methods.

In a scenario where the growth cycle is continuously weakening, rising provisioning costs of banks help no one, certainly not the drying credit cycle. Any banker will vouch for the fact that almost all economic activities go through different growth cycles. With the right intentions and robust internal S&Ps, many are able to weather such fluctuations successfully and start growing again. As far as AQR for NBFCs is concerned, the RBI has categorically stated that as of now it doesn't have any such proposal. But, yes, the NBFC monitoring mechanism needs to be strengthened, which the RBI is working on. Such a mechanism must include all aspects of the functioning of NBFCs including their capital adequacy, stability, their cash inflow and outflow.

United we stand

This refers to the edit "Awaiting real closure" (November 11). Kudos to the Supreme Court for finally deciding the emotion-laden Ram Janmabhoomi-Babri Masjid case that was pending in courts for a long time. It deserves credit for a fair and just verdict that allotted the disputed land for a Ram temple in Ayodhya. It did not give the land to the contending parties thus depriving them of making religious or political gains. It gave it to the government through a trust to ensure objectivity in the construction and maintenance of the new temple. Secondly, it held the destruction of the Babri Masjid in 1992 as illegal — the trial in the case should be put on fast track. Thirdly, it compensated the Muslims by giving them five acres of land in a prominent area, almost twice the size of the land they claimed (2.77 acre).

The court has done its job and the verdict has cast a greater responsibility on the people, parties and the government to derive the possible benefits. The verdict was the victory of justice in which no one won or lost. We should now rebuild the bond of harmony and respect among all communities, the onus on Hindus being the most. This should put an end to the strategy of using places of worship as an election ploy. The trust should comprise those who enjoy reputation for fair play. The government should make certain that the logic of faith is not exploited to lay claims on other places of worship as insisted by the apex court also.

Y G Chouksey Pune

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Seshan's legacy

Election Commission's independence must be maintained

Tirunellai Narayana Seshan, the indefatigable crusader for voters' rights, passed away in Chennai at the age of 86 on Sunday. Seshan, a lifelong civil servant, rose in the Indian Administrative Service to the highest possible position, that of Cabinet Secretary, a post that he held until Rajiv Gandhi lost power in 1989, when he was moved to the Planning Commission. He spent the V P Singh government's time in the Planning Commission but when Chandra Shekhar came to power with the Congress party's backing, he was appointed Chief Election Commissioner (CEC). It was as CEC that Seshan came into his own, and became something of a national hero.

Prior to Seshan's tenure, the Election Commission — an independent body according to the Constitution — was in many ways an arm of the government. Seshan ensured that it became *de facto* independent and not just *de jure*. He laid out a lengthy list of electoral malpractices and did not hesitate to pull up even Union ministers who appeared to be deviating from it. The 1993 elections across much of northern India, conducted under his supervision, were a landmark in the country's electoral history. Even areas known for rampant malpractice and violence saw relatively free and fair elections. He pushed the government into ensuring that voter ID cards were handed out, and investigated elections to the Rajya Sabha that he felt might be contravening rules — even that of then finance minister Manmohan Singh.

Seshan's life and work is a reminder that even institutions with solid constitutional backing need persons of integrity if they are to carry out their designated function. However, once one such person invigorates the functioning of such an institution, it can continue to be effective even after that leader has moved on. This was the case with the Election Commission. While Seshan may have objected to the Commission becoming a three-person outfit, it added stability to the system and ensured that throughout the contested coalition era, the Commission was far more than a paper tiger. The question is, however, whether the fact that Seshan's tenure came at the beginning of the coalition era is crucial to the story of the Commission. Unlike in the one-party state that India was in many ways — at least at the level of the Union government — prior to 1989, in the 1990s and 2000s, an independent Election Commission was a crucial arbiter and largely seen as a useful referee.

India has now, once again, entered a period when coalitions are not essential for government at the central level. It is perhaps no coincidence that Seshan's legacy is being lost, as the Election Commission finds itself increasingly under siege. Consider the fallout of the 2019 general elections: The member of the commission who dissented against the "clean chit" to the prime minister and current home minister for violations of the electoral code of conduct has found himself under attack by government agencies. Members of his family have been put under investigation. This intimidation will certainly have an effect on the Commission's institutional independence going forward. It is to be hoped that future commissioners will nevertheless be able to summon some of Seshan's indomitable spirit and maintain the Commission's proud history of fighting for electoral fairness.

Taxing issue

Lower transaction costs alone won't increase capital market activity

At a recent event marking the 25th anniversary celebrations of the National Stock Exchange, its Managing Director and Chief Executive Officer, Vikram Limaye made a strong pitch for bringing down securities transaction and compliance costs in the Indian market. Investors not only have to submit margin; they have to compute and pay a plethora of taxes, including the securities transaction tax (STT), capital gains tax, stamp duty and the goods and services tax, on every capital market transaction. In addition, companies must pay a dividend distribution tax if dividend is paid.

Mr Limaye's point is that all this makes India's capital markets less competitive compared to its peers, and hence less attractive and less liquid. In turn, that means less investment flows into the Indian economy, thereby constricting the ability of businesses to raise financing. In comparative terms, investors do need to cope with far lower taxes and much less in the way of compliance costs in other markets. There is certainly a case for streamlining the tax regime, and for cutting rates. There would undoubtedly be more investment in Indian financial assets if the overall transaction costs were reduced. This would indeed make it easier for investors to enter the capital market, and that would facilitate companies in making public offers to raise funds.

The government's case for continuing to impose this basket of taxes is simple enough. Most of these are levied at source and automatically collected whenever there is a transaction. Moreover, during the current economic downturn, where tax collections are running well behind Budget estimates, the government would be reluctant to forego any source of revenue. There would also be complications involved in attempting to reduce or simplify several of the applicable taxes. For example, while the STT and the capital gains tax are specific to the capital markets and apply nationally, the stamp duty payable is specific to the state of residence. Hence, there is a political angle and states would have to be persuaded to forego stamp duty, or to reduce the rates. In the case of GST, the GST Council, which includes states, would have to be convinced that it makes economic sense to reduce the applicable rate on capital market transactions. There is also the point that tinkering with GST rates to offer sector-specific relief sets a bad precedent. Such tinkering has already led to a more convoluted GST.

There is another point. Investments track earnings and the promise of profits. While ease of transaction and low costs are both important factors in attracting investments, the ultimate magnet is earnings growth. India has seen five successive quarters of slowing growth and earnings downgrade. Under the circumstances, it is no surprise that investors have been cautious and transaction volumes have reduced. A streamlining of the tax regime would certainly be desirable. Indeed, there is a case for tax reform across the board; not just in the narrow sphere of financial markets. But in itself, lower transaction costs might not be enough to trigger higher trading volumes in capital markets. For that, a turnaround in the economic cycle is required.

ILLUSTRATION: AJAY MOHANTY

Houses for living, not investment

If you want to fix the housing sector, fix the market for houses — don't try to bail out projects, developers, banks or homeowners

POLICY RULES

MIHIR SHARMA

It is something of a relief that the Union government finally appears to have accepted that the Indian economy is slowing sharply, across sectors and geographies, thanks to a combination of cyclical and structural factors. This means that the government's famed decisiveness is finally being applied to the Indian economy. The problem is, however, that the diagnoses are wrong, and perhaps even the understanding of the problems is a little deficient, thanks to the shortage of economics expertise at the highest level. Thus, too many of the decisions move in the wrong direction. Rather than making the minimum intervention required to ensure that markets begin to work properly, they seek to prop up all stakeholders in the hope that recovery is just around the horizon.

Consider as an example the decision by the Union Cabinet on November 7 to set up an alternative investment fund (AIF) worth ₹25,000 crore to address the stalled projects problem in the real estate sector. Here the issue appears clear. There are over 1,500 stalled projects in the sector, affecting nearly half a million housing units. More than two-thirds of these are in Greater Mumbai and the National Capital Region. The developers behind these projects have mostly taken out loans to finance their development; they cannot complete the projects without more financing, but banks that are already seeing their bad loans to the sector multiply are reluctant to throw good money after bad. The AIF, in this context, is simply an infusion of capital into the sector that will provide the gap financing necessary to unblock the pipeline, complete some projects, get those housing units into the market, and allow the market to resume normal operation. There are some positive aspects to the design. First of all, there is unquestionably an appetite in private capital for stressed assets as long as there is explicit government partnership. Second, the AIF will take an interest in the relatively high-cost units that are actually blocking the pipeline — up to ₹2 crore unit price in Mumbai, and ₹1.5 crore in Delhi. The notion here is that this is a cyclical issue which can be addressed by appropriate counter-cyclical policy. Revive the projects, the developers, and the banks, and recovery will follow. Comparisons are being drawn to the real-estate bailout by the United States following the financial crisis.

But the questions that are being asked of the proposal need to be addressed. Perhaps the most basic is this: Will even ₹25,000 crore be enough? As this newspaper has pointed out editorially, by some estimates this will be able to impact only 16 per cent of stalled projects. Efforts of this sort, such as the US' TARP programme, need to be overwhelming in size in order to restore confidence in the market. A cash-strapped government might not be able to commit the resources that are actually needed. The hope perhaps is that with budgetary support of ₹10,000 crore, further inputs from the Life Insurance Corporation and nationalised banks, private capital might be enthused to match government funds.

But then the next question that will have to be asked is whether private capital — or even for that matter the banks — will consider this programme a safe enough deployment of their funds. The AIF has been structured to include, for example, projects that may have to go through the National Company Law Tribunal. But such cases have been demonstrated recently to be vulnerable to legal challenges of one sort or another. There is a degree of reluctance in finance to become exposed to a process in which all the legal kinks have not yet been worked out.

More broadly, the question that should be asked is whether the correct diagnosis has been made of the problem. The government has said that the investment managers can take a call to replace the project developers if necessary. But this should, in fact, be necessary much of the time. Yet if the promoters are replaced, who will market and sell the completed units? The AIF? The lenders? Or should the government instead also focus on building a platform that allows such completed units to be auctioned so that proper price discovery takes place?

The real problem here is that few of these projects will approach anything close to the value that has been set on them in the past, not just by developers but also by lenders. This is a natural consequence of the weakened demand in the economy, and the consistent refusal to lower prices over the past decade. Demand in metro areas is growing at only four to five per cent, while supply is growing in double digits and perhaps close to 20 per cent. Meanwhile, there are over a million unsold units. When you have this sort of mismatch, there is only one possible response: To drop prices till supply and demand are once again in balance. But if you drop prices, then both promoters and lenders will have to take a haircut — which nobody is willing to do. It is this basic problem that the government will have to address. It cannot ginger up demand. But it can certainly incentivise the lenders that it controls to come clean about the extent of the hole they would be in if the market were functioning cleanly, and prices were to drop.

In other words, we have to stop trying to fix things for lenders, projects, homeowners and developers — and think instead about how to fix the market for houses. Only then will the sector emerge from its current crisis.

Throughout the economy, a clean-up process that would require the loss of equity by promoters and haircuts for lenders has been postponed, and so investment and growth has not returned to natural levels. The real estate sector is just one instance of this problem, if more consequential than most. The government will have to accept that it needs to ensure a structural clean-up rather than viewing this as a cyclical problem that can be solved with a small amount of money.

The real estate sector is crucial to the broader economy not just because of its backward linkages — to cement and steel sectors, for example — but also because it is a big employer of unskilled labour and an investment asset for the middle class. The problem has traditionally been that the latter function takes on great political salience, with government policy towards the sector biased towards maintaining prices rather than deepening the market. This bias must end. The Indian middle class will have to learn, just as other middle classes in other economies have, that house prices can fall. Houses are not an investment asset for individuals and households. They are something you buy to live in.

India's mood = Moody's India?

ET CETERA

SHREEKANT SAMBRANI

Last Friday, I provided hard copies of some medical documents stored on my computer to a laboratory. The printout was hazy due to the humid weather. I apologised to the technician and wondered when our extended monsoon would end. "When *achhe din* come," the young lady said, without cracking a smile. She looked a solidly conservative Gujarati, not given to sarcasm, who had almost certainly voted for Narendra Modi in all elections, regardless of who the actual candidate was.

It is not yet six months since the landslide general election victory of Mr Modi and the Bharatiya Janata Party (BJP). After the jubilation of that historic triumph, other sugar rush events, such as Howdy Modi in Houston and the Mamallapuram summit with Xi Jinping followed, along with the much-cheered (within India excluding the Kashmir Valley) scrapping of Article 370 and reorganisation of the erstwhile state of Jammu and Kashmir. One expected that the victors would bask in the warm afterglow for some while yet. But my interlocutor's obvious mockery indicates a deeper discontent prevailing even in Mr Modi's backyard.

Gujarat is not the only region to register such a reaction. Last month's Maharashtra and Haryana Assembly elections showed a wider spread of the dismay. After the tidal wave of popular vote in its favour in the general election, every analyst assumed that the BJP juggernaut would roll on, decimating what little remained of the opposition in these states following *en masse* defections to the ruling party. The Congress leadership was missing in action, while Sharad Pawar ploughed his lonely furrow in an inhospitable terrain. It appeared that the BJP would sweep the polls by default even before the first vote was cast.

We know that this did not quite happen. The customary hosannas after the famous "victories" were muted. The BJP won a majority in Maharashtra with its truculent ally, the Shiv Sena, but is not forming the state government, at least for now, due to the Sena's hard bargain for its pound of flesh. In Haryana, a hasty marriage of convenience with greenhorn Dushyant Chautala saved the day, but only after a hefty dowry of deputy chief ministership.

Although the BJP was the largest single party in both the states, the result cannot be termed as anything but its defeat, with the opposition having nothing to do with it. It is tempting to say this was due to the BJP's complacency or arrogance of power, but the fact of the matter is the much quoted James Carville aphorism, "It's the economy, stupid!"

Economic bad news has been trickling in since the beginning of 2019, but was buried under the nationalistic election rhetoric. After Modi 2.0, the alarm bells rang louder and more frequently: Recession in the automobile industry, falling industrial production, tax revenues below expectations, international and domestic agencies cutting growth forecasts, until the last weekend's downgrade of Moody's outlook from stable to negative.

Finance Minister Nirmala Sitharaman has been trying bravely to turn back the tide of economic woes through a slew of measures: Sops to housing, medium, small and micro enterprises, shoring up the tottering financial institutions, but there is as yet not much cause to cheer. No wonder columnist Tavleen Singh reported gloomy forebodings from the corridors of corporate power, albeit only *sotto voce* (*The Indian Express*, November 9, 2019).

Consider this: The Prime Minister himself provided two criteria while addressing planners. He said that without breaking the logjam, the growth rate in the immediate future could fall to 5 per cent. He also said that India needed an investment of $1 trillion to get back on the high growth path. His economic advisers listed steps needed to revive India's growth: Policy predictability, quick project clearances and payments, encouragement to investment, containing inflation, fiscal consolidation. The new measures are at best pot-shots at the devils that hobble the economy, not in themselves sure-fire means of taming them.

Of course, that did not happen. These observations are from a 2013 column talking about the economic mess of the second Manmohan Singh government, but they are just as applicable to the situation today. Mr Modi only speaks of the $5 trillion economy, and not the measures needed to get there. He may have turned to domain experts in foreign policy, but has been his own chief economic adviser all along.

All this is of little concern to the *aam aurat*. She is increasingly worried about two things: *Berozgari* (unemployment) and *mehangai* (inflation). Almost everyone knows or has heard of someone being laid off, or put on short hours, or youngsters not getting jobs. And even if the inflation indices are low, *mehangai* crops up because in the overall scheme of things of a household, incomes are not growing, or not fast enough, to meet its aspirations. Its young now mostly figure only in the denominator of the family welfare equation and not in the numerator as they used to earlier with their incomes, however small they may have been.

Share markets are often moved by that elusive factor, "sentiment." The political scene is also subject to similar sentiments. And the 1.3 billion stakeholders in India are not upbeat at all, sharing Moody's negative outlook.

The writer is an economist

A short guide to GDP

KITABKHANA

T C A SRINIVASA-RAGHAVAN

For the last 42 years my sister and her friend have grimly and grittily edited a little journal called *The Book Review*. Snobbishly, they only review academic books; and, cloyingly, children's books.

I regularly steal books of both types from there. When I get caught they make me write a review. But often, I manage to avoid writing it by the oldest trick known to reviewers: Postpone till your pursuers give up.

Anyway, the other day while looking for some other book at home I found one I have no recollection of buying or borrowing. I had probably stolen it from my sister. The date of publication is 2014 so I guess it's safe to write about it in 2019.

It's got a marvellous title: *GDP — A Brief But Affectionate History*. The author is an economist called Diane Coyle. She has a PhD from Harvard and obviously loves economics. Why else would she feel affectionate towards, of all things, GDP?

The kids these days would call it a "cute" book, just 140 pages. The publisher is Princeton University Press, which is surprising considering it's the sort of book any trade publisher would have happily published. That way the book would have got more of an airing.

As things stand, I don't think anyone has heard of it in India. Or may be less than 25 have and even fewer read it, which is a pity because it is by far the best book I have ever read on this pesky and surreal subject.

But Ms Coyle breathes coherence into it. She makes GDP comprehensible. So even though I have avoided writing about economics in this space, I think I can be allowed a little latitude.

Besides, GDP is the flavour of the day. Even politicians are talking about it. They (and young journalists) must read it as an exercise in adult education. It will improve their perspective on what, in the end, is a statistical abstraction that is best referred to once, not four times, a year.

A troublesome thing

Ms Coyle has devoted the first five chapters to the history of GDP and its vexatious measurement. She makes it quite a fun read and I think even someone as exasperatingly exacting as T N Srinivasan would have been hard put to find fault with her discussion of it. These chapters leave you fully aware that GDP is important but not the be all and end all of economic performance.

That said, it's the last chapter that hooked me. It's called "The Future: Twenty-First Century GDP". She says GDP must now keep in mind three things: Complexity, productivity and sustainability.

Higher productivity means you produce the same amount with less inputs. Does the reduced consumption of some things — say, energy — increase or reduce GDP?

This not only thickens the soup, it makes targeted intervention impossible. You have to rely on the two broad-spectrum antibiotics — fiscal and monetary policy and pray.

Complexity means, just to mention one thing about it, an increase in the types of one product. How do you account for 100 different types of soap? Or how do you account for what happens when driverless cars become the norm? Then there is the global supply chain problem of outsourcing. It overstates import bills but understates import volumes. And so on.

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She cites a telling example: Musicians can double GDP by doubling the number of performances, rendering the music at twice the speed. Apply this to health and see what happens. And, of course, there's information. If the Modi government has increased the number of official websites and the consumption of information by citizens, how does this reflect in GDP growth?

Then there is the Nordhaus-Tobin question about capital widening as opposed to mere widening. Broadly, this means there has been an increase in the per capita use of capital to keep future consumption steady. This is also something the Modi government has succeeded in doing without realising it, of course. Conventional measurement methods don't account for this sort of thing.

Finally, there is sustainability. If your current consumption will lead to overall reduced output in the future, how do you account for it? As she asks, what's the balance between "investment in new assets and the depletion or depreciation of existing assets?

This lies at the heart of the sustainability question and no answers are available. The Modi government's emphasis on solar energy and the inability of current methods to account for it — is a case in point.

To sum up, the measurement and importance of GDP is not captured by the number of underclothes and cars sold. It is certainly not something for amateurs to discuss.