Opinion
THURSDAY, JANUARY 30, 2020

**SCOXIT 2.0?**
Prime minister of the UK, Boris Johnson

"The idea of having a Scottish-only visa with a border at Berwick and ... inspection posts, I think this is absolutely fanciful and deranged"

# Learning from China's coronavirus mistakes

The Surat plague was badly handled, but India dealt with the Nipah crisis well; institutionalising the lessons is critical

**CHINA'S CORONAVIRUS CRISIS** is an opportunity for India to ensure epidemic preparedness. Apart from the lack of healthcare capacity to deal with the crisis—this, after its 2002 SARS outbreak killed over 700 people—China's response to the outbreak might end up being a factor contributing to the rise in death toll. The country's primary healthcare system being ill-equipped to handle the outbreak has meant that its hospitals are buckling under pressure. Three 1,000 bed hospitals are being built at breakneck speed, but this is quite late in the day. Recently, eight hospitals in Hubei province, whose capital, Wuhan, is ground-zero, put out a call for basic transmission-prevention articles—N95 masks, surgical gowns, and goggles. *New York Times* reports medical workers had to resort to *jugaad* substitutes. Moreover, three major Chinese drug firms have announced they lack the capacity to generate the requisite number of test-kits. China has made considerable investment in public healthcare since 2002, but, clearly, it hadn't prepared enough. Although, there is more transparent information flow from the country regarding the novel coronavirus 2019 (nCoV-2019) than there was at the time of SARS. The early sharing of information, including the viral genome sequence, will help other countries develop protocols for early response. But, Chinese authorities ignored earlier scientific warnings on the increased possibility of such outbreaks. Wuhan Institute of Virology researchers tracing coronaviruses since 2002 had warned of their zoonotic links, and that some of these are singularly suited to transmission to humans.

In the absence of any specific treatment, patients are reportedly being administered a host of antivirals, including that for HIV, and traditional Chinese medicine. Given how fast viruses can mutate, even developing resistance, this could prove a recipe for tragedy. And, while the lockdown of nearly 56 million Chinese could help contain the virus geographically, the transport restrictions could also severely affect mobilisation of crucial healthcare infrastructure, potentially pushing up the death toll.

India must learn from all this. The country rose to the Nipah challenge in 2018 after initially faltering, as there was exemplary coordination between local, state and national authorities—the lack of this caused the Surat plague to reach the proportions it did. However, Nipah was a fledgling challenge compared with what China is facing. To prevent nCoV from reaching its shores or, at least, contain it there if it does, India needs to make sure its entry points—airports and ports—are fortified with screening, and quarantining facilities. Heat scanners that can detect fever, a symptom of infection, at airports are a great start, but the first-line of medical intervention needs to be beefed up. Apart from making sure diagnostics and treatment facilities are bolstered, fighting or preventing an epidemic will require significant public awareness, on methods of transmission, handling of patients and everything in between. The frontline of the fight against communicable diseases is vaccination, and India must engage with vaccine research in a concentrated manner, more so since every warning of the climate change ramifications for India talk of a spurt in tropical, communicable diseases.

# If AI can't be sold, shut it

Govt gets it right, but test is its action if no buyer is found

**THE GOVERNMENT HAS** done well to remove most of the mindless restrictions put in place the last time it sought to privatise Air India (AI)—these ensured no one bid for the haemorrhaging airline. What it says about the earlier decision-making process is another story. A complete exit from AI instead of retaining 24% like the last time around will reassure potential bidders that there will be no government interference. Allowing sale-and-lease back can make the purchase debt-free, especially since the Centre is absorbing more debt, and being able to carry forward unabsorbed depreciation and losses helps cushion the balance sheet; this, and the relaxed eligibility criteria, means more potential suitors.

Senseless criteria, like the need to run AI "on a going-concern basis" and "on an arms-length basis from (the buyer's) other business", have been done away with, though it is not clear why the AI brand is to be maintained. The idea, possibly, is to placate the RSS/*swadeshi* groups who refuse to understand that the concept of a national carrier is outdated, but an existing-airline buyer not wishing to retain the AI brand will find this a problem. AI's falling market share shows its brand loyalty isn't as high as many think, and, as seen in sectors like telecom, price-value is more compelling than brand value. The decision against a VRS for AI's heavily unionised and pampered staff—after the merger, AI and Indian Airlines pilots got into a fight over who would fly certain aircraft—could be a deal-breaker as a new owner may not want to take on this burden since it could complicate operations. And, given the Centre's generous VRS for BSNL and MTNL employees to make the telcos leaner, it is not clear why this was not done for AI.

The good news is the government saying, should a potential bidder want, it is open to offering more concessions; to ensure no allegations of favouritism arise later, it must offer these concessions to all bidders who express interest but choose to walk away during the sale process. Without this, these bidders can allege that they would have bought AI had they been given the same concessions. Though the government claims global 'ownership and control' rules restrict it from allowing foreign airlines to buy more than 49% of AI—this would make AI's bilateral rights useless—this is not strictly true; a CAPA paper gives instances (*bit.ly/2Ry6Fn1*) where countries/airlines have negotiated this. Had the government worked on this and not dismissed it outright, more foreign airlines may have been interested in AI. Despite the sensible changes this time around though, the government may still not get a buyer in these tough times. Whether it will shut down the obviously unviable airline—at least in government hands—is then the critical question since it will signal the government's attitude towards PSUs.

# Punishing POLITICIANS

Election Commission censure works if political class is less brazen; India needs to debate more powers for EC

**THE ELECTION COMMISSION** of India (ECI) ordering, as an interim measure, the BJP to remove junior finance minister Anurag Thakur and MP Parvesh Sahib Singh Verma from its list of star campaigners for the Delhi elections is, at best, a slap on the wrist for their speeches that were clearly aimed at polarising the electorate along religious lines. Removing the two from the list of star campaigners means the costs of their rallies will now be added to the election costs of the candidate; as star campaigners, their costs were added to the BJP's election costs, and there was no cap on this. Thakur has argued that all he did was to raise a slogan "*Desh ke gaddaron ko...*" and it was the rally-goers that responded by saying "*...goli maaro saalon ko*"; he later brazened it out by saying the crowd's response indicated the mood of the nation. In the case of Verma, he sought to stoke hatred against the Shaheen Bagh protestors (overwhelmingly Muslim), saying, they would enter the homes of voters (by implication, Hindus) and rape and murder their "sisters and daughters", and that the voters had "time today" and "(PM) Modi*ji* and (Union home minister) Shah won't come to save you (Hindus) tomorrow".

Though the EC's final decision on Thakur and Verma is yet to be made, there is a view it should recommend charging them under Section 153 (A) of the Indian Penal Code, which prescribes imprisonment of up to three years for anyone who promotes, or attempts to promote disharmony, enmity, ill-will, or hatred between communities "on grounds of religion, place of birth, residence... or any other ground whatsoever". Apart from the obvious question as to why the police shouldn't charge the two politicians under this section on its own, giving the ECI such power creates two power centres, one of which is controlled by the very government against whom the ECI is acting. Even if such powers are to be given, or if the EC very clearly prescribes the fine for each violation in advance, the political system needs to debate this and clear it. An EC censure worked very well in the past, when politics was more gentle; in today's no-holds-barred approach, political parties need a lot stronger action to be kept in line. But, all parties must agree to give the EC that power; it cannot arrogate that to itself.

**THE REAL MAINSTREAM**

AN INVESTMENT IN CLEAN AIR WOULD HAVE CASCADING BENEFITS FOR PUBLIC HEALTH, THE ECONOMY, AND BRAND INDIA

# A budget for clean air

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**AS FINANCE MINISTER** Nirmala Sitharaman prepares the FY21 budget, she must recognise that air pollution is a national crisis. Air pollution now impacts every nook and corner of the country. Every Indian now breathes air that doesn't meet the World Health Organization's standards, and three-fourths live in places where the air quality does not meet our national standards.

Things are not getting better, either. In 2019, Delhi had some of the worst spells of 'severe' air in the last decade. It is now quite common to hear about poor air quality in Mumbai. Who would have thought a decade back that Mumbai, a coastal city, would experience severe air quality? But, it does. And, so do almost all major cities in the country. We know we are losing the battle against air pollution when scientists advise us to wait for wind and rain to reduce pollution levels.

Meteorology aside, we need to do something about air pollution urgently simply because it now significantly affects our health, and the economy. One in eight deaths, or 12.5% of the total deaths, in India can be attributed to indoor and outdoor air pollution. The total number of deaths due to air pollution has increased from 1 million in 2005 to 1.25 million in 2017.

It also costs our economy dearly. Air pollution is leading to travel disruptions, reduced tourists, increased hospital admissions, higher medical bills, premature deaths, lost work hours, missed school days, and damage to Brand India image, among many other tangible and intangible economic losses. Though estimates vary, we are losing at least 5% of our GDP due to air pollution. Considering that the projected GDP growth rate is only about 6% for the next two years, action on air pollution can significantly contribute to growth and development, including giving a much-needed image makeover to Brand India.

The FM must prioritise and scale up financial support to address the pollution crisis. We need a stimulus package in this budget for short- and medium-term actions on air pollution.

The short-term action is quite apparent. The National Clean Air Programme (NCAP) doesn't have the resources to catalyse efforts at the city-level. Cities have developed action plans that are too broad, and non-implementable. They need funds to plan better, build capacity, and improve monitoring and enforcement. A multi-year package to support NCAP is required, else the programme would most likely fail.

We urgently need medium-term interventions (over the next five years) for a significant reduction in air pollution levels. In this regard, I have three concrete suggestions for the FM:

**Fiscal package to reduce pollution from power plants:** The coal-based thermal power sector is India's most significant source of industrial pollution. It accounts for 60% of particulate emissions, 50% of $SO_2$, 30% of $NO_x$, 80% of mercury emissions, and 70% of the freshwater withdrawal. In December 2015, the environment ministry notified new pollution standards that would reduce various pollutants from the power plants by 50-85%. But, the industry has refused to meet these standards citing reasons like weak balance sheets, and the reluctance of banks to fund pollution control equipment. It has already missed the 2017 deadline, and is unlikely to meet the new 2022 one. Lately, the industry is demanding relaxation in $NO_x$ standards, and a further extension of the deadline to meet the $SO_x$ standards. It is also lobbying the government to waive the Goods and Services Tax (GST) compensation cess (earlier called the clean energy cess) on coal to reduce the financial burden of meeting the standards.

I agree with the need to provide financial support, but not with the industry's proposals. There is no need to relax norms, or remove the compensation cess. Instead, the latter should be used again to promote clean energy, including supporting thermal power plants to meet pollution standards.

The financial requirement to meet these standards is about ₹70,000 crore. This is equal to two-and-a-half years of the compensation cess. My suggestion to the finance minister is as follows:

■ Move the use of the coal cess from GST compensation to support clean energy transition, thereby reviving the National Clean Energy Fund (NCEF).

■ Announce a performance-based fiscal package to help the power sector meet pollution standards. This could be a 15-year loan at prime lending rate, with a typical 70-30 debt-to-equity ratio. I estimate the net return (over loans extended) for this would be over ₹40,000 crore, which can be redeployed for other clean energy projects. Besides, this would be the most significant air pollution control action, with substantial benefits to the air quality across the country.

> 12.5% of the total deaths in India can be attributed to indoor and outdoor air pollution. And, we are losing at least 5% of our GDP due to air pollution

**National programme to minimise the use of solid cooking fuels:** Despite the Ujjwala Yojana's commendable performance in distributing LPG connections to the poor and the needy, the use of biomass, dung cake, coal, etc, as cooking fuels remains high. Estimates show that about 0.5 million deaths, mostly of women, may be due to indoor air pollution. This also contributes to outdoor air pollution. Any effort to reduce the use of solid fuels would have a cascading positive impact on women's health and empowerment as well as on the ambient air quality. I would suggest the following:

■ Announce a national programme to reduce the use of solid cooking fuels by 75% over the next five years. The programme should not only promote LPG but also invest in making electric cooking a reality. Given our excess capacity of coal power and a big target to install renewable energy, the use of electricity for cooking is a natural fit.

■ The finances for this can be mustered by shifting resources from kerosene subsidies, and NCEF. There can't be a better use of the coal cess than to reduce drudgery, and improve women's health.

**National ecological restoration programme:** Dust pollution is rising in India because of the mismanagement of land, forest, and water resources. Nearly one-third of the land area is undergoing degradation, excluding the Thar desert. To halt land degradation, we must initiate a large-scale land-management and soil-conservation programme. Such an ecological restoration programme would have the added benefit of groundwater augmentation, biodiversity conservation, and air pollution reduction. The resources for such a programme can be organised by converging programmes like the Compensatory Afforestation Funds, Integrated Wastelands Development Project, MGNREGA, etc.

All the foregoing suggestions would create jobs, boost the economy, improve our ecology, and save the lives of millions of citizens. They also do not need significant additional resources—convergence and channelisation of existing resources would be sufficient. I hope the finance minister considers them worthwhile.

# A global economy without a cushion

Global growth moving into the lower half of the 2.5-3.5% range leaves the world more susceptible to a recession

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*Views are personal*

**WITH THE BENEFIT** of full-year data, only now are we becoming aware of the danger the global economy narrowly avoided in 2019. According to the International Monetary Fund's latest estimates, world GDP grew by just 2.9% last year—the weakest performance since the outright contraction in the depths of the global financial crisis in 2009, and far short of the 3.8% pace of post-crisis recovery over the 2010-18 period.

On the surface, 2.9% global growth doesn't appear too shabby. But, 40 years of perspective says otherwise. Since 1980, trend world GDP growth has averaged 3.5%. For any economy, including the world as a whole, the key to assessing growth implications can be found in deviations from the trend—a proxy for the so-called output gap. Last year's shortfall from trend (0.6 percentage points) brought growth uncomfortably close to the widely accepted global recession threshold of approximately 2.5%.

Unlike individual economies, which normally contract in an outright recession, that is rarely the case for the world as a whole. We know from the IMF's extensive coverage of the world economy, which consists of a broad cross-section of some 194 countries, that in a global recession, about half of the world's economies are typically contracting, while the other half are still expanding—albeit at a subdued pace. The global recession of a decade ago was a notable exception: by early 2009, fully three-quarters of the world's economies were actually shrinking. That tipped the scales to a rare outright contraction in world GDP, the first such downturn in the overall global economy since the 1930s.

For global business-cycle analysts, the 2.5-3.5% growth band is considered the danger zone. When world output growth slips to the lower half of that range—as it did in 2019—the risks of global recession need to be taken seriously. As is typically the case for official, or institutional, forecasts, the IMF is projecting a modest acceleration of annual world GDP growth in 2020 and 2021, to 3.3% and 3.4%, respectively. But, as the physicist Niels Bohr once said, "Prediction is very difficult, especially if it is about the future." Just ask the IMF, which has revised down six consecutive iterations of its global forecast. Obviously, there is no guarantee that its latest optimistic projection will be realised.

Downside risks are especially worrisome because a 2.9% growth outcome for the world economy underscores the lack of a comfortable cushion in the event of a shock. As I noted recently, predicting shocks is a fool's game. Yet, the draconian measures that China is now taking to contain the lethal Wuhan coronavirus only serve to remind us that shocks are far more frequent than we care to think. A few weeks ago, it was the possibility of a hot war between the United States and Iran. And, before that, there was the increasingly contentious US-China trade war.

The point is that below-trend global growth, especially when it moves into the lower half of the 2.5-3.5% range, is nearing its stall speed. That leaves the world much more susceptible to recession than it would otherwise be in a more vigorous environment of above-trend global growth.

The same message comes through loud and clear in gauging the risks to the global trade cycle—long the major engine of global growth in an increasingly integrated, supply-chain-linked world economy. The IMF's latest assessment put global trade growth at just 1% in 2019—its seventh consecutive downward revision. Indeed, last year was the weakest trade performance since the historic 10.4% plunge in 2009, which was the worst contraction since the early 1930s. Compared to the 5% average over the 2010-18 period, the slowdown of world trade growth to just 1% in 2019 is all the more alarming. In fact, it was the fourth-weakest year since 1980, and the three worse years—1982, 2001, and 2009—were all associated with global recessions.

Global trade growth has never recovered to its pre-crisis pace, a shortfall that has been the subject of intense debate in recent years. Initially thought to be a consequence of unusual weakness in business capital spending, there can be no ignoring the impact of protectionism following the start of the US-China trade conflict. Now that the two sides have agreed to a truce in the form of a "phase one" trade deal, there is hope that the trade prognosis will improve. Reflecting that hope, the IMF's January update calls for a modest rebound to 3.3% average growth in world trade over the 2020-21 period. But, with the average US tariff rate on Chinese imports likely to remain at about 19% after the accord is signed—more than six times the pre-trade-war rate of 3%—and with worrisome signs of escalating US-Europe trade tensions, this forecast, like those of the past several years, may turn out to be wishful thinking.

All this bears critically on the precarious state of the global business cycle. Historically, the rapid expansion of cross-border trade has been an important part of the global growth cushion that shields the world economy from all-too-frequent shocks. From 1990 to 2008, annual growth in world trade was fully 82% faster than world GDP growth.

Now, however, reflecting the unusually sharp post-crisis slowdown in global trade growth, this cushion has shrunk dramatically, to just 13% over the 2010-19 period. With the world economy operating dangerously close to stall speed, the confluence of ever-present shocks and a sharply diminished trade cushion raises serious questions about financial markets' increasingly optimistic view of global economic prospects.

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## LETTERS TO THE EDITOR

### Hate speeches

The recent vitriolic, and virulent comments of some BJP leaders have transgressed the bounds of basic decency. Clearly, the nauseating verbal shockers by the self-styled *deshbhakts* are symptomatic of the degeneration of political discourse. Union minister Anurag Thakur, at an election rally in Delhi egged on the crowd to shoot down traitors. He had not a word to speak on the state of the economy. BJP MP Parvesh Sahib Singh Verma, at the forefront of the party's campaign for the upcoming Delhi Assembly election, made a remark no less vile. He said, "The anti-CAA protesters who congregate at Shaheen Bagh will enter your houses, rape sisters and daughters and kill them," and added, for good measure, "If BJP is voted to power in Delhi the protesters at Shaheen Bagh will be evicted in two hours and all mosques built on government land will be razed to the ground". Thankfully, the Election Commission took note and removed Anurag Thakur and Parvesh Verma from the list of star campaigners for violation of the Model Code of Conduct. Earlier, BJP's Kapil Mishra had termed Shaheen Bagh "mini-Pakistan," and likened the Delhi Assembly election to an India-Pakistan cricket match. Karnataka Minister CT Ravi said "A Godhra-like situation may arise if the majority community loses its patience". West Bengal BJP chief, too, threatened "to shoot and kill rioters". It is significant that these leaders did not even get a rap on the knuckles from BJP's top brass for their behaviour. It is most disturbing that hate speeches, akin to noxious fumes, produce an atmosphere of ill-will, hatred, violence, and insecurity. The poison of religious hatred can prove to be as deadly as Coronavirus. As an antidote, the hate-mongers must be boycotted by the people and subjected to psychiatric treatment to restore their sanity.
— G David Milton, Maruthancode

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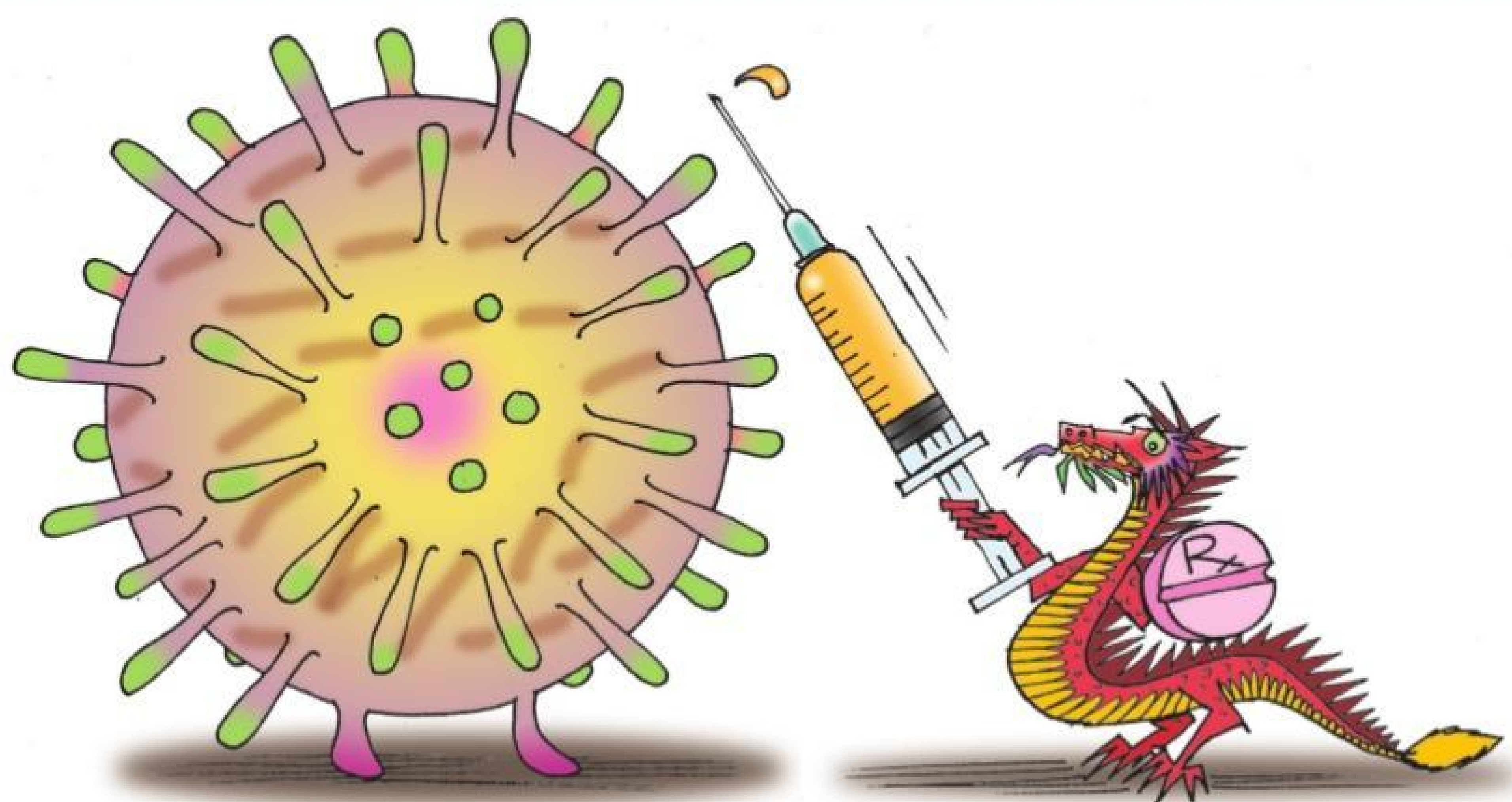

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GLOBAL ECONOMY

# Is this coronavirus riskier than SARS?

The first round of economic hits would be taken by the tourism and travel industry, as cancellations pile up. China business means a lot for many in the travel business, including airlines from India. The ramifications for the travel and hospitality industry are likely to significantly affect economic prospects of many countries

THE CORONAVIRUS ORIGINATING from the city of Wuhan in the Hubei province of China is spreading fast across the world. The risks from the contagion are no longer confined to China. They are beginning to affect several countries in the Asia-Pacific region—including Thailand, Singapore, Vietnam, Malaysia and Australia—and are also crossing the Atlantic and the Pacific to surface in the US and Europe.

The World Health Organisation (WHO) is yet to declare the virus as a global public health emergency with international concern. Pandemics that have been declared such by the WHO in the past include the Ebola, the Zika and the swine flu. However, it has upgraded its initial alerts to categorise the risks as 'very high' for China and 'high' for the region and the world.

This is probably as close as the global health body can get to in describing an outbreak as serious. Reports suggest that the WHO's deciding body was vertically split in declaring the virus as a global public health risk. But the very fact it came back to revise upward its initial assessment reflects the mounting concerns as more and more countries report confirmed cases and the death toll rises in China. In fact, there are possibilities of the coronavirus not just becoming a major medical problem, but also one with serious economic repercussions.

The coronavirus was preceded by the outbreak of the SARS (severe acute respiratory syndrome) in 2003. Both the viruses are from the same family, with largely identical symptoms. The current coronavirus though, some suspect, might have stronger long-term impacts, given its strength during incubation. The SARS, which had also originated from China and had seriously affected the entire region claiming more than 700 lives from across the Asia-Pacific, had hit countries that were unprepared for the contagion. Today, the region, as well as the rest of the world, is clearly much better prepared to handle the disease. Countries, including India, have responded vigorously to early-warning signals. While preparedness is certainly a relief, there are other changes that have happened in the world and which continue to generate worries.

The source of the pandemic is China again, as it was during the SARS. The difference, however, is that the China of 2020 is not comparable with the China of 2003. China's GDP was \$1.6 trillion in 2003. Today, it is nearly nine times larger, with a GDP of \$14.3 trillion. The country's per capita GDP has increased from around \$1,300 to more than \$10,000 today. China has become larger and richer as an economy, as have its people. Needless to say, the country has become far more globalised as well during this period. One of the biggest reflectors of China's globalisation is its movement of people, as can be seen from its tourism.

China received around 141 million tourists in 2018. At the same time, almost 150 million tourists travelled abroad. The bulk of tourists travelling to China were from Asia, followed by Europe and the US. India was also one of the sources of tourists for China. On the other hand, Chinese tourists travelled mostly to other countries in Asia, followed by Russia and the US. South-east Asian countries—including Thailand, Vietnam, Indonesia, Malaysia, Singapore and the Philippines—are amongst the most prominent 'destinations' as well as 'source' countries for tourists for China.

People-to-people movement is arguably the biggest medium for transmission of any epidemic. Given China's massive presence in the global tourism ecosystem of today, the risks from the epidemic are clearly more serious and severe than that of the SARS in 2003. While the movement of people from, and to China, would be as closely monitored as possible, it is not possible to eliminate all the risks. And certainly not just by screening flights arriving from China. It is quite possible that the potentially infected include those from other countries who have travelled to China at some stage in the recent past, and from there travel to other countries through multiple transits. This is particularly true for business visitors travelling across the length and breadth of not just the Asia-Pacific region, but across continents.

The first round of economic hits would be taken by the tourism and travel industry, as flights, hotels and related cancellations pile up. China business means a lot for many in the travel business today, including airlines from India, which run daily packed flights to and from China. However, the developments might bring some good news for the insurance industry, as many service providers might rush for innovative products. Overall, however, the ramifications for the travel and hospitality industry are likely to significantly affect economic prospects of many countries. These are particularly true for countries in the region dependent on tourism, particularly Chinese tourists. Smaller countries such as Nepal, Bhutan, Myanmar, Laos and Cambodia, and even those like Vietnam and the Philippines, might lack the necessary infrastructure for screening arrivals.

China has acted fast by restricting movements of its people, particularly from Wuhan city and the Hubei province. However, at a larger level of global economic impact, the contraction in economic activity within China is going to affect global prospects. China was back to being the fastest growing major economy at 6%, after India's GDP growth decelerated. It might well be in line for a sharp reduction in GDP growth. The resultant effect on the global economy won't be encouraging.

China's sustained economic expansion has largely brought good news for the world economy. The coronavirus might be the first major opportunity to display the reverse.

BUDGET 2020

# Reviving demand

S RAVI

Former chairman, BSE, and founder, Ravi Rajan & Co. LLP

The govt has to strike a balance between fiscal deficit and economic growth

THE INDUSTRY, AMIDST consumption slowdown and a six-year low GDP, is pinning its hope on the implementation of policy initiatives and tax sops to revive the economy. The IMF has cut India's growth forecast to 4.8% for the current year. The last budget was focused on ramping up the supply-side, funding infrastructure investments and addressing liquidity concerns of NBFCs. The expectations from Union Budget 2020-21, however, are to address the fiscal deficit concerns and revive the demand side.

**Rural economy:** Despite companies announcing various offers, demand in the rural areas has not revived in the wake of falling crop prices, erratic rainfalls and stagnant wages. The government, therefore, must announce measures for reviving the farm income, investments in rural infrastructure and focus on MGNREGA. This will give rural households more money to spend FMCG, automobile and capital goods.

**Changes in personal taxation:** Last year, the government tweaked the corporate tax rates and this year personal income tax slabs of lower-income and middle-class group, who are demand revivers in rural and urban areas, is widely expected. The government may change slabs and introduce lower rates. There is also an expectation of increasing the interest deduction from the present limit of ₹2 lakh, considering the high cost of capital. A higher interest deduction would also act as a stimulus for the real estate sector. Another tool could be to increase the limits for 80C from ₹1.5 lakh to at least ₹2 lakh to provide further income in the hands of the personal-tax payer.

> With the NIP report outlining plans to invest a substantial sum of over ₹102 lakh crore, expectations are rife that the budget would provide a roadmap for implementation

**Employment challenges:** As per reports, the unemployment numbers have been on a steady rise on account of the downturn with many companies in the urban cities reporting retrenchment. The government has been implementing measures on ease of doing business, inviting business houses as well as focusing on labour reforms. The expectations are allocation of funds to boost investment in infrastructure, social sectors and agriculture, which allow creation of large scale employment in smaller cities and villages. With the report by the task force for the National Infrastructure Pipeline (NIP) having outlined plans to invest a substantial sum of over ₹102 lakh crore in various infrastructure projects, expectations are rife that the budget would provide a roadmap on implementation plans for 2020-2025.

**MSME sector:** This sector is a key driver of job creation and economic spurt and higher budgetary allocation will give a push as it contributes 9% to the GDP and 48% to exports. Major reforms and policy interventions towards ensuring timely availability of low-cost credit, improving ease of doing business and technology upgradation would be a key takeaway from the budget.

**NBFCs and banks:** This sector requires impetus to pave way for credit growth supported by enhancement in retail lending to revive demand for housing, automobiles, and capital goods.

Clearance of all government dues in construction, power sector, and other infrastructure projects, providing for recapitalisation of banks and non-banking financial companies and further simplification of GST as well as rationalising the GST rates further would boost the economy. Apart from these measures, the markets would get a boost on the government announcing cuts in LTCG taxation and changes wrt grandfathering date and dividend distribution tax.

Though there are high expectations from this budget, the government has to announce measures keeping in mind the balance between fiscal deficit, economic growth and inflation control amidst the global trade wars and oil price escalation tensions.

# A tightrope walk

Govt should aim to provide credible budget numbers

UPASNA BHARDWAJ

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ON THE HEELS OF UNION Budget 2020, expectations are building up as to what the government can, should or should not do to kick-start the economy. The fiscal situation of the government is fragile, as the economic slowdown trend became more pronounced in FY20. The gap between FY20 budget estimates and actuals has been widening across all tax categories. Divestment estimates too seem to be falling apart with few big-ticket asset sales likely to be postponed. Despite the windfall from RBI dividend and inclusion of interim dividend, we expect about 1% shortfall in total receipts from the Centre's budgeted estimates. Nominal GDP assumptions will also lead to about 10bps slippage. As per FRBM Act, the government can invoke an escape clause for fiscal slippage up to 0.5% of GDP in special circumstances. We believe the government will invoke this and deliver FY20 fiscal deficit closer to 3.8% of GDP, curtailing/postponing expenditure by ₹1.2 lakh crore. We then expect FY21 fiscal deficit announcement to be around 3.5% of GDP (gross borrowing could be announced a tad below ₹8 lakh crore). The government will also review the roadmap towards achieving fiscal deficit of 3.3% in FY22, 3.1% in FY23 and 3% in FY24.

There is immense noise around I-T cut in the Budget. Notably, the I-T multiplier remains around (-)1, indicating limited effectiveness of I-T cuts. However, weak demand conditions and lack of confidence may prompt the government to tweak some slabs/rates.

The shortfall arising from increased spending on infrastructure and the revenue shortfall from I-T tweaks could partly be met through aggressive privatisation drive. The government will aim to complete the ongoing privatisation of Air India, BPCL and CCRI in FY21. We expect ₹1.1 lakh crore of divestment revenues in FY21.

Finally, the government should aim to provide credible budget numbers, even if it involves deviating briefly from fiscal consolidation path. The consistently widening gap between the budget estimates and actuals has led to significant volatility in the bond market. Greater transparency and credible fiscal conditions would lay the ground for inclusion of India in the global bond index, easing supply concerns and aiding smoother transmission.

# The number of the best

Finding the optimal size of teams and organisations

HOW BIG SHOULD A business team be? It is an enormously important issue for companies. Teams that are too small may lack the skills required to get the job done; teams that are too big may be impossible to coordinate. Similar trade-offs may apply when it comes to firms as a whole. Start-ups are often short of staff. The founders must play a host of different roles, from obtaining finance to product development and marketing, for which they may not be equally suited. But the upside is that they can have highly collaborative working environments.

People who have worked for start-ups say the culture changes when the company reaches a certain size. Patty McCord, formerly of Netflix, referred to the 'stand-on-a-chair number'—the biggest group that can easily hear the boss address them.

Robin Dunbar, an anthropologist at Oxford University, has done a lot of work on primate groups. His argument is that the size of the group is linked to the size of the brain. With their large brains, humans can cope with larger bands. A larger social group has many advantages, allowing for greater protection and specialisation. Whereas 150 is sometimes referred to as the 'Dunbar number', the academic himself refers to a range of figures. He observes that humans tend to have five intimate friends, 15 or so good friends, around 50 social friends and 150-odd acquaintances.

Running a larger network can be difficult. So much time is needed to maintain relationships that their quality suffers. The armed forces have spent millennia experimenting with unit size. A Roman centurion oversaw 100. The modern American army company has 180 members. Britain's equivalent numbers 120.

These are rough estimates, rather than rigid figures. But it is striking many group activities seem to be close to a Dunbar number. The Special Air Service, Britain's elite fighting unit, has four-man patrols; when your life depends on it, you need to have absolute trust in your colleagues. As a result, such groups are limited in size.

Sports-team sizes relate to the playing area. There are five players in a basketball side and six in ice hockey; outdoors there are 11 players in football and cricket teams, and 7-15 in the various forms of rugby. Perhaps this is the optimal size for coaching purposes, or perhaps crowds would struggle to distinguish individual players if teams were larger.

Small work teams may tend towards these two size ranges. "If you want a committee to decide something, limit it to four to five people," says Mr Dunbar. "But to brainstorm in a meeting, you need 12-15." Many companies use 'agile' teams which draw employees from across the company; they tend to have 5-9 members.

Most businesses are small. A survey of British firms in 2015 found that only 0.6% employed more than 150 people. Nor are small companies necessarily ephemeral. One study concluded that 89% of organisations that last more than 100 years employ fewer than 300 people.

Another group of long-lasting organisations is religious congregations. The Hutterites, a Protestant group with German origins, limited their communities to 150. They believed that it was possible to maintain solidarity in a group of fewer than 150 people with peer pressure; once you exceeded that number, you needed the equivalent of a police force.

For much of economic history, work was conducted in small units by peasants, tenant farmers and artisans (for example, blacksmiths). The advent of powered machinery enabled production at a much larger scale, with workers crowded into factories. These days the rise of the service economy means that workers are no longer concentrated in such large groups.

This may not be a bad thing. It was easy for employees in large factories to regard remote company owners as 'them' rather than 'us', and indeed it was easy for business owners to perceive workers as an undifferentiated mass of people and treat them accordingly. Strikes were common.

The modern company may settle on a model with a small group of 'core' workers and a larger group of contract workers. The result may be more cohesion within the core staff but the non-core staff may be less well treated. The small core teams may work effectively. The big question will be the effect on morale of those outside those teams.

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