All India Congress Committee

THE REAL STATE OF THE ECONOMY 2017

Where are the JOBS, Mr. Prime Minister?

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FOREWORD

The "Real State of the Economy 2017" report is a welcome addition to India's economic and policy discourse. The report presents a data-driven, fact-based assessment of how the economy is doing, thus providing a valuable counterpoint to the official account of India's economic performance. It has been prepared by Prof. M. V. Rajeev Gowda, Member of Parliament, Rajya Sabha and the All India Congress Committee's Research and Coordination Committee, ably assisted by a team of young researchers. I extend my congratulations to them for pioneering this initiative.

This report is an important institutional innovation. It is being released during the same week as the President's Address, the Economic Survey and the Budget. To this array of important policy documents, this report now adds the leading opposition party's perspective. No one person or government can ever be the fountainhead of all wisdom. Each one of us, both in the Government and the Opposition, has a mandate to fulfill the hopes and aspirations of more than a billion people. Dissent and debate form the foundation of our democracy, right from the time of the Constituent Assembly. This report strengthens bipartisan engagement, consultation and dialogue on matters of national interest.

We are releasing this report on Martyr's Day, and our thoughts turn to Mahatma Gandhi and his talisman. He urged us to consider the impact of our decisions on the poorest man and woman and to proceed confidently if our actions will empower and liberate them. This report heeds Gandhiji's views by creating a platform where the views of the voiceless can be expressed and the concerns of the vulnerable can be highlighted.

This report is all the more valuable in the aftermath of demonetisation, which, as I highlighted in Parliament, has affected our poorest sections the most, even as it has slowed down India's economic engine. We must bear in mind that economic indicators have their own limitations in a vast and diverse country like ours. The impact of various policies and programmes can only be divined with a keen ear to the ground.

I sincerely hope that the government and the people of India will keenly reflect and analyse this document and that it will spark an insightful debate. I look forward to future editions from whichever party is in the Opposition in the years to come.

Manmohan Singh

Dr. Manmohan Singh
January 30, 2017

ACKNOWLEDGEMENTS

This report has truly been a team endeavour. It is the result of the stellar efforts of a group of young researchers who worked tirelessly to collect data and organise insights into a compelling narrative. This report became possible because an array of experts readily shared their valuable insights on different facets of the Indian economy. They strongly agreed that India needed a careful assessment of the economy's performance from the perspective of the Opposition. They backed their conviction by providing data, pointing out relevant materials, and sometimes actively engaging with the chapters in this report.

We are grateful that this project had the guidance and blessings of former Prime Minister, Dr. Manmohan Singh and former Finance Minister, Thiru P. Chidambaram.

We benefited greatly from the wisdom of various experts on the Indian economy. Among those we consulted, in alphabetical order, were Montek Singh Ahluwalia, Nikhil Dey, Himanshu, Jayakumar S, Harsh Mander, Ila Patnaik, M. Govinda Rao, Pronab Sen, Dipa Sinha, M. S. Sriram and Mahesh Vyas. Praveen Chakravarty was an extraordinary source of support who contributed substantially and also connected us to many experts. We also benefited from discussions with journalists, academics and practitioners in the field. Many of them chose to remain anonymous, but helped out nonetheless to add strength to this initiative which aims to enrich our public discourse.

Varun Santhosh put together a task force that worked tirelessly to complete this project. He was ably assisted by our research team: Aliya Das Gupta, Revathi Kondur, Shahana Munazir, Yash Sripuram, Anju Rao Guddugurki and Aiyshwarya Mahadev. Many others came on board and produced excellent outputs: Vikas Birhmaan, Deepika Chhillar, Geetika Dang, Phalguni Guliani, Nikhil Varghese Mathew and Surabhi Singhal.

As always, our Congress colleagues have been enormously supportive, especially Shri Randeep Singh Surjewala and Shri Pranav Jha in the AICC Communications team.

This is a first attempt at providing a concrete, credible, critique of the government's economic track record from the perspective of the responsible opposition. As with all maiden attempts, mistakes and flaws can creep in. We request your understanding and commit to preparing an improved, more accurate assessment of the real state of the Indian economy next year.

Professor M. V. Rajeev Gowda, MP
AICC Research and Coordination Committee
New Delhi, January 30, 2017

Introduction: The Real Deficit – Two Crore Jobs Every Year

The tradition of presenting an Economic Survey began in 1950 and was initiated by the then Finance Minister of India, John Mathai. The Economic Survey presents the macroeconomic context to the Union Budget every year. For 67 years, the government of the day has used the platform of the Economic Survey to outline the achievements, challenges and policy ideas for the economic prosperity of India. The Economic Survey is prepared by the Office of the Chief Economic Adviser in the Ministry of Finance. Understandably, the report tends to be largely deferential to the government.

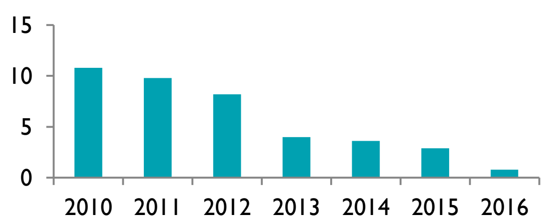
Over the last few years, India has become the third largest economy in the world, in purchasing power parity terms. The state of India's economy is extremely important to not just all Indians but all citizens of the world. The hopes of 300 million Indians to climb out of poverty rest on the state of India's economy. The aspirations for a prosperous life for another 300 million youth in the age group of 18 to 30 depend critically on the state of the economy. It is thus imperative that there is an accurate evaluation of the state of India's economy every year.

Starting this year, as a responsible opposition party, the Indian National Congress will address this need with a pioneering initiative. It will present a report on the Real State of India's Economy, a day before the Economic Survey of India is presented. The report aims to present an accurate picture of the current state of the economy using data analysed through a macro-economic framework with inputs drawn from experts across India and the world. The goal of this report is not to score political points but to present a factual report on the economy to the people of India every year. We believe that this initiative will strengthen India's democratic discourse. It is our hope that this tradition will be continued by the principal opposition party after the Congress party returns to power.

In November 2013, the then prime ministerial candidate of the Bharatiya Janata Party (BJP), Sri Narendra Modi promised the people of India that "if the BJP comes to power, it will create one crore new jobs." At other times, he has promised jobs for every youth, which works out to 2 crore per year. Further, in the BJP's manifesto for the 2014 Lok Sabha elections, the very first section was curiously titled "Attend the Imminent" which declared that the BJP will "accord high priority to job creation" through "high impact domains such as labour intensive manufacturing, tourism, infrastructure and housing." Rightfully, creation of new jobs was one of the important promises of the BJP before coming to power. All the macro-economic indicators and indices such as industrial production index, purchasing manager's index, economic output numbers, etc., are just means to the most important goal of job creation. It is imperative to gauge the performance of the broader economy through its ability to create new jobs for the youth of the country. It is only job creation that will prevent India's potential demographic dividend from turning into a demographic disaster. Therefore, it is critical to ask the question – what is the state of India's economy, especially in terms of its ability to create new jobs?

Unfortunately, the answer to this question is marked by significant pessimism. ar, There are nearly 10 lakh youth looking for a job every month in India. Amid such a staggering need and a tall promise, there were less than 1.5 lakh new jobs created in all of FY2016, as per the latest data available from the Labour Bureau. What is even more depressing is that the pace of creation of new jobs is not increasing but actually declining.

Fig: New Jobs Created (in Lakhs/Year)



Source: Quarterly report on changes in employment, Ministry of Labour

As the numbers show, there has been an alarming decline in job creation. It has dropped by nearly 90% from roughly 11 lakh new jobs in 2010 to less than 1.5 lakh new jobs in 2016. According to the Labour Bureau's fifth employment-unemployment survey, official unemployment figures rose from 12.9% in 2014 to 13.2% in 2016. Whichever way one looks at official data, it is unambiguously clear that India is headed for a demographic disaster if the current ominous trend is not reversed soon. It is through this prism, that the state of today's economy in India must be viewed. While the government needs to be mindful of its fiscal deficit target of 3%, and needs to keep the current account deficit within a manageable range, the most important deficit staring at all of us is the 1 crore jobs deficit every year. This is the real economic target for India.

There can be endless debates over whether the GDP numbers conform to lived reality of economic growth. There can be intense squabbling over real and nominal growth numbers or monetary policy decisions. There can be loud chest thumping over India's status as one of the fastest growing economies in the world. Behind the slogans of Make in India, StartUp India, Skill India, Digital India and so on lie the stark reality – two out of three Indians are either abysmally poor or jobless or both. It is time the government woke up to the frustration that is building among India's youth and is manifesting itself partly in various agitations around the country.

Instead of addressing this issue, Prime Minister Modi chose to launch a nuclear first strike on the Indian economy through demonetisation. A slowly recovering economy found itself stunned when the Modi government jammed the brakes on India's growth. In terms of the impact of demonetisation, a range of experts have produced an array of estimates about the extent of the slow down: from 1% to more than 2%, over six months to over five years. Every percentage point drop in Gross Domestic Point (GDP) growth costs the country 1.5 lakhs of crores of rupees.

But behind these numbers lies the terrible human cost – the jobs not created, the opportunities to climb out of poverty lost, and the dashed aspirations of India's youth. It is this harsh reality that motivated the creation of this report. Our aim is to shine a light on the areas where the government has faltered in its management of the economy so that it can correct course and put India back on a positive growth trajectory once again.

Chapter 1

Growing Gaps – Jobs, Investment, Infrastructure

India is a youthful nation with a median age of 27.6 years. Our working age population will increase from approximately 761 million to 869 million during 2011–2020. If more of our young people start working and earning, our economy will take off, and we will encash a 'demographic dividend.' But for that to become a reality, India needs to create large numbers of jobs for the 12.8 million youth who enter the work force every year. Recent data indicate that India's 'demographic dividend' will probably last only one generation. Therefore it is imperative that we do not miss this crucial window of opportunity.

Prime Minister Narendra Modi led the Bharatiya Janata Party to power by promising India's voters that he would spark unprecedented economic growth and catapult India from the ranks of emerging economies to those of developed nations. Foremost among his promises were the creation of new jobs.

However, the creation of new jobs is contingent on new investments. Investments can either be public or private. Public investment, particularly investment in infrastructure can create a huge number of jobs. But these investments can be increased significantly only if the government generates additional funds. On the other side, to encourage private investment the government needs to create the right investment climate by clearing the policy hurdles and by providing the right incentives. An important element to consider is the sector that attracts investments, because for the same amount of investments, different sectors create different number of jobs. So, naturally to create more jobs the government should focus on attracting new investments in the job intensive sectors.

At the midway point of Modi's term, none of this has transpired. India appears to be caught in a progressive downward jobs spiral, investments appear to be unresponsive to the call to "Make in India", and infrastructure is improving far too slowly to have a multiplier effect. In this stressed environment, the government's sudden move to demonetise 86% of outstanding Indian currency on 8th November, 2016, appears to have further impacted the possibilities of economic revival. The reality is that we seem to be crashing from high hopes of a 'demographic dividend' towards a 'demographic disaster.'

1.1 2013-14 AND NOW: THE CONTRAST IN JOBS

Grandiose Promises

In the 2014 elections the BJP made grandiose promises about how it would create jobs. In November 2013, the BJP prime ministerial candidate, Narendra Modi promised one crore jobs if brought to power during an election rally in Agra. By 2nd March 2014, the scale of the promise grew to include jobs for each and every youngster: ""If our nation has to progress, and if we wish to add wings to the aspirations of our youth, we need to create enough jobs to employ each and every youngster joining the work force."

Post-election: Abortive drives: fruitless attempts at job creation

Creating job opportunities to match the availability of labour is a huge challenge. At one end, there are issues of employability, as a significant proportion of the people entering the job market are not adequately skilled by our education system. On the other end, the country is not able to create those many opportunities to absorb the available labour.

Government's approach: The government's approach to create jobs touched both ends. To solve the issue of employability, the government redesigned the then skill development program and launched the Skill India program. To create jobs, government launched the Make in India program, aimed at encouraging big-ticket investments and the Startup India program, aimed at aiding entrepreneurship. For providing avenues of self-employment the government introduced the Standup India scheme and the Mudra loan scheme. However, owing to numerous issues including faulty design and poor implementation, by and large, these attempts have been unsuccessful at job creation.

Skill India: The government generated the expectation through statements and advertisements in the media that the National Skill Development Corporation (NSDC) set up by the earlier UPA government would be transformed into an exceptional job creator, under a newly launched programme named "Skill India." This initiative was designed to impart vocational training. The projection was for 150 million jobs originating from NSDC by 2022, implying a target of 2 crore jobs per annum from NSDC alone. However, this initiative has not worked out and the NSDC CEO and COO both resigned a month before Minister Rajiv Pratap Rudy admitted in a speech to CII that this thrust had failed. The travails of this scheme are described in detail in the chapter on Social Sector.

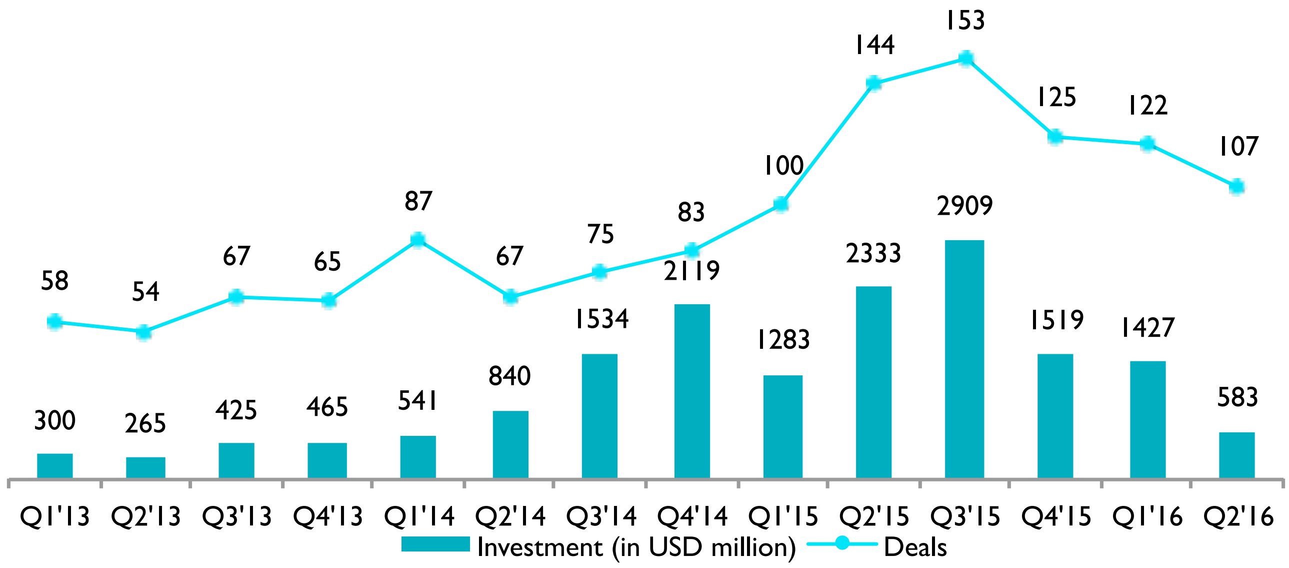
Make in India: In his first speech from the Red Fort on Independence day, Modi had said: "Today, if we want to give more and more employment opportunities to the youth, then we will have to promote the manufacturing sector." At that point he was also building a case for a Land Acquisition Bill to help private sector groups acquire farm land without adequate safeguards for farmers, but he made a link between manufacturing and jobs. Soon after, on 25 September, 2014, the government announced the "Make in India" policy. This would encourage foreign companies to set up manufacturing operations in India and these would employ millions of young Indians moving from farm to factory.

The Make in India program was launched in September 2015, but an examination of FDI inflows since the announcement suggests that the services sector is still the recipient of the highest proportion of FDI (around 17%), while employment-intensive manufacturing sectors such as automobiles lag far behind. The aggregate FDI inflow over three years does not appear to be headed even close to the $500 billion promised by the massive deals signed by the government.

Finance minister Arun Jaitley, arguing in favour of the land acquisition bill, projected that once this bill was passed, the industrial corridors that would come into being would create 30 crore jobs. This was a massive projection in a country where the total workforce (all sectors included) is 46 crore.

More than two years have passed since, and the aggressive projections have not been realized. There has been no sustained investment inflow under the "Make in India" programme, and, naturally therefore, job creation on this front has been negligible.

Fig 1.1: Startup Funding in India



Source: CB Insights

Start Up India: In January 2016, the government launched yet another attempt – Start Up India. This Rs. 10,000 crore scheme was an ambitious plan to reduce red tape and establish funds for startups that would trigger the creation of 1.8 million jobs. The government had projected that the Rs. 10,000 crore corpus would catalyse Rs. 60,000 crores in equity investment, and double that in debt investment.

A year after its launch, the government has claimed that it has recognized over 500 startups and 118 incubators and, under the Atal Innovation Mission, 257 tinkering labs have been sanctioned. Over 170 startups have been mentored for incubation and funding support. It also claimed that it was easier to access funds through relaxed rules for angel funds and foreign venture capitalists. Yet no names or evidence back up these numbers. Industry experts have complained that despite the much-hyped launch there was no clarity about the methods for application for funding. A year later, it is still not clear which body would be disbursing funds.

The sad reality is that in 2016, the startup sector was plagued by fund crunch, with a 42.7% fall in funding. The year 2015 saw an 87% increase in the number of startups being founded, the number dropped by 67% in 2016. At least 800 start-ups founded after 2011 have shut shop, signaling a deteriorating health of the sector, according to data analyst firm Tracxn Technologies.

Box 1.1: J&K and the Udaan Scheme

Repackaging of schemes and services has been a trademark of the current government. So, when the BJP led government renewed the Udaan scheme for a further 4 years until 2020, it did not come as a surprise. The Udaan programme is a special industry initiative aimed at providing skills and corporate job opportunities to the youth of Jammu & Kashmir (J&K). The target of the scheme is to train and enhance the employability of 40,000 graduates, post graduates and engineering diploma holders. As on 30th November, 2016, 17,111 persons have been trained & 9,632 have been placed under the UDAAN scheme.

In his speech at the All Party Meeting in Jammu & Kashmir on August 12, 2016, Prime Minister Narendra Modi said; "About 1 lakh 25 thousand persons will be trained under the Udaan and HIMAYAT schemes so that unemployed people can get appropriate employment." Reality has a story quite different from the fairy tale ending that the Prime Minister has envisioned for the state. In December 2016, hopeful of the UDAAN scheme, Kashmiri graduates, who left the valley for Delhi through UDAAN, complained that they are being ill-treated by the scheme which claims of securing their accommodations and other essentials. Besides being served alien and unhygienic food, they also complained that the monthly stipend of 2500 rupees promised to be paid to each candidate had not been paid yet.

The initiative that guaranteed the mainstream integration and interaction of the youth of Kashmir with the rest of India seems to be going downhill rather than being "sped up" as enunciated by the Prime Minister. While on one hand, the government is earnestly setting up new targets and initiatives for the educated youth, the schemes set up to promote education of the youth themselves is faltering. In this context, the statistics on the enrollment of students for the Prime Minister's Special Scholarship Scheme in Kashmir (an initiative by the UPA government) show a decline in the last two years. From 1,700 in 2014 -2015 it fell to a mere 941 in 2015-2016. Mere promises only dampen the enthusiasm for such schemes and calls for us to question if the failure of these initiatives is rooted its implementation.

Jobs – The Reality

There are two parts to the jobs crisis: the situation leading up to the demonetisation exercise, and the massive destruction of jobs caused by demonetization.

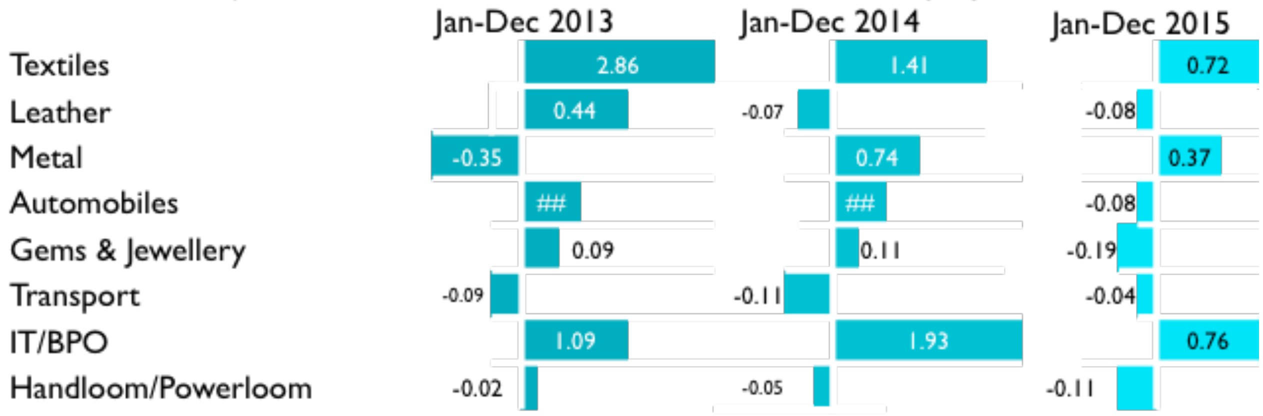
Leading up to Demonetisation

The creation of jobs till November 2016 was not healthy. The Labour Bureau, which collects data on jobs created or lost, showed only 1.35 lakh jobs had been created in the economy in 2015, against 4.19 lakh jobs in 2013 and 4.2 lakh jobs in 2014.

The survey by the Labour Bureau found that the gems and jewellery sector saw 19,000 jobs lost during 2015 followed by handloom/powerloom at 11,000. Employment decreased by 8,000 each in the leather and automobiles sectors while 4,000 jobs were recorded as lost in the transport sector. In 2015, the Information Technology/Business Process Outsourcing sector created the most jobs - 76,000. Other sectors that contributed to the increase in employment are textiles, including apparels (72,000) followed by Metals (37,000).

Overall, under Prime Minister Modi, there has been a downward spiral in job creation. At 1.35 lakhs, the number of jobs created in 2015 is miniscule. It stands in stark contrast to the promise of one crore jobs per annum that Modi had claimed he would create or his other wild claims that he would create 15 crore jobs (approximately 2 crore jobs per year)

Fig 1.2: Sector-wise estimated net addition in employment



Source: Ministry of Statistics and Programme Implementation

by 2022.

It is important to note that the jobs problem runs deeper than just a slowdown. The Labour Bureau reported creation of 11 lakhs jobs in 2009, 9 lakhs in 2011, 4.19 lakhs in 2013, and 1.35 lakhs jobs in 2015. Clearly, there is a downward jobs spiral in the economy, created by factors that are more complicated than a simple cyclical slowdown. Instead of announcing big-bang projections running into over a hundred times the current job creation figure, this structural problem requires a well-thought through, concerted, perhaps consensus-driven job creation policy – but no such vision has been shared by the government.

Although not a job in the proper sense, the MGNREGS scheme, which provided guaranteed work to the jobless in the villages, is also not working. According to government figures, in the first 50 days of the financial year 2015-16, 2.27 crores people demanded work under the job guarantee scheme but only 1.1 crores actually got work. More than half the people seeking work were turned back. The reason cited by state governments is that central funds are not being released for payments. Thus, even the MNREGS scheme designed to mitigate the impact of rural unemployment is not functioning as it should.

Prime Minister Modi's statements on jobs have become far more circumspect and sober. In a much-publicized interview last July to the Times Now news channel, Modi had said that jobs need to be created keeping in mind the aspirations of the middle class. "The middle class has its aspirations. We have to create jobs. How will job creation happen? Till I invest in the development of infrastructure, there will be no job creation". In other words, he no longer claims to have a panacea.

A huge blow to jobs arrived when Larsen & Toubro, India's venerable engineering giant and stock market superstar, laid off 14,000 employees over a period of six months till September 2016. If other Indian large enterprises undertake similar layoffs, the job loss situation will worsen substantially.

The Health of Corporate India and its Implications for Jobs

In 2014-15, the corporate sector suffered nearly flat sales. Quarterly financial results of listed companies indicate that the situation worsened by 2016-17. Adjusted for inflation, the sales of corporate sector recorded a 4.1 per cent fall in the first quarter and a 3.8 per cent fall in the second quarter.

During the last two years, 2015-16 and 2016-17, the corporate sector's condition has deteriorated very sharply. Sales growth has declined. Returns on investments have fallen. Efficiencies in use of capital and labour have decreased and investments cut back.

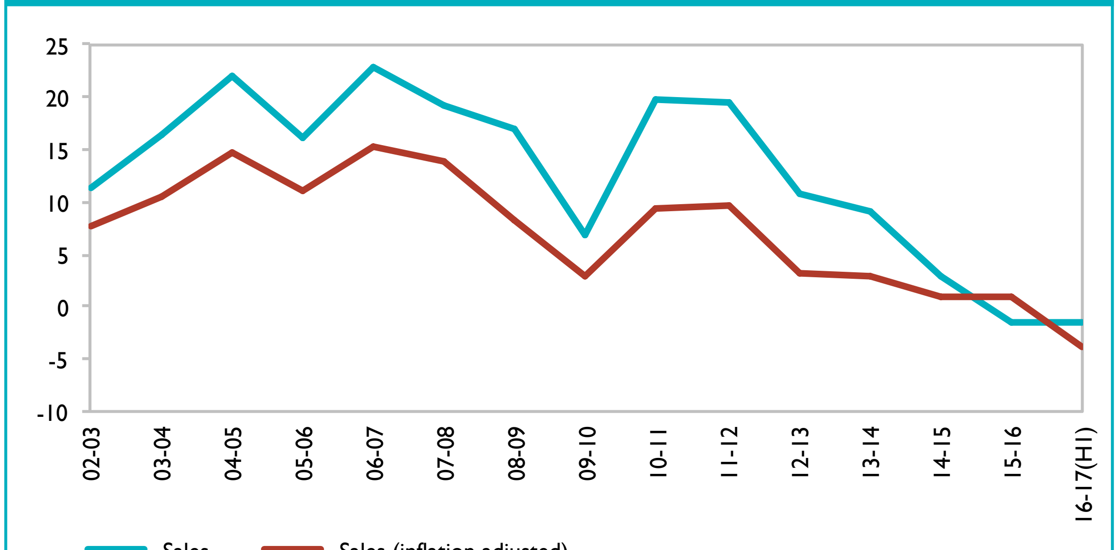
Given that the third and the fourth quarter of 2016-17 will be adversely impacted by the demonetisation, it is very likely that the current fiscal year would end with a fall in sales - both in nominal and in real terms.

It is therefore apparent, that 2014-15, 2015-16 and 2016-17 will be the worst 3-year period in terms of sales growth performance of the corporate sector at least in the last 25 years.

This is having an adverse impact on wages paid to labour and on employment, leading to a sharp slowdown in the manufacturing businesses subcontracted by the corporate sector. These are mostly the medium and small enterprises, which are drivers of employment growth.

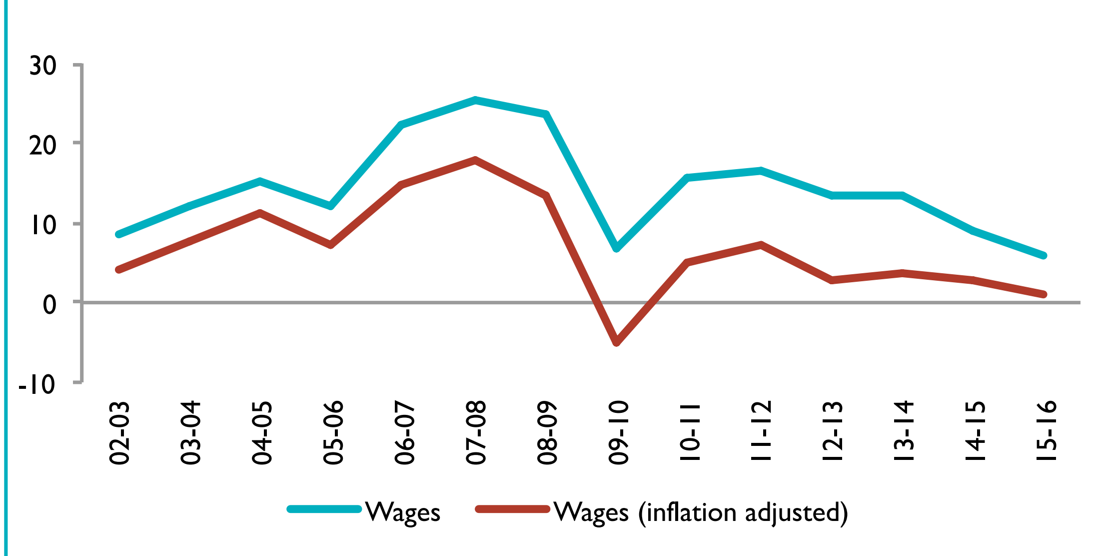
The impact of the slowdown in the corporate sector on employment can be inferred from companies' disclosure about their expenses on wages. Wages

Fig 1.3: Sales Growth of Corporate India- Nominal and Real (%)



Source: CMIE Prowess

Fig 1.4: Wage Growth of Corporate India- Nominal and Real (%)



Source: CMIE Prowess

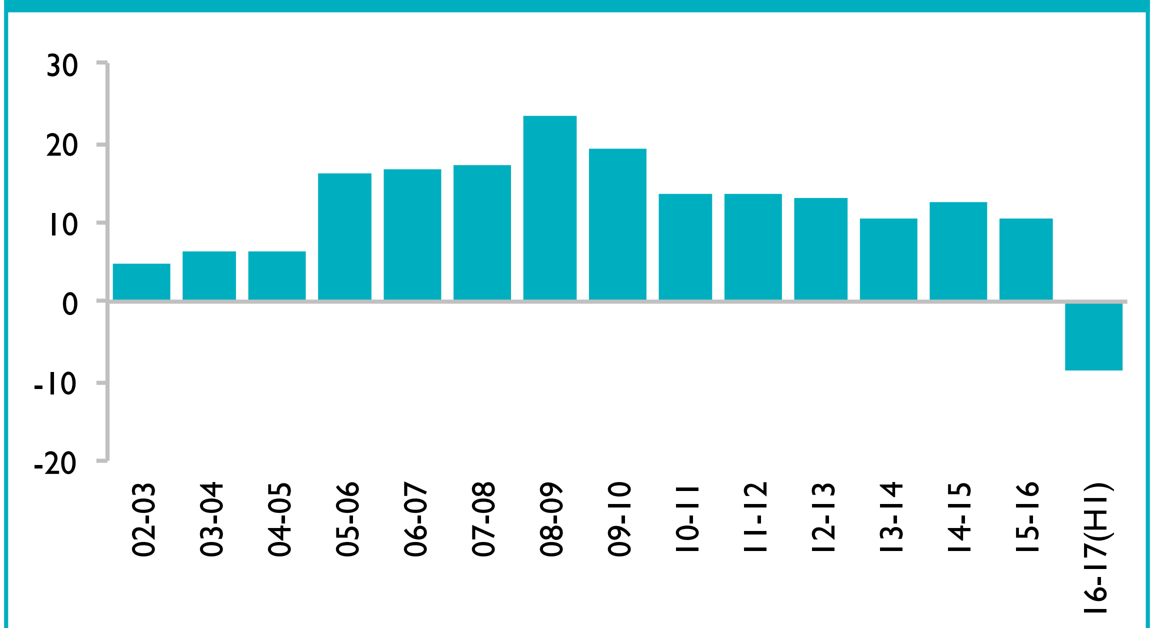
increase year-on-year in nominal terms when either the wage rate increases and / or when employment increases, and normally both. It is therefore normal to expect the wage bill of the corporate sector rise at a rate that is higher than inflation in consumer prices.

The CMIE Prowess database shows that the overall wage bill of Indian corporates has been constantly decelerating. This slowdown worsened during 2014-15 and 2015-16. Corporate wages grew by 8.9 per cent and 5.9 per cent, respectively, during these years. During these years, inflation as measured by the Consumer Price Index (CPI) was 5.8 per cent and 4.9 per cent, respectively. Therefore, real wages grew by only 2.9 per cent and 0.9 per cent, respectively.

This is substantially lower than the 5-10 per cent real inflation-adjusted growth seen during the 2000s, lower than the close-to-five per cent growth rates seen since 2010-11.

This slowing growth of the real wage bill of corporates indicates a lower potential for fresh employment in the corporate sector.

Fig 1.5: Growth in Net Fixed Assets of Corporate India (%



Source: CMIE Prowess database

The Fate of Corporate Investments

Financial statements of listed companies as of September 2016, show an 8.6 per cent fall in net fixed assets. This is an ominous sign of the difficult times the country faces in the near future. The fall in net fixed assets implies that companies did not invest sufficiently during the year ended September 2016 to offset even the depreciation suffered on the existing stock of assets.

The fall in real-wages and the fall in net fixed assets we see in the financial statements of Corporate India seem to suggest that the sector is in a downsizing phase. This downsizing seems to have become severe during the three years 2014-15, 2015-16 and 2016-17. This has implications on employment opportunities within the corporate sector. It also has ramifications on the rest of the economy.

First, labour will be forced to look for jobs in less paying and less efficient sectors such as small scale units and even agriculture. The second implication is the downsizing of the corporate sector. This makes the first factor worse. As the corporate sector downsizes itself, it also provides less business to outsourced manufacturing units. This reduces employment opportunities in these smaller units as well.

Impact of Demonetisation on Small Companies

Smaller companies unable to cover interest costs

It is imperative that small companies become big because it is their growth that provides the best employment opportunities in the country. However, times of a business downturn make it difficult for these companies to survive.

Usually, an interest cover of 2 or more is considered to be comfortable. A negative interest cover shows that the company was not able to meet its interest payment obligations after paying for operational costs.

During 2014-15 and 2015-16, the situation has become worse compared to the preceding years. From 2009-10 till 2013-14, the last three deciles showed a negative interest cover. However, in 2014-15 and 2015-16, interest cover has been negative in the last four deciles. Evidently, the stress at the bottom of the corporate pyramid has worsened during the last two years. It has spread to more companies.

This worsening financial position of the smaller companies as seen in the financial statement for 2015-16, is likely to have got much worse in 2016-17 following the severe cash crunch caused by the demonetisation.

Labour Force Succumbs to Demonetisation

India annually sees an addition of 12.8 million to the workforce. When total job creation is an abysmal 1.35 lakhs, obviously the remaining go into survival mode. They join hundreds of millions of co-sufferers in low paying

Table 1.1

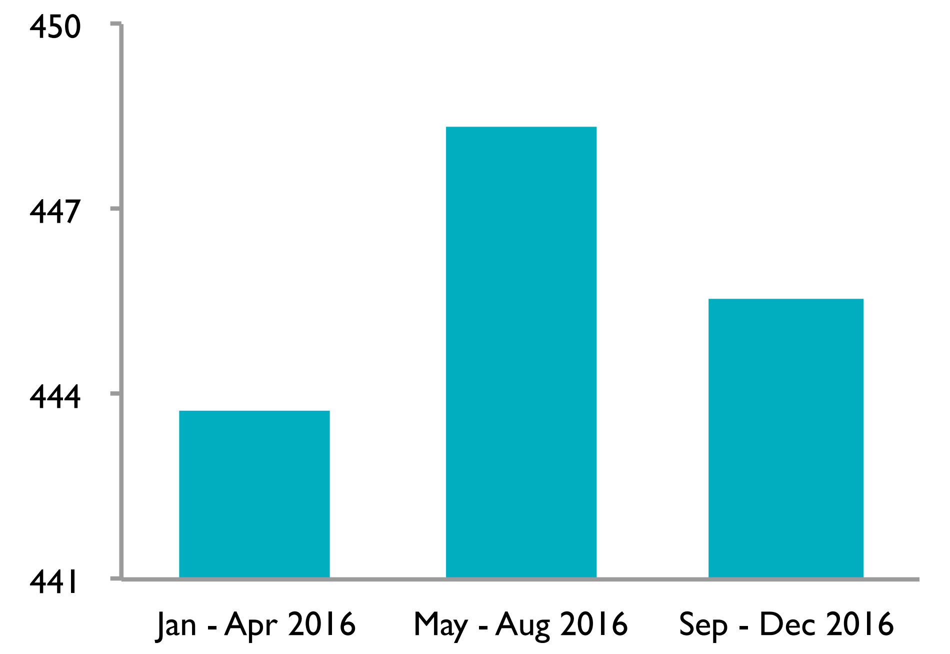
Years	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16
Decile1	1.96	2.51	3.67	4.65	4.78	5.40	4.91	2.83	3.32	3.09	2.46	2.15	2.01	2.00	2.39
Decile2	1.06	1.16	1.39	1.61	2.29	2.64	2.38	1.57	2.03	1.99	1.49	1.54	1.51	1.37	1.46
Decile3	0.65	0.66	1.00	1.39	1.72	2.63	2.42	1.74	2.01	2.06	1.73	1.37	1.46	1.39	1.30
Decile4	0.43	0.39	0.99	1.13	1.48	2.22	1.90	1.26	1.88	1.97	1.58	1.38	1.19	1.56	1.52
Decile5	0.09	0.05	0.60	0.72	1.26	1.13	1.13	0.76	1.19	1.44	1.13	1.09	1.15	1.06	0.81
Decile6	0.22	-0.02	0.27	0.43	0.51	0.65	0.81	0.36	0.62	0.85	0.83	0.89	0.86	0.82	0.94
Decile7	-0.45	-0.31	-0.14	-0.19	0.37	0.52	0.49	-0.39	0.09	0.40	0.36	0.15	0.34	-0.46	-0.99
Decile8	-0.46	-0.62	-0.69	-0.01	-0.07	-0.15	-0.39	-1.01	-1.28	-0.49	-0.41	-0.58	-0.33	-0.53	-0.97
Decile9	-1.15	-1.25	-0.92	-0.93	-0.83	-0.88	-1.88	-2.61	-1.44	-1.38	-2.02	-1.54	-3.43	-3.74	-3.14
Decile10	-1.42	-1.27	-1.15	-1.82	-3.90	-2.76	-3.66	-5.65	-8.37	-2.88	-3.34	-5.36	-4.32	-3.53	-5.27

informal sector jobs, migrate to cities, live in horrendous conditions, face sickness and disability or work in fields on negligible-nutrition diets.

Sectors like agriculture, fishing, and the voluminous informal economy, that fundamentally thrive on cash, came to a grounding halt when Modi announced the demonetisation. Many businesses and livelihoods went under completely. Moreover, there is a huge economic cost when millions of people stand in line for long hours to exchange or deposit canceled banknotes. This is crucial time taken away from earning a wage or doing business. People in the above category either lost jobs or simply stopped working because no pay was available. Chains of communication, command and credit lines that have dealt with informal working relationships for decades collapsed. Within 16 days of the demonetisation, The Financial Express quoted the PTI as saying that 400,000 people had lost their livelihood already.

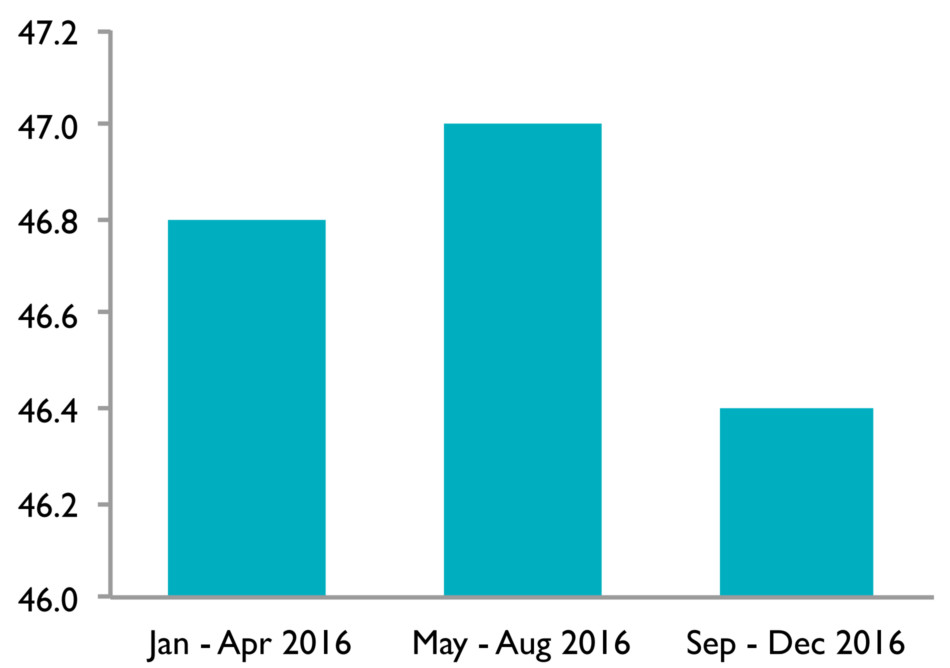
The total labour force in India was estimated at 443 million during January-April 2016. The estimated population (of 15 years of age or more) during this period was 946 million. As a result, the labour participation rate (LPR) works out to 46.8 per cent.

Fig 1.6: Labour Force (in Millions)



Source: Labour Bureau

Fig 1.7: Labour Participation Rate (%)



Source: Labour Bureau

During May-August 2016, the labour force increased to 448 million and the LPR increased to 47 per cent.

As fresh graduates came into the labour markets during the summer of 2016 and as the kharif crop season began soon thereafter, the labour markets swelled. The increase in the labour force was larger than the increase in population during the same period. Consequently, the LPR increased from 46.8% to 47%.

During September-December 2016, the labour force contracted. The labour force fell to 445.5 million during September-December 2016 from 448 million in the May-August 2016 period. The labour participation rate fell to 46.4%. Of the three waves of the survey conducted during 2016, the LPR was the lowest during the September-December 2016.

A contraction in the labour force during this period is counter-intuitive because this is when the kharif crop is harvested and is the season of marriages and festivals across the country. Therefore the labour force should expand during this season in response to the greater demand for labour in the production and distribution of goods and services.

The fall in the labour force is due to the demonetisation shock. Not only did the demonetisation result in labour being rendered unemployed, it also shunted people out of the labour force itself. As on-ground reports from the media have indicated, people who lost jobs post-demonetisation moved back to their villages. With no hope of getting jobs in their villages, they reported their status as unemployed and not as looking for a job. Thus, they were not counted in the measurement of the unemployment rate. They have simply dropped out of the job market.

The number of persons out of the labour force increased from 505 million during May-August 2016 to 514 million during September-December 2016. This sharp increase in the number of persons out of the labour force is obviously not an increase in the population. It is neither a sudden increase in the retired or aged. This is a reflection of the people who have dropped out of the labour markets during this period. Clearly the demonetisation has devastated India's labour market leaving workers discouraged and dispirited, leading to their dropping out of the labour market.

Fall in Labour Force Hits the Vulnerable

People employed in public sector or in large private enterprises are not hit by the demonetisation since this segment has "permanent" or relatively secure jobs. If these were hit, then it is likely that they would have stayed in the labour force and reported themselves as unemployed. The hit was largely on vulnerable segments of the labour force. This includes migrant labour, women, the young and the old.

Migrant labour is easily laid off. Their jobs depend upon the demand for labour that can fluctuate almost every day. Migrant labour survives on the expectation of some job on an on-off basis during their stay in the place of work. If this expectation falls, they return back to their villages because they cannot survive in the towns without an expectation of jobs. This labour force migrates back to the villages and temporarily stop working till the demand picks up again and expectations of jobs are revived.

One evidence of the hit on migrant labour is that the labour force

Table 1.2

Labour Force	Jan - Apr 2016	May - Aug 2016			Sep - Dec 2016		
	In Million	In Million	Change	% Change	Million	Change	% Change
Urban	149.39	151.73	2.35	1.6	150.14	-1.60	-1.1
Rural	293.32	296.61	3.29	1.1	295.39	-1.22	-0.4
Total	442.71	448.34	5.6	1.3	445.53	-2.8	-0.6

fell a lot more in urban areas than it did in rural areas. Compared to May-August 2016, the labour force in September-December 2016 was lower by 2.8 million or 0.6 per cent. Of this 2.8 million fall, 1.6 million was in urban areas and a smaller 1.2 million was in rural areas. Given that the population resides mostly in rural areas, this skewed fall that is concentrated in urban areas indicates the nature of the problem of the falling labour force. The fall in urban areas was 1.1% and that in rural areas was 0.4%. This sharper fall in urban labour force is a reflection of the hit of the demonetisation that was borne by migrant labour.

Crucial Exports Sector Hit

The exports sector is a major employer in many parts of the country. They form a complex supply chain of raw material suppliers, small and medium enterprises and big factories. Post-demonetisation, various export promotion councils have issued dire warnings to the Commerce and Industry Minister. It has been reported by the Financial Express that, "many factories had cut down on production by half from the pre-demonetisation level due to the liquidity crisis".

The textile and garment sector employs almost 32 million people. They are mostly paid wages in cash either on a daily or weekly basis. Post- demonetisation, approximately a fifth of these workers have been badly hit. While some have been hit by job loss, many more dread a similar fate. A majority of garment industry workers are migrants and therefore do not have bank accounts where they work. In major hubs like Tirupur, almost 70% of the workers are migrants from the North and North-East India.

Similarly, the leather industry, where 90% of the units are small and medium enterprises, has been particularly hit hard. 20%-25% of the approximately 2.5 lakhs workers in the industry are daily wage workers. They have been drastically affected. In the jewellery sector, 15%-20% of all workers have been affected. These are mostly daily wage workers as well. The precise numbers of job losses due to the demonetisation have not been worked out, but one thing is clear: the final impact is going to be a massive hit, and the path to recovery even to the puny numbers being achieved before the demonetisation, will be an uphill exercise for the Modi government.

Job losses appear to be structural, and massive. The solution needs to be designed immediately and with great wisdom. What is certain is that an investment spurt is a definite necessity for jobs to revive.

What then is the scenario with investments under the NDA regime?

1.2 INVESTMENTS

Deals and Expectations

Narendra Modi built up expectations that he would provide a substantial boost to the Indian economy if he were elected Prime Minister. This was based on the perception that he had attracted substantial investments to Gujarat during his long stint as Chief Minister. While critics argue that the bulk of these investments pre-dated his tenure, the overall consensus manufactured was that Prime Minister Modi would attract investments and create the momentum for a period of strong economic growth.

There have been two strands to the government's efforts to increase investments. First, Prime Minister Modi on his visits abroad, and the government at various investment summits organized in India, have signed massive deals with potential global investors. Second, the government has announced and acted upon a "Make in India" policy, under which attempts have been made to garner foreign investment.

The numbers in both instances are seemingly impressive. Prime Minister Modi signed investment deals worth $35 billion during his visit to Japan in September 2014, $41 billion during his visit to the US in October 2014, GBP 9 billion during his visit to the UK in November 2015, $22 billion during his visit to China in February 2016, $45 billion during his visit to the US in June 2016, among others.

Meanwhile, the government announced massive deals from "Make in India" investment fairs. According to government figures, the Make in India event in February 2016 garnered deals worth $222 billion from 2000 global firms and 8000 Indian enterprises.

The staggering total comes to nothing less than $500 billion worth of direct investment deals over three years, which had the potential to increase the contribution to GDP of manufacturing from the current 16-17% on average to a substantially higher proportion, perhaps higher than 20%.

Investments: The reality

The reality, however, has been sobering. Foreign investment has been slow, and Indian private sector investment has not been forthcoming. It is evident that after over two-and-half years of the current government, the Indian economy continues to suffer from a severe lack of investment enthusiasm. There has been no pick-up in investments after the new government took over in May 2014. On the contrary, after nearly two years of lacklustre investments, the investment climate has started to deteriorate in 2016-17.

The worsening investment climate ratio is reflected in the statistics released by India's official apex statistical agency, the Central Statistical Organisation (CSO). Two standard indicators derived from the data released by CSO eloquently quantify this deteriorating investment climate.

Gross Fixed Capital Formation to shrink: 2016 -17

According to the advance estimates issued by the CSO, gross fixed capital formation is expected to decline by 0.2 per cent and gross capital formation is expected to decline by 1.4 per cent. This is the first time in 14 years that the economy has seen a contraction in the gross fixed capital formation. The last time such a phenomenon occurred was in 2002-03.

Investments had picked up smartly during the UPA I times after the country had faced a particularly difficult time on the investments front till 2002-03. GFCF had shrunk for two of the four years preceding the arrival of UPA I.

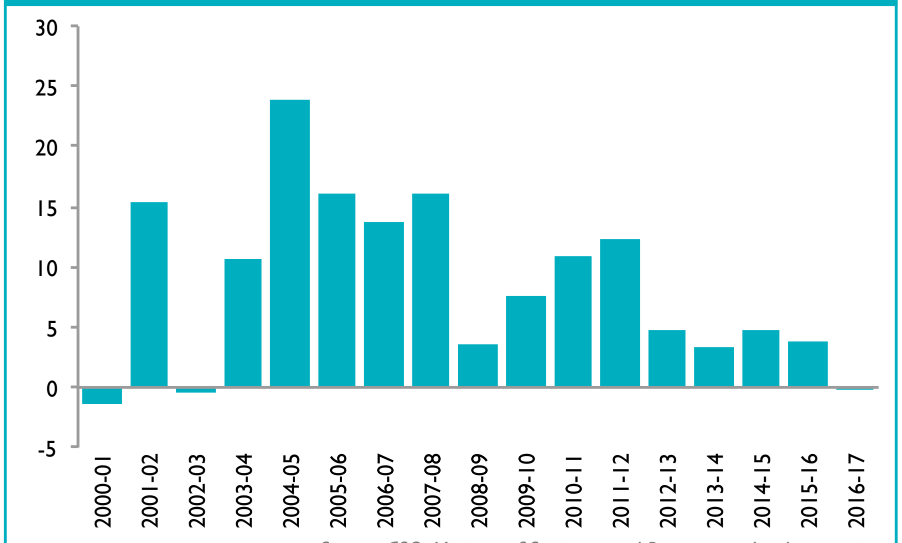
India witnessed the fastest growth in gross fixed capital formation during the years 2003-04 through 2007-08. This is the only period when India witnessed double-digit growth in the gross fixed capital formation for five consecutive years.

This period of exceptionally rapid growth in investments was interrupted by the global financial crisis in late 2008. But, the country recovered quickly to regain a large part of the lost momentum.

After a long and aggressive phase of expansion, the growth in capital formation slowed down from 2012-13. Yet, the GFCF continued to expand at 3-5 per cent per annum till 2015-16.

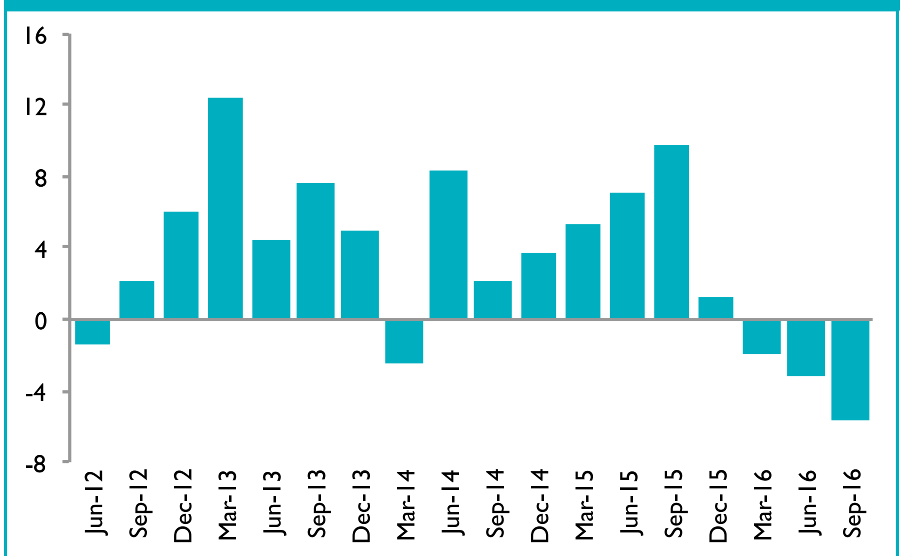
It is imperative that the investment climate be improved dramatically to ensure that the country provides sufficient jobs to the large and growing labour force. This is to ensure that the country is able to provide a reasonable qual-

Fig 1.8: Growth in Gross Fixed Capital Formation (%)
(at 2011-12 Market Prices)



Source: CSO, Ministry of Statistics and Programme Implementation

Fig 1.9: Quarterly Growth in Gross Fixed Capital Formation (%)
(at 2011-12 Market Prices)



Source: CSO, Ministry of Statistics and Programme Implementation

ity of life to its population and meet the hopes of a young and aspirational India.

However, 2016-17 appears to be a washout with capital formation shrinking. In fact, gross fixed capital formation has declined in each of three quarters of 2016 compared to the corresponding quarter of 2015. And, the rate of fall has been increasing. It dropped 1.9% in the quarter January-March 2016, then it fell by 3.1% in the quarter April-June 2016 and slid further down by 5.6% in the quarter of July-September 2016.

This implies reduced jobs and lower growth for the future. Moreover, the trend seems to suggest that India is allocating lesser resources for its future growth. This is clear from the investment ratio discussed below:

Declining Investment Ratio

Investment ratio is the proportion of GDP that is set aside for investments. It is income that is not consumed and instead is invested to build capacities for future GDP growth.

The investment ratio increased rapidly during UPA I and continued to remain high in spite of the 2008 global financial crisis. In fact, the ratio peaked in 2011-12. The recovery in the investment ratio in 2010-11 and its further rise in 2011-12 showed the resilience of the investment momentum that originated in 2004.

The investment momentum stalled because of the need to address internal concerns arising out of the rapid growth in investment and because of externalities concerning fuel costs and availability. The Supreme Court ban on iron ore mining, environmental costs of select large investment projects, complications arising out of global fuel prices and their impact on new investments in India and the serious popular resistance to acquisition of land for industrialisation stalled the investment juggernaut.

While many of the problems that assailed new investment projects or the implementation of many in the pipeline during 2011-12 were addressed during 2013 and 2014, the investment ratio has continued to slip. This is very worrisome.

The investment ratio is estimated at 29.1 per cent for 2016-17. But, in the second quarter of fiscal 2016-17, that ended in September 2016 the investment ratio was already a shade below 29.

The investment ratio had slipped 201 basis points in three years from its peak of 34.3 per cent in 2011-12 to 32.3 per cent in 2014-15. However, the drop is much sharper in the following two years. The investment ratio has dropped 322 basis points in just two years - 2015-16 and 2016-17. Thus, the fall in the investment ratio has worsened by 50 per cent to 150 basis points per annum during the first two years of the current government compared to the worst period of the previous government, when it was 100 basis points per annum.

The need to revert back to the healthy investment ratio that prevailed through much of the UPA regime cannot be over-emphasized. In fact, there is a need to surpass those levels.

CMIE's CapEx database helps understand the current and prospective trends in investments in India. The CapEx database provides a detailed view of the flow of new investment proposals and their conversion into new capacities over time. It also provides a view of projects being stalled and this dimension provides us a glimpse of the possible reasons for the investment cycle remaining low. We first study new investment proposals, then the completion of projects and finally the problem of projects being stalled midway through investments.

New Investment Proposals Hit by Demonetisation

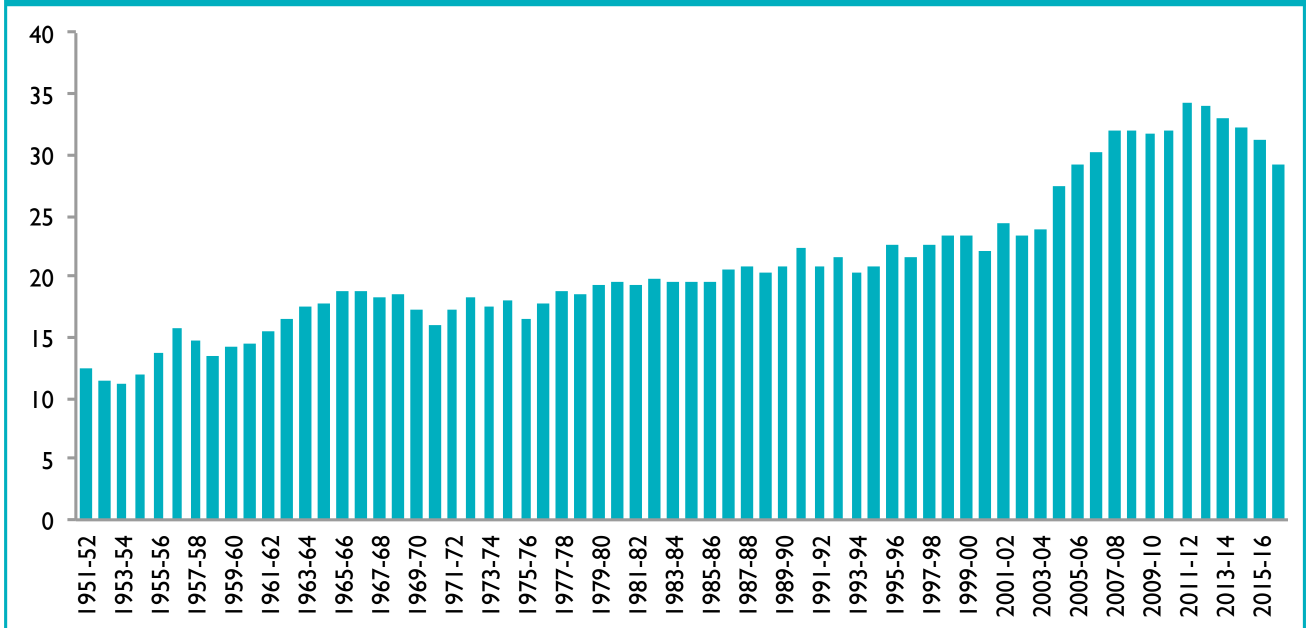
New investment proposals add to the pipeline of investments on hand which eventually lead to new productive capacity, economic growth and new jobs. Many investment proposals fail to convert into new capacity for a variety of reasons. Some attrition of investment proposals is inevitable since projects are vulnerable to economic cycles, changes in commodity prices and to the legal and regulatory environment. As a result, to ensure that a sufficient number of projects reach fruition, it is imperative that there is always a steady flow of new investment proposals.

The rate of new investment proposals is a reflection of the business cycle itself. A supportive business environment enthuses entrepreneurs to consider new investments. An adverse business environment reduces this enthusiasm and therefore the rate of flow of new investment proposals.

The trend in new investment proposals shows that these peaked in 2008-09 to Rs.22 lakh crore. Then, they dropped initially to Rs.16 lakh crore for two years and then to Rs.9.8 lakh crore in 2011-12. In the following two years, 2012-13 and 2013-14, new investments were down to Rs.5.1 lakh crore and Rs.5.9 lakh crore.

The declining trend of new investments was arrested in 2014-15, when new investments increased smartly to Rs.10.3 lakh crore. But, this increase was short-lived. New investment proposals dropped to Rs.8 lakh crore in 2015-

Fig 1.10: Investment Ratio (%)
(at 2011-12 Market Prices)



Source: CSO, Ministry of Statistics and Programme Implementation

16. Further, new investment proposals during the first three quarters of 2016-17 suggest that these could fall during the year.

Rs.4.8 lakh crore worth of new projects were observed during the first three quarters of 2016-17. By a simple extrapolation, we could expect the year to end with Rs.6.4 lakh crore of new project announcements during 2016-17. This would be lower than the investment proposals seen in the past two years.

However, even this is unlikely to happen. CMIE observes that demonetisation has hurt the flow of new investment proposals:

If the above analysis holds true, which is the likely scenario, then new investment proposals during 2016-17 could be lower than Rs.6 lakh crore. Adjusted for inflation this may be the lowest new investment proposals in a year.

Over 12% of projects under implementation are stalled

Investment projects have a high attrition rate. Entrepreneurs often drop a project before they begin any implementation. This is understandable as initial intentions can face reality checks as entrepreneurs put together the requisite plans to start implementation. Many projects vanish without a trace after making an announcement.

Sometimes, a project is stalled even after it has progressed from its proposal or announcement stage into an implementation stage. Such projects, whose implementation is stalled by promoters even after some progress in implementation, reflects an adverse change in the business environment that leads them to take such decisions. For brevity, we call these "implementation-stalled projects".

Rs.5 lakh crore worth of projects under implementation were stalled. While the value of projects stalled during a year has dropped from this peak, there is still a fairly significant value of investments that do get stalled.

During the first three quarters of 2016-17, projects worth Rs.1.8 lakh crore were stalled.

Projects whose implementation is stalled account for about 12 per cent of the total stock of projects under implementation. This ratio has risen sharply in the past three years and it continues to remain very high.

Adverse business conditions main cause for projects getting stalled

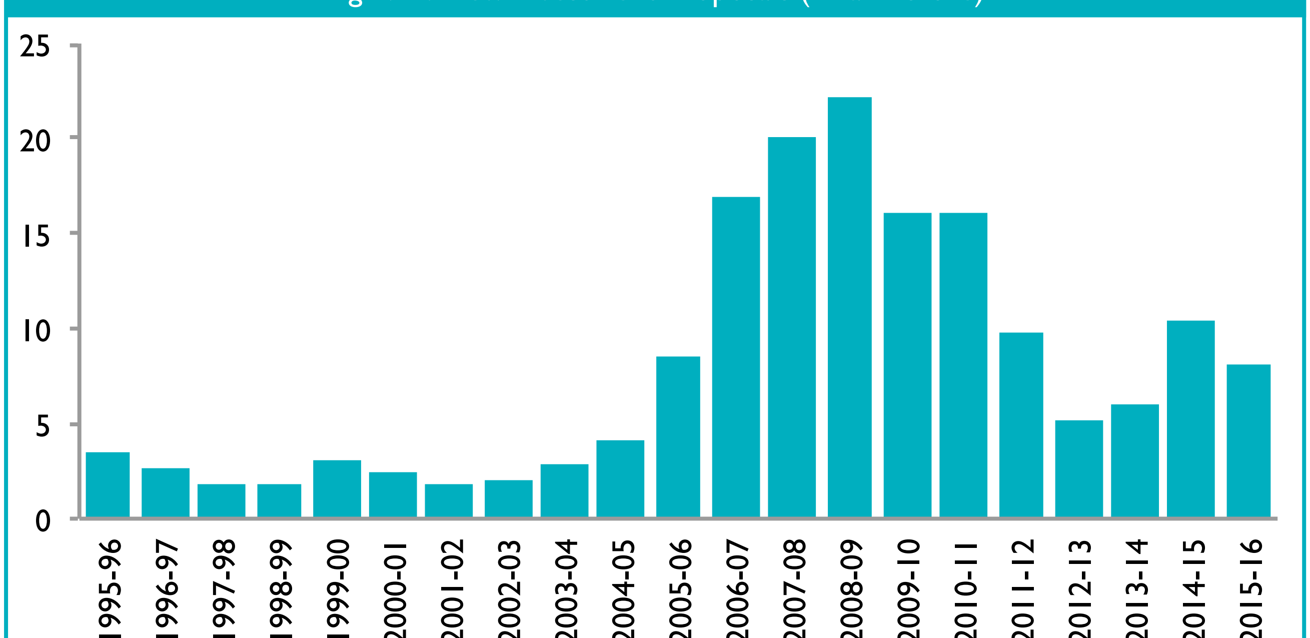
Thirty-eight per cent of the investments stalled during April-December 2016 were because of lack of availability of environment and non-environmental government clearances. Failure to obtain government clearances was the principal reason for implementation-stalled projects in 2012-13 and 2013-14. Its share declined to less than 11 per cent in 2013-14. But, it increased again to 30 per cent in 2014-15 and after a fall to 6 per cent in 2015-16, its share is up again to 38 per cent.

Environmental and non-environmental clearances by government are only two of the causes associated with government action. Closely associated are problems of fuel or feedstock availability and also land acquisition. Collectively, these together accounted for 74 per cent of the cause of projects being stalled during 2012-13. This share has been falling steadily and it was down to less than 18 per cent by 2015-16.

However, the share of government-related bottlenecks increased to 39 per cent in the first three quarters of 2016-17.

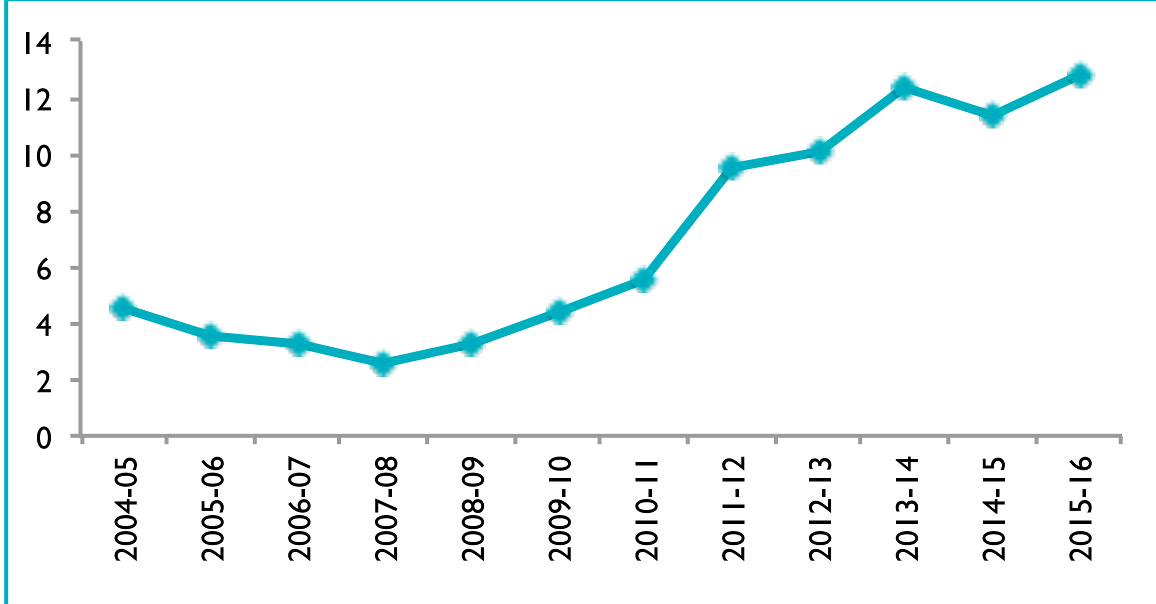
Not all projects can hope to get clearances from the government. For example, there are trade-offs between economic development and conservation of the environment and so, projects can be stalled because of lack of environment clearances. Quick decisions, however, can save promoters from progressing with implementation and then having to stall their

Fig 1.11: New Investment Proposals (in lakh crore)



Source: CMIE CapEx

Fig 1.12: Stalled Projects as % Projects Under Implementation



Source: CMIE CapEx

projects because of lack of clearance.

A worrisome factor relating to investment projects in the last two years is the rise of adverse business conditions as the reason for projects being stalled. The marginal improvement in Ease of Doing Business Index notwithstanding, promoters of projects are not too enthusiastic on proposing new projects or even pursuing existing ones.

While adverse business conditions accounted for on an average 18.6 per cent of the investments stalled during 2012-13 through 2014-15, in the past nearly two years it accounted for 32.5 per cent. Adverse business conditions accounted for 41 per cent of the investments being stalled in 2015-16. In the first nine months of 2016-17, it accounted for 24 per cent for the implementation-stalled projects.

Promoters cannot access funds usually when the business climate turns adverse and makes a project non-viable. More often, a promoter loses interest because of the adverse market conditions. Promoters sometimes explicitly state this to be the reason or merely state that they have lost interest.

Government-related reasons either involve a larger public good (such as protecting the environment) and therefore cannot be resolved in favour of investments, or they can be resolved by firm executive actions. However, adverse business conditions are a lot more pervasive and difficult to resolve through any specific executive action. Adverse business conditions can easily spread to all parts of the economy. It is a lot more difficult to find out why promoters lose interest in their projects or why they find business conditions unfavourable to invest. It is therefore likely that the current malaise requires much greater attention to resolve than the problems that jinxed investors during 2011-12 through 2013-14.

Official statistics indicate a sharp deterioration in the investment climate in the country. The investment ratio has declined from a peak of 34.3 per cent in 2011-12 to a projected 29.1 per cent in 2016-17. The investment climate has deteriorated particularly sharply during the first three quarters of 2016. During each of these three quarters, the gross fixed capital formation was lower than its level a year ago. Further, the y-o-y declines have been increasing progressively.

CMIE's CapEx database shows a similar deterioration in the investment climate in the country. New investment proposals have been falling and projects under implementation continue to get stalled. An important takeaway from the CapEx database is that it is the adverse prevailing business conditions that seem to bedevil investors.

Indian private sector: credit overhang, policy vacuum

The lack of policy momentum has also hamstrung Indian organized private sector investment. The largest Indian private sector groups borrowed recklessly during an earlier phase, financing natural resource licensing buyouts, acquisitions and other large investments through bank borrowings. A very large number of these loans, by mid-2016, turned into non-performing assets on bank balance sheets. Alarmed, the Reserve Bank of India compelled banks to first recognize them appropriately as bad loans (by March 2016, NPA on bank balance sheets aggregated Rs 600,000 crore, over 90% of which was on the books of public sector institutions) and then forced the banks to reset their lending to lower levels, in keeping with international lending rules known as the Basel norms. Banks have not since been able to finance large private sector investments, throwing a spanner in the works as far as new industrial projects were concerned.

The finance ministry has unfortunately not responded in any substantive way to this challenging situation yet. The obvious solution was for the government to find financial resources to ensure recapitalization of the banks, so that they would be able to increase their lending proportionately. The government has not been able to do this, so that the private sector has been left without a vital component of project finance.

No large industrial project has taken off in the last eight months as a result. Rating agency India Rating and Research (Ind-Ra) reported in October 2016 that capital goods output had seen 10 consecutive months of downturn, clearly signifying a serious investment slowdown. The Index of Industrial Production (IIP) registered declines in six out of the first 10 months of 2016. The only reason the IIP showed a spike in November 2016 (5.7%) is a "base effect": this was against a corresponding massive

Table 1.3

Reason for Stalling of Projects	2012-13	2013-14	2014-15	2015-16	2016-17
Government related reasons	74.1	47.2	48.3	17.7	39.4
Fuel/feedstock/raw material supply problem	25.5	21.0	12.4	4.4	0.0
Lack of clearances (non-environmental)	22.3	4.8	8.9	2.2	0.6
Lack of environment clearance	11.4	6.1	22.1	3.7	37.4
Land acquisition problem	14.9	15.4	4.8	7.5	1.4
Business conditions related reasons	11.7	22.2	21.8	40.9	24.1
Lack of funds	2.5	13.9	14.6	3.5	15.6
Lack of promoter interest	5.3	1.7	1.6	22.2	4.2
Unfavourable market conditions	3.8	6.6	5.6	15.3	4.3
Other reasons	14.2	30.6	30.0	41.4	36.5
Natural calamity	0.3	0.0	0.0	0.0	0.0
Not available	5.5	8.0	2.9	4.0	5.3
Others	8.4	22.6	27.0	37.3	31.3
Total	100.0	100.0	100.0	100.0	100.0

Figures in per cent

Source: CMIE CapEx

decline of 3.37% in November 2015, and also because coal availability improved from near-crisis situations at power stations, allowing higher output of electricity. Manufacturing continues to be moribund.

The Demonetisation Impact on Investment

The industrial investment scenario was already sluggish and certainly not matching up to the promise of massive investments generated by the early deals concluded by the government. The demonetization exercise has, however, hit the industrial sector very hard and for a fresh round of investments to emerge appears difficult in the medium term.

The government's sudden decision to demonetise outstanding currency notes has broken down not merely payment methods, but in certain cases business models in certain manufacturing industries. Cement majors, for example, are coping with a situation where penetration into rural markets has suddenly stalled, because erstwhile methods where rural folk paid for their cement in cash to a local dealer, who in turn dealt through instruments with the company, have broken down. There now needs to be a lag period when these enterprises evolve new ways of accessing traditional markets. Cement and building material companies (ceramic tiles makers, for instance) have firmly moved to the backburner any proposals to add capacity in the near future.

Monthly automobile sales growth dropped to a 16-year low as demonetization hit, according to data from the Society of Indian Automobile Manufacturers (SIAM). Total vehicle sales slid 18.66%, and two-wheeler sales fell 8% plus, the steepest decline since SIAM began to record data in 1997. Until existing capacities return to full utilization, it is unlikely that further investments will be made in this sector.

Mahindra & Mahindra declared that tractor sales fell by more than a fifth as demonetization buffeted rural markets. Not only does this provide a measure of slowdown in agricultural activity, but also delivers a message on a potential hit in rural consumption, which would hit a range of FMCG, durables and non-durables companies, possibly restraining any capital investment programs in those sectors as well. Durables and appliances, segments in which cash credit was traditionally a critical part of channel management, will see postponement of demand, and until systems and processes evolve to replace the traditional incentives these sectors will not add any capacity.

The impact, in terms of numbers, has been well described in a recent note by the Center for Monitoring Indian Economy, authored by Mahesh Vyas (here is an excerpt):

"New investment proposals worth Rs.1.25 trillion were observed during the quarter ended December 2016. This is low compared to the average Rs.2.36 trillion worth of new investments seen per quarter in the preceding nine quarters of the Modi government.

Data suggests that demonetisation has hit the pace of announcement of new investment proposals during the quarter ended December 2016. 227 new investment proposals worth Rs.818 billion were announced during this quarter till November 8. In comparison, only 177 investment proposals worth Rs.437 billion were made between November 9 and December 31, 2016.

The fall in investment proposals becomes more apparent when we adjust these values for the number of days in each period. The quarter consisted of 39 days before demonetisation and 53 days, after. Evidently, the quarter had more days in the post-demonetisation period and yet, the investments during this period was lesser than in the shorter pre-demonetisation period.

New investments worth Rs.20.97 billion were announced, on an average, per day during the 39 pre-demonetisation days from October 1 through November 8. This average dropped sharply by 61 per cent to Rs.8.24 billion during the 53 post-demonetisation period. The number of projects announced per day dropped from 6 to 3 by a similar comparison.

If the pre-demonetisation rate of new investment proposals had continued during the post-demonetisation period, the quarter could have ended with new investment proposals worth Rs.1.89 trillion. This would still be lower than in the preceding quarter (Rs.1.94 trillion) or the average new investment proposals worth Rs.2.36 trillion since the establishment of the Modi government.

New investments, therefore, had slowed during recent quarters and, demonetisation has further slowed down their pace.

The slowdown in new investment proposals is stark in terms of the number of new proposals. Only 404 new investment proposals were observed during the quarter ended December 2016. This is the lowest number of new projects announced in a quarter in over a decade. The number of new projects had dropped to below-500 for the first time in a decade during the pervious (September 2016) quarter. The fall to close to just-over 400 projects is a very sharp fall to a new low.

On an average 7-8 projects are announced per day. The post-demonetisation fall in this average to just 3 projects per day reflects a new level of anxiety on the investments front.

Evidently, uncertainties caused by demonetisation have played a role in the fall in the flow of investments. The investments climate has been weak for some time. This is now expected to remain weak for some more time."

Over the second week of January 2017, bleak projections have already been sounded. The IMF has cut its GDP growth rate projection for India from 7.6% to 6.6%, while the CMIE has reduced its outlook to a bleak 6%

One of the ways in which industrial investments could be pulled out of this quagmire is if massive improvements in infrastructure could be made in a short period. What is the scenario on the infrastructure front?

1.3 INFRASTRUCTURE

Availability of good Infrastructure is an important factor in attracting investments. Thus, apart from creating jobs, investments in infrastructure also act as catalyzer for future job creation. Moreover, infrastructure is the greatest business-enabler and acts as the most powerful multiplier in any economy. It also provides infrastructure corporations with steady smooth returns, bond investors with opportunities for long-term investments and generates jobs for local population. In India, the potential for investment in the sector is massive, but it needs investment from both government and private players.

On one end, the government could not significantly step up the public investments because of lack of funds. On the other side, structural issues – huge NPAs and the absence of a strong bond market limit availability of private funds. Typically infrastructure projects have a long gestation period and financing by banks is not considered appropriate due to asset liability mismatch. But, in India, most of the infrastructure projects are funded through banks as there are no alternative avenues to raise enough long-term capital. These massive investments by banks in infrastructure projects have led to huge NPAs, limiting the availability of capital for new projects.

Perhaps the key difference between India, one of the world's fastest-growing economies, and the developed OECD economies or even China is that the latter have visibly excellent infrastructure, while India does not. Indian infrastructure – roads, railways, aviation as well as energy – have transformed since the onset of liberalization in the early 1990s, but a lot remains to be done in this regard. In the Global Competitiveness Report 2015-16 published by the World Economic Forum, India ranked 81st in infrastructure, far too low for a country whose ambition is to be seen poised for global economic leadership.

When the Modi government assumed office in May 2014, government spokespersons and ministers have repeatedly painted aggressive scenarios of progress in infrastructure. The important policy areas were slated to be the following: Surface transport (especially highways), railways, electricity, telecommunication and specifically, the setting up of "smart cities" across India.

An assessment of available data shows achievements have not yet matched projections.

Highways: unnecessary focus on past achievements

From the outset, the government treated the completion of National Highway as a race, not against realistic targets but more against the accomplishment of highway construction under the previous government. This would appear to be the case from an examination of a sequence of statements by Union Surface Transport Minister Nitin Gadkari, who focused on the daily rate of highway construction as the key measure in his successive statements on this subject. His statements provide us with a useful standard against which we can assess actual achievement.

The National Highways Authority of India is entrusted with highway development, an autonomous agency under the Union ministry of road transport and highways. The agency has been implementing highways across India in six phases for the last 17 years. Along the way, the total length taken up for inclusion and development within the National Highway program has increased, other schemes have been folded into National Highways Development Program (NHDP) and, from around 2007 onwards, the private sector has been increasingly drawn into project execution.

The Union Surface Transport Minister made initial claims that highway construction during the UPA-II regime had slipped to as low as 2 kilometers per day, but had risen immediately upon the NDA government coming to power to 15 kilometers per day. Dispassionate analysis showed this claim to be erroneous. As a matter of fact, construction by NHAI and other agencies on the ministry's behalf was the highest at 16 km per day during 2012-13 and the second maximum rate of building road was during 2009-10 at 14 km, both during the UPA-II regime. The minister also emphasized, in one of his statements, that the ministry under him had awarded 7,980 km of highways in 2014-15 compared with 3,621 km during 2013-14 (the last fiscal under UPA II). While this was true, statistics show that UPA-II awarded 9,791 km and 9,500 km, respectively, during 2011-12 and 2012-13 – progress had been uneven due to various factors but not completely non-existent, as Gadkari had claimed.

In all these comparisons with previous regimes, there appears to have been a slippage in the NHAI's performance against a stiff target it was set in April 2017 by the government. Mint reported, quoting a Jeffries India research report, in November 2016 that the target set for award of projects for 15,000 km of road building in April for NHAI (out of a total highways and expressways target of 25,000 kilometers) was nowhere close to being achieved. The NHAI has not awarded more than 2,360 km in the first half of the year (a mere 16% of the target), and it does not appear it is even close to achieving the remainder of the target by the fiscal-end.

Of the target, the non-NHAI portion is also languishing. Highway building is not the only area where the government has slipped on implementation. Expressways are an important method for linking cities. The Mumbai-Vadodara expressway was one such proposal, and work on this was expected to kick off by December 2016. The government had not succeeded by November 2016, however, to even complete land acquisition for the 268-km long Gujarat portion of the project (whose total length was to be 370 km; the total project cost was originally estimated at Rs 6670 crore).

Also, the government announced Rs 2 lakh crore worth of massive expressway building in the poll-bound states of Uttar Pradesh and Punjab, earlier in 2016. By November 2016, it became clear, however, that sheer land acquisition costs for greenfield expressways were going to be prohibitive and politically extremely difficult. Experts have felt that if instead the government had undertaken judicious expansion of existing highways, the projects would have been easier to implement because land acquisition would not have been either the cost or the hassle that they have turned out to be. The result: taken as an aggregate, NHAI and non-NHAI road-building is constantly falling short of overambitious targets.

Railways: ambition unsupported

In the second week of November 2016, speaking at a Conference, the Prime Minister Narendra Modi asked railway men to work towards the government's ambitious target of zero accidents. This is a great objective, but there is one catch: earlier in the year, the finance ministry under Modi's NDA government had turned down Railway Minister Suresh Prabhu's request, through a letter, for a contribution of Rs 1.2 lakh crore over a five-year period for a railway safety fund (more precisely, the "Rashtriya Rail Sanraksha Kosh"). Prabhu had written a letter to the finance ministry citing the recommendations of the Committee on Railway Safety (2012), headed by the former chairman of the Atomic Energy Commission Anil Kakodkar. In anticipation of support, he had already announced Railway Mission Zero Accident in his 2016 Railway Budget.

This calls into question, of course, how exactly the Railways could possibly meet its highly ambitious modernization program, of which the safety objectives were the heart. It is important to note that the government has not yet demonstrated any policy response to what appears to be a constant slide in earnings of both the passenger and freight businesses of the railways. Revised estimates of the 2016-17 budget suggested that earnings fell short of revenue targets by Rs 15,744 crore. Prabhu had projected a turnaround in 2016-17, but data suggests things are not quite going that way.

The Lok Sabha was told in a reply (as reported by Business Standard, quoting PTI) that in the first quarter of 2016-17, passenger revenue was 10% lower than target. In September 2016, earnings in the goods segment fell by 9.86% and in the passenger segment by 10.86%.

Already the operating ratio of the railways is squeezed at 90%, and may be squeezed even further to 92 this fiscal. This implies it would be difficult to generate any sort of internal allocation for a total requirement of Rs 5 lakh crore for modernization (of which Rs 1.2 lakh crore, as mentioned above, is for a core safety program). It would appear that the government might resort of monetizing land held by the railways, but this could only possibly be a one-time measure, and will deplete valuable assets.

There are two implications of this situation. First, the government has been making claims of projected modernization that are far too ambitious – these cannot, and unsurprisingly have not, been backed by financial resources. Second, the government needs to urgently spell out a vision for the railways for investors and market players who might be approached to fund at least a substantial part of the modernization fund requirement. Such vision must spell out how, in the face of slowing demand for its services vis-à-vis aviation and roadways, the railways can have a sustainable and profitable future. Announcing enormous projects without financial backing is not going to help.

Electricity: not really hundred percent

Speaking at the Wembley Stadium in London before a non-resident Indian audience in November 2015, Prime Minister Modi had set himself a deadline to ensure that electricity reaches over 18000 Indian villages which at the time did not receive any electricity at all. Accordingly, the union power ministry, led by Piyush Goyal, has been making intense efforts, transparently documented in the "Grameen Vidyutikaran" app that allows all Indian to

Box 1.2: Train derailment

In its push for introducing high-speed trains in India, the government has overlooked the deteriorating safety standards. The railway has not only been spending less on existing assets like tracks, rolling stocks, etc., but has also delayed the replacement of worn-outs tracks and so on.

2016 has seen more than 62 derailments as compared to the 37 incidents during the same period in 2015, showing a rise of nearly 70% in one year. In 2016-17, more than 182 people died due to train derailments. At least 32 people died in the Jagdalpur-Bhubaneshwar Express derailment on January 21, 2017, and 150 people died in the Indore-Patna Express derailment near Kanpur in November 2016. This is the highest number of deaths due to a derailment in the last 17 years. Further, as per National Crime Records Bureau, over 26,000 people died in rail-related accidents in 2015. So far, the Railway Ministry has failed to implement the recommendations of Anil Kakodkar's rail safety review committee report submitted in 2012. Out of the 106 recommendations given by the committee, the ministry had accepted only 69 suggestions and another 19 only partially. However, work has started on only 22 of these measures in the last five years. The Committee had suggested a switch from ICF design coaches to LHB design coaches which are much lighter and inflict less damage in case of mishaps. If Indore-Patna Express had LHB coaches, the casualties would have been less. Further, continuous track circuiting (CTC) is needed on all tracks to detect rail fractures. With CTC, the derailment of the Indore-Patna Express would not have occurred at all. Overall, the Indian Railways needs an estimated investment of 1.2 lakh crore to overhaul its safety infrastructure which includes constructing entirely new rail bridges in place of the old and dilapidated ones, besides repair and maintenance of bridges and tracks.

follow progress, to complete this task. The government has claimed that it will soon reach its 100 per cent electrification targets.

Experts suggest, however, that this should not be a be-all and end-all of electricity administration. Mere electrification does not guarantee supply of electricity. The definition of when a village is considered electrified has been changing over the years, and according to the latest definition adopted in 2004-05, the condition is that electricity should be used somewhere in the village for it to be considered electrified. This does not take into account the fact that entire villages do not need to access power for their village to be considered a success under the electrification program. It is also important to note that mere presence or availability of an electricity connection does not guarantee power supply; in fact very often connected villages and homes suffer from terrible power shortages.

The Central Electricity Authority has come out with its Load Generation Balance Report for 2016-17. In this document, the CEA has come out with the following surplus/deficit picture for energy this fiscal:

The table projects a surplus in the Western and Southern regions while it projects a substantial deficit in the Eastern and North-eastern regions, as well as a small but still significant deficit in Northern India. If we choose to, for the moment, ignore the regional imbalances as a problem, this projects a small overall surplus for the country as a whole.

These numbers do not showcase an important phenomenon, however. The ambitious electrification program described above and the CEA's thesis (that India is now a nearly power-surplus country, with a very small deficit) conceal the fact that nearly 33 million people in India have no electricity in their lives.

Also, there are serious problems with the quality of power. The rated frequency in India is 50 Mhz, and there are huge variations from this rated frequency irrespective of which zone electricity is produced in.

It is also interesting that with an installed generation capacity of 272,000 mw, the surplus over a peak demand of 165,00 mw-odd is wafer thin. This implies massive unutilized capacity and calls into question the nature of power generation installations – this is something that requires urgent government intervention and transparent solutions.

If India needs to grow at over 7% per annum, electricity availability needs to rise in quantity substantially (it is estimated that India will be required to double electricity output in 10 years) and improve in quality. The percentage of installed capacity that must be useful for meeting peak demand must increase. For this, improved capital expenditure at existing projects and setting up of new power projects is essential.

Investment in the power sector is, however, stalled in the quagmire of problems with debt financing through banks, which have run up large non-performing assets in this sector. The situation requires the government to exercise influence on the situation, by recapitalizing banks so that they can lend comfortably to the sector, by working with private sector partners to ensure that serious investors in power are encouraged while those looking to cash in on the current situation are weeded out, and also ensure better transmission (improvement in which has been stalled since widespread transmission failures in 2012).

Unfortunately, the government has come up short on spelling out its vision on how it proposes to drag the sector out of problems – the policy focus has been on announcing ambitious but ultimately less relevant electrification claims, whereas the real generation distribution and transmission of power have been languishing for want of policy interventions.

CONCLUSION

In the most crucial domains of job creation, investments and infrastructure, it is clear that the Modi government, at the halfway point in its term, has only flattered to deceive. These have been among the key themes of the Modi election campaign and the central elements of the government's new initiatives. Across the board, they are a substantial letdown as demonstrated in this chapter. India needs this situation to turn around to ensure that our potential demographic dividend does not become a demographic disaster. Till then, we will continue to demand: "Where are the jobs, Mr. Prime Minister?"

Table 1.4

State/Region	Energy				Peak			
	Requirement	Availability	Surplus(+)/Deficit(-)		Demand	Met	Surplus(+)/Deficit(-)	
	MU	MU	MU	%	MW	MW	MW	%
Northern	357459	351009	-6450	-1.8	55800	54900	-900	-1.6
Western	379087	405370	26283	6.9	51436	56715	5279	10.3
Southern	310564	320944	10380	3.3	44604	40145	-4459	-10.0
Eastern	151336	135713	-15623	-10.3	21387	22440	1053	4.9
North-eastern	16197	14858	-1339	-8.3	2801	2695	-106	-3.8
All India	**1214642**	**1227895**	**13253**	**1.1**	**165253**	**169503**	**4250**	**2.6**

Box 1.3: The Rural Electrification Data: Reality Beyond the Numbers

Prime Minister Narendra Modi's 2016 Independence Day speech, claimed that 10,000 of the 18,000 unelectrified villages (according to 2011 Census data) have been electrified. A close check of the government's own real-time data for full rural electrification shows that the gap between official claims and ground reality is stark.

Nagla Fatela, the poster village that the PM spoke about in his speech is 'electrified'only in the power ministry's records, but not in reality. Though poles, wires and meters were put in place, actual power supply is still a distant dream for the villagers of Nagla Fatela.

A closer look at the electrification data from the hinterland — especially from states such as Bihar, Uttar Pradesh, Assam, Jharkhand and Odisha — shows that a sizeable number of the households in villages across most states are still in the dark, without access to electricity. For instance, the 97.9 per cent, 99.5 per cent and 95.3 per cent of the villages in Bihar, Uttar Pradesh and Assam, respectively, have been deemed 'electrified', as per the Central government data. Yet, as per the data provided by the governments of Bihar, Uttar Pradesh and Assam, 82.84 per cent, 72.97 per cent and 62.93 per cent of their rural households, respectively, are still without any access to electricity. Why then are there such immense discrepancies in the data put out on the Central government's website?

One major source of discrepancy regarding the real-time data on electrified villages as made available to the public through the government's GARV mobile app and web dashboard could be attributed to the process deployed to monitor the electrification process and enter the data on the GARV application. There was a large inconsistency in the data, as reported by the Gram Vidyut Abhiyantas (GVAs) who report firsthand information regarding this villages, and its transformation to the numbers highlighted on the app. When this discrepancy was pointed out, a senior official of the Rural Electrification Corporation (REC), the nodal agency for rural electrification said: "We put a lot of emphasis on photos. If there is a pole and distribution line visible in the photos, we call it electrified." This perhaps could be one of the reasons leading to the inflated number, as the presence of electrical infrastructure doesn't automatically translate into electrification.

According to the Ministry of Power, if there is a distribution transformer in the village and enough poles to take the electricity to public institutions and one tenth of houses, the village goes into the government registers as electrified. This doesn't factor in power cuts over several hours (or minimum hours of power needed in the village or its skewed distribution). In Uttar Pradesh, three out of four households get electricity for less than 12 hours a day. In Jharkhand, only two percent of electrified households get electricity for 20 or more hours; 81 percent do not even get four or more hours' electricity in the evenings, while 60 percent face three or more days of total blackouts every month.

What is the point in calling a household fully electrified if power is available only for three to four hours? Also, if only 10 of 100 households in the village have power connection, how can one call that village 'electrified' in its true sense?

Rather than village electrification, the actual data to be analyzed is probably that of intensive electrification; which truly shows the extent to which rural households have access to electricity. In states such as Uttar Pradesh, Jharkhand and Bihar the intensive electrification statistics stand at 22 per cent, 24 per cent and 50 per cent, respectively. Out of total 7.28 lakh villages which were planned to be 'intensively electrified', only 3.77 lakh (52 per cent) were completed as of last month. In comparison, 98.7 per cent villages have been "electrified" till date.[3]

Besides, there have also been reports of uninhabited villages being classified as electrified. Examples are Panalomali, Kusadangar and Patyetapali in Odisha and Sunwara in Madhya Pradesh, all counted as electrified villages, but no one lives there anymore.

This summarizes the problem of claims and reality. The count of villages being electrified, that is flaunted on social media by the government seems to be nothing more than a sales target exercise, and does not provide the real picture of the rural India.

Chapter 2

Unraveling Urbanisation – A Lost Opportunity

Cities are cauldrons of wealth and knowledge creation. They form the economic, creative and cultural backbone of human societies. Cities can provide the jobs and opportunities that will enable millions of youth to generate India's demographic dividend. The policies that shape our cities therefore have the potential to transform our nation for the better or worse.

As per the 2011 Census, for the first time since independence, the absolute increase in population is more in urban areas than in rural areas. The level of urbanisation increased from 27.81% in the 2001 Census to 31.16% in the 2011 Census. Urbanisation is now increasing at a steady average rate of 2.4% annually, while the rural increase is just 0.7% annually. This indicates the trend towards migration to urban centres.

There is however a big gap between the pace of urbanisation and the provision of infrastructural facilities required for supporting such a large exodus of population. As a consequence, the urban environment, particularly in large cities, is deteriorating very rapidly. All cities have acute shortage of housing, water supply, sewerage, developed land, transportation and other facilities. This neglect is primarily due to lack of investment, as India's annual capital spending on urban infrastructure in per capita terms is only $17 as against $116 for China and $391 for UK.

These deficiencies are particularly severe for the urban poor and have serious housing and livelihood consequences for them. Inadequate finances and investment, hostility towards migrants, weak municipal institutions and poor delivery systems have constrained urban administrations' ability to improve living conditions for the urban poor. Cities will not only need better infrastructure but better governance as well.

It was against this backdrop that the BJP under Narendra Modi launched a high decibel election campaign and made a litany of promises to an increasingly urbanising and aspirational India, including:

• "We will initiate building 100 new cities; enabled with the latest in technology and infrastructure - adhering to concepts like sustainability, walk to work, etc., and focused on specialized domains."

• "Major steps will be undertaken in Transport and Housing for 'Urban Upliftment' in India."

• "Build quality integrated Public Transport systems, discouraging usage of private vehicles."

2.1 SMART CITIES, UN-SMART MOVES

After coming to power, the Modi government immediately toned down its promise of a hundred new cities to a lite-version of a hundred "smart" cities, which would no longer focus only on green-field projects.

When the Finance Minister announced the outlay in the 2014 Budget, it became clear that the newly launched Smart Cities Mission would not amount to anything transformational. It was declared that the Mission would cover 100 cities for a duration of five years starting from 2015. The Central Government proposed to give financial support to the Mission to the extent of Rs. 48,000 crores over five years. It sounded substantial. It soon became apparent though that it worked out to nothing more than an average Rs. 100 crore per city per year. An equal amount, on a matching basis, will have to be contributed by the States/Urban Local Bodies (ULB). The balance investments would have to be mobilised from private investors willing to be part of Special Purpose Vehicles (SPV) or through loans from financial institutions.

A US-India Business Council report on smart cities in India says to redevelop a city as 'smart'; an investment of at least $10 billion is required. For 100 cities, it works out to $1 trillion. It was optimistic to hope to raise resources from the private sector without addressing municipal reforms. The SPV arrangement has been tried for some public transport projects like Metro, BRT and City Bus Systems only but never at a city level.

What makes a city smart though? Partha Mukohpadhyay from the Centre for Policy Research says, "The discourse on smart cities revolves around information and communication technology (ICT), but a computer is seen as fundamentally un-smart, since it can only do what someone else has programmed it to do. To be judged as smart, a basic prerequisite is the ability to decide and act independently; to have, what philosophers call 'agency.' Smartness requires the people in a city – the citizens – to first, be able to establish institutions to choose among alternatives, and second, to pick a path towards a goal of their choice. If a city is able to proceed on such a path, it should be considered smart, else not." By trying to run a city like an infrastructure project though, it was hardly making it smarter.

In a first, citizens were engaged through on-ground surveys to help prepare plans for their city. It soon turned out that the exercise was mostly at a superficial level and mostly dependent on the quality of the consultancy firm hired by the government to prepare the city plan through a competition. 37 consulting firms were appointed for preparing action plans for 88 cities. Basically, the government had to outsource its planning. It was only following the trend where the state continues to abdicate its responsibility of providing public services.

Moreover, the selection criteria favour cities that are already doing well, both in financial and management terms. These 100 cities are also covered by the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) scheme, which will provide funds for basic utilities such as sanitation pipelines. Despite the convergence of other schemes to aid the development of smart cities, the funds will not suffice. As a Business Standard report put it, at most it would amount to a hundred 'smart colonies.'

Developing smart pilot colonies, too, will require more money than currently being offered by the government. In fact, a 16.5-acre redevelopment project in Mumbai had a cost about Rs 3,000 crore. By contrast, under the Smart Cities programme, for much larger pilots and pan-city activity, state and central support add up to Rs 1,000 crore through five years. Therefore, at the end of five years, the program would have hardly amounted to anything more than a neighbourhood development project in many of the chosen cities.

Out of the 98 selected smart cities, 91 are class I cities, the remaining are class II, III and IV cities. Also, out of the 98 selected smart cities, 49 had been included under the big city schemes of Sub-Mission for Urban Infrastructure and Governance (UIG) and Sub-Mission for Basic Services to the Urban Poor (BSUP) under the UPA government's Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and accounted for Rs 27,829 crore and Rs 23,390 crore of central share committed and released respectively. The question that begs to be asked is, whether the Union Government could have dovetailed these projects with the newly launched Smart Cities Mission. The Modi government in its heady rush to start afresh, has probably lost an opportunity to build on the foundation of previous programs. Table 2.1 shows that only Chandigarh, Raipur and Navi Mumbai have completed all their projects under UIG whereas under BSUP none of the cities have completed all the sanctioned projects. Table 2.1 shows that most of these cities have not completed any of their projects even though they are comparatively larger cities.

Additionally, of the remaining 49 selected smart cities, 45 were included under the small town schemes of Sub-Mission for Urban Infrastructure Development of Small and Medium Towns (UIDSSMT) and IHSDP. Out of these 22 cities were included in both UIDSSMT and IHSDP whereas 12 cities were only included in UIDSSMT and another 11 only included in IHSDP. Under UIDSSMT, 10 out of 34 cities have completed their projects whereas under IHSDP 10 out of 36 cities have completed their projects which means that cities that were included in the small town schemes of UIDSSMT and IHSDP and had lesser populations performed better and were able to complete a larger share of projects as compared to the bigger cities included under UIG and BSUP.

The SPV will also have central government representatives on its board, along with those from the state and urban local bodies. The Centre has recommended the SPV's Chief Executive Officer be delegated powers under the municipal and relevant state laws. It also suggests urban development boards, local self-governments and other state departments delegate relevant approval and decision-making powers to the SPV. This could lead to a turf war.

While the Centre recommends these powers be handed to the SPV, experts indicate it is unlikely that such powers will be transferred in entirety. State authorities, where favourable, might amend regulations for the pilot projects, while retaining most powers.

The creation of SPVs and the intent to leverage investments from the private sector are a departure from the JNNURM that primarily relied on ULB/Parastatal agencies for implementation of projects. It also threatens to hamper the notion of decentralized and democratic decision making. If the smart cities were chosen because of better institutional capacities and past track record, their performance under JNNURM should have been a lot better.

Before the launch of the Smart Cities Mission, the greenfield GIFT City of Gujarat set up SPVs for utilities like water infrastructure, waste management services, ICT services, etc. But the performance of these SPVs cannot be assessed at this stage as the GIFT City project has been marred with delays and has not got many takers yet. The international experience with SPVs too has been a mixed bag. Therefore, overall, the Smart Cities Mission is doomed to irrelevance in the larger scheme of things.

2.2 OLD WINE AS NEW AMRUT?

In principle, AMRUT seems like a remodelled version of JNNURM. The striking difference between the two is the coverage, as AMRUT is just limited to 500 Class I cities. Whereas the JNNURM was applicable to all towns and cities as per 2001 census and covered 65 big cities and 1274 small towns till 2012. Also the outlay for AMRUT is only 37% of the total outlay for JNNURM. The mission period for AMRUT is also five years which is shorter than the 7 years given to JNNURM, which was further extended for two more years.

The Ministry of Urban Development has cleared the first batch of AMRUT projects in 89 cities in 3 states. It is interesting to note that all these 89 cities are class I cities (except Dwarka in Gujarat) and 61 of these cities had been covered under the JNNURM earlier. Table 2.2 shows that the total cost sanctioned for the 89 cities under AMRUT is 20% of the total cost of JNNURM projects in 61 of these cities as of 2012.

Even across a ten year time-period and large sums of central investments could not lead to completion of projects. Moreover Rs 43,974 crore of central share was committed to the 65 big cities under UIG and BSUP which is almost the entire outlay for 500 class I cities under AMRUT. Thus it appears that the government has not implemented any learnings from the experience of JNNURM while designing AMRUT.

The JNNURM addressed a larger share of the urban population by covering both big cities and small towns. Even then it focused on the big among small towns as it covered 65 big cities and 1274 small towns out of the total 5161 towns as per 2001 census. If nothing else, the JNNURM exposed the lack of capacity at the city level and the inadequacy of the project based approach. The next phase of JNNURM was supposed to focus on small and medium towns as the previous phase highlighted the disparity in fund allocation between small and big cities. The AMRUT should have taken this approach forward by including smaller cities rather than focusing on class I cities that will in any case have better infrastructure and governance provisions. Policy makers need to focus on the benefits of small town growth instead of overlooking their potential by allocating a much smaller share of central investments to these towns and cities that is straining their very existence.

JNNURM had also mandated devolution of all 18 functions mentioned in the 12th Schedule of the 74th Constitutional Amendment. But 24 years after the 74th Amendment, only 12 states have fully devolved all functions to their respective municipal governments. Other states show varying degrees of devolution, with Northeastern states, except Assam and Tripura, performing the worst. It is also important to note that legislative devolution does not imply actual transfer of functions. Many functions like water supply, slum improvement and urban planning continue to be performed by parastatals or development authorities. Only if AMRUT is truly able to raise the capacity of urban local governments through funds, functions and functionaries will the service delivery in our cities improve.

2.3 Housing for All – A Pipedream?

• The United Nations estimated (in 2014) that much of the population increase in India between 2015 and 2030 will take place in urban areas. The rapid pace of urbanisation owing to rural–urban migration is putting high amount of stress on urban infrastructure and is likely to result in a massive shortage of urban housing.

• The existing shortage in housing is already prominent within the EWS (economically weaker sections) and LIG (lower income groups) segments, and is estimated at 18.78 million households (as per 2012 estimates).

• Land remains a price-sensitive commodity and its current shortage in major city centric areas is not allowing development of affordable housing.

• Affordable housing is largely concentrated in peripheral areas where connectivity and infrastructure development remain a challenge.

Rajiv Awas Yojana, a key scheme, launched in 2011 for rehabilitation of slums, envisages provision of tenure security to slum dwellers. This should form a key element of strategy to ensure inclusive growth as it would facilitate transition of the urban poor from the informal to formal sector. Interest subsidy on bank loans for the poor for housing should be introduced. It is ironical that the rich get income tax rebate on housing loans, but the poor get no such benefit from government.

The Report of the Technical Group on Urban Housing Shortage (2012-17) identifies a shortage of 18.78 million houses. About 95% of this shortage pertains to households with a monthly income of less than Rs 10,000. What the report fails to recognise is that a majority of these households are unlikely to be able to afford to buy a home at prevailing prices. In 2012, the ISB-CEMS report on affordable housing estimated that only those with a monthly income of above Rs 7,500 could afford to buy the most inexpensive affordable home on the market at the time. This is under the assumption that they would be able to access a home loan from a bank, which itself presents a host of problems those living and working outside the formal sector.

Current housing policy rests on two problematic assumptions:

1) Demand for housing in cities translates into demand for home-ownership.

2) The private sector can meet the demand for affordable housing given the right incentives.

However, the economics of delivering low-cost homes to the ‘affordable segment’ was infeasible. Government policies have remained blind to the reality that the poor often choose to live in squalor in order to access employment opportunities and social networks in and around central city slums, rather than be moved to sanitised and disconnected projects on the outskirts. The promise of owning a home may not in many cases compensate for the loss of livelihood. The fact that only a small proportion of funds from JNNURM and RAY have been utilised for slum upgrading programmes underlines this myopic attitude.

Affordable housing, especially for the poor, is one of the core infrastructure elements of the Smart Cities programme. As per para 6.2 of Mission Guidelines, of the total housing being provided in greenfield development model of Smart Cities, there should be at least 15% in the affordable housing category.

The need to create rental housing, not only as an interim arrangement for those saving up to own a home, but also for those who simply cannot afford to buy, has finally been recognised by the Union government. The acknowledgment comes in the form of the draft National Urban Rental Housing Policy, 2015, which will, for the first time, provide a policy framework to address the issue that has until now been overshadowed by an overbearing emphasis on ownership housing. The Centre, on its part, has refrained from making any financial commitment to promote rental housing.

Officials concede that the very cause of promoting rental housing was defeated the moment the government decided to exclude the rental component from the purview of ‘Housing for All’ by 2022. When the NDA government’s flagship shelter mission was finally launched, it was only about providing 20 million houses on an ownership basis by 2022 with an approximate central commitment of Rs 3 lakh crore. There was no mention anywhere about ensuring that 20 per cent of the units should be for rental housing, as was proposed earlier.

Development economist Amitabh Kundu said that the under the second five-year plan, there was public sector creation of rental housing. “But they soon realised that managing rental housing is impossible from the point of recovering rents or getting repossession of the units. Since the sixties, there has been no major public sector intervention with regards to rental housing.” As per census 2011 data, 11.09 million houses are vacant in urban areas.

Urban Housing Benefits - A Reality Check

In order to provide a sop to urban citizens after demonetization, on December 31, 2016, Prime Minister Modi announced that: "Two new middle-income categories have been created under the Pradhan Mantri Awas Yojana (PMAY) in urban areas. Loans of up to Rs 9 lakh taken in 2017, will receive interest subvention of 4%. Loans of up to 12 lakh rupees taken in 2017, will receive interest subvention of 3%."

Fact check:

The PMAY is a revised version of Indira Awas Yojna that ran prior to the advent of the NDA government. It is the schematic version of Housing For All commitment of the government under which it wants to build 20 million houses by 2022.

Besides other components of the scheme, so far the interest subsidy of 6.5% was available under several conditions for loans up to Rs 6 lakh. For those earning incomes up to Rs 3 lakh annually a house of 30 square metre was allowed and for those earning between Rs 3-6 lakh per annum a house of 60 square metre is permitted.

The announcement is merely an enhancement of existing benefits.

The stark reality is that under all the three components of the scheme, between April 2015 - December 6, 2016, only 6,716 houses have been completed. Another 1,52,686 have broken ground for construction and work is yet to start on 5,58,229 houses. The Centre has so far released Rs 4,275 crore against its share of Rs 18,854 crores so far. Data was not separately available for houses built using the credit subsidy component of the scheme.

Table 2.2 : Comparison state wise project details under JNNURM and AMRUT (Rs crore)

State	JNNURM	AMRUT				
	Cities	Cost	ACA*	Cities	Cost	ACA*
Andhra Pradesh	24	4989.5	2675.8	31	662.9	
Gujarat	20	7156.7	3292.8	31	1149.7	
Rajasthan	17	1654.3	997.7	28	899.0	
Total	61	13800.5	6966.4	90	2711.5	1356.2

This has been attributed mainly to the low rental yield, problems with repossession and lack of incentives for renting property.

As against a total slum population is 6.5 crore, residential units constructed for urban poor in last three years and the current financial year as on July 2016 under JNNURM, RAY & PMAY was a meagre 3,58,075. For metro cities, the number of houses completed for slum dwellers under schemes of JNNURM, RAY and PMAY (U) was also highly unsatisfactory, and did not show any signs of increase over the years:

If the number of houses constructed remains much less than two lakhs a year it would be impossible to reach the target of 'housing for all' by 2022, when the slum population alone is 6.5 crores. This does not cover a large number of homeless living outside the defined slums, either on the roadside or in shanties. Therefore, the stated objective of nearly 20 million urban homes by 2022 appears likely to be missed given the slow progress at present.

2.4 CONCLUSION

The overall thread that emerges from the urban chronicles of the Modi government is that it has failed to imbibe the learnings from two pioneering programs of the UPA, JNNURM and RAY. In the case of RAY, they have done away with aspects of a progressive policy, that respects the social capital of the urban poor. It is a fact that it is more cost-effective to build on existing infrastructure, than build anew. It is also a fact that citizens build their own cities. This happens in many ways and some fall in the grey zone. The way we currently plan our cities limits rather than facilitates citizen-led urban development.

The Modi government is missing a historic opportunity to widen the scope of urban planning, with genuine citizen participation, accompanied by strengthening urban local governance. Instead, by focusing on an elitist and exclusionary ethos of 'smart cities', run solely like infrastructure projects, the government is only exacerbating the divide between the formal and the informal sectors, both of which harmoniously need to work together to enable cities to flourish.Thus, India's macroeconomic bright spots in the last two years have been entirely due to an oil lottery. Had this lottery not been won, India's GDP growth would have been severely stymied. Private investment and consumption continue to be at abysmally low levels. Global trade factors remain uncertain after Brexit and rising protectionism in the United States. Oil prices are starting to rise again. Demand for private credit is at a multi-decade low. Behind the hoopla about India being the fastest growing economy lies a slimy oily story.

CHAPTER 03

The Crisis in Rural India

The Narendra Modi government has already completed more than half of its term in office. During the 2014 election campaign, Modi and his Bharatiya Janata Party made a lot of promises which were supposed to usher in Achhe Din for the people in India. Farmers were no exception to this game of grandiose promises. The BJP manifesto promised to increase Minimum Support Prices (MSP) in such a way that farmers would be guaranteed a 50% return over their cost of cultivation.

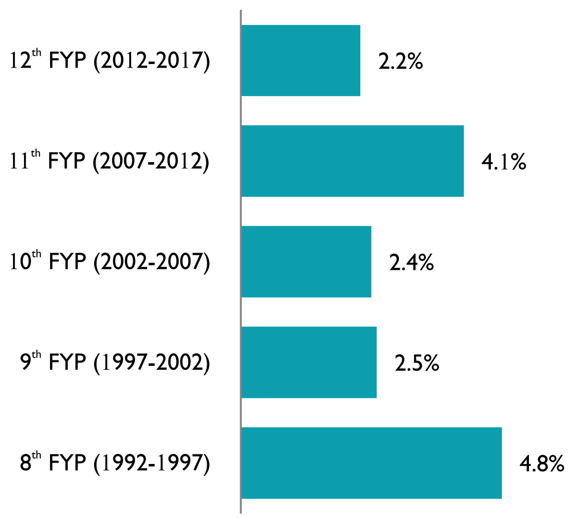
However, on 20th February 2015, the Government told the Supreme Court that it would not be able to enhance the minimum support price (MSP) for agricultural produce to make it 50% more than the input cost. It submitted that prescribing an increase of at least 50% on input cost may distort the market. Nothing can be a more brazen example of a government going back on its promises. Unfortunately, the betrayals did not end there. While the government's track record in economic management and providing relief to people has been dismal at large, the treatment which India's rural economy has received has been severe.

3.1 Agricultural growth rate has 'collapsed' under Modi government:

Thanks to demonetisation, India's position as world's fastest growing economy is under threat today. However, even when things were better for the rest of the economy, agriculture sector has been crisis-ridden under this government. Agricultural growth has collapsed from 2014-15 in comparison to an exceptionally good performance in the last decade under the UPA. This is nothing surprising as agriculture suffered a similar fate when the previous NDA government was in power.

The government has claimed that agricultural growth in the current year would be 4.1%. This is far from impressive due to two reasons. Firstly, the high growth figure is coming on a low base and is associated with lower physical production levels than what was there in earlier periods. Second, given the fact that these estimates are based on data till the month

Fig 3.1: Agriculture GDP Growth: During Five Year Plans(FYP)



Source: Planning Commission

Table 3.1: Estimates of GVA for Agriculture and Allied Sector at Basic Price (At 2011 -12 prices)

in Rupees crores

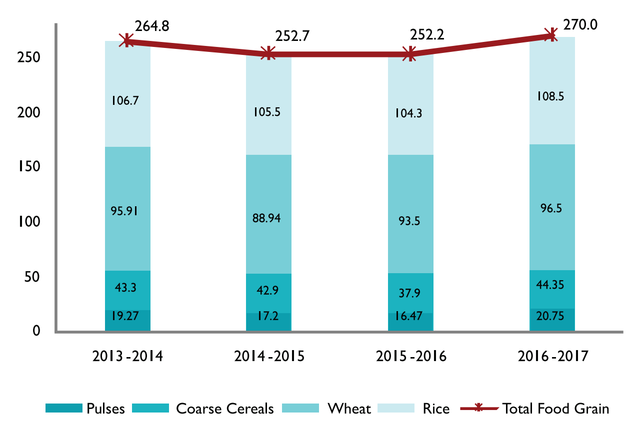
2013-14	2014-15	2015-16	2016-17	Percentage change over previous year		
(2nd Revised Estimate)	(1st Revised Estimate)	(Provisional Estimate)	(1st Advance Estimate)	2014-15	2015-16	2016-17
1588237	1584293	1604044	1669833	-0.2	1.2	4.1

Source: Central Statistics Office, Ministry of Statistics & Programme Implementation

of October, veracity of these claims is suspect.
Rabi sowing activity is likely to have taken a major hit due to the demonetisation related cash crunch. Government figures about sowing levels might change drastically in the future. Even if these estimates were true, sowing levels are lower than 2014 levels.

The government's claim on increase in sowing does not square with fertiliser sales, which have been declining since 2013. However, especially with the soil moisture and weather conditions being conducive after two consecutive drought years, agricultural input sales, particularly fertilisers should have seen a jump. The latest data available from the Ministry of Fertilisers shows that fertiliser sales this year may be lower by 7% compared to last year. The bulk of this decline in fertiliser sales has been on account of the decline in sales of urea, the most common farm nutrient used in India. The fertiliser numbers indicate inadequate credit availability and low farmer incomes. These have further dented farmers' confidence and their ability to invest in improving production. According to a study by Ramesh Chand, a 1 per cent increase/decrease in fertilizer use results in a 0.1 per cent increase/decrease in agriculture GDP and about 0.14 per cent increase/decrease in crop output. Based on this, we can estimate that the current shortfall in fertilizer consumption can result in a 1.05 percent decline in crop output and a 0.75 percent decline in agricultural output

Fig 3.2: Total Production of Food Grains (in metric tonnes)



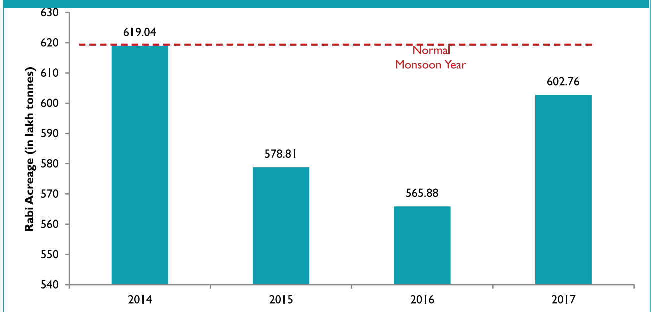
Source: Agriculture Ministry

Table 3.2: Sowing data (in lakh hectare)

Year	2014	2015	2016	2017
Wheat	311.86	299.33	281.7	303.16
Rice	7.25	18.63	17.54	12.74
Coarse cereals	58.55	52.6	57.4	53.6
Pulses	155.16	131.34	134.56	152.63
Oilseeds	86.22	76.91	74.68	80.63
Total Rabi				

Source: Agriculture Ministry

Fig 3.3: Rabi Acerage
Lower than a normal monsoon year

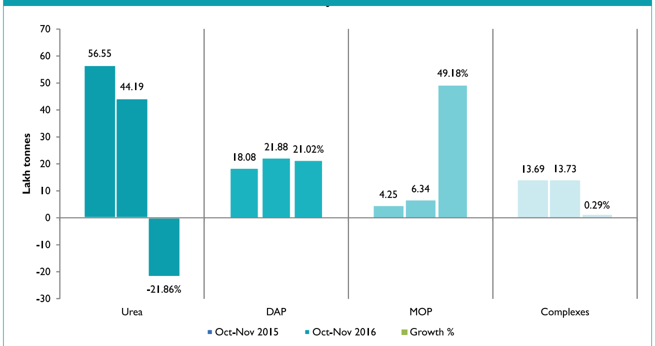


Source: Agricutlure Ministry

The fall in growth figures are not enough to capture the pain of the farmer in this year. This is because even if production were to take place, prices are going to be extremely low after the demand shock which has been administered to the economy due to demonetisation. Reports of farmers dumping their crops on highways or selling their harvest extremely cheap are coming in from all across the country. Trends in food prices especially for perishable commodities like vegetables show a steep decline after demonetisation was announced. Because demonetisation was announced during the time of harvesting of kharif crops, the revenue of farmers is expected to take a major hit..

What makes the Modi government's demonetisation move completely devoid of any concern for agriculture is the fact that this year saw a normal monsoon after two back to back drought years. Farmers across the country had been hoping to experiencea recovery after somehow surviving the last two drought years. But the absence of a natural calamity has been compensated by the manmade calamity in the form of demonetisation and the cash crunch that followed after along with sharp decline in prices of perishables. Indeed,

Fig 3.4: Sale of Fertilizers in Lakh Tonnes



Source: Ministry of Chemicals and Fertilizers

Table 3.3: Azadpur Mandi (Delhi): Crashing Perishables (Data for 15 Nov 2015 - 15 Dec 2015 to 15 Nov 2016 - 15 Dec 2016)

Item	15 Nov 2015 -15 Dec 2015		15 Nov 2016 -15 Dec 2016		% Change in price
	Average Arrival in tonnes	Mean modal price in Rs. per quintal	Arrival in tonnes	Mean modal price in Rs. per quintal	(15 Nov 2016-15 Dec 2016 over 15 Nov 2015 -15 Dec 2015)
Tomato	568.53	1931.39	453.97	744.08	
Potato	1683.42	786.09	1613.58	591.63	
Onion	988.12	1659.26	1088.63	832.16	
Cauliflower	168.32	594.57	188.39	390.85	

Source: agmarknet.nic.in

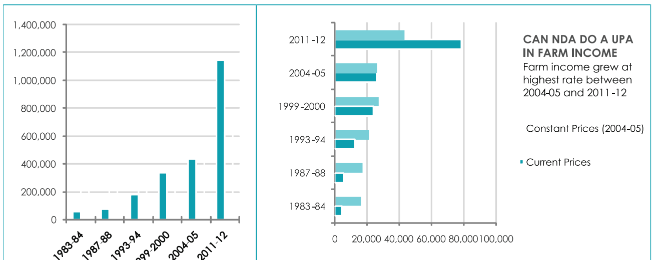
farmers in southern Indiawill face a double whammy as they are also facing a drought due to deficient summer and winter monsoons.

3.2 What Happened to Doubling of Farm Incomes?

The Modi government's previous budget promised to double farm incomes by 2022. The government is yet to clarify whether it meant nominal or real incomes. Nominal incomes, in any case, double in 6-7 years. The average farmer's monthly income increased from Rs. 2115 in 2003 to Rs.6426 in 2013, according to the Situational Assessment of Agricultural Households conducted by the National Sample Survey Organisation. This works out to a compounded annual income growth rate of 11.8 per cent. While income from cultivation in 2013 became 3.6 times that in 2003, input costs tripled in the same period, almost nullifying the effect of tripling income. Thus, nominal growth does not always display the real picture.

According to a 2015 study by NITI Aayog member Ramesh Chand and others, in nominal terms, total farm incomes increased by more than 20 times between 1983-84 and 2011-12. Per cultivator income increased 18 times. In terms of growth rate of real farm incomes, the period between 2004-05 and 2011-12 was the best. Growth rate of total farm incomes and per cultivator incomes were 5.36% and 7.29% respectively, much higher compared to the growth in earlier periods. Thus, given the difficult conditions facing farmers under the NDA government, it would be nothing short of a miracle for their real income to double in five years.

There is also a reason to believe that this government is more inclined to help big farmers rather than the small and marginal farmers who need most attention and also constitute the bulk of our farming sector. Polices such as electronic markets (eNAM) and other formal sector linked schemes are unlikely to be useful to smaller farmers. This is implied by a study by Chandrasekhar et al which revealed that a farmer's capacity to increase her income seemed correlated with her landholding.



Source: Chand et al 2015, EPW 2015

Table 3.4: Correlation of Increase in Income with Size of Land Holding

Size class of Land possessed (in hectares)	Ratio of Average Total Monthly Income in 2013 to the Average Total Monthly Income in 2003
<0.01	1.13
0.01–0.40	1.1
0.41–1.00	1.38
1.01–2.00	1.52
2.01–4.00	1.59
4.01–10.00	1.85
>10.00	2.02

Source: EPW

The Milk Crisis in India

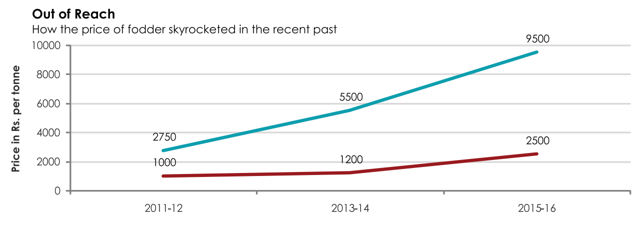
Livestock forms around 12% of a farmer's income, of which cattle rearing for dairy farming is an important component. With a production of 160.35 MT in 2015-16, India ranks first in dairy production in the world.

The dairy sector in India is run mainly by the small farmers and landless labourers. However, the sector has been going through a crisis for last couple of years. Fall in global prices of milk has resulted in the slump in prices of skimmed milk. Due to these the Indian dairy processors decided to dispose of excess SMP in the domestic market as Recombined Liquid Milk (RLM), which resulted in the decline in prices of Fresh Liquid Milk. This is driving small farmers deeper and deeper into debt. Yet the government has failed to provide dairy farmers any relief.

Not only has there been a delay in the disbursal of subsidies due to inadequacy of annual budget but the acute fodder crisis along with sluggish growth of creation of storage infrastructure has crippled the sector.

TARGET:

The 'Pradhan Mantri Krishi Sinchai Yojana' (PMKSY)to be implemented in mission mode will bring 28.5 lakh hectares under irrigation. This is the irrigation component to achieve the Prime Minister's aim of “doubling farmers income” by 2022. Promising Har Khet ko Pani, it aims to supply water



Source: Based on field work by Vikas Kumar, scientist (IGFRI)

Table 3.5: Declining Cold Storage Infrastructure

Year	Target (TLDP per year)	Achievement (TLDP per year)
2012-13	1500	1705
2013-14	1750	1844
2014-15	2000	1652
2015-16 (Apr-Dec 2015)	2250	1060

Source: Department of Animal Husbandry, Dairy & Fisheries to every field in India.

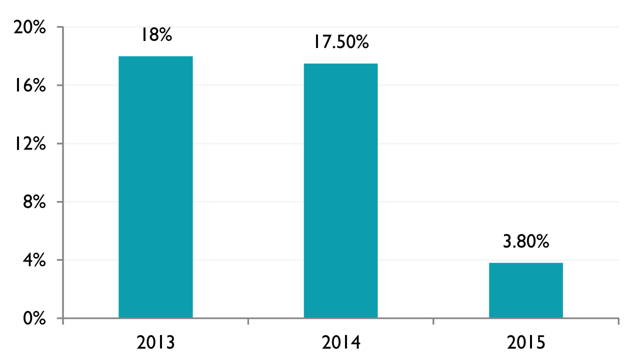
REALITY:

For PMKSY to succeed, to ensure water for every farmer, the minimum annual investment needed would be Rs. 3,00,000 crore for the next five years. But the allocation under the scheme is a meagre Rs. 5,700 crores for 2016-17 (plus Rs. 1 lakh crore provided by states). The funds released for PMKSY reflect the government's apathy. Against an allocation of Rs. 1,000 crore under the Accelerated Irrigation Benefits Programme (AIBP) component, only Rs. 415 crore has been released. Even for the most important component to boost farmer incomes, Har khet ko pani, only Rs. 461 crore was released against an allocation of Rs. 1,000 crore.For the micro irrigation component of PMKSY, only 30% of the funds allocated were released.

With failing production failing and dwindling incomes, surging unemployment rates in rural areas paint a grim picture of rural India. Unemployment rates for 2015-16 have reached a high of 5.1%.

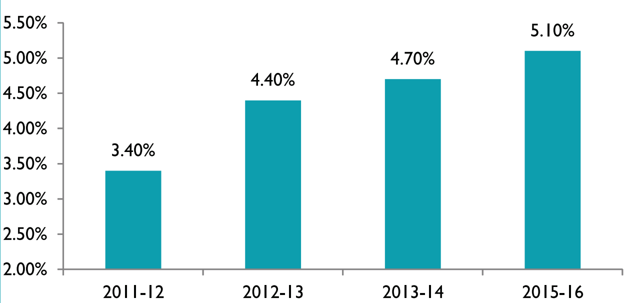
The latest data released by Unemployment rate index (CMIE) has put the unemployment rate for Dec 2016 as 5.17%. Joblessness in rural areas exposes the Government's claim on reviving rural economy.

Fig 3.7: Growth in Rural Wages (%)



Source: Labour Bureau, RBI

Fig 3.8: Rural Unemployment



Source: Export Import Data Bank, Minstry of Commerce

3.3 MNREGA's Neglect Worsened Rural Distress

The poverty pathway:

Aniruddh Krishna in his paper on Poverty Pathways writes– 'Land-related factors, including crop disease, land exhaustion, drought, and irrigation failure, were also associated with a significant number of descents into poverty. Other reasons for descent included the loss of a job resulting from retrenchment, sacking, or retirement. High-interest private debt is highly prevalent as a factor contributing to descent into poverty in the three Indian states. Poverty is inherently dynamic: large numbers of people are escaping from poverty at any given time, but large numbers are also falling into poverty simultaneously.'

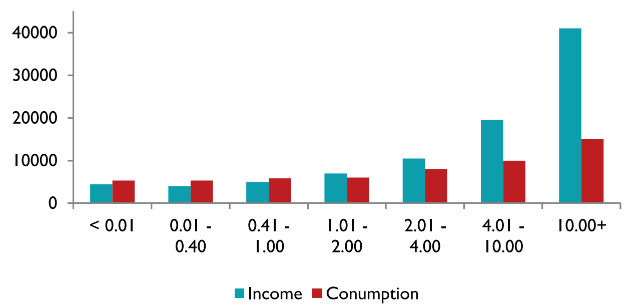
Successive drought years and the recent demonetisation have created many of these conditions for people to fall back into the poverty. This is where the efficacy of social security schemes like MNREGA come into the picture and provides people a social safety net to tide over the shock.

In India, the income-consumption gap is very thin for small and marginal farmers (as seen above). Owing to their decreased marginal propensity to save, their capacity to weather agrarian crises like droughts is limited. This thus requires special measures.

A detailed analysis would show that any strategy to boost farm incomes for majority of Indian farmers would require a multi-pronged approach rather than just focusing on cultivation related incomes. This is because the majority of small and marginal farmers also earn their incomes in non-cultivation activities such as livestock and non-farm business.

It is due to this fact that programmes like the MNREGA were extremely important in revival of farmer incomes in the pre-2014 period. A NCAER study of 2015 showed that the Act helped in lowering poverty by almost 32% between 2004-05 to 2011-12 and prevented almost 1.4 crore people from falling into poverty. It is seen that between 2007 and 2013, wages in rural areas have increased at a rate higher

Fig 3.9: Balancing a Farm Budget



Source:The Hindu

than the inflation thereby contributing to increase in real wages.

It also reported that across social groups at the all India level, half of the beneficiaries were from scheduled castes and scheduled tribes. MNREGA has promoted inclusive growth over a decade with two third of beneficiaries being SC/STs and the gender wage gap has been reported to be lowest under the scheme.

Prime Minister Modi first ridiculed the MNREGA on the floor of parliament. As the rural crisis deepened in the context of two back to back droughts, his government has turned to MNREGA to provide some relief. Even these efforts are far from sincere. Here's why.

In 2014–15 the central government treated the initial allocation of Rs. 34,000 crore as a cap on MNREGA expenditure. As a result, when funds dried up towards the end of that financial year, workers were denied work without any compensation in the form of unemployment allowance. However, as the drought conditions did not improve, there was an increase in demand for MGNREGS employment, the government increased allocation to NREGS during 2016-17.

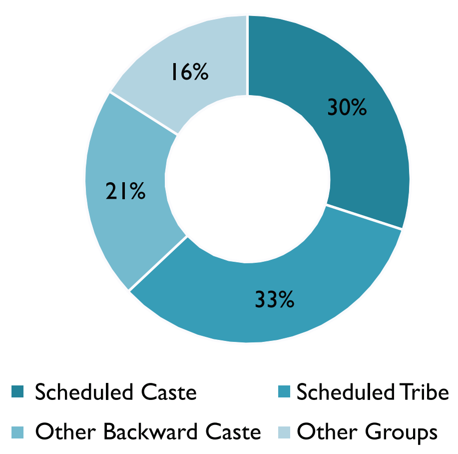
The Union Government has pegged the allocation towards MNREGA in the Union Budget 2016-17 as the highest ever (in terms of actual expenditures in the previous years). However, Rs. 40,100 crore was allocated to MNREGA in 2010-11 and the level of fund utilisation too was very high that year. If we take that as a benchmark for the adequacy of outlays for MNREGA, the allocation for the programme in 2016-17 should have been significantly higher taking into account inflation over the years. The rate of inflation as per Consumer Price Index - Rural Labourers (CPI-RL) has been: 9.9 percent in 2010-11, 8.3 percent in 2011-12, 10.1 percent in 2012-13, 11.6 percent in 2013-14 and 6.7 percent in 2014-15. Therefore, an outlay of Rs. 38,500 crore in 2016-17 would be much less in real terms as compared to Rs. 40,100 crore in 2010-11. Out of this total amount, Rs 12,581.64 crore would have to go to clear the backlog of wage and material payments for 2015-16.

According to the latest data available, we see that the average number of person days generated under MNREGA does not reflect the reportedly growing demand for MNREGA due to a failed monsoon and unthinkable effect of demonetisation on agriculture sector and the informal sectors. The average days of employment provided per household, too, fell to 40.17, from 45.97 in 2013-14, 46.19 in 2012-13 and 53.91 days in the best performance year of 2009-10. The increment in average wage rate per day per person allows little scope to combat the increased inflation rate over the years and jobless growth in the country.

Just about 40% of the workers get paid within the promised 15 days. For unskilled MNREGA workers, not getting paid in time is detrimental to domestic finances.

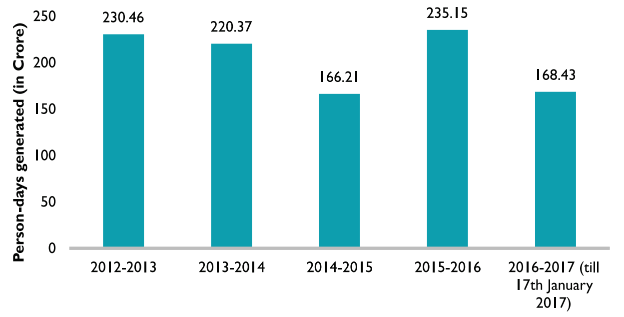
Number of households completing 100 days of wage in the last five years of MNREGA is lowest during the drought year of 2014-15. Only 6.02% of households received complete 100 days of wage during the 2014-15.

Fig 3.10: Beneficiary of MGNREGS Across Social Groups



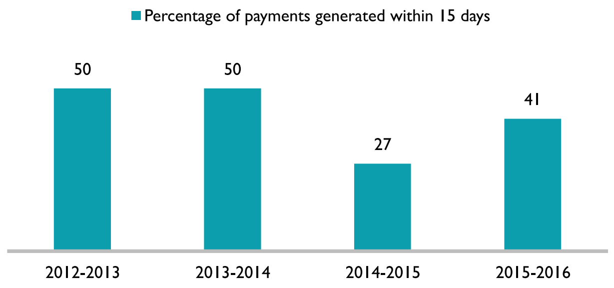
Source: NCAER

Fig 3.11: Number of Person-days Generated Under MNREGA



Source: MNREGA Dashboard

Fig 3.12: Decline in Percentage of payments generated within 15 days



Source: MNREGA Dashboard

3.4 Government Miscalculation even before Demonetisation

It is reported that by July 2016 states recorded a surge in demand for employment guarantee by a substantial 277.94 million person days. Therefore states requested the centre to release more funds under MNREGA to manage growing distress in rural parts of the country. The central government failed to account for this while approving the Labour Budget for the year. The supplementary additional funds of Rs. 10,000 crore did not suffice to address the increasing demand for employment under MNREGA.

Moreover, in FY 2015-16, 11 states were notified as drought affected under MNREGA and entitlement extended to 150 days. In the Supreme Court, as part of the Swaraj Abhiyan Public Interest Litigation, the government gave an assuranceto the Court that this entitlement would be extended in 2016-17. However, for this FY, only 5 states have extended entitlement of 150 days (Uttarakhand, Uttar Pradesh, Karnataka, Rajasthan, Madhya Pradesh).

Negative balance of funds with states also reflects the inadequacy of funds to run the employment guarantee, even for the achievement of their target/quota of the labour budget. As on 17th January 2017, nineteen states have a negative balance totalling -312101.71 lakhs. (Source: Report R 7.1.2. Financial Statement). This implies that their actual expenditure has exceeded their fund availability, again reiterating the inadequacy of funds to run the employment guarantee. These include drought affected states as well.

Demonetisation and the subsequent job losses across the country have shown the efficacy of MNREGA in helping in the recovery of the rural economy. The average daily MNREGA demand has recorded an over 60% increase in December as compared to the preceding few months.On January 7, 2017, the labour turnout for the day was as high as 83.60 lakh — approaching three times the daily pre-demonetisation average of 30 lakh.

There is an immediate need that the number of guaranteed work days and the wage rate under MGNREGA should be doubled for a period of one year. The Government should organize a special drive to identify and register all those who have lost their jobs since November 8, 2016, and provide them compensation at the applicable minimum wage rate for a time period extending upto 31st March, 2017.

3.5 The Rural Despair- Decline in Rural Consumption and Increasing Suicides

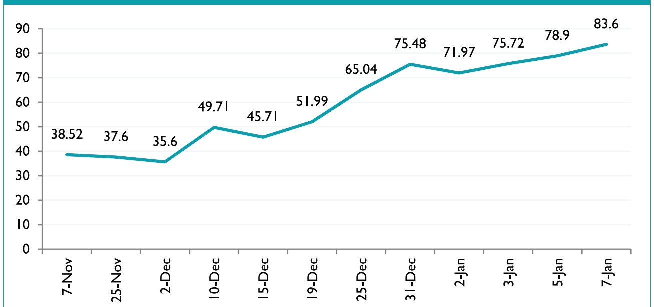
A collapse of agricultural growth rate, back to back droughts and strangling of relief measures such as MNREGA have

Table: 3.6: Farmer Suicides

Year	Farmer+ agricultural workers (AW) suicide	AW suicides	Farmer suicides	Percentage share of farmer suicides	Percentage share of AW suicide
2012	13,754		-	-	-
2013	11,772		-	-	-
2014	12,360	6710	5650	45.71%	54.28%
2015	12,602	4595	8007	63.53%	36.46%

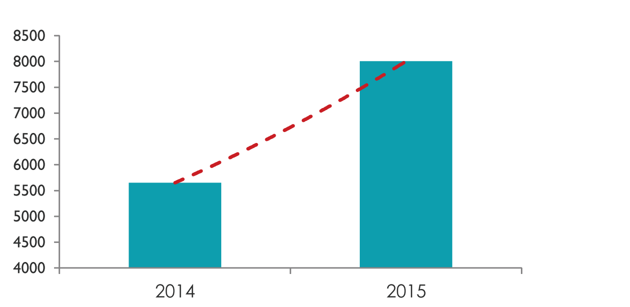
Source: Compilation from NCRB[1]

Fig 3.13: Labour Turnout



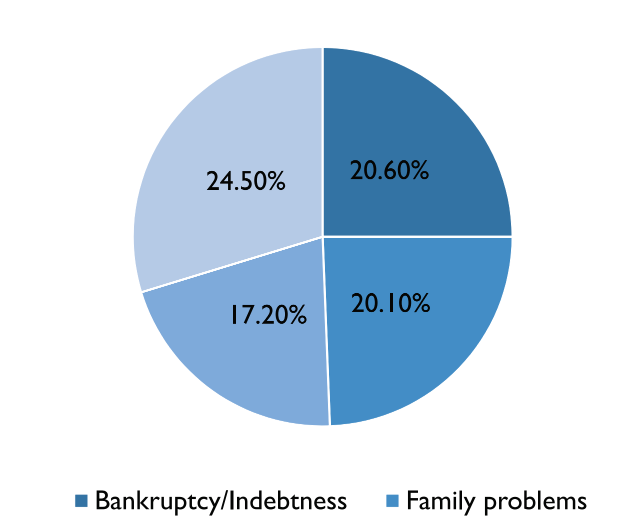
Source: Indian Express

Fig 3.14: Farmer Suicides



Source: NCRB

Fig 3.15: Reasons for Farmer Suicides



Source: NCRB

created a situation where India's rural economy is mired in deep rooted distress. The fact that farmer suicides increased by 42% in 2015 is a macabre confirmation of this fact.

The actual number is expected to be much higher as many states have reported zero farmer suicides. A look at economic reasons for farmer suicides shows that indebtedness is a bigger factor than crop failures. This only underlines the need to be even more careful this year, as prices have crashed post-demonetisation.

Consecutive drought years, declining farm incomes followed by demonetisation have crippled rural consumption demand. This is well established by decreasing discretionary consumption, and Fast Moving Consumer Goods (FMCG) sales pointing to a crisis in rural markets.

Record decline in automobile sales

Automobile sales in India fell 18.66% in December, the steepest in 16 years, hit by weak consumer sentiment and cash crunch post demonetisation, according to data from industry body Society of Indian Automobile Manufacturers(SIAM). The drop was the steepest since December 2000, when it was 21.81%,

2-wheelers and 3-wheelers - In two-wheelers, volume fell 22% to 9,10,235 units, the sharpest fall since SIAM started recording data in 1997. The decline in sales was more pronounced in the motorcycle segment, which fell 22.5% year on year during the month. With rural areas being especially hard pressed for cash in the aftermath of demonetisation, the entry-segment of motorcycles (75cc-110cc), which derives a significant proportion of sales from rural areas, reported the highest decline in absolute volumes during the month. This segment accounts for more than 60% of total motorcycle volumes.

Investment in farm equipment is crucial for enhancing productivity and securing better incomes. Decline in tractor sales till November 2016 and the worsened situation post demonetisation capture the blow rendered to the farming sector by Government's policies. Tractor sales have seen a 26.8% de-growth YoY during November 2016.

A similar decline in consumption of FMCG goods highlight the stagnant discretionary spending in rural areas. Following demonetisation, sales of durables fell sharply. The sales euphoria in FMCG over last few years have been driven by rural consumption. The FMCG sector is set to suffer with sales going down by up to 60 per cent for many

discretionary items. The rural sector accounts for 40% of total FMCG sales in the country, and around 70% of FMCG consumers live in rural India.

3.6 From Increased MSPs to Soil Health Cards, Betrayals Everywhere

By regularly increasing MSPs, the UPA enabled increase in rural incomes thereby ensuring better spending on health and nutrition, which along with an uptick in discretionary consumption led to a revival of the rural economy. In contrast, the BJPreneged on its election manifesto to“take steps to enhance the profitability in agriculture, by ensuring a minimum of 50% profits over the cost of production.”

Fig 3.16: Record decline in automobile sales

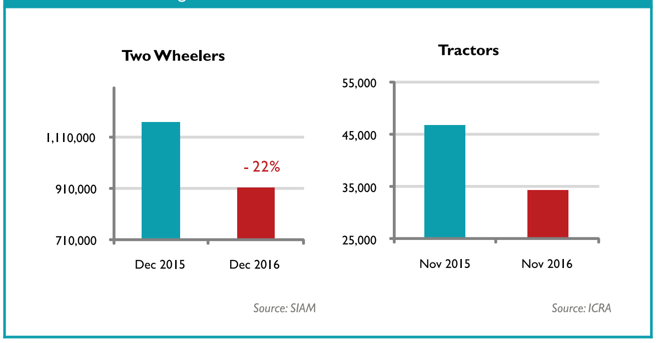


Table 3.7: Demonetisation - Growth Hit

Category				
	Oct' 2016	Nov' 2016	Oct' 2016	Nov' 2016
Microwave	90.60	53	90.70	51.50
Refridgerator	74	41.20	73.40	40.30
Air Conditioner	1.80	34	4	33.80
Washing Machine	116.70	31.70	113.10	34.40
Flat panel TV	94.70	30.40	99.40	26.60

(Growth YoY)

Table 3.8: MSP Price for Various Crops

Crop	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Wheat	1000	1080	1100	1120	1285	1350	1400	1450	1525	1625
% Change		8%	2%	2%	15%	5%	4%	4%	5%	7%
Rice	850	900	1000	1000	1080	1250	1310	1360	1410	1470
% Change		6%	11%	0%	8%	16%	5%	4%	4%	4%
Arhar	1590	2000	2300	3500	3700	3850	4300	4350	4625	5050
% Change		26%	15%	52%	6%	4%	12%	1%	6%	9%
Urad	1740	2520	2520	3400	3800	4300	4300	4350	4625	5000
% Change		45%	0%	35%	12%	13%	0%	1%	6%	8%

Source: CACP

Thus the BJP is impoverishing rural India and aggravating the farm distress.

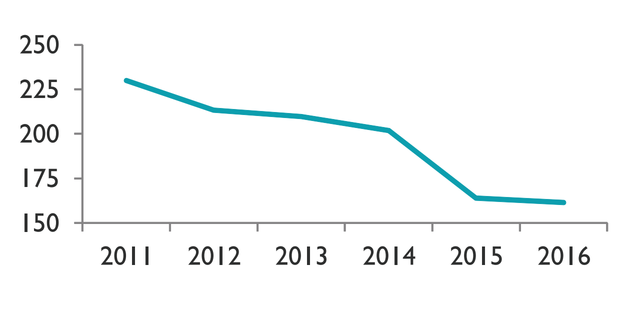
In the name of controlling inflation, Modi government has unleashed an attack on farm incomes by keeping MSPs depressed. The rate of increase in MSPs under Modi government is much lower than what was seen earlier, which has had an adverse effect on farmer incomes.

Before the situation worsens, the measure that need to be taken immediately by the Government is to announce a special onetime bonus of 20% to be provided over and above the MSP of all Rabi crops.

So farmers are neither getting incomes in domestic market nor in the international market. Notwithstanding all the big talk about making India self-reliant in pulses production, the Modi government has been encouraging import of commodities like wheat, which is evident from its decision to bring down import duty from 25% to 0% There has also been a curious decline in wheat procurement figures for 2015-16 in comparison to 2014-15, despite production being lower in 2014-15. The desperation to import wheat and decline in procurement amidst official statistics claiming a rise in production suggests that the government might have been cooking up production figures without any actual increase being there.

Pulses are an important source of protein for most Indians. Off late it has become an even more important source of food price inflation in India. While the government is making tall claims about incentivising pulse production in the country, its actions do not seem to suggest this. In the fiscal year (FY) 2016, imports of pulses touched an unprecedented 5.8 million metric tonnes (MMT), against the domestic production of 16.5 MMT. What one fails to understand is that, despite knowing in advance about a two million metric tonne fall in pulses' production in 2014-15 and being able to foresee the pressure on prices, the government failed to import enough pulses to bridge the supply gap. To manage price volatility, the government

Fig 3.17: Food Price Index



Source: FAO

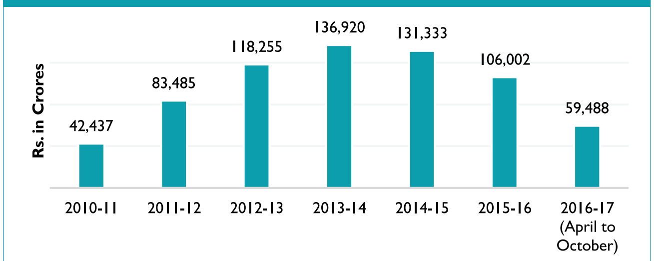
Table 3.9: Food Price Index

A measure of the monthly change in international prices of a basket of food commodities

Year	Food price index
2011	229.9
2012	213.3
2013	209.8
2014	201.8
2015	164.0
2016	161.6

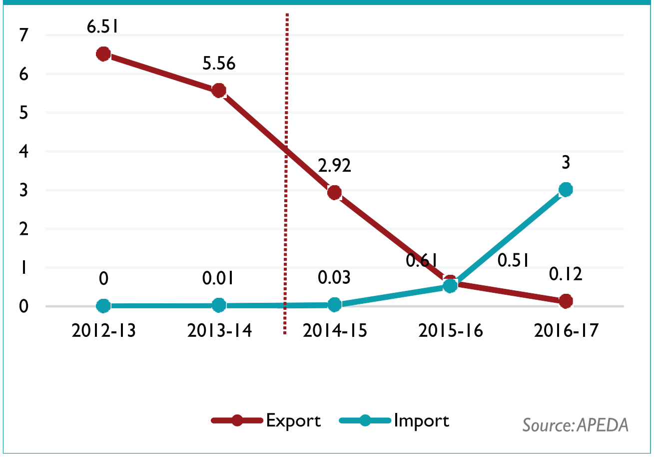
Source: FAO

Fig 3.18: India Export statistics for 36 major products (Rs. in crores)



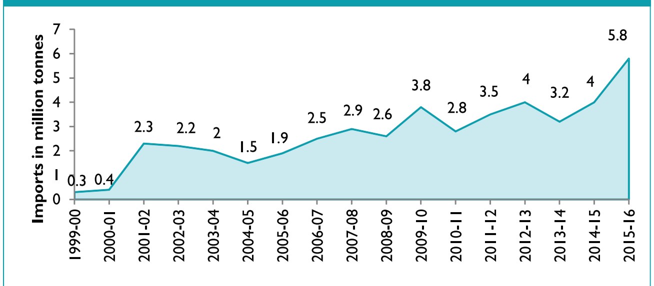
Source: Agri Xchange, APEDA

Fig 3.19: India's Wheat Trade (In Million tonnes)



Source: APEDA

Fig 3.20: Pulse Imports: Over 15 Years (million tonnes)



Source: Export Import Data Bank, Minstry of Commerce needed at least one MMT of pulse imports. Further, by banning forward markets, Government shut off a crucial source of vital price information.

The government has recently agreed on creation of a buffer stock of 20 lakh tonnes, of which 10 lakh tonne is to be procured domestically and the other 10 lakh tonnes through import. There is a lack of prudence in earmarking 10 lakh as the import component of the buffer stock when we can alternatively increase on the domestic procurement component itself.

THE WHITE WASHED TRUTH OF RECORD WHEAT PRODUCTION IN 2015-16

Even though 2015-16 was the second consecutive year of drought, the estimate of wheat production at 94 million tonnes (MT) has raised eyebrows. This is higher than the market estimates of 82-88 MT (as per NCDEX market intelligence report) and the 90MT estimated by US Department of Agriculture.

Despite the bumper projections, Government's policy moves have muddled many. The fact that the government lowered the import duty on wheat to 0% from 25% and wheat imports are expected to be around 3 million tonnes, casts doubt on the figure. In last two years, India has become a net importer of wheat from net exporter.

Procurement: The targeted procurement for 2015-16 was 30 MT but the government procured only 22.84 MT which is even 5 MT less than quantity government procurement in 2014-15, when the production was 7.5 MT less than the production in 2015-16.

Heading towards food insecurity

National Food Security Act (NFSA) was enacted in 2013 as a rights-based framework meant to provide subsidized food grains to two thirds of India's population. As per the government, the Act is now under implementation in all the

Table 3.10: Declining Buffer Stock

Year	Buffer stock as on 1st April (in million tonnes)
2017#	4.1
2016	14.538
2015	17.221
2014	17.834
2013	24.207
2012	19.952
2011	15.364

projection on the basis of last year take -off in Jan, Feb and March

Source: FCI

States/UTs and covers about 80 crore persons under it. However, the Government's claims on implementation is not backed its intent on procurement policies. As per a study by CACP, this requires a total of 61.2 MT of food grain with a monthly requirement of 5.1 MTfood grains available in Central Pool Stocks of FCI as on January 1st 2017 is 27.22 MT, this being the lowest food grain available in last seven years.

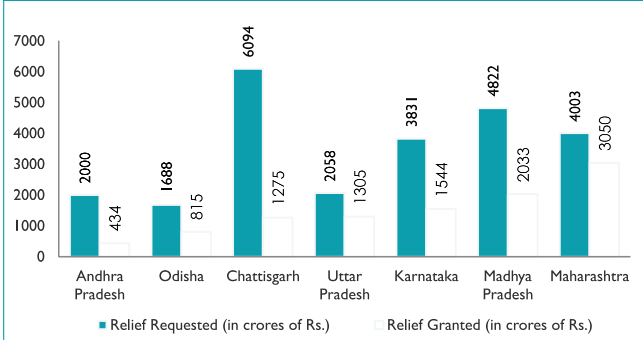
Bleak procurement: In 2016-2017, the procurement of wheat has dropped to a six-year low, much on the lines of previous year. The targeted procurement for 2015-16 was 30 MT but the government procured only 22.84 MT which is even 5 MT less than quantity government procurement in 2014-15, when the production was 7.5 MT less than the production in 2015-16.

Declining buffer stocks? If the take off for coming three months is projected on the basis of take-off in January, February and March 2016, the buffer stock of wheat at the start of April 2017 will be 4.1 MT which will be far below the minimum and strategic buffer requirement of 7.46 MT. This will be lowest buffer stock of wheat in the last ten years.

Following inadequate rains, 10 Indian states have declared partial or complete drought in 2015-16. As on March 10th 2016, 246 of India's 688 districts across 10 states – or 35% of India's area – are officially drought-hit. Indeed, the government has released some drought-relief funds amounting to about 10,500 crore rupees to seven affected states until mid-January. More than half of this allocation was for two states – Maharashtra and Madhya Pradesh.

Prime Minister Modi announced that the government had increased the amount of compensation to farmers who have suffered crop loss due to natural disasters. The compensation for areas with assured irrigation was raised from Rs 9,000 to Rs 13,500 per hectare, subject to a cap of two hectares per farmer. The Central government claimed credit for raising drought relief by 1.5 times, when accounting for inflation it shows that Rs 2,200 in 1982

Fig 3.21: Drought Relief as of January 2016



Source:Agriculture Ministry & PIB

prices would be equivalent to Rs 20,209 now, an increase of 9.2 times. This is why the sporadic cheques from the government provide little relief to most farmers.

The Centre is promoting the soil health card (SHCs) scheme as a key intervention to reduce the cost of cultivation, moving away from augmenting farm incomes by raising crop support prices. However, this government flagship scheme to correct the imbalance in fertiliser use and reduce costs of cultivation by providing all farmers with a soil health card is moving at a snail's pace.

While the government's target is to issue 14 Crore SHC by March 2017, only 47 lakh SHCs have been dispatched by January 2017. By September 2016, nearly 79% of the targeted soil samples have been collected; only about 40% have been tested. Till September 2016, the Centre has spent Rs 216.4 crore on the scheme and sanctioned setting up of 449 new soil testing labs and strengthening existing ones. However, according to Agriculture ministry data, only Himachal Pradesh and Nagaland have set up seven new labs together utilising funds from the ministry.

With the current infrastructure that includes just 1087 labs across the country with a capacity to analyze 13.7 lakh soil samples a month, it will take 10 years to complete the project against the government's target of 3 years.

3.7 Betrayal of the rural economy shows the farce of "SabkaSath, SabkaVikas"

Half of India's people are still dependent on the rural sector for their livelihoods. By adopting policies, which have stifled a rejuvenated farm sector before 2014, this government has inflicted large-scale distress on the majority of India's population. All tall claims about Make in India and increasing employment in non-farm jobs seem like a joke after two and a half years of the Modi government. There is neither any revival in investment nor employment. From farm to factories, there is a sense of gloom all over the economy. The Modi government's self-congratulatory demeanour amidst all this is nothing but a replay of the India Shining campaign which was given a fitting rebuff by the people of this country.

Chapter 4

The Story of Social Sector Neglect in India

A Quick OverView Of The Social Policy Landscape

Social sector policies under the Modi government have involved the systematic undoing of credible institutions and an engagement with legacy social programs as an afterthought. The lack of investment in human capital, coupled with slow job creation has resulted in India's much-anticipated 'demographic dividend' being slowly wasted away.

India's GDP growth forecasts have fallen sharply, and job creation has been dismal over the last 2.5 years. With growing unemployment exacerbated by the blunder of demonetisation, the Union Government ought to rethink its lack of a cohesive social policy. When economic policy is proving to be a failure in creating jobs (as has been outlined in the chapters thus far) the government's response has been one largely opposed by development theory – to cut back on investing in human capital. In addition, the most vulnerable and disadvantaged groups are facing renewed discrimination.

Major budget cuts in funding programmes for primary education and healthcare (as have been analysed in further detail). This has created a situation where states are unable to compensate for a Union Government not committed to building human capital. It is time for the NDA to move away from catchphrase schemes and focus on holistic development, with a well-rounded framework for social justice and human development.

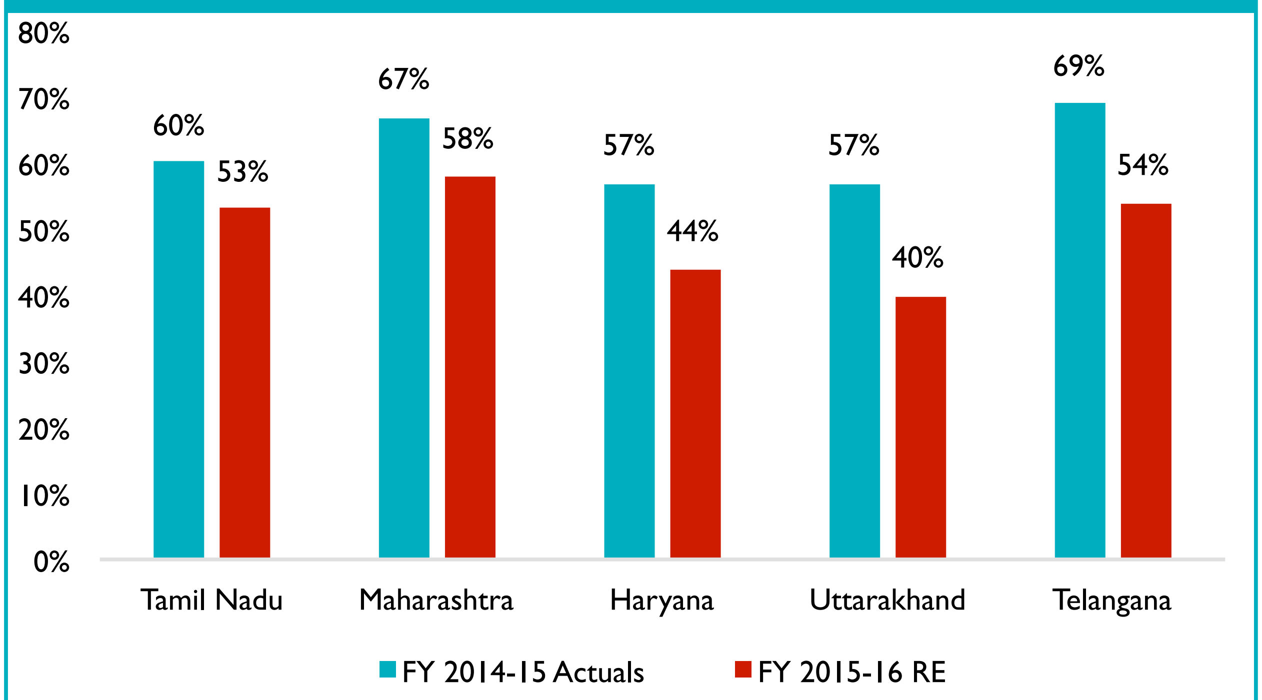
Dwindling Budget Entitlements

The current government's lack of commitment towards social justice and human development is a testament to their political ideology. Over the past five financial years there has not been a significant increase in either educational or health care expenditure, despite inflation. In fact, the proportion of the total expenditure spent on education decreased from 11.6% to 10.9% in the year 2014-15. As a proportion of total state government expenditure, social sector rose steadily from 32.9% to 38.2% in 2013-14, and then fell to 36.1% in 2014-15. Social policy since 2014 has manifested itself in dismantled entitlements and increased delays to an already dwindling pool of investment. The tragedy for dedicated civil servants is that they are caught amidst a drastic transformation from accountability to the poor and the rights of the citizen, to accountability to the whims and fancies of a leader who pays greater heed to event management than material realities.

Insincere Indifference

The 'deer in the headlights' predicament of bureaucrats demands a closer look. This is a situation where the highest helm of leadership has virtually no track record of enabling a good standard of living for all. If we look at social indices of the so-called 'Gujarat Model', they fare lower on metrics across all sectors in comparison to metrics achieved by most other states. These numbers are significantly below not only Indian states such as Kerala and Sikkim, but are hardly of any repute in the international community. The below table is a clear indicator that the social policy in India is in the hands of a Prime Minister with a sketchy commitment to social justice.

Fig 4.1: Untied Funds to States



Source: Ministry of Finance

Dismantled Institutions

A trend has emerged with the government systematically undercutting institutional frameworks that have hitherto held the fabric of nation building. Manifestations of this are seen in the virtual disappearance of the Panchayati Raj system from policy discourse, and the much more publicised move from the Planning Commission to the NITI Aayog.

A closer analysis of the figures reveals the strategy of the BJP government has been to attack three of the Ministry of Panchayati Raj's (MoPR) key programmes — the Backward Regions Grants Fund (for addressing issues of infrastructure and capacity gaps in backward districts) and the Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA). Between FY 2006-07 and FY 2010- 11,

Table 4.1: Sketchy Commitment to Social Justice - The Gujarat Model

Indicators	Gujarat		Karnataka	
	NFHS-4 (2015-16)	NFHS-3 (2005-06)	NFHS-4 (2015-16)	NFHS-3 (2005-06)
	Total	Total	Total	Total
Women with 10 or more years of schooling (%)	33	23.5	45.5	27.8
Infant mortality rate (IMR)(per 1,000 live births)	34	50	28	43
Institutional births (%)	88.7	52.7	94.3	64.7
Children age 12-23 months who have received 3 doses of polio vaccine (%)	62.3	65.3	74.6	73.8
Children under 5 years who are underweight (weight-for-age) 12 (%)	39.3	44.6	35.2	37.6
Children age 6-59 months who are anaemic (<11.0 g/dl) (%)	62.6	69.7	60.9	70.3

Source: National Family Health Survey 4

Table 4.2: Gujarat Social Ranking in 10 years

Category	2001 Rank	2011 Rank	Improvement in Rank
Head Count Ratio (Poverty)	14	14	0
Percentage of Households with access to Banking Services	10	14	-4
Female Literacy	15	15	0
Percentage of Households with Electricity	6	10	-4
Percentage of Households with Latrines	14	16	-2

Source: Poverty Performance Under Modi Governemnt by Ashok Kotwal & Arka Roy Chaudhuri

allocations for MoPR more than doubled from 2,000 crore to 5,171 crore. In FY 2014-15 however, a mere 3,401 crore were allocated to MoPR. Allocation of funds to the Ministry now stands at a paltry figure of 95 crore, leaving no doubts to the intention of the government. The idea appears to be draining the ministry of funds so that its eventual closure goes unnoticed. However, also at stake are the crucial legacies that have shaped the course of India's history and policy thus far.

The transition from Planning Commission to NITI Aayog occurred to facilitate the creation of a government-run think tank. In any democracy, the primary need of a government think tank is to research the implementation of policy and suggest avenues of improvement and course correction. A healthy atmosphere of critique and evaluation needs to be encouraged in a transparent environment, which maintains a healthy distance from the government.

The erstwhile National Advisory Council from the UPA era, along with the Planning Commission, fostered debates and nurtured ideas that eventually led to the passing of landmark social legislations. On the contrary, the NITI Aayog has thus far served as a propaganda tool for the government to translate its inequitable economic message down to bureaucrats and out into the public domain. The Vice Chairman and other members have lost no opportunity to spin the government's policy in a positive light in op-eds in leading dailies. The government and NITI Aayog thus now appear as a unified block of high-handed, unyielding policy decisions, making it difficult for bureaucrats within different ministries to raise their voices about genuine problems with their design or implementation. While it was necessary to reform the Planning Commission, what has taken its place has neither been effective in providing a vision for the future, nor has it been able to effectively analyse and evaluate the present. Like every other promise of the Prime Minister Modi, it eerily rings hollow.

4.1 SANITATION

Research has shown that a direct relationship exists between water, sanitation, health, nutrition, and human development. Consumption of contaminated drinking water, improper disposal of human excreta, lack of personal and food hygiene, and improper disposal of solid and liquid wastes are major causes of disease in India. Providing accessible, affordable, and equitable sanitation, to all sections of the population is one of the key objectives of the Government. The National Rural Drinking Water Program (NRDWP) and Swachh Bharat Mission (SBM) are the two flagship programmes of the Government of India for rural drinking water and sanitation. However, the real question is – are these schemes testaments to this government's agenda for social upliftment or merely old wine in new bottles?

Swachh Bharat Mission (SBM)

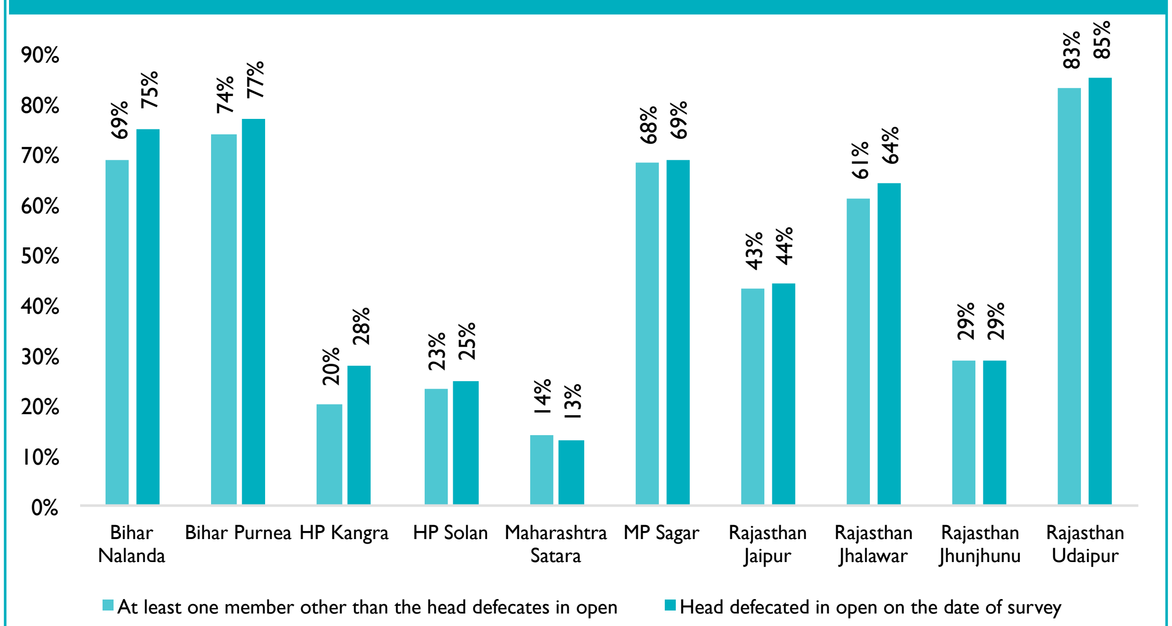
The Swachh Bharat Mission (Gramin) launched on 2 October 2014 aims at attaining an open defecation free (ODF) India by 2 October 2019. At the time of its much-hyped launch the objectives of the programme were multifold, but poorly planned at best.

The mission aimed to bring improve quality of life in rural areas by promoting cleanliness, hygiene, and eliminating open defecation, via

• Provide access to toilet facilities to all rural households.

• Motivate communities and Panchayati Raj Institutions to adopt sustainable sanitation practices.

Fig 4.3: Open Defecation



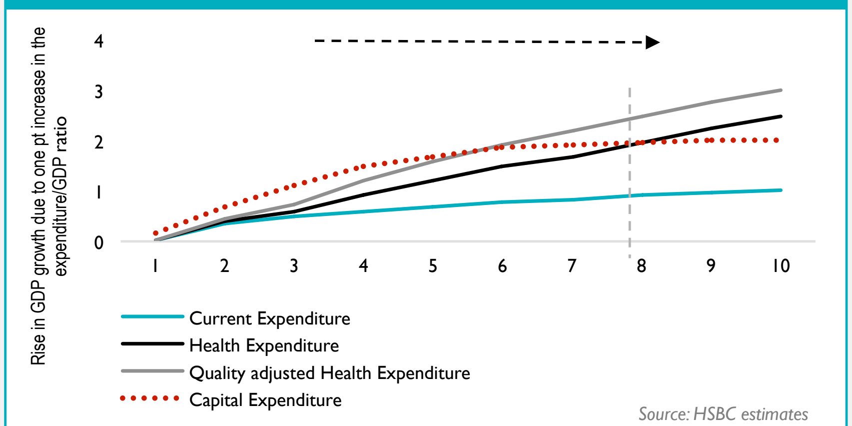
Source: Accountability Initiative Fund Tracking Survey (PAISA), Dec 2015

Box 4.1: A Case for Why Social Sector Spending is Inextricable from Larger-Macroeconomic Performance

Government's focus has been to boost demand in the economy through infrastructural investments while it has ignored the crucial sectors of health and education in the successive budgets, very much at the mercy of state. However, recent studies show that the agenda of health and education does not just happen to be the necessities of welfare state but they go a long way in improving the macroeconomic fundamentals- higher growth, lower government debt, lower inflation and can create much-needed jobs and boost economic growth.

Research by HSBC shows that the spending in health and education have a higher fiscal multiplier than the capital expenditure and current spending (subsidies, wages, interest bills etc.)

Fig 4.2: Impulse Response of GDP to Increase in Public Expenditure



Source: HSBC estimates

Poor Social Infrastructure Contributes to Higher Inflation in the Long Run

As the N K Singh headed new Fiscal Responsibility and Budget Management committee have reiterated the importance of lower government debt and deficits, health and education become crucial to conquer the medium term inflation target of 4 per cent. The supply constrained health and education may emerge as the main culprits that will likely keep inflation above 4%.

Supportive Social Infrastructure as Imperative to Meeting An Increasing Requirement for Domestic Jobs

In wake of weak global demand and sluggish domestic demand especially after demonetisation, business-as-usual suggests that there will be 24m missing jobs. Sectors Like health and education can be the domestic drivers to fill the gap that will not only ensure employment but shall be instrumental in achieving socio economic goals along with political stability. This is not a choice but a national imperative.

• Develop Solid & Liquid Waste Management systems for overall cleanliness in the rural areas.

• Accelerate sanitation coverage in rural areas to achieve the vision of Swachh Bharat by 2nd, October 2019.

Big Targets vs. Small Gains in Actuality

A large challenge in eliminating Open Defecation is overcoming barriers of behavioural attitudes and acquainting communities with the sustained practice of toilet use. The government attempted to address this by integrating a component of community involvement through an army of 'foot soldiers' or 'Swachhata Doots', administrative and technical experts at the State, District and Block levels. Yet, the success rate of this endeavour has been abysmal, as ground level realities show that the programme was inundated with flaws. (Ref Fig 4.3)

Grants Failing to Reach Target Groups for Building Toilets

As per the annual targets, there should have been 25,00,000 household toilets and 1,00,000 public and community toilets been built from the period October 2014 to 2015-16. However, as per the report by SBM, only 53% (13,26,226) household toilets and 69% (68506) community toilets were built till April 2016. In addition, as per a survey conducted by Accountability Initiative (AI), it was observed that 29% of the households in the achievement list did not have the toilets. 48% of the total households had at least one-member defecting in open. (Ref Fig 4.4)

Even in Himachal Pradesh, which has the maximum number of ODF villages, at least one member still defecates in the open in about 25% of the households surveyed. So apart from not meeting ambitious targets, the government is also putting out falsified achievement numbers.

Uncoordinated Panchayat and Community Involvement

The SBM mandates that Swachhata Doots and Swacchta Samiti be employed in every village to promote awareness and encourage toilet usage. However, as the graph above shows, households were unaware that their village had Swachhata Doots and Samitis, which depicts that the reach of awareness is low, despite a high-decibel personal campaign by the Prime Minister. On an average, less than 5% people of a particular surveyed area know about either the Swachhata Doots or the Samitis. With uncoordinated community involvement, the flagship programme is turning into nothing but a toilet drive. Imposing all focus on toilet construction and barely any on community mobilization, implies a target driven approach that will not lead to any long term gains in a mission that ultimately predicated upon deep rooted behavioural changes. *(Ref 4.5)*

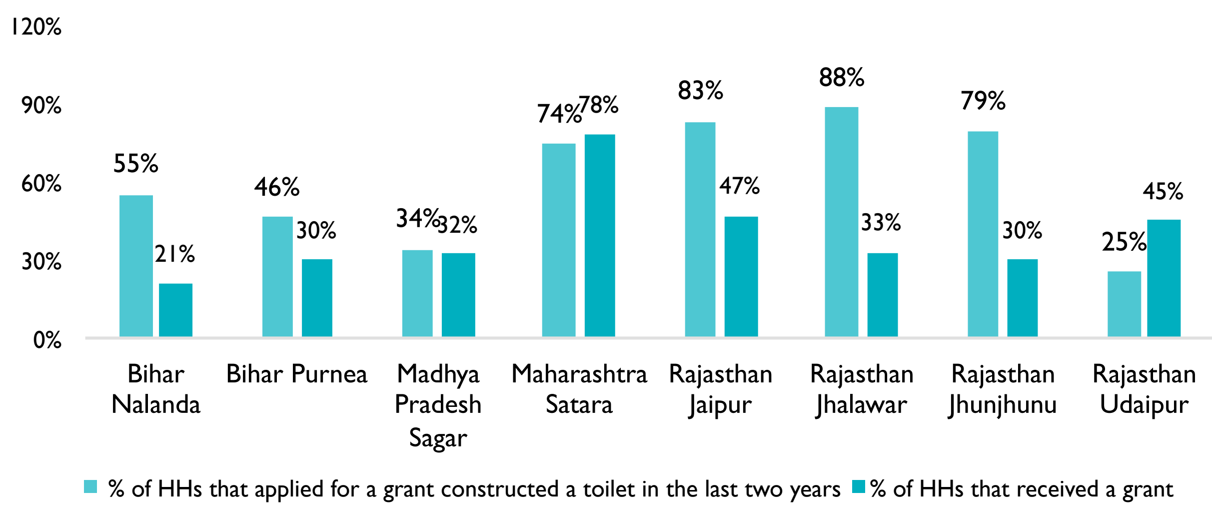
Reasons for Failure

The programme was a failure for the following reasons. First, contrary to the proposed norm of every eligible BPL/APL household getting a grant to build the toilet (if they apply), the PAISA survey conducted by Accountability Initiative revealed that less than 43% people who applied for a grant actually got one. The most disturbing figures are for the Jhalawar district in Rajasthan where out of the 88% who applied, only 33% got the grant. It is likely that these figures are also off by a large margin, as the PAISA survey complains of inaccessibility of reliable data, further casting doubt on the government's credibility. The slow policy implementation as is evident from the case of grants barely reaching those vulnerable households who need them the most, and in small numbers even in the event they do reach the target group, has been explained graphically above but cannot be stressed enough.

Further, the release of funds to state governments in FY 2015-16 has been very low compared to previous years. Till February 2016, Government of India (GOI) had sanctioned only 49 per cent of the total allocation. In contrast, the Government of India had released more than 71 per cent of its revised allocations in FY 2014-15 by February 2015.

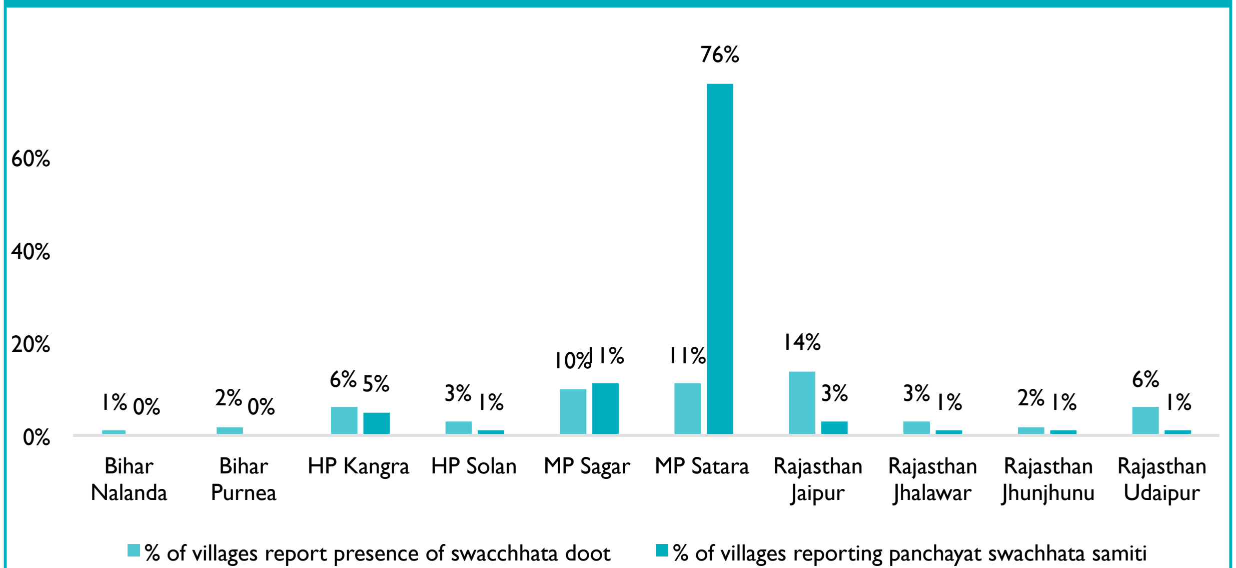
An additional problem, pointed out by Parliamentary Research Services (PRS), has been the restriction of funds allocated to State lists in a manner that curtails their spending autonomy and reduces avenues for social expenditure even further. In fact, over Rs 3900 crore being collected for FY2015-16 is sitting idly in government coffers after being collected from the taxpayer in the name of Swacch Bharat Cess. Moreover, till 10th January 2017, only Rs. 56 crore (1% of the total expenditure), had been spent in this financial year, to raise awareness.

Fig 4.4: Receiving SBM Grant



Source: Accountability Initiative Fund Tracking Survey (PAISA), Dec 2015

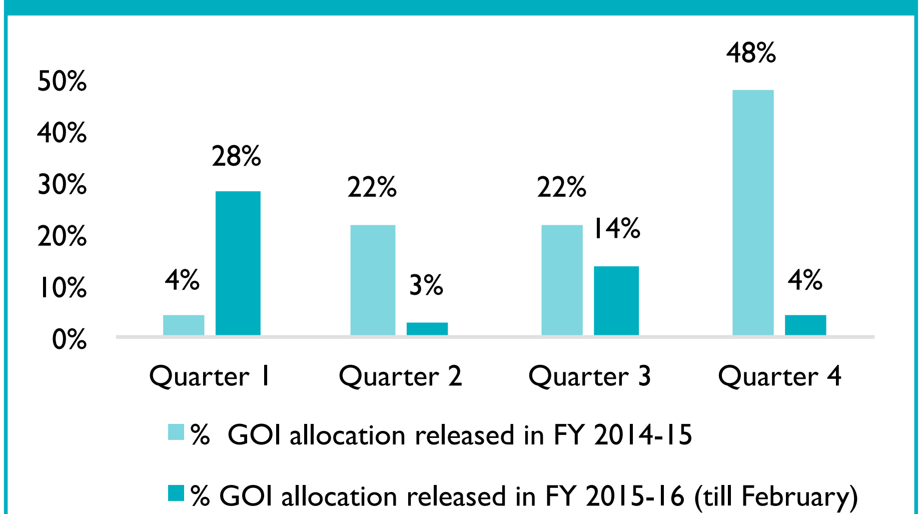
Fig 4.5: Awareness : Swachhata Doots and Swachhata Samitis



Source: Accountability Initiative Fund Tracking Survey (PAISA), Dec 2015

In conclusion, Swacch Bharat Mission, in spite of being a high-voltage campaign has not delivered the goods. The focus on glitzy marketing and hype, combined with unrealistic targets for the bureaucracy, has diluted the attention required towards sustained community-level engagement required for a self-professed social movement. The real tragedy is that toilets are now being constructed through orders bullying citizens through refusing ration and electricity supplies, levying fines and withholding payments, if toilets are not constructed.

Fig 4.6: SBM Allocations FY 2014-15 and 2015-16



Source: India Budget, Expenditure Volume II, Format C-6, MODWS sc order

4.2 HEALTHCARE

National Health Policy (NHP)

Three years into its term, the government is yet to articulate a road map for health. The draft national health policy remains just that—a draft. The most recent draft of the NHP came in early 2015. The draft of NHP 2015 focuses on addressing the urgent need to improve the performance of health systems, and acknowledges the 'two way linkage between economic growth and health status' and 'Government to leverage economic growth to achieve health'. Research however has shown that this linkage has not just failed to work for India – a truly vast polity, but has backfired for the economy.

While the draft of NHP 2015 was placed in public domain for comments in early 2015, its real status has been pending for the past two years. As of the last update in October 2016, it is still under consideration of the health minister. Given this scattered state of affairs, health advocates have expressed concerns about the government's commitment towards its operationalization. Their fears are not unfounded considering the state of poor implementation of the National Health Mission (NHM) for the past few years. Thus, it is very likely that the NHP is gathering dust without ownership from the government.

Unrealistic Budgetary Allocations

The budget for 2016-17(financial year) for the National Health Mission is Rs. 19,437 crore, which is almost the same as 2015-16 (Rs. 19,122 crore). Inadequate budgetary allocation to health has been a concern for more than five decades and continues to be so. The NHP of 2002 had proposed an increase in health expenditure from 0.9% of the GDP to 2% by 2010 (though it was still far short of the 5% of GDP recommended by WHO). While in actual, as of the 2015-16 budget, it is 1.3% of the GDP. In comparison the NHP 2015 proposes only 2.5% of GDP on grounds of inadequate financial capacity of the country and institutions for effective utilisation of funds. Thus, while it assures investment in the idea of a Health Rights Act, it refrains from substantially increasing the budgetary allocations, making the idea seem impractical and the policy virtually impossible to implement.

Lack of Focus on the National Health Mission

From 0.9% of total GDP, public health expenditures increased to about 1.3%, a marginal shift courtesy of the NHP 2002. Most of these increased allocations went to the National Rural Health Mission (NRHM) (part of the National Health Mission NHM now). The NRHM sought architectural corrections in India's public health systems and supports the less-developed states and was widely welcomed. NHM under UPA, introduced a host of reforms towards improving access to public health care but there are still large gaps in healthcare delivery in the country. Instead of building on the gains of the NHM, the financial years 2013-14 to 2015-16 have seen stagnation in the Union government's health spending and the 2016 budget has continued this trend of neglect of the health sector. The NHM was an important contribution of the UPA, towards expanding the access to healthcare. Between 2005 and 2014, there was an increase in the infrastructural spending. The number of Sub-Centres (SCs), Primary Health Centres (PHCs), and Community Health Centres (CHCs) increased by 4%, 8%, and 60% respectively. In September 2005, the number of doctors in PHCs was 4 per cent lower than the required number. As of March 2016, however, the shortfall increased to 13 per cent out of the required doctors at PHCs. These figures are indicative that this government has starved the NHM of resources and have no resolve to improve the NHM.This is despite signals of a serious crisis in the quality of primary healthcare, including doctor absenteeism to low effort by the doctors to over-medication and maltreatment of patients.

Paradigm Shift to Insurance of Universalisation of Healthcare

The Rashtriya Swasthya Bima Yojana (RSBY) was launched as a means to provide social security to workers in the unorganized sector. The health security needs of BPL workers and their family members were to be met under this scheme. RSBY, while important, is certainly not a sufficient way in which to approach health care provision. What is required is a systematic understanding of its constraints such as the need for regulation as opposed to crippling it further. If this continues to be the case, policy experts doubt its effectiveness in reducing the burden of health expenditure on people, for reasons outlined below.

The Argument of Principles – Why Provision of Egalitarian Healthcare must fall within the Domain of the State

If inadequate investments in health care were not enough, the far more perturbing trend is the shift in strategy from provision of universal and free health services to providing insurance for a few. The eclipsing of the state in social security signals that the government is gradually washing its hands off the responsibility of providing basic services to all, through the veneer of minimum government. The founding pioneers of our Constitution envisioned the government's role in the provision of basic services, as is the norm in liberal democracies with high rates of social egalitarianism. The government's shift in attitudes is thus antithetical to the legacy that has built this nation.

Increase in Out Of Pocket Expenditure - Study Shows No Significant Change with Insurance

Despite regular promotion of insurance-based schemes such as the RSBY the data from the NSS shows increasing out of pocket expenditure. Even in states like Chhattisgarh, and Kerala, which are known to have good coverage by the RSBY, the effective coverage in rural areas is less than 2 per cent and in urban areas it is less than 5 per cent. A study of the analysis of NSS data from 2014 by Sundararaman and Muraleedharan, from these states show that despite considerable effort in pushing for increasing insurance coverage, the benefits have not reached the poorest and nor is the RSBY efficient in providing financial protection.

The failure of the government in providing free health services has resulted in the high burden of out of pocket expenditures on health in the country. As the Finance Minister rightly said, "catastrophic expenditures in health are the topmost reason for pushing people into poverty, with estimates that 60 million people are pushed into poverty each year due to high out of pocket expenditure".

Two-thirds of total health expenditure across India is out-of-pocket. But a lack of attention to healthcare – public or private – has very real economic costs attached to it.

The RSBY while increasing access has not managed to significantly reduce out of pocket expenditure. What it has unfortunately led to is the creation of more opportunities for the private sector to make money out of poor people's illness. Therefore, it is no longer sufficient that the Finance Minister pays lip service to increasing expenditure while doing nothing that can alleviate the real problem.

A Reasoned Alternative – Universal Health Coverage (UHC)

Under this government, India's healthcare landscape is poised to mimic its Western counterparts, and in all the incorrect ways. At a time when public opinion in the UK has forced even Theresa May's neoliberal government to reconsider the many benefits of the NHS, and at a time Americans are dreading the repeal of ObamaCare, India would do well to setup a robust public healthcare system. However, India seems to be adopting the American model of insurance-based health care, which has been proved to be a political as well as a financial failure, leading to an unhealthy society.

As opposed to this flawed method of providing insurance, an alternative widely adopted by many other developing countries both as a developmental imperative and the moral obligation of a civilised society, is the UHC. The K. Srinath Reddy report on Universal Health coverage, commissioned in 2012 by the UPA, provided a roadmap for UHC in India. It focused on citizens 'access to a national health package of essential primary, secondary and tertiary care; both inpatient and outpatient'. The report also asserted that the 'services included under UHC must be tax funded and cashless at delivery.'

The report recommends a smooth transformation over time, from the RSBY into a universal system of health entitlements. It endorses building on the existing capacity and architecture to issue citizens with a National Health Entitlement Card with a minimum amount of disruption. This might be the best way forward to meet the objectives of both NHM and RSBY.

Integrated Child Development Services (ICDS):

Do Budget Outlays reveal any change or a Systematic Dismantling?

Over 40% of our population are children (below the age of 18 years). Launched in 1975, ICDS aims at providing an integrated package of health, supplementary nutrition and educational services to children up to six years of age, pregnant women and nursing mothers. Its objectives have been to

• To improve the nutritional and health status of children in the age group of 0-6 years.

• To lay the foundation for proper psychological, physical and social development of the child.

• To reduce the incidence of mortality, morbidity, malnutrition and school dropout.

• To enhance the capability of the mother to look after the normal health and nutritional needs of the child through proper nutrition and health education.

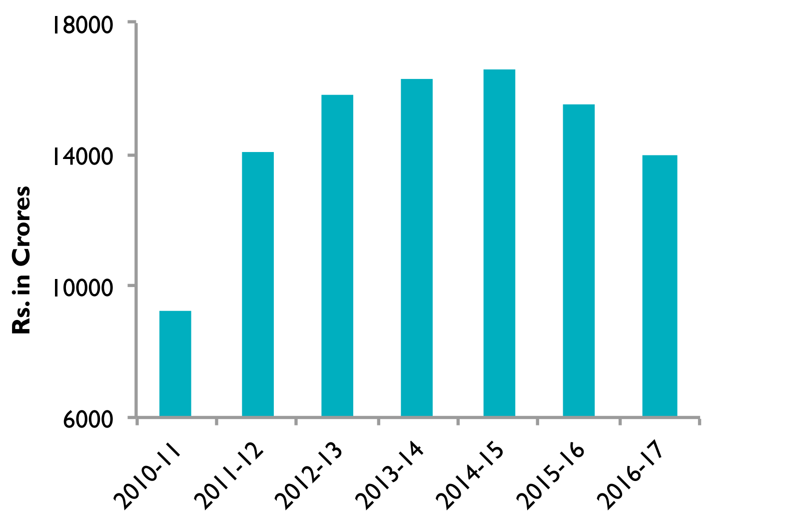
The objectives were achieved using a package of six services: 1) Supplementary Nutrition Programme (SNP), 2) non-formal Pre-School Education (PSE), 3) nutrition and health education, 4) immunisations, 5) health check-ups, and 6) referral services.

However, the Union Government allocations dropped by 6% from 16,561 crore in FY 2014-15 to 15,502 crore in FY 2015-16. They were further cut by 10 per cent from 15,502 crore in FY 2015-16 to 14,000 crore in FY 2016-17. There has been systematic dismantling of the ICDS scheme from 2014-15 onwards, achieved by methods listed below

Lack of Wage Revision for ICDS workers

In Uttar Pradesh, ICDS workers launched a protest demanding minimum wages agreement to be implemented and to provide basic infrastructure at the anganwadi centres. The honorarium of the anganwadi workers has not

Fig 4.7: GoI Allocations for ICDS



Source: ICDS portal FY11-FY15, Expenditure Budget Vol II, FY16-17

been raised since 2011. The honorarium of the non-matriculated workers was doubled from Rs.1500 in 2008 to Rs.3000 in 2011. However, Rs 3000 honararium of 2011 is still the same and there is no increase in it even after the 7th Pay Commission. Salaries of all categories in the ICDS have been erratic, with non-payment stretching for months together. This clearly serves as a disincentive for even the most dedicated worker to implement the programme with any degree of seriousness.

Grossly Understaffed Centres

Several supervisor posts are needlessly vacant across the country. In Palwal district, against 39 posts of supervisors, there were only 11. In Mewat, one of the most backward districts, there were only 11 supervisors against 47 posts; in Faridabad district, 27 posts of supervisors were lying vacant. Similarly, there is a shortfall of statistical assistants and accountants. The government had not made any appointments citing cash crunch.

Contracting of Packed Food

The supply of ready-to-eat foods and food mixes given through ICDS centres has been replacing locally procured and prepared food for children under five, pregnant women and lactating mothers. It was pointed out by a group of nutritionists and paediatricians that severe acute malnutrition was overstated and used as an excuse to push ready-to-eat food in the form of industrially manufactured products.

Although the stress is on providing hot cooked food through anganwadis and self-help groups, the size and budget of the scheme make it lucrative to private players. The state gives individual contractors the tender to manufacture the ready-to-eat food mixes. These contracts are often huge, ranging between Rs 25 crore and Rs 250 crore, making them prone to corruption. Over time tenders for these contracts have been drawn to favour key players (contractors) and irregularities remain the norm rather than the exception.

An evaluation of ICDS in Gorakhpur by the National Human Rights Commission showed that despite Supreme Court orders to provide hot cooked meals, all centres supplied only packaged ready-to-eat food, containing only 100 calories, as against a norm of 500 calories, and 63% of food and funds were misappropriated. The food being unpalatable, half of it ends up as cattle feed. People have started calling it “Pashu Ahaar”(cattle food) rather than “Paushtik Ahaar” (nutritional food). In addition to Ministerial level corruption, even the anganwadi workers are deeply involved in malpractices and share Rs.2000 per centre every month with their supervisors routinely. The ready-to-eat food is produced in poor hygiene conditions. Some of the ingredients shown on the bags containing the finished product were not found in stock at the time of survey visits. The stock of maize was only enough to meet 25% of the daily requirement.

Accountability Issues in the ICDS

ICDS faces substantial operational challenges, such as lack of accountability and an irresponsible reporting system. It appears that state governments actively encourage reporting of inflated figures from the districts, which renders monitoring ineffective and accountability meaningless.

Each anganwadi centre reports on the number of malnourished children category wise, but these figures are neither verified independently by the states nor used for assessing the effectiveness of the programme. The practice is so widely prevalent in all the states, presumably with the connivance of senior officers, that the overall percentage of severely malnourished children, in case of 0-3 years according to the data reaching the Union Government from the states is only 2%, as against 9.4% reported by UNICEF in a recent survey. The field officials are thus able to escape from any sense of accountability for reducing malnutrition. Figures from some states show their children to be as healthy as in Denmark and Sweden..

4.3 EDUCATION

This government’s disregard for a cohesive educational policy is cause for worry with both primary education and higher learning, each fraught with their own set of challenges. ASER data has shown that despite an increase in privatisation (in line with the motto of this government – shirking responsibility), there has been no significant increase in learning outcomes. Instead, efforts at strengthening the institutional linkages of primary learning are required.

On the other hand, there is a troublesome attempt to demolish any and all credibility of institutions of higher learning, that have built themselves as centres of reputable teaching and research after years of effort. In institutes like ICHR, FTII and NMML for example, the tactic employed has been po-

Box 4.2: India and Rising the HIV Epidemic

India has the 3rd largest HIV epidemic in the world (2.1 million). It sees close to 68,000 fatalities every year from the disease or from related infections. Despite the fatalities and dismal track record, the NDA government decided to merge the Department of AIDS Control with the already underfunded National Health Mission in 2014. Then the NACO’s budget was cut by a drastic 22% and asked states to fund the rest (rest assured, barely any of them did). Several experts had warned that this will be a drastic setback for the fight against AIDS and it is proving to be true.

India had seen a HIV reduction of over 50% during the UPA government, but with the sudden cut in funding, the numbers are slowly shooting up. Modi’s government, in order to appease the growing discontent, decided to dilute the UPA’s HIV (Prevention and Protection) Bill and introduce it in the Parliament. Though the Bill criminalizes discrimination against HIV+ individuals, it does nothing beyond it. The Bill is symbolic at best, because it has no outlines of policy change, funding or even normalisation of HIV+ individuals in society. The regressive, antiquated and out-dated ideas of the NDA are slowly threatening to turn the AIDS situation into a full-blown health care catastrophe. This was expected from a government whose former health minister publicly proclaimed that the way to prevent AIDS is not protected sex, but to abstain until after marriage. That one statement undermined decades of work under various governments, to prevent the spread of the HIV epidemic.

Box 4.3: The Maternity Benefits Programme – Rehashing Old Schemes with Poor Design

In a bid to placate public furore post-demonetisation, Prime Minister Modi announced several social security sops that are essentially re-packaging of old schemes. The Maternity Benefits Programme (MBP) is one such scheme. It promises Rs. 6000 to all pregnant women who undergo institutional deliveries. It is a reiteration of the National Food Security Mission, 2013 under which universal maternity entitlement is already set at Rs. 6000. In fact, the enactment of the clause in the National Food Security Act, which mandates that not less than Rs. 6000 should be paid to all pregnant women, would mean a universalization of the scheme called Indira Gandhi Matritva Sahyog Yojana (IGMSY). The IGMSY is a flagship scheme under the Ministry of Women and Child Development that is currently running in 53 districts, and transfers Rs. 6000 to pregnant women in three conditional installments. To be eligible, the woman has to be above 19 years of age and benefits are limited to a woman's first two live births. Many women are left out of the scheme's coverage because of its guidelines. Therefore, it is imperative that the government should remove any conditionality attached to the scheme for its effectiveness.

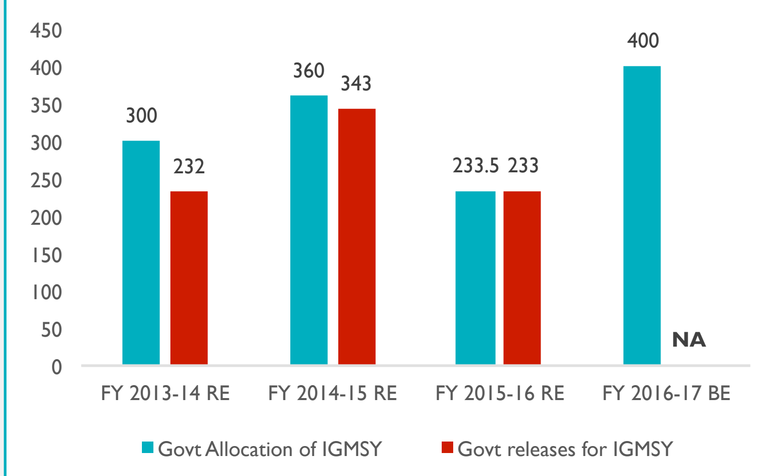
Indeed, the NFSA states that it is the right of every pregnant woman with or without conditions to get access to maternity entitlement. It is this framework that the MBP is currently diluting by implementing a policy that is ill designed in the following ways

♣ The first hurdle that MBP is likely to face is financial. The government anticipates the number of beneficiaries to be 5.17 million annually, but is unclear how this has been calculated. According to government data, as many as 7.5 million women received Janani Suraksha Yojna (JSY) benefits in 2015-16. The number of reported beneficiaries of the ICDS supplementary nutrition programme was estimated at 19.33 million. This suggests that the number of potential beneficiaries is higher than the current calculation. And in the absence of clarity on this 5.17 million number, the programme is likely to result in severe rationing, leading to large exclusion errors.

♣ Second, the conditions attached to the MBP are likely to create an unwieldy implementation structure that will create multiple bottlenecks along the way. Independent research has shown that funds that are transferred to beneficiary bank accounts are slow because of complicated paperwork associated with fulfilling the numerous conditions.

♣ Third, less than half of the pregnant women receive more than four antenatal care assessments or receive supplementary food during pregnancy. Less than a fourth report consuming iron-folic acid tablets. The MBP lays out no blueprint to target these most vulnerable groups.

Fig 4.8: IGMSY: Allocation vs Release



Source: Budget Document

♣ Many have argued that linking the cash transfer to institutional deliveries, in the absence of significant changes in the incentives of health workers, may not be the best strategy.

These problems can only be truly resolved by making the scheme universal. Estimates suggest that this would cost the government Rs16,000 crore a year, compared with the current estimate of Rs3,165 crore. Thus while the demonetisation sop is a unique opportunity for this government to take the maternity health agenda forward, getting the design right is critical.

litically charged nepotism through the insertion of proxy heads. These NDA appointees are considerably below standards of their respective peers. It is as

though carefully orchestrated 'surgical strikes' have been launched as smear campaigns against universities like JNU, HCU and Jadavpur, which have been vocal about their liberal political views, different from those of the BJP.

Skill India Mission

Reality vs. Targets

The Skill India Mission was launched as a flagship programme to create convergence across sectors and skill training activities.

In order to do this, the National Skill Development Mission would not only consolidate and coordinate skilling efforts, but also expedite decision-making across sectors to achieve skilling at scale with speed and standards.

However, the Pradhan Mantri Kaushal Vikas Yojana (PMKVY) has fallen short of outcomes. The target was to train 24 lakh people, of which 14 lakh were first timers. The remaining 10 lakh were to receive certification for Recognition of Prior Learning (RPL). Though 20lakhs out of 24 lakh were finally trained, an 18% deficiency in target rates is too large to ignore for a flagship scheme. It is also not clear how many of these trainees found jobs thereafter.

In 2016 alone, the National Skill Development Corporation (NSDC) aims to train 6.5 million people, nearly double the 3.5 million trained in 2015. At this rate, achieving the 110 million target would require training States in terms of

Table 4.3: Trends over time in Learning Outcomes for Arithmetic & Reading

Year	%Children in Std V who can do division	% Children in Std VIII who can do division	% Children in Std V who can read Std II level text	% Children in Std VIII who can read Std II level text
2012	20%	45%	42%	73%
2014	21%	40%	42%	72%
2016	21%	40%	42%	70%

Source: ASER 2016

Table 4.3: Trends over time in Learning Outcomes for Arithmetic & Reading

Year	%Children in Std V who can do division	% Children in Std VIII who can do division	% Children in Std V who can read Std II level text	% Children in Std VIII who can read Std II level text
2012	20%	45%	42%	73%
2014	21%	40%	42%	72%
2016	21%	40%	42%	70%

Source: ASER 2016

of 16 million people each year from 2016-2022, four times as many as trained in 2014. The targets of the scheme therefore seem unrealistic.

A Problem Solution Mismatch in Identifying the Importance of Early Education

According to Economic Survey for 2015-16,

• 25% of the manufacturing workforce has passed secondary school.

• 4% in agriculture has passed primary schooling.

• 52% of the population has only a 10th grade education or less.

With such a poorly educated population, it will take a lot to equip people with the skills they need for the kind of high-growth sector jobs Skill India talks about. There is a big mismatch. Skilling and education are not mutually exclusive. They have to sail together. Moreover, poor implementation of Skill India coupled with cuts to the education budget, the outlook for India's much-anticipated demographic dividend is quite bleak.

Do Skills Necessarily Translate Into Jobs?

There have been serious concerns that skilling people is not going the whole hog in an environment where economic growth has been criticised to be 'jobless growth'. A major cause for this can be attributed to increased automation in factories, as the data from the Annual Survey of Industry does indeed indicate a sharp decline in labour-intensive manufacturing since 1990-91. Skill India is thus critically dependent on creating jobs which is a huge challenge in the current economic condition.

According to the Labour Bureau, which has been surveying eight sectors of industry since 2009 (textiles/apparel, leather, metals, automobiles, gems and jewellery, transport, information technology/business process outsourcing and handloom/powerloom), the number of jobs created by these industries is declining: From 6,40,000 in 2009 to 1,17,000 in 2014.

The decline in the labour force participation rate should put an end to all the talk about the "demographic dividend" that was supposed to come from the rising share of the working-age group in total population, and the consequent decline in the ratio of dependents to earners. While the share of the young in the working-age population has indeed been rising, there's a decline in the share of the young who are part of the workforce. Hence, the dependency ratio has been rising instead of falling. Alas, there will be no demographic dividend unless the government can change the scenario.

Lack of Women Centric Policy

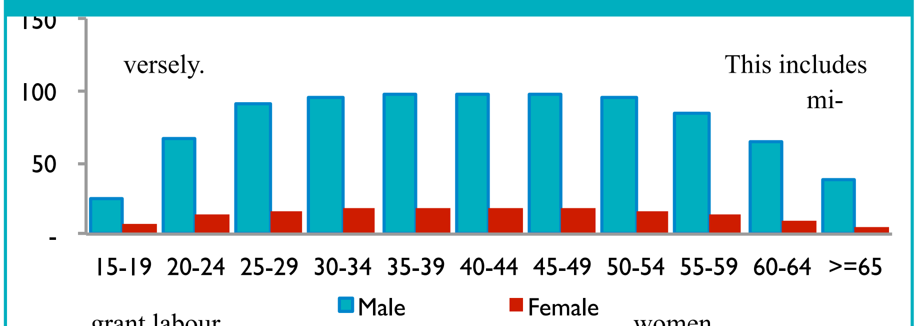
There is gross lack of attention towards women in the Skill India Policy. Women have been patronisingly relegated to sewing or tailoring courses, ignoring their larger potential to contribute in every sector. There need to be skilling policies that focus on building the economic potential of women. Women in India represent only 24 percent of the labour force that is engaged in any form of work in the market economy, compared to an average of 40 percent globally. This number is significantly behind most countries like China and even lags behind regions in Sub-Saharan Africa and Latin America. The Global Gender Report 2015 by the World Economic Forum ranked India at 139 out of 145 countries, with Syria, Pakistan, and Saudi Arabia ranking below it.

Achieving high rates of economic growth is a Herculean challenge without the active participation of half the eligible population. Therefore, it is all the more difficult for India to reap the benefit from the 'demographic dividend'.

Women Face a Larger Brunt of Decrease in Workforce Participation

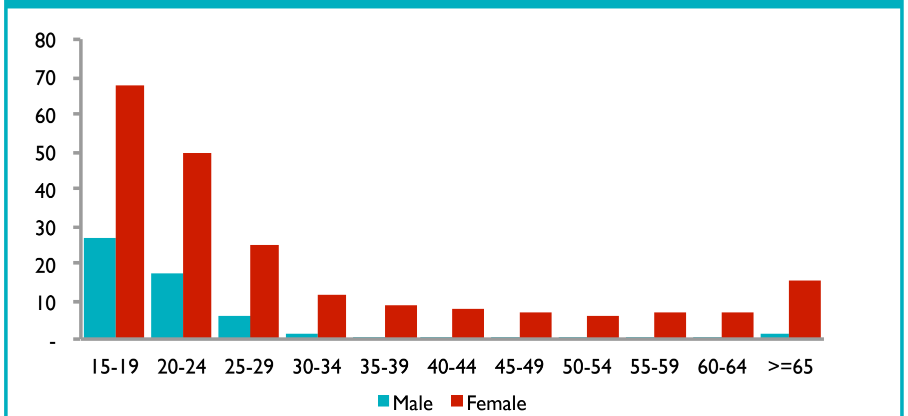
Adding further stress to an already weak female workforce is demonetisation that has affected the vulnerable segments of the labour force most adversely. This includes migrant labour, women, the young and

Fig 4.9: Labour Participation Rate (%) (LPR



Source: CMIE

Fig 4.10: Unemployment (%) UER



Source: CMIE

Table 4.4 : Women in Workforce

Labour Force	Jan - Apr 2016 mln	May - Aug 2016 mln	chg mln	chg %	Sep - Dec 2016 mln	chg mln	chg %
Male	372.3	375.24	2.94	0.8	380.37	5.14	1.4
Female	70.41	73.11	2.7	3.8	65.15	-7.95	-10.9
Total	442.71	448.34	5.6	1.3	445.53	-2.8	-0.6

Source: CMIE

the old. Women have borne a huge brunt of the September-December 2016 fall in labour participation. The data is a lot more stressful in this case. Although labour participation fell in September-December 2016,

male labour participation increased by 1.4 per cent compared to the May-August period. However, by the same comparison, female participation fell by 10.9 per cent.

Nearly 8 million women dropped out of the labour force during the last few months of 2016.

The CPHS surveys have shown the adverse labour market conditions faced by women. Although labour participation rate is much lower among women compared to men, the unemployment rate is much higher than among men. Even though fewer women seek employment (compared to men), they find it a lot more difficult to find jobs compared to men.

Sarva Shiksha Abhiyan (SSA)

On August 4, 2009, the Right to Education Act came into effect. The fundamental right makes elementary education an entitlement for children in the age group of 6-14 years. The legislation prepares a framework to ensure that children get quality education.

The RTE was welcomed as a 'historical' step forward for the Sarva Shiksha Abhiyan, aiming to provide a variety of interventions, ranging from universal access and retention, bridging gender and social category gaps in elementary education and improving the quality of learning. SSA interventions include among others, opening of new schools and alternate schooling facilities, construction of schools and additional classrooms, toilets and drinking water, provisioning for teachers, regular teacher in service training and academic resource support, free textbooks & uniforms and support for improving learning achievement levels. However, the government's commitment to the program is doubtful if one assesses it closely, as seen below:

Inadequate Budgetary Outlays

Sarva Shiksha Abhiyan, the government's primary mechanism for implementing RTE, accounts for 69% of the

total elementary education budget. Since 2014-15, the government has reduced the allocation in SSA from 24,380 crore in FY 2014-15 to 22,500 crore in FY 2016-17.

In 2015, GOI changed the fund-sharing ratio for Centrally Sponsored Schemes, including SSA. The revised ratios were communicated to state

governments only in October 2015. As a result of the delay in determining the fund ratio, both GOI and state governments were slow to release funds for the first two quarters of FY 2015-16. Seeing the slow disbursement of funds, advocates in this field have expressed concerns about the government's commitment towards SSA.

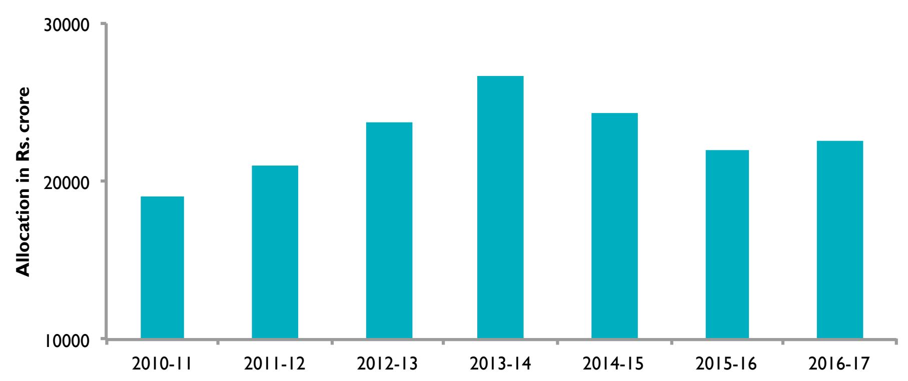
Drop in Enrolment

There was a significant drop in the enrolment of students from 2014 onwards, the enrolment numbers dropped from 132,428,440 to 129,122,784 between 2013 and 2016. Even after the launch of the Beti padhao, beti bachao policy in 2015, the percentage of girls' enrolment remained stagnant at 48.20%. Experts doubt its effectiveness in increasing female literacy and supplementing SSA. (Fig. 4.12)

Removal of the No Detention Policy

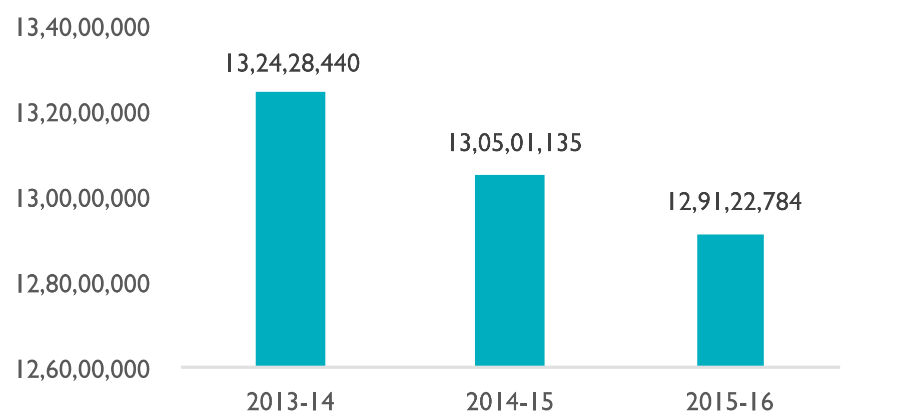
The reversal of UPA policy of No Detention until class 8, which implies getting held back an academic year or expelled, may lead to large number of drop outs from the school, thus defeating the very purpose of the RTE. Amar-

Fig 4.11: GoI Allocations for SSA



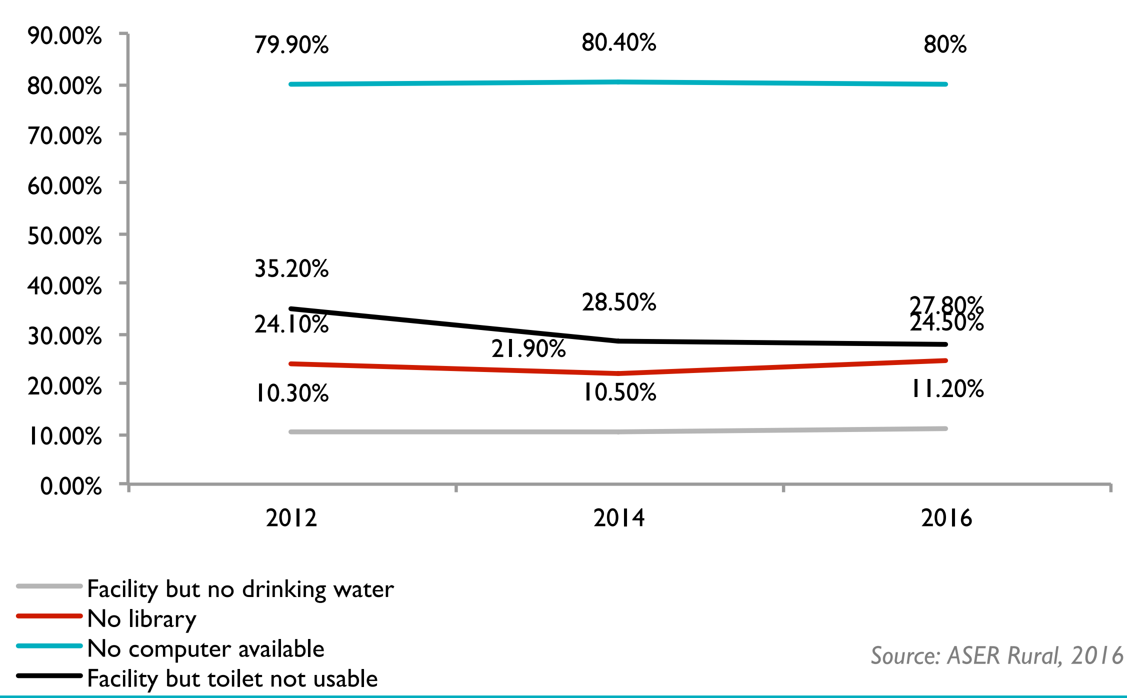
Source: Expenditure Budget

Fig 4.12: Drop in School Enrolment Rates



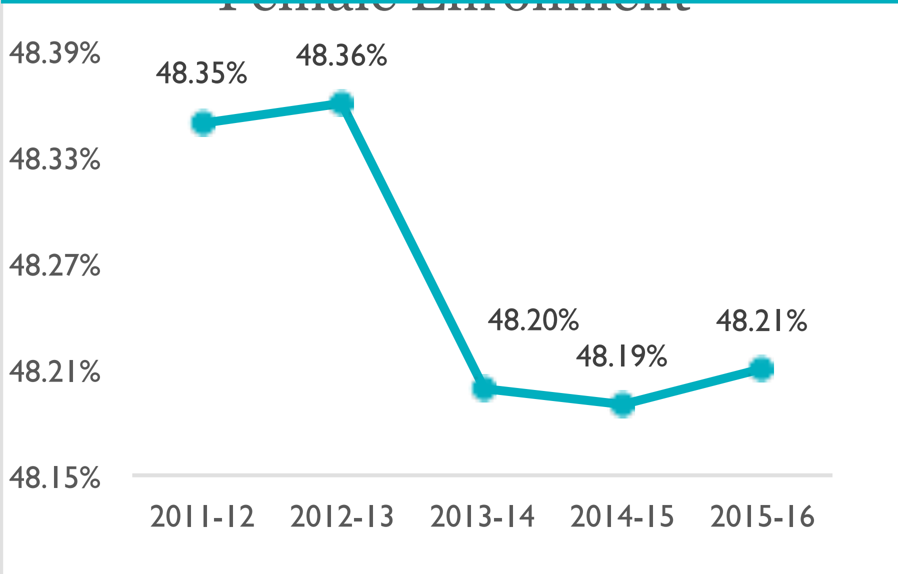
Source: Elementary Education in india DSIE, 2015-16

Fig 4.13: Infrastructure Capability in Govt. Schools



Source: ASER Rural, 2016

Fig 4:14: Female Enrolment



Source: Elementary Education in india DSIE,

tya Sen and Jean Dreze found that a large number of children, from marginalised sections, have left school after being detained, having found the school environment unfriendly and hostile. Children have dropped out due to traumatising experiences of physical punishment, social discrimination and other forms of discouragement effect such as alienating curriculum, inactive classrooms, and indifferent teachers. Surely, doing away with the provision of no-detention may hit hardest the children belonging to the poorest of the poor.

Poor Infrastructural Capabilities

In FY 2015-16, 23 per cent of schools surveyed by Accountability Initiative needed to build at least one classroom in order to meet the RTE norms. However, only 1 per cent schools received money from SSA during the financial year to construct new classrooms. While 9 per cent of schools required girls' toilets, approximately 1 per cent received a grant for building a girls' toilet in FY 2015-16. (Fig 4.13)

Lack of Focus on Learning in Policy Design

According to experts, the problem remains that the planning and budgetary process does not prioritise learning, by design. Programs that improve learning outcomes receive scanty funds. The 'innovation and enhancement learning program' received less than 1% of the SSA budget. In 2014-15, only 13% of funds requested for these innovations were approved. Meanwhile, 78% of the SSA budget was allocated to infrastructure and teacher salaries.

The UPA government focused on and delivered significantly on the goal of universalization of education. The 12th Five Year Plan first introduced the importance of learning outcomes as goal. . The attitude shift towards improving learning outcomes has received additional focus due to the ASER reports. While it is important for the Union Government to measure learning, the current fad seems to be the release of assessment and diagnostic tools centred around assessment without much clarity on how these tools will actually improve the learning process.

4.4 ASSESSING THE OVERALL FRAMEWORK OF SOCIAL JUSTICE

Despite the poor performance metrics outlined in the sectoral analysis, it is important understand how the concept of 'social justice' has weakened under this government. Social policy greatly affects structurally marginalised groups in society, as well as their ability to overcome the challenges and achieve social mobility.

Through the Lens of Gender – Women and the LGBTQ Community at Large

Education of the girl child, and crimes against women are among the issues faced by women. The government has sought to target these issues, through key schemes, namely Beti Bachao Beti Padhao, and the Nirbhaya Fund, that was put in place after the Delhi gang-rape of 2012.

Beti Bachao Beti Padhao – Can State Federalism Compensate for Lack of Spending by Centre?

The Beti Bachao Beti Padhao campaign has marked targets such as increasing enrolment at secondary level from 73% to 76%, reducing dropout rates at upper primary and secondary level, and reinvigorating School Management Committees to enhance access to education for girls. Despite noble aims to ensure girls are born, nurtured and educated without discrimination, the scheme is fraught with the challenges of crippling dependency on other schemes like the Sarva Shiksha Abhiyan (SSA) and Rashtriya Madhyamik Shiksha Abhiyan (RSMA) to make the initiative a success. Individually, it provides no blue print to tackle the critical points of failure in the existing schemes. Budgetary allocations have reduced for the schemes that it feeds off. Additionally, since the untying of State funds, child and women's rights activists opine their concern that every state may not equally prioritize the issue of girls' education and compensate for the reduced funding by the Union Government.

Nirbhaya Fund – Why Does the Money Still Lie in Coffers?

Violence against women has received national attention in the aftermath of Nirbhaya incident. Hence, in the budget of 2013, then Finance Minister P. Chidambaram announced a 'Nirbhaya Fund' for empowerment, safety and security of women. However, the current government has often been criticised for its slow pace of fund utilisation. From the 1000 crore amount that was credited to the fund's account in January 2014, only 200 crores had been sanctioned by 2015. This was for emergency SMS alert project and safety of women in public transport.

Other projects such as rehabilitation schemes under 'compensation for the victims of rape' and 'Domestic Violence against Women Act' have been cancelled in the Union Budget of 2015-16 due to non-utilization of allocations made in 2013. In February 2015, the scheme to create one-stop crisis centre in every district to provide legal, medical and psychological support to victims of sexual assault and domestic violence was also downsized by the Prime Minister's Office (PMO). It has approved construction of only one centre in every state to reduce the cost of the scheme from Rs. 244 crores to Rs. 18 crores.

Table 4.5: National Social Assistance Programme (NSAP)

YEAR	TYPE	FUNDS (IN CRORE)
2012-13	Actual expenditure	7824.8
2013-14	Actual expenditure	9046.3
2014-15	Actual expenditure	7083.68
2015-16	Budget expenditure	9000
2015-16	Revised expenditure	9074
2016-17	Budget Estimate	9500

Source: Expenditure Budget

Transgender Bill – Is Passing a Bill Ever Enough?

Despite the passing of the Transgender Persons (Protection of Rights) Bill by the Lok Sabha, the transgender community is not given the rights to self-determine their identity. This is by virtue of not attaining recognition from a diverse range of socio-cultural identities and lifestyles. The Bill also does away with the crucial caste component that
acknowledged that caste divisions within the transgender community further victimises an already vulnerable set of people. Specific ways for trans persons to seek justice in the case of discrimination, violence, abuse and a denial of rights has not been included in the Bill.
By excluding – either wilfully or out of ignorance – the ground realities and lived experiences of transgender persons, the TG 2016 Bill is perpetuating the very violence/discrimination it seeks to address, and has negated any progress that National Legal Services Authority(NALSA) or Tiruchi Siva achieved.

Through the Lens of Age – Senior Citizens

By 2050, around 20 per cent of the population of India will be old. There were 100.3 million senior citizens (60 and above) in 2011, which is 8.6 per cent of the population. In 2050, there will be 324 million elderly. While harping about the 'demographic dividend' from every platform, the government has cut our senior citizens a raw deal.

National Social Assistance Programme (NSAP)

Social pension amounts allocated by the Centre to families below poverty line are too small to act as a basic and regular source of income. These payments cover only half of eligible beneficiaries, and have not been increased in a decade.

In the middle of the financial year 2014-15, the government slashed social sector allocations. Pensions were the worst hit, with a reduction of 30%. The government had announced a budget estimate of Rs 10,546 crore for 2.3 crore beneficiaries in the financial year 2014-15. In January, the government slashed this to Rs 7,187 crore under the revised estimate leaving disadvantaged senior citizens high and dry.

Atal Pension Yojana (APY)

Almost the same trend is seen in the Atal Pension Yojana that was launched in 2015 and targets the unorganised sector. As of May 2015, only 11% of India's population had any kind of pension scheme. This scheme aimed to increase that number. However, the typical subscriber of the APY gets a return of 7.35%, or even 8.44%, (as in the APY), which compares poorly with the returns of the National Pension Scheme (NPS) funds. The average return since financial year (FY) 2010 on the government bond schemes of NPS is 9.09%, on the corporate bond schemes it is 10.65%, and on the equity funds it is 13.25%. An average return (of the three fund options) of 10.67% would give a saver a corpus of Rs.15.81 lakh, almost double of what s/he is currently getting. The idea behind the APY is to essentially siphon money off into annuities provided by insurance companies. Instead of transferring it directly to beneficiaries who can then earn from it a much higher interest than what the scheme promises. This is flawed since the beneficiaries of the scheme get the shorter end of the bargain, whilst the profits of private insurance corporations grow.

Through the Lens of Caste and Historical Subjugation – Dalits and Scheduled Tribes

Programmes Targeted at Scheduled Castes and Tribes

The directives of Jadhav Committee for implementation of Scheduled Caste Sub-Plan (SCSP) and Tribal Sub-Plan (TSP) which had been adopted by the UPA government in 2010 as a framework for planning, allocation and implementation of sub-plans, has met with changes in the budget processes. The Jadhav Committee had recommended 16.2% for SCSP and 8.6% for TSP out of the total planned allocations from the Union budget. However, despite clear instructions about the SCSP and TSP allocation and implementation given by the Jadhav guidelines, Ministries/Departments have not followed the directives in the previous budget formulations. There is a denial of equitable allocations because of which many of the schemes, which directly benefit SC's and ST's, are facing a fund crunch. SCSP-TSP allocations have been routinized, trivialised and converted into statistical-arithmetical 'post-facto accounting' exercise, which do not make any direct impact to bridge the development gap in the conditions of SC/STs.

Attitude towards Religious Minorities

The Minorities under this government have been pushed back to a time of greater discrimination, ostracism and violence. The Union Government's attitude towards the Minorities can be observed by looking at the data from two perspectives, namely: The Ministry of Minority Affairs' budgetary outlay and the existing social circumstances.

Increasing Instances of Crimes against Dalits

According to National Crime Records Bureau data, 47,064 cases of crimes against Dalits were registered last year (2014), up from 39,408 in 2013 and 33,655 in 2012. Media reports are rife with caste-based atrocities committed against Dalits. In Una, Gujarat, four Dalit youths, who were skinning a dead cow were thrashed with iron rods, chained to a car and dragged to a police station. The assaulters –members of the local Gau Rakshak Samiti – accused the Dalit youth of killing the cow for the purpose of selling beef. The gruesome incident was captured on video and widely circulated on social media. In Rajasthan, every day heinous crimes against Dalits are committed. Recent figures for Rajasthan, the state with the highest rate of atrocities committed against Dalits, indicate that this violence continues to rise. Between April 2015 and March 2016, 617 severe incidents were registered by the Centre for Dalit Rights (CDR) in Jaipur, the only organization in Rajasthan monitoring these atrocities.

Alarmingly, there has been no government response to all these reports of marginalised groups fighting for their democratic and constitutional rights. Instead there is an implicit silence that borders on turning a blind eye towards the Sangh Parivar appointed Gau Rakshak Samitis.

Through the Lens of Environmental Protection – Adivasis and Forest Dwelling Communities

Changes have been made to several regulations in a coordinated manner by the environment ministry, the tribal affairs ministry and the mines ministry over the period of three years gradually undermining of rights of tribals and forest dwelling communities.

Instances of these are many. Consider the Forest Survey of India, which submitted a report in August 2016 that had calculated based on the government's mandate for protection of forests, that over 40% of India's existing forest cover should be kept safe from mining of all sorts. The Union Ministry for environment, forests and climate change has, not yet acted upon the report.

More recently, The Union Ministry of environment, forests and climate change has constituted an 11-member committee to revamp the Indian Forest Act, 1927. Their recommendations included:

• It suggested that forests are to be made more productive and an attempt is to be made to resolve numerous problems with the forest governance laws.

• It contravened the Forest Rights Act and promoted the idea of permitting industry to use public forests.

• It recommended changes in laws that did not adhere to the policy and proposed a new administrative and legal regime that would hand back management control over tribal forests to the bureaucracy, which the FRA disallows.

Prime Minister Narendra Modi has regretted that the Compensatory Afforestation (CA) Bill could not be passed in the Budget session of Parliament. However, the former Union Minister for the Environment, Jairam Ramesh has asserted that the Bill did not respect the rights of people under the Forest Rights Act and gave unbridled control over thousands of crores to the forest bureaucracy. This disturbing trend has been wreaking havoc with lives of thousands of vulnerable groups dependent on forests for survival.

Through the Lens of Food Security

The National Food Security Act, 2013 (also Right to Food Act) aims to provide subsidised food grains to approximately two thirds of India's 1.2 billion people. It is the umbrella programme providing for the Midday Meal Scheme, Integrated Child Development Services scheme and the Public Distribution System. The NFSA faces three major challenges.

• The first challenge is to ensure the sustained availability of food grains with public authorities in the wake of the legal right guaranteed to entitled beneficiaries. But despite the record food grain production achieved, the lack of marketing and procurement infrastructure in Bihar, Madhya Pradesh and West Bengal has been a cause of distress to the small holding farming community. This issue of leakages has become even more relevant now as the National Food Security Act, 2013 (NFSA) has increased coverage under PDS to 75% of the rural population and 50% of the urban population.

• The second challenge is to eliminate leakage and corruption and ensure stringent monitoring under NFSA at the last mile distribution points (fair price shops) in states. The option of direct cash transfer to the bank accounts of the beneficiaries as a substitute for grain has often been suggested, as it would be less prone to leakages, provided there are no errors of inclusion and exclusion. However, such programmes should not be started without adequate preparation or when systems are not in place. The near-universal identification of beneficiaries is possible only if beneficiary lists and PDS are computerised. The all-India average for merging the bank account with Aadhaar card is only 60%, with less than 30% in states, such as Bihar, Assam, Tamil Nadu, etc.

• The third and long-term challenge is of qualitative improvement in food absorption, especially for women and children, by creating synergies between public health, sanitation, education and agricultural interventions. Creation of quality rural and urban infrastructure through community participation, under the above-converged programs, has to be achieved through effective public-private partnerships in states at the grassroots – a crippling failure that we have not seen thus far.

4.17 CONCLUSION

The prospects of social policy look bleak under Prime Minister Narendra Modi. Across crucial sectors like health and education, policies lack clear blueprints for how outlined goals will be achieved. These plans are also grossly underfunded. The Union Government's response to budget cuts across the social spectrum have come either in form of taking refuge under state federalism or increasingly looking towards options of privatisation of basic human rights. This report has described both of these as inadequate in creating tangible impact for the people of India, but neither is as disappointing as the precarious conditions (bordering on plain fear) under which the most vulnerable sections of our country live today. Vulnerable sections such as Dalits, women, senior citizens, religious minorities, and tribals are under systematic attack via policies that undermine their constitutional rights and a government (backed by the Sangh Parivar) that turns a blind eye to any violence against them. It is the need of the hour that the leadership acknowledges that inclusive growth cannot be achieved by paying lip service to empowerment while dissing the UPA's progressive social legislations as doles. We cannot build an India of the future without investing in our citizens.

Chapter 5

Taxation
An Indirect Attack on Poor People's Purses

The quantity and quality of tax revenues collected by the government are often true indicators of the robustness of an economy. India's tax-GDP ratio went from 6% in 1950 to 16% in 1990. Between 1990 and 2014, as India became rapidly wealthy with a five-fold increase in per capita GDP, the tax-GDP ratio actually remained stagnant between 15-17%.

Tax revenues since 2014 have grown at an average of 12.5% per annum. This is nothing extraordinary. The average tax revenue growth from 2009 to 2014 was 15%, despite the global financial crisis of 2008-09. Viewed in that context, the 12.5% growth in tax revenues is by no means robust.

Taxes are collected in two categories — direct taxes (tax on income and wealth) and indirect taxes (tax on products and services). Majority of direct taxes are levied by the Central government while States depend on indirect taxes such as sales tax for their revenues. A measure of the ratio of direct and indirect taxes of a nation is an indicator of the quality of tax revenues.

Direct taxes are considered progressive, typically impacting the wealthy elite and the earning middle class. Indirect taxes are regressive in nature and their marginal impact is much greater on the poor than the rich. India's direct-indirect tax ratio is 35:65, collecting twice as much in indirect taxes than in direct taxes. This is a sharply skewed structure, placing a greater relative burden on the poor. In the absence of a wealth tax and dividend tax, it is not surprising that India's direct taxes ratio to GDP at 5-6% is one of the lowest among large economies. India has a peculiar mix of low tax-GDP ratio, with larger collections through indirect taxes.

5.1 TAX REFORM: THE GOODS AND SERVICES TAX

The critical elements of an effective tax reform are that it should reduce the administration, compliance and distortion costs to the economy. The tax should have a broad base, low rates, fewer differentiated rates and should be simple and transparent. The GST addresses some of these criteria by creating a single unified market, and enhancing compliance by incentivising reporting and bringing more people into the tax pool. However, it has also come into some criticism for being yet another indirect tax filling the government's coffers with a high tax rate and with the money of the poor.

The multiplicity of rates in the proposed GST structure is clearly retrograde as it will increase the administrative complexities and compliance cost. Rather than moving towards neutrality, this reform will increase distortions. The fundamentals of sound taxation reform are being violated, as GST with a higher number of rates is one step forward and two steps backwards.

While the cess is supposed to be temporary, partly to fund the compensation to states for a period of five years, India's history suggests that it is difficult to get rid of cesses. If that turns out to be correct, it is difficult to see how GST will be the game-changer that it is supposed to be since overall tax rates in the country will remain high.

The arbitrary slab structure of varying values has met with harsh criticism from subject experts:

♣ The proposed tax rates of 6% and 26% are avoidable. The 6% rate seems to be due to the fact that almost 300 items are exempt in the Union excise duty and the government does not want to tax them at 12% suddenly. This will however, create a problem as the states are levying the VAT on some of these items at 5%. The Union government could have pruned its exemption list in the last budget itself so that they could have been taxed at the merit rate of 12% when the GST is levied.

♣ There is no rationale for having a super rate of 26% either. This comes from the recommendation of the Chief Economic Advisor's Committee which seems unsure of its calculations on revenue neutrality with 18% standard rate and provides an additional rate category. With consumer durables included in this category, it will create a lot of administrative and compliance problems.

♣ Since the basic principle of GST is to provide input tax credit, there is no reason for levying a lower rate. Taxing inputs at lower rates provides incentives to evade the tax on the final products by suppressing the value of output.

♣ The population question: The previous tax regime benefited states with large industrial bases, as excise duty was levied by the producing state. GST

Rate of tax

The GST Council recommended a rate structure for goods.

♣ 28% is the highest rate for luxury goods, sin or demerit goods, with an additional levy of cess of 12%, making the effective rate at 40%.

♣ 18% standard rate may also include goods increasingly used by common households.

♣ 12% is the standard concessional rate of tax.

♣ 5% rate includes goods of mass consumption such as essential commodities.

♣ Those with nil tax include about 50% goods in the consumer price index: food grains, essential medicines, fruits, vegetables

♣ No specific rate has been prescribed for services: the rate may increase to 18% from 15%.

will change that as it will
be levied at the point of consumption, and not production. Thus, prima facie, it will tilt the balance in favour of states with higher population and consumption, even if they do not have a large industrial base.

- ♣ Easy escape route: the Centre and states have decided to water down the penal provisions to ensure that a trader gets immediate bail if the alleged tax evasion is up to Rs 2 crore.

5.2 A CASE FOR A LOWER GST RATE

Indirect taxes are regressive and hurt the poor more. Further, India collects twice as much in indirect taxes than in direct taxes. Given these facts, a ceiling on GST can stop future state and central governments from resorting to lazy taxation by increasing GST rates incessantly to increase tax revenues. A lower rate can make governments prudent as they will be bound to improve their collection of progressive income taxes by both expanding the tax base and ending tax exemptions (such as long term capital gains) that accrue predominantly to the wealthy. Hence a ceiling on GST can help drive governments away from a reliance on unhealthy indirect taxes to healthier direct taxes and bring India in line with the standard global practices.

Tax as a government policy should not aggravate existing inequalities. The inability to raise the share of direct tax revenues from the wealthy and earning middle class cannot be an alibi for high rates of regressive indirect taxes to generate higher tax revenues.

5.3 EXPECTED IMPACT OF GST

There will be some teething problems of establishing and switching to the GST ecosystem. Further, most economies see a rise in prices immediately after implementing the GST. Experts predict there will be a temporary dip in growth because of increase in taxes on services, which account for 60 per cent of India's GDP. Headline retail inflation is also expected to go up by 20-70 basis points. This may cause a temporary downturn as customers may cut down on discretionary spending.

On the plus side, with uniform GST eliminating a host of taxes, seamless interstate trade will boost GDP. Capital goods prices will start to come down as firms start getting input credit for taxes. The system is also more likely to lead to a transparent system of tax collection as it continues to nudge the informal economy towards a more formal one.

5.4 Demonetisation in the Year of GST

Could one unplanned "game-changer" move end up seriously impairing another? Experts suggest that the Modi government's demonetisation move will affect the way the goods and services tax (GST) regime plays out. For example, small businesses are the most affected by demonetisation and they are also the ones who will have to make more adjustments for the GST regime.

"GST is best brought in when the economy is thriving; you don't create a compression and then implement it" says R Kavita Rao of the National Institute of Public Finance and Policy (NIPFP). The slowdown in the economy will mean lower state revenues, which then requires the centre to transfer more funds to states to ensure revenue neutrality. This was explained by West Bengal Finance Minister Amit Mitra: "Tsunami of demonetisation has led to everyone's compensation going up. Last December our tax collection grew by 11% and this year tax collection stood at a negative 2% due to demonetization."

5.5 Taxation Story: Excise Hides More Than It Reveals

Most nations in the OECD follow a rough 65:35 split between direct and indirect taxes, i.e. 65% of their tax revenues are from direct taxes. India's direct to indirect tax ratio for all tax revenues of the Centre and states combined is exactly the opposite of OECD nations - 35:65. Is there a desired balance between direct and indirect taxes for an economy?

According to the modern mainstream view, direct taxes -- such as income or wealth taxes -- function better both in terms of efficiency and equity,

Fig 5.1: Taxes

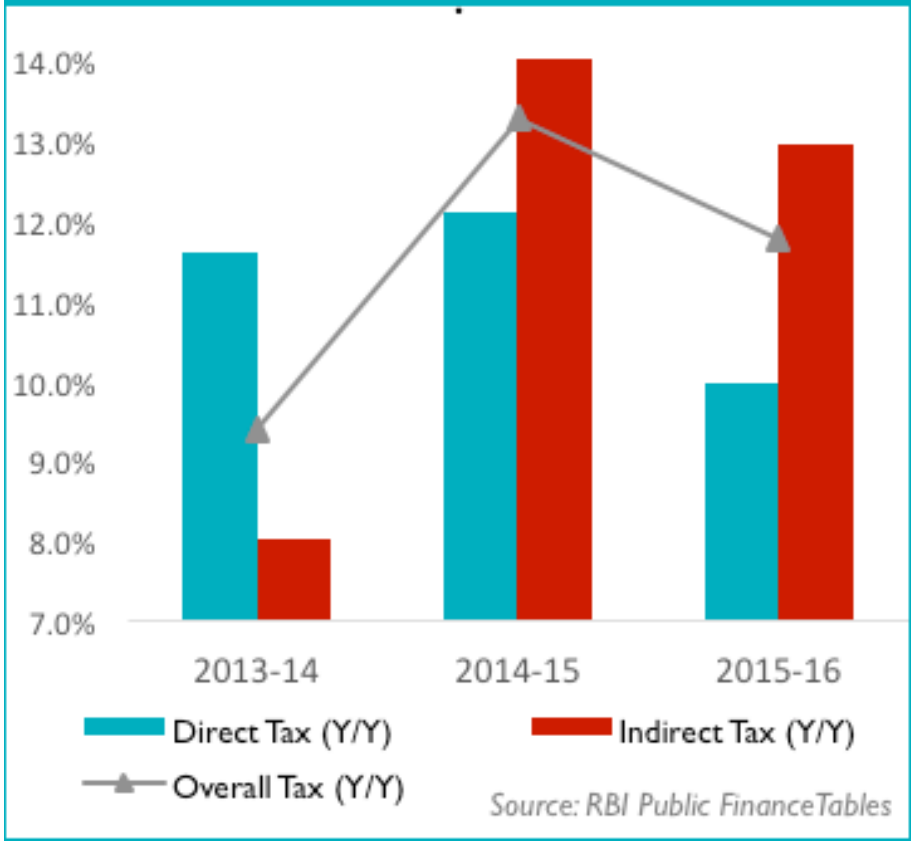


Fig 5.2: Taxes: Trend

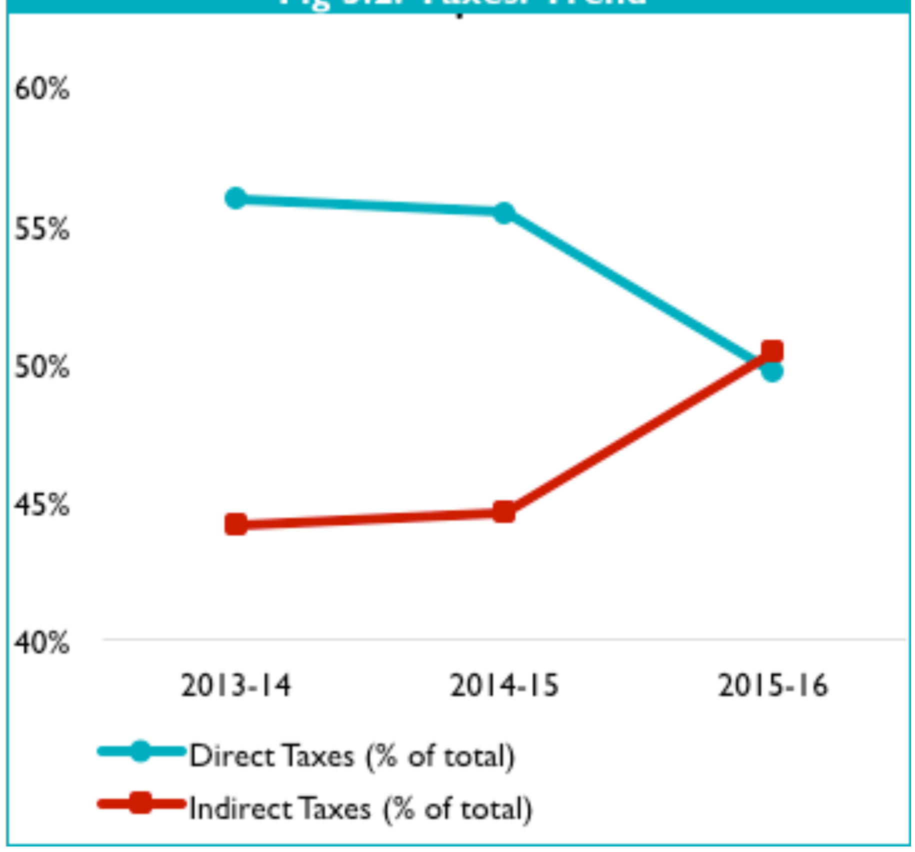
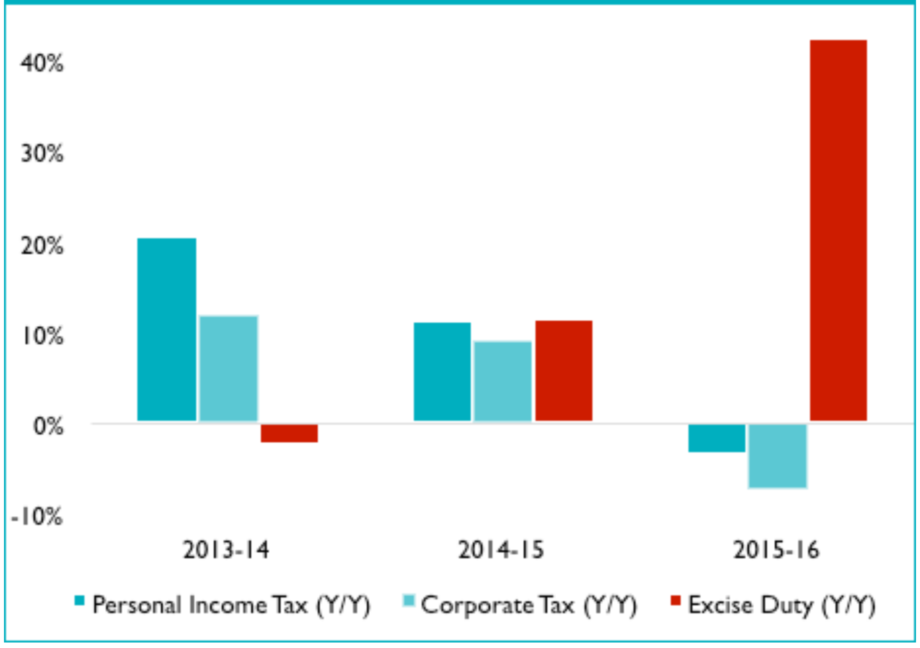


Fig 5.3: Various Taxes



while indirect taxes are inferior. An example of a "good" indirect tax is a single rate goods and services tax (GST) with no exemptions. Such a tax does not distort the economy's structure of production or consumption, as most indirect taxes, such as trade tariffs, do. The "worst" taxes are sector-specific excise taxes with high tax rates -- such as taxes on petroleum -- which are maximally distorting to the economy and maximally regressive.

It is perhaps only right to focus on the Union government's quality of tax revenues since the tax policies of States are outside the ambit of the Central government. In this context, of the tax revenues collected by the Union government, 55% are from direct taxes and 45% from indirect. Contrast this with the 35:65 ratio of overall tax revenues, since States only levy indirect taxes and not do not have the powers to levy direct taxes such as income taxes.

In the 1980s, direct taxes constituted only 20% of the Centre's tax revenues. This improved significantly to 60% by 2010. Unfortunately, since 2014, the Union government has once again reverted to regressive indirect taxes for growth in tax collections. In the last two years of the Modi government, indirect taxes of the Centre have grown faster than direct taxes, casting doubts over the quality of tax revenue growth.

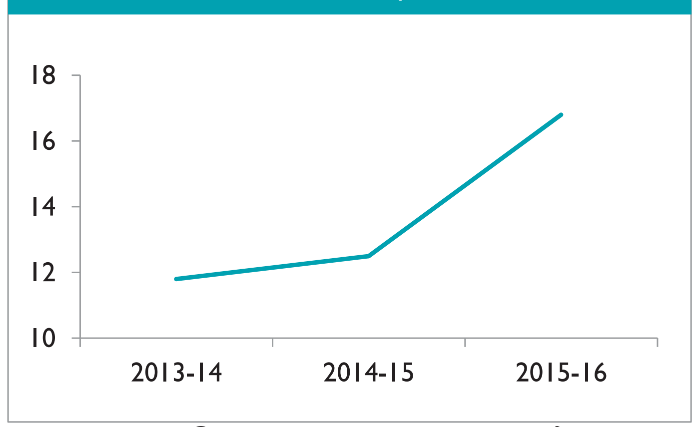
Consequent to this disproportionate growth in indirect taxes vis-à-vis direct taxes, the share of direct taxes in central government tax revenues has slipped while the share of indirect taxes has risen, which reflects poorly on the quality of tax revenue growth in the last two years.

Delving deeper into specific types of tax revenues, a robust increase in personal and corporate income tax is always healthy since it reflects growing incomes and wealth of the people. Since such taxes are progressive and the tax rates vary according to one's income levels, it does not punish the not-so-rich and has a calming influence on income inequality.

The worst forms of taxes are those that punish the rich and poor equally and risk exacerbating inequality, e.g., indirect taxes such as excise duties, service taxes and surcharges. Sadly, the Modi government has been excessively reliant on such unhealthy taxes such as excise while income tax revenues have been falling. Shockingly, for the year 2015-16, while personal and corporate income taxes fell reflecting lack of growth in corporate profits and personal incomes, the government raised tax revenues through excise duties, which showed a whopping 42% increase. This is the sad state of the economy.

Drilling down even further, it becomes clear that the primary

Fig 5.5: Excise & Duty on Petrol/Diesel (% of overall tax revenues)



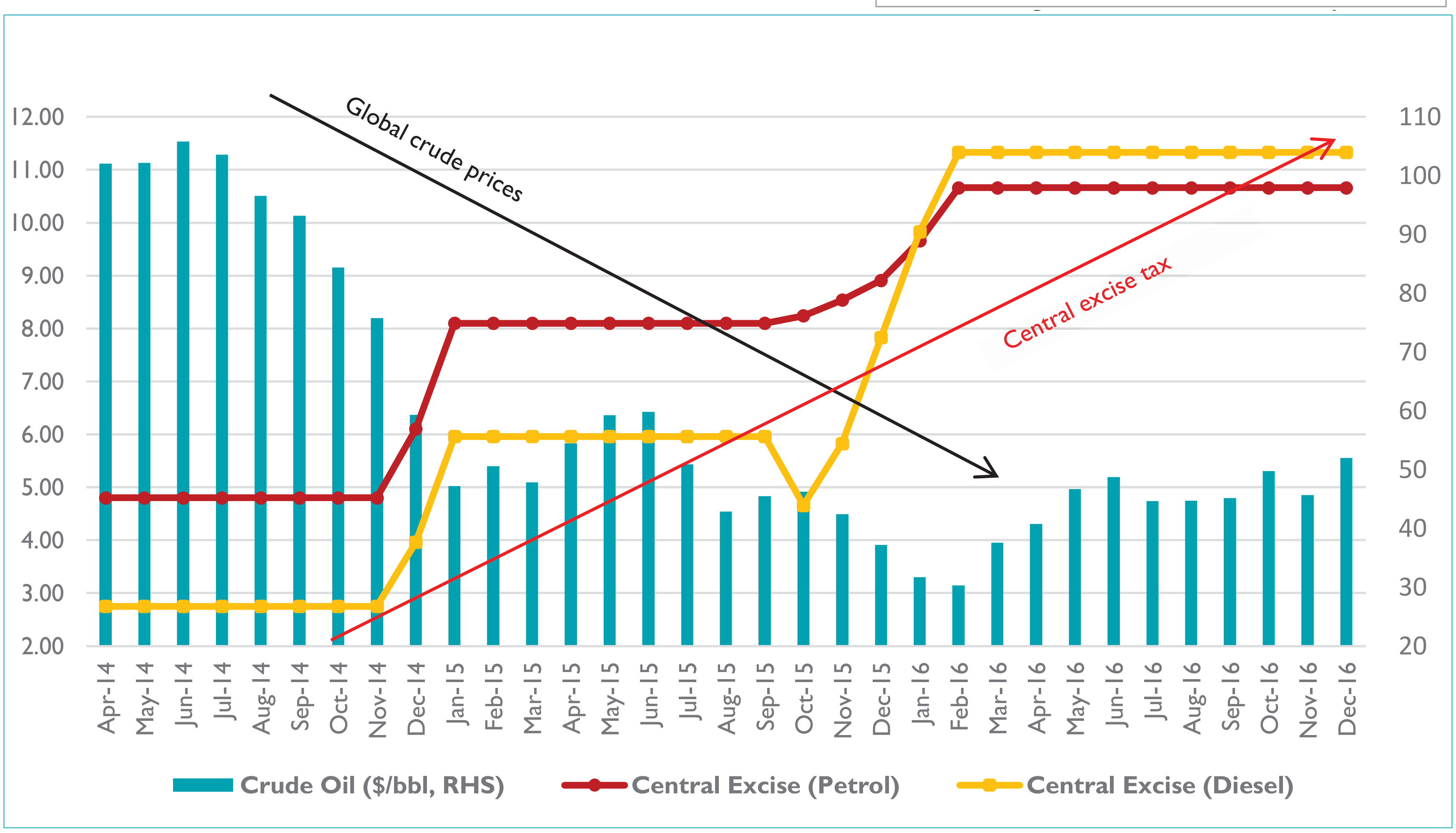


Table 5.1 Increased Contribution of Cesses to Central Revenues

	2014-15	2015-16	2016-17
Revenue from cess & surcharge	75,232 crore	1.26 lakh crore	1.55 lakh crore
% of Centre's total net revenue after devolution to states	8.32%	13.3%	14.7%

source of government tax revenues for the Modi government has been excise duties and surcharges on petroleum products. India is a net importer of oil which has a big impact on its fiscal situation. When the Modi government took office in May 2014, global oil prices hovered in the range of $100/barrel. Within two years, by May 2016, global crude oil prices had crashed to $30/barrel.

Oil prices have a tremendous trickle-down effect on India's economy, as India is a heavy oil dependent economy. This drop in global oil prices should have ideally yielded nearly $50-75 billion in annual savings for the Indian government, since India imports roughly 200 million metric tonnes of crude oil every year for the last two years.

Low oil prices should translate into low inflation, huge current account savings and a boost to the overall fiscal situation. With such healthy macroeconomic indicators, had lower oil prices been passed on to industry and consumers, it would have helped revive sagging private investment and consumer demand. Instead the Modi government chose to levy excise duties on petrol and diesel, denying pass through of such lower prices. Shockingly, the government increased excise duties on seven occasions over the last two years. Duties on petrol have doubled in the last two years while those on diesel have nearly tripled. Notwithstanding all the established wisdom of excise duties and surcharges being the most regressive form of taxation, the Modi government chose to rely precisely on such regressive measures to boost its tax revenues.

The ugly truth of India's tax revenues story is that a bewildering 43% of the increase in total tax revenues of the Union government in 2015-16 was from increase in excise duties and surcharges on petrol and diesel. These regressive taxes make up nearly a fifth of all tax revenues of the Union government. Thus the growth in India's revenues has been dependent on the benevolence of low oil prices, which India had very little influence over. One shudders to think what will happen to the Indian economy, should oil prices go back up to 2013 levels.

5.6 INDIA'S CESS POOL

A cess is usually an additional tax in India that is levied by the Central government to raise funds for a specific purpose. The revenue from a cess is not shared with the states but is instead retained by the centre. The government has frequently used this form of taxation as and when convenient, using it as a form of revenue it does not have to share. The Comptroller and Auditor General of India (CAG) has pointed out how there is inadequate transparency on the manner in which such money is spent.

More than Rs. 1.4 lakh crores have been collected by the central government under various cesses for purposes ranging from higher education to Swachh Bharat. Cesses go against the spirit of cooperative federalism as they are not shared with states. Further, many of these funds have not been utilized at all. The use of cesses reflects poorly on the government's macroeconomic management. It clearly signals that this is a government that uses non-preferred avenues to meet critical targets.

Type of cess	What is it	Impact
Krishi Kalyan Cess (KKC)	KKC of 0.5% was announced in the budget of 2016 and is levied on all taxable services in addition to the existing service tax of 14% and the Swachh Bharat cess of 0.5%.	The KKC has also had a negative impact on the "Make in India" and "Start up India" campaign as manufacturers paying KKC on procurement of their input services were not in a position to avail Cenvat credit for KKC. This became an additional burden on the goods manufactured, leading to an increase in their prices. The separate accounting codes, records and computation, followed by corresponding Cenvat provisions required to be maintained for KKC also went against the ease of doing business. The service sector is also facing higher costs to ensure compliance with KKC.
Infrastructure Cess	Levied on the production of vehicles, at the rate of 1% on small petrol, LPG, CNG (gas based) cars, 2.5% on Diesel Cars of certain capacity and 4% on other higher engine capacity vehicles and Sports Utility Vehicles (SUVs), for the purposes of financing infrastructure projects.	The automotive industry, which contributes 40% to the India's manufacturing GDP, has been experiencing growth challenges. The infrastructure cess came as a "dampener," negatively affecting demand and creating challenges for sustainable growth. This is going to be against the ambitious Automotive mission plan which aims to create 65 million jobs in next 10 years. Companies like Hyundai India and Honda Cars India Limited have increased prices by Rs. 3,000 to Rs. 80,000 on the different models produced to balance the cost of paying the cess and selling their vehicles.
Clean Environment Cess	Clean Energy cess on coal, lignite and peat has been renamed the Clean Environment Cess and has been raised from Rs 200 per tonne to Rs 400.	Has led to an increase in the cost of electricity and put pressure on the bottom line steel and cement makers. The cess has led to an estimated increase in the cost of electricity generation by 10-12 paise a unit for utilities using G11 to G13 grade coal. After the latest round of increase, taxes constitute nearly 51% of the ex-mine price of domestic coal. According to the Coal Consumers' Association of India, the spiraling of taxes and duties on coal over the last two years has left a negative impact on consumer industries
Garib Kalyan Cess	The Scheme allows previously unaccounted income to be taxed at approximately 75%, of which 25% is held for four years under the Pradhan Mantri Garib Kalyan Deposit scheme.	Possibilities of misuse: Illicit use of the accounts of small businessmen and housewives since the accounts of such persons will not be investigated on deposits of up to Rs. 2.5 lakh being made. Tipping off of tax officials to conduct search-and-seizure operations on one's own premises to avail of the provision which necessitates the payment of only 10% penalty on such income. No provisions for inquiring into the source of such previously undeclared funds would prove to be ineffective in curbing black money.
Swachh Bharat Cess	Cess of 0.5% termed the Swachh Bharat Cess (SBC), to be levied on all taxable services.	Taxpayer will not be liable to avail of the Cenvat credit by paying this cess, leading to an increase in costs for both service providers and manufacturers. It would also trigger a cascading effect in the form of increased tax burdens on the end customers. For a few service providers such as life insurers and air travel agents, service tax would be calculated using alternate tax rates. The service tax on restaurant bills will go up from 5.6% to % 5.8% following the levy of the Swachh Bharat Cess. Further, exporters of goods and services will not be entitled for refund of the Swachh Bharat Cess. The main aim of the GST is to merge different state as well as central taxes into one single taxation system to curb the cascading effect of taxes. However, the Swachh Bharat Cess nullifies input credit, thus paving way for the same.

Chapter 6

The Choked Subsidy Delivery Pipeline

After the Bharatiya Janata Party came to power in 2014 it made extravagant claims about transforming the welfare system and reforming the subsidy delivery mechanism. Its focus was going to be on the direct benefit transfer (DBT) of subsidies utilising the JAM (Jan Dhan, Aadhaar, Mobile) trinity. In this chapter we examine the performance of the government's efforts to reform the architecture of subsidies and point out falsehoods in the government's claims and identify problems that the government must resolve.

6.1 DIRECT BENEFIT TRANSFER

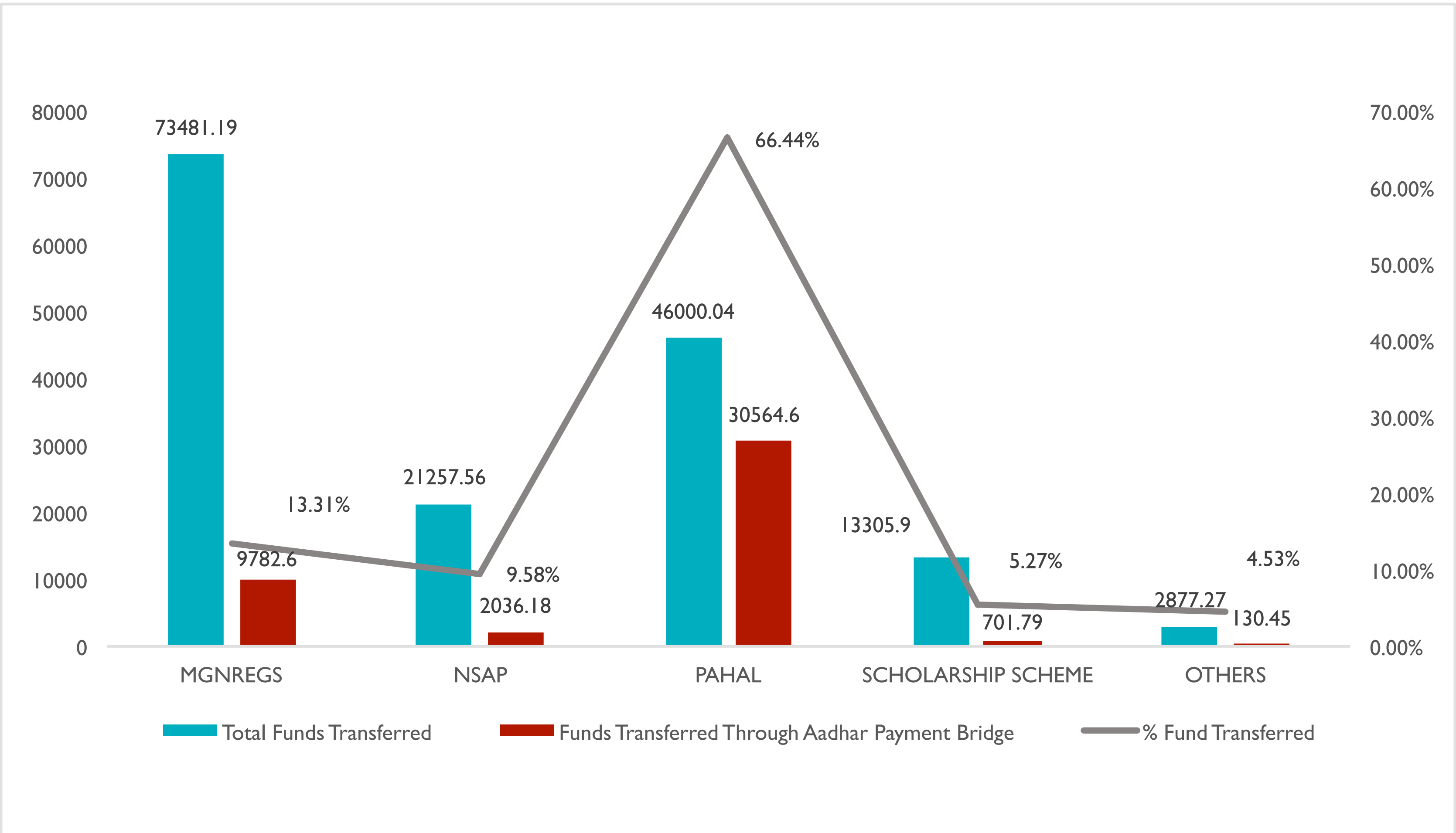
The government has not been able to make significant progress toward achieving its own targets for DBT. Against the targets set in 2014, to cover 536 schemes across 65 ministries and departments, by December 2016, DBT was being used in only 74 schemes across 17 ministries and departments. Moreover, the pace of money transfers through DBT has slowed down. By December 2016, only 45% of the 2016-17 Government of India (GoI) allocation for Liquefied Petroleum Gas (LPG) subsidies and 62% for the National Social Assistance Program were transferred through DBT.

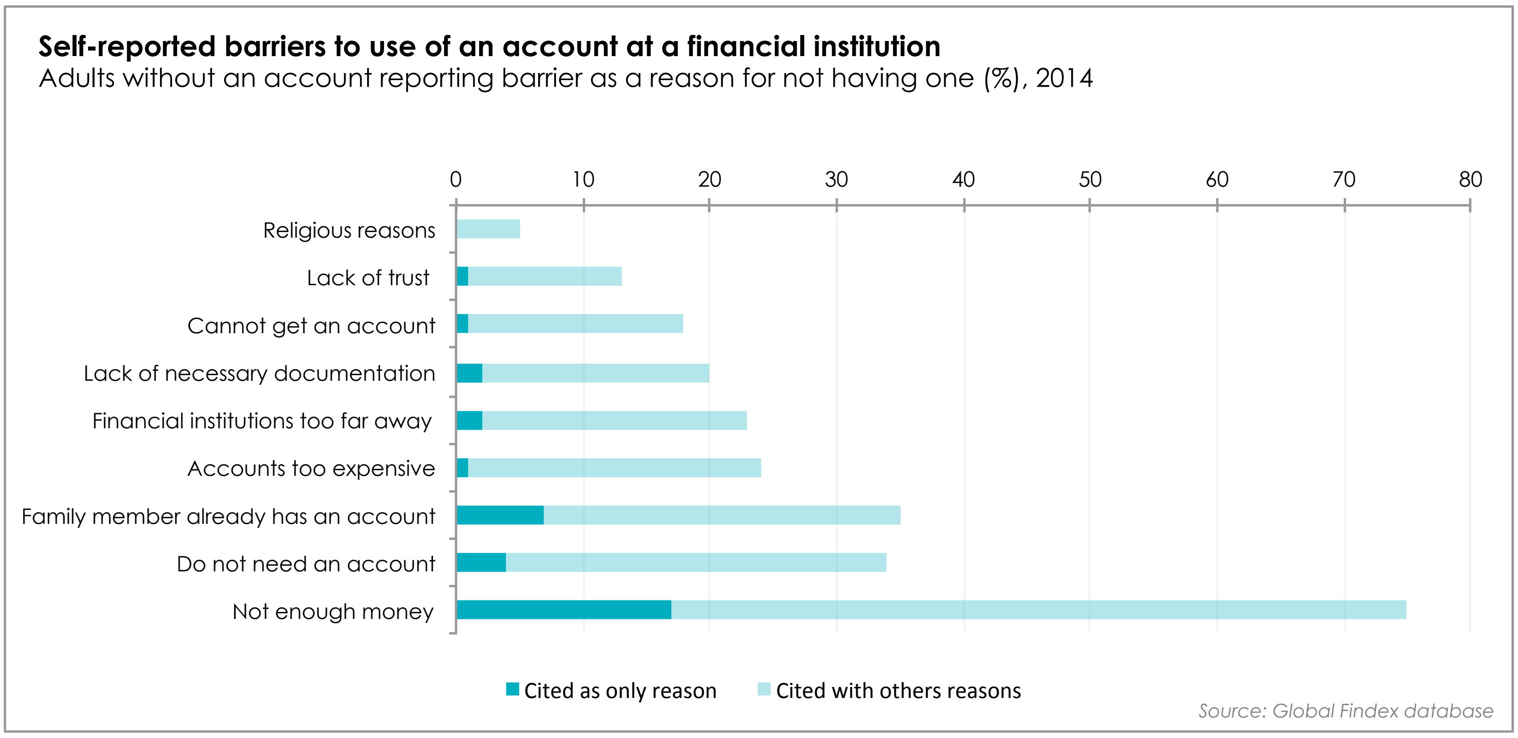
The government introduced the "Pratyaksh Hanstantrit Labh Yojana" (PAHAL (Direct Benefit Transfer for LPG Scheme) for transferring the subsidy on LPG directly to the consumers on 15 November 2014 in 54 districts (1st Phase) and in the remaining 622 districts on 1 January 2015 (2nd phase). The government began paying subsidy directly into bank accounts of cooking gas consumers in select districts from November 2014 and in the rest of the country from January 1, 2015.

The government has gone all out to take credit for plugging leakages in the distribution of subsidized LPG through the use of DBT. It has exulted over saving Rs. 21,552 crores in LPG subsidies over two years because of its use of DBT. However, a study by the Comptroller and Auditor General of India (CAG) concludes that only Rs 1,764 crore of savings in LPG subsidy can be attributed to DBT. The bulk of the savings was due to the sharp fall in global oil prices. "The actual subsidy pay-out during the period from April 2015 to December 2015 was Rs 12,084.24 crore as against Rs 35,400.46 crore during April 2014 to December 2014. The significant reduction of Rs 23,316 crore in subsidy pay-out was on account of the combined effect of decrease in off take of subsidized cylinders by consumers and lower subsidy rates arising from the sharp fall in crude prices in 2015-16."

The sluggish pace of seeding bank accounts with the Aadhaar number of recipients has also slowed down the progress of rolling out DBT.

However, the biggest problem in reforming subsidy delivery has been the faulty design and implementation of the Pradhan Mantri Jan Dhan Yojana (PMJDY) which is critical for the success of DBT.





6.2 PRADHAN MANTRI JAN DHAN YOJANA

The PMJDY was launched with much fanfare and pitched as a new initiative to ensure financial inclusion. While the objectives are noble, they are not new, in contrast to the government's publicity blitzkrieg. It appears to have been implemented with the sole mission to break records, without incorporating mistakes from the past, thus leading it to being marred by inconsistencies which have blunted its efficacy.

Opening Accounts without Adequate Infrastructure

Existence of physical infrastructure becomes crucial to achieve the objective of financial inclusion. A global survey shows that apart from problems with documentation and cost of maintaining accounts, absence of financial institutions in the near vicinity is a prime reason for financial exclusion.

The UPA Government focused on enhancing infrastructure by creating conditions and guidelines for banks to open bank branches in unbanked regions. The Reserve Bank of India has encouraged the setting up of specialised banks like the small finance banks and payment banks to facilitate financial inclusion. These have helped create the enabling environment for addressing access to formal institutions at the client level. Once such banking infrastructure is in place, programmes like PMJDY can be pushed in mission mode.

Extending Swabhimaan to PMJDY

In 2011, the UPA government launched Swabhimaan, mandating banks to open an outlet in every village with a population of over 2,000 by March 2012, and to utilize banking correspondents to reach out to neighbouring villages. It mandated that 25% of the branches opened during a financial year had to be in unbanked rural areas. The plan led to banks opening outlets in nearly 99.7 per cent of the target villages. This policy focused on the physical infrastructure and touch points.

The PMJDY took the UPA government's Swabhimaan approach to the next level by focusing on ensuring that every individual gets a bank account. The PMJDY set targets and embarked on its agenda on a mission mode with real time monitoring (and launched a media blitzkrieg to highlight its achievements).

The PMJDY rested on six pillars and was to be rolled out in two phases. The six pillars were:

• Universal access to banking services

o Each district to have a sub-service area covering 1,000 to 1,500 households

o Banking service to be available within a reasonable distance of about 5 kilometre radius.

• Providing basic banking accounts with overdraft facilities and a Ru-Pay debit card

• Financial Literacy Programme

• Creation of a Credit Guarantee Fund

• Providing Micro insurance

• Providing unorganised sector pension scheme

PMJDY: A Slow Start in Phase 1

PMJDY expanded its rollout based on the existing infrastructure already created by the Swabhimaan programme. It paid some attention to ultra-small branches as a last-mile touch point and left the rest for the banking system to take care of. The trajectory for the latter had been laid out by the RBI: Villages having more than 1,000 population were to be provided banking outlets.

Phase I of the PMJDY was not very successful. Despite the opening of accounts, the presence of a large number of zero balance accounts raised questions about their usage. About 84.5 million accounts of a total of 125.5 million new accounts opened (67%), had zero balance.

Problems in the PMJDY Approach - Excluding the Poor Man's Banks

PMJDY has failed to leverage and appreciate the opportunities already available. This is exhibited by its ignoring the potential of regional rural banks (RRBs). While RRBs represent around 31% of the rural branch net

Table 6.1: PMJDY performance in Phase I

Bank Category	Rural (millions)	Urban (millions)	A/Cs Opened (millions)	No of Rupay Cards (millions)	Balance (Amt in Billions)	A/Cs With '0' Balance (millions)	Average Balance per active A/C (Rs)
Public Sector Banks	53.3	45.1	98.4	91.2	81.74	65.5	2,484
Percentage share	71%	89%	78%	82%	78%	78%	
RRBs	18.5	3.3	21.8	15	15.99	15.9	2,733
Percentage share	25%	7%	17%	14%	15%	19%	
Private Banks	3.2	2	5.2	4.6	7.25	3	3,237
Percentage shares	4%	4%	4%	4%	7%	4%	
Grand Total	75	50.5	125.5	110.8	104.99	84.5	2,561

Source: PMJDY performance report, Phase I

Table 6.2: Pradhan Mantri Jan Dhan Yojana (Accounts Opened as on 11.01.2017)

Bank Name	Rural	Urban	Total	No of Rupay Cards	Balance in Accounts	% of Zero-Balance AC'S
RRB's	3.88	0.61	4.5	3.36	12747.93	20.66
% Share	23.92	5.83	16.87			
Total	16.22	10.46	26.68	21	69027.17	24.6

All Figures in Crores *Source: PMJDY Performance Report, Phase I*

Table 6.3: Banking Infrastructure- RRB's

	RRBs	Total
ATMs	1000	1,99,000
Number of branches	21,000	1,34,000

Source: NPCI data as of June 2016

work, their contribution to opening the PMJDY accounts was a meagre 23.92 %. The contribution of RRBs becomes even more insignificant if we take the data for all accounts (rural and urban combined) as a proportion of total PMJDY accounts.

Despite the immense penetration of postal network and co-operative system, and the fact that the majority of rural population relies on these networks for their banking requirements, the rollout of PMJDY was bank led. Even in the scheme of withdrawal of specified bank notes post demonetisation, the people's institution – cooperatives – were left out as the programme was centred around commercial banks.

Ru-Pay cards was an additional feture of the PMJDY. It too remained a commercial bank-centric feature. RRBs could have been integral to success of this program after having completed their integration with the core banking system but they lacked the required infrastructure for ATMs and the card acceptance network. Further, the absence of sufficient branch infrastructure has limited their abilities to activate the RuPay cards and has limited the options for card usage.

Usage of Ru-Pay cards were incentivised by the insurance cover of Rs. 100,000 for the card holder, if the card was swiped at least once in 90 days. This incentive proved futile as customers in rural areas could not avail of the facilities due to insufficient infrastructure of ATM and PoS devices. Only 78% of the PMJDY accounts were issued Ru-Pay cards and since a substantial number were zero balance accounts, the cards were rendered useless.

Enrollment Strategy- Encouraging Duplication

Swabhimaan led to the opening of Basic Savings Bank Deposit (BSBD) as a means to include the unbanked populace into the institutional banking system. PMJDY renamed these existing accounts while adding some new features such as debit card, overdraft facilities and insurance cover. However, the scheme was publicised as a new scheme leading people to open new accounts despite already having a BSBD accounts, thereby leading to duplication. It was estimated that among the first 50 million accounts that were opened 20% of the accounts were not exclusive accounts.

Direct benefit transfer of LPG (DBTL) required seeding of Aadhar numbers with the bank accounts. There was a directive that accounts under PMJDY be opened "even if the household already has a bank account", particularly if the PMJDY account for the household was in the name other than that of LPG subscriber. Since the PMJDY tried to use household as a unit of analysis, this initiative resulted in multiple accounts in a single household. A study by MicroSave indicated that 33% of the accounts opened under PMJDY belonged to people who already had a BSBD account and 31% of such customers actively use their alternate account. Moreover, Government failed to dispel misconceptions that PMJDY account is a must to avail of government benefits or the false expectation of receiving free money (overdraft) in bank accounts.

Table 6.4 Reasons behind Multiple Accounts		
1	To receive benefits under PMJDY scheme	84%
2	Everyone else in the village was opening PMJDY account, so followed suit	8%
3	Forced by bank official to open account	4%
4	In expectation of receiving overdraft money in my account	3%
5	Others	1%

Source: (PMJDY) WAVE III Assessment by Manoj Sharma, Anurodh Giri and Sakshi Chadha

PMJDY's sole focus on opening new accounts overlooked the need to increase their usage or keep them functional. About 25% of all the accounts are still zero balance accounts. As per the MicroSave study," there is a decrease in bank account dormancy from 43% in 2014 to 28% in 2015, owing to increased direct subsidy transfers (government social security payments) to PMJDY accounts under various government schemes. Such high levels of customer dor-

Closure of 4 million PMJDY Accounts amid the Demonetisation Chaos

PMJDY account came as a saviour after demonetisation to make the economy less dependent on cash. However, there has been a bizarre development wherein over four million PMJDY accounts, have been closed (including both private and public sector banks) and the authorities have failed to explain this. Between Nov. 30 and Dec. 28, 2016, some 4,567,107 such accounts were closed across five banks; as per the PMJDY data shows.

Table 6.5: Closure of 4 Million PMJDY Accounts due to Demonetisation

Bank	Nov-16	Dec-16	Difference
UCO Bank	76,53,413	54,37,436	-22,15,977
Canara Bank	77,69,692	62,45,707	-15,23,985
State Bank of India (RRB*)	79,04,265	72,82,588	-6,21,677
Axis Bank	6,36,287	4,93,032	-1,43,255
J&K Bank	12,63,395	12,01,182	-62,213

mancy can be attributed to reasons such as lack of customer awareness (misconception that PMJDY account is a must to avail any government benefits), customer's intent not to miss the PMJDY bandwagon, and false expectation of receiving free

Ru-Pay Cards

Government has failed to make RuPay cards an effective vehicle of the financial inclusion architecture. This has disastrous consequences in the frenzy to push towards a cashless economy. As of November 2016, 300 million Ru-Pay cards were issued, of which 195 million were associated with PMJDY accounts. This forms 65% of the cards issued and it can be assumed that most of them were issued to first time users. As argued above, a large portion of the PMJDY cards are dormant. The MicroSave study found that 80% of the customers rated Bank Mitras (banking correspondents) as their first preference for conducting transactions, as against ATMs and bank branches. The risks and failures associated with using a RuPay card also demotivates PMJDY customers from keeping their RuPay card active.

"Fixing" Zero Balance Accounts

An unfortunate development has been highlighted by a report in the Indian Express where it was found that the bank officials were found depositing token amounts of Re 1-5 to decrease the count of zero balance accounts. The report said that in "the case of Punjab National Bank, which has opened 1.36 crore Jan Dhan accounts of which 39.57 lakh (almost 29%) are those with deposits of Re 1. There's also UCO Bank with 74.6 lakh Jan Dhan accounts of which 11.06 lakh (14.83 per cent) have deposits of Re 1."

The Government has "not ordered any enquiry against any bank" in cases of banks depositing Re 1 in large number of Jan-Dhan accounts without knowledge of the account holder. This perpetuates the behaviour of tampering with the bank accounts, the worst of which was seen during the demonetisation.

The Drought of Overdraft

Overdraft (OD) facility was sold as a big incentive for opening the PMJDY accounts. In fact, as the MicroSave study shows, it was instrumental in forcing people to open new accounts despite already existing accounts. The OD facility was envisaged as an exigency fund for the borrowers who were mostly the poor segment. However, the scheme has failed to achieve its objectives. Only 3.19% were offered an OD facility and 0.93 per cent of PMJDY account holders availed the facility. Low offtake of OD facility is either due to their low usage or the problems related to Aadhar seeding. Either way, it indicates the failure of the scheme to achieve inclusion in its true sense. Even with the small number of accounts that have availed the OD facility, the average borrowing is only around Rs.1,320 per account as against the offered Rs. 5,000 with the PMJDY scheme.

Closure of 4 million PMJDY accounts amid the Demonetisation chaos

Insufficient Aadhar linkage

The government is counting on Aadhar as the vehicle of financial inclusion. However, the progress has been dismal with only 57.6 % PMJDY accounts having been Aadhar seeded till now. With the government practically making Aadhar compulsory for subsidy and welfare schemes in an incremental manner, this raises serious possibilities of exclusion.

The number of beneficiaries under DBT schemes stood at 32.59 crore in December out of which 25.43 crore accounts were Aadhar-linked. While the Aadhar linkage is with 78% of the DBT accounts, only 29.78% of the payments happened using the Aadhar bridge, indicating that there is much ground to be covered.

6.12 Conclusion

The PMJDY is the critical pipeline required for DBT to be more effective. However, while striving to aggressively achieve the targets of opening bank accounts in the small window of August 2014 to January 2015, the PMJDY ignored already existing infrastructure which could have better helped it achieve its goals. Further, its inept implementation led to the duplication of accounts. The government's sole focus on creating records – e.g., opening of the largest number of accounts on a single day – ensured that it lost an opportunity to meaningfully achieve the agenda of financial inclusion. The design flaws of PMJDY were still being corrected when the government unleashed the shock of demonetisation, adding to the challenges faced by account holders and making a tough situation even worse.

Table 6.6: Report on OVERDRAFT (Sanctioned/Disbursed) under PMJDY - December 2016

Total number of PMJDY accounts	262019458
Total number of accounts offered OD	8356281
Total number of accounts that availed OD	2425075
Percentage of accounts offered OD	3.19%
Percentage of accounts that availed OD	0.93%
Average borrowing among those who availed OD	Rs. 1320

Source: PMJDY Database

CHAPTER 07

Exploring Universal Basic Income

The Political Economic Context

In the wake of demonetisation, the Indian economy is experiencing a slowdown and the poor and vulnerable have been the most affected. Migrant workers earning daily wages have had to return paisa-less to their villages and the millions of voiceless who toil in India's vast informal sector have suffered welfare shocks and loss in income. Every percentage point lost in economic growth due to demonetisation translates to millions of jobs that will not be created. It is in this context that the idea of Universal Basic Income (UBI) emerged within Indian public policy discourse. An uncharitable reaction to the floating of the UBI idea would be that it is aimed at distracting those suffering from demonetisation's devastation while offering a petty bribe to the rest of India.

A more charitable reading would suggest that welfare policies are always worth reviewing. The search for better and more effective ways to achieve our policy goals must be an ongoing project. As technologies for welfare delivery improve, it is imperative to examine whether India'ssocial safety net can be strengthened in newer ways.

Today, a large proportion of Indians are included in the financial system through Jan Dhan accounts, Aadharand Mobile telephony. This JAM trinity has opened newer pipelines for welfare delivery. The UPA government initiated the exploration of Direct Benefit Transfer which has been experimented with to some degree, e.g., to deliver LPG subsidies. In this context, it is worth exploring UBI as an alternative approach to addressing the goal of eliminating poverty in India. (In contrast, in the prosperous West, UBI is being offered as a remedy to address growing joblessness triggered by automation).

Problems with Existing Anti-Poverty Programmes

The problems with anti-poverty programmes that involve direct provision of goods or services by the government (e.g., government schools, hospitals), subsidies (e.g., food, fertilizer, fuel) or direct transfer of money targeted at a particular group (e.g.,National Old Age Pension Scheme, National Family Benefit Scheme, National Maternity Benefit Scheme) are:

First, there is the problem of eligibility. Often, those who should not be getting a benefit, get it (inclusion errors), while those who should be getting it, don´t get it (exclusion errors).

Second, there is the problem of leakage, wastage, and corruption in the delivery process.

Third, even if the implementation process were faultless so that the first two problems were absent, administering these programmes uses up considerable manpower and resources.

Fourth, some of these schemes involve subsidies which distort resource allocation. For example, water and electricity subsidies can result in environmental damage and supply-side problems (falling water tables and power blackouts). Moreover, they benefit the non-poor relatively more, since they consume more of the relevant good or the service. For example, power subsidies favour those who have access to electricity and among them, those who consume more power.

Finally, leaving aside the problems on the delivery side listed above, there is also the basic issue with subsidies or in-kind transfers – they do not leave the decision to the recipients as to what their specific needs are.

The Case for UBI

UBI involves an unconditional and uniform cash transfer from the government to every adult, rich or poor. As a concept, it is not new to India. In the 1960s, the idea of providing people with a minimum income was worked on by the Perspective Planning Division of the Planning Commission. More recently the idea has been advocated by the economists Pranab Bardhan and Vijay Joshi and analysed by Maitreesh Ghatak. UBI is offered as a smart way of achieving redistributive goals without the various leakages and inefficiencies mentioned above. It also empowers the recipients with choice as to how they want to use this money, taking that decision away from a paternalistic State, as well as by raising the hold-out option of workers engaged in very low-income jobs (example, scavenging in the Indian context).

Such a policy is being actively debated in the West. In a referendum in Switzerland earlier this year such a policy was put to vote. It was defeated because the benefits were considered too high (around US$2,500 per month) and there were no proposals of offsetting cuts in the budget. However, the idea has gained traction and will be tried out on an experimental basis in Finland, the Netherlands, and the Canadian province of Ontario at a more modest scale, and with offsetting cuts in other welfare benefits, and will be scaled nationally if the results are satisfactory.

UBI offers a way out of India's challenging targeting problem. Identifying recipients using the BPL (Below Poverty Line) criterion has been shown to result in significant inclusion and exclusion errors. A recent study in Karnataka shows that more than two-thirds of ineligible individuals held a BPL card, while around one-sixth of eligible individuals did not have it. The main attraction of the UBI is that it bypasses the selection problem altogether by making the transfer universal. India already has successful universal welfare schemes, e.g., the mid-day meal scheme in schools.

Downsides of the UBI

First, any universal programme is expensive. If every adult was given exactly the amount of income that defines the poverty level, which is on average Rs 40 per day (Rs 32 in rural areas and Rs 47 in urban areas), every person would be assured of an income of about Rs 14,000 per year or Rs 1,200 per month. If 25 per cent of the population (330 million) were to be provided with a transfer of Rs 14,000, another 25 per cent (330 million) provided with a transfer of Rs 7,000 and the remaining transferred nothing, the cost would be Rs 693,000 crore per year or 35 per cent of the expenditure budget for 2016-17 — an amount beyond the capacity of the government. Even if we halve the UBI amount or halve the number of beneficiaries, it will cost Rs 346,500 crore per year.That is a modest and reasonable amount and would ensure that everyone would be brought above the poverty line. However, calculations suggest the bill would amount to 11% of the GDP (Gross Domestic Product). This is just a hypothetical example. One can, of course, offer a lower amount per person that would be more affordable. However, a counterargument is that India, in its current state of development, should not be focusing on providing income to the well-off and should solely focus its efforts on the poor.

Second, for such a programme not to add to the fiscal burden and create inflationary pressure, it has to be funded either by spending cuts or by increased taxes. There is also a concern that competitive politics could ratchet up fiscal burdens to unsustainable levels but there would be no political will or leeway to cut UBI levels once they are in place. It will also not be easy to arrive at a cap on the levels of UBI, either in absolute terms or as a percentage of GDP. The scope for spending cuts certainly exists. The budgetary subsidies in 1987-88 amounted to 12.9% of GDP (based on the 2004-05 GDP series. In 2011-12 it amounted to 10.6% of GDP (also based on the 2004-05 series). According to some recent estimates, non-merit subsidies is about a third of this, making up about 3.5% of GDP. This is a far cry from the 11% figure, and also it is not at all obvious that even if it was possible to devote all this to a basic income, it is desirable to do so since some of it should also go to infrastructure, social services (such as maternity entitlements, social security pensions), and other well-tested transfer programmes. UBI should also not come at the cost of phasing out successfulin-kind benefit programmes like the Mid-Day meal scheme in schools or the bicycle-yojana in Bihar that givescycles to girls to boost enrolment in schools. These are wonderful context specific schemes that have generated huge dividends.

There is no question that potential resources exist that could fund a modest UBI scheme, but even deciding on what the minimum amount should be can be controversial (recall the debates on the Tendulkar Committee's poverty line during the UPA period). Further, even if some subsidies could be trimmed or eliminated, it would be challenging to mobilise political support for such moves as there are well-entrenched beneficiaries for a range of subsidies including those on fertilisers, food, kerosene, power and water.

Can UBI be funded by raising taxes? Given that only 1% of the population pays income tax, while 2.3% file tax returns, the fiscal instruments to claw back the transfer from the rich are limited. None of these are insurmountable problems. Cutting wasteful expenditure and raising the tax base are both essential steps in fiscal reforms to raise resources for development, whatever may be one´s priorities, whether it is investing in infrastructure or fostering human capital or alleviating extreme poverty.

Fallacies of Looking for a Magic Bullet

In discussing the merits and demerits of the UBI or any other development policy, it is important to avoid some standard pitfalls.

First, all policies have some pros and cons. Just picking a problemor highlighting a nice feature of a particular policy traps us in an elusive search for 'win-win' policies. The focus should be on relative costs and benefits of different policies. For example, if we compare a UBI scheme with MNREGA, the trade-offs are as follows. The advantage of MNREGA is it is universal in coverage in rural India but has self-targeting built in - you receive welfare only if you work. Hence it has a lower total cost than a UBI scheme for comparable amounts of per-person benefits. However, MNREGA has the disadvantage that some employment opportunities are foregone, a problem the UBI avoids.

Second, one size does not fit all. We should be open to the possibility that different policies could work well in different contexts. Cash transfers only make sense if you have ready access to markets, which is not true if you live in remote rural areas where we have to rely on in-kind transfers. A recent study of the bicycle scheme for school children in Bihar found that those living in remote areas do in fact prefer in-kind to cash transfers, with the opposite holding for those who live in urban areas.

Third, implementing UBI requires an effective pipeline for DBT. For subsidies to be transferred directly to beneficiaries, they must have bank accounts. Even after the scaling up of the Jan Dhan Yojana, large numbers of individuals in rural India still do not have bank accounts, or are systematically discouraged from using them by bank officials.

Fourth, there is no magic pill that will cure all problems. Different policies are needed to address different problems. A UBI or a cash transfer as envisaged by JAM or the MNREGA will provide some relief to the poor but will not provide a long-term solution to poverty. For that one needs investment in health, education, and skill development to enable the poor to take advantage of growth opportunities, and investing in infrastructure and regulatory conditions to facilitate private investment for employment generation. To give an analogy, providing nutritional supplements may help an ill person gain some strength, but it will not cure any disease, nor will it make the person an athlete.

Broader Perspective on Growth vs Poverty Alleviation

It is a fashion among some economists to criticise anti-poverty programmes as “entitlements” or doles. In this context, a sense of perspective is needed in discussing expenditures on programmes aimed at the poor, who by official estimates, constitute 30% of the population. Calculations suggest that if we take just twice the amounts that define the poverty line, almost 80% of the population lives below that.

Yet non-universal programmes targeted to the non-poor are being doled out without much controversy on a regular basis. The total bill from implementing the recommendation of the 7th Pay Commission that will benefit 4,700,000 employees and 5,200,000 pensioners (only 0.8% of the population) is 1% of the GDP. Calculations based on tax data suggest that the top 1% account for 13% of GDP, yet income tax which is only paid by 1% is a mere 1.87% of GDP.

Bad loans in public sector banks (90% of which is attributed to large borrowers) constitute 5% of GDP by conservative estimates. Bad loans being a stock, a more relevant figure would be annual interest income if this amount was annuitised. At the current interest rate of 6.5% per annum, the annual interest income would be 0.3% of GDP. Compare this with the expenditure on the MNREGA (Mahatma Gandhi National Rural Employment Guarantee Act) - a mere 0.4% of GDP.

Also, the problem with the growth-based narrative is that, while growth is necessary for poverty alleviation or improvements in social indicators, it is not sufficient. For example, take the dream growth rate of 10%. It will take 26 years of sustained growth of 10% per year in incomes (no country in history has had a quarter century of sustained double-digit growth!) to bring an Indian who is right on the poverty line up to merely the current level of per capita income, which is low by global standards to start with. Growth can bring achhe din, but you would have to wait for a quarter of a century for even a glimmer of that!
Growth is indeed necessary for long-term poverty alleviation but to take advantage of growth opportunities, the poor need access to human capital, the key inputs to which are education and health. While it is true that in the post-liberalisation era growth has indeed lifted millions out of poverty, it is also true that the extent to which growth has made a dent on poverty (growth elasticity of poverty being the technical term) has been lower in India than in China and other comparable countries. This is mainly because of the shockingly low levels of human capital for a large portion of the population.

The key to sustained increase in standard of living is therefore to foster mobility through investments in human capital. Markets create opportunities for those with human capital and it is the responsibility of the government to ensure that the poor acquire the human capital necessary to take advantage of these opportunities. Investing in the human capital of children is therefore a win-win strategy - it helps achieve both higher growth rates and reduces poverty and removes the apparent tension between these objectives as implied by the growth versus redistribution debate.

It is in this context that the cuts in social sector spending in the last few budgets presented by the current government are disturbing. They were in tune with the disturbing downside of the much-hyped Gujarat model under Chief Minister Narendra Modi. During his tenure, Gujarat, in terms of human development indicators, was not even in the top ten of Indian states and Union Territories. If we restrict attention to only the fifteen large states in terms of population, it was still not in the top five. Since 1991, Gujarat has been a state with one of the highest growth rates in recent times, but clearly it was not sufficient to effect significant improvements in human development.

The reality is, in the last two and a half years, there has not been any significant growth turnaround. Compared to the last years of the UPA II, at best the growth rate under the Modi government has gone up by one percentage point, which is no different from how much the growth rate for the world economy has changed. Prime Minister Modi described MGNREGA with disdain in parliamentas a symbol of the failure of the Nehru-Gandhi model of poverty alleviation. Yet, when he inflicteddemonetisation on the country, the biggest sufferers were informal sector workers. Many of them were forced to go back to their villages to look for work and it was MGNREGA that came to their rescue.

The Way Forward

To sum up, while cash transfers should be a part of the arsenal of all the weapons that can be used to fight poverty, it is disturbing to have an excessive reliance on cash transfers. A lot of opposition to schemes like the UBI reflects the worry that they will displace other anti-poverty policies and absolve the government of its responsibility to provide a range of public goods. UBI can certainly be tested in a limited scale and it should be part of a package of policies. It would be worth experimenting with pilot UBI implementation in select districts. If we do not remove existing subsidies during this pilot, we can monitor and see if claims on these subsidies gradually diminish.

When it comes to welfare programmes, the UPA government strengthened the hands of recipients by introducing a rights-based framework, as in MGNREGA. If that were absent, the poor would not have the legal support to demand better implementation. One of the strengths of the UPA's approach to poverty alleviation is that it committed the government, irrespective of who is in power, to specific anti-poverty programmes like the PDS or the MGNREGA. A worry with the UBI is it will take away this pressure point – among the very few that the poor have vis-à-vis the state.

The pitfalls of making cash transfers the centerpiece of welfare programmes was highlighted most dramatically when informal sector workers who returned to their villages due to the recession created by the demonetisation policy boosted the demand for MGNREGA by more than 60%. If cash transfers were the only policy on the table, we can only imagine what their plight would have been. UBI is welcome, but not at the cost of existing welfare schemes like MGNREGA or throughreduced spending on education and health. To quote Jean Dreze, 'there is a real danger of UBI becoming a Trojan horse for the dismantling of hard-won entitlements of the underprivileged!'

Box 7.1: NITI Aayog Vice Chairman Arvind Panagariya's views on Universal Basic Income

NITI Aayog Vice Chairman Arvind Panagariya believes that the country simply does not have the necessary fiscal resources for a Universal Basic Income scheme. In an interview to The Indian Express, Panagariya said, “At the current level of income and our needs for investment in health, education, infrastructure and defence, we simply do not have the necessary fiscal resources to transfer a reasonable basic income to 130 crore Indians.”

Panagariya also said that the Government should focus on targeting the poor. He said, “Any attempts to broaden the beneficiary base would come at the cost of a reduction in the possible transfers to the poor. With the help of the Socio-Economic Caste Census, we are able to identify the poor with reasonable degree of confidence.”

Chapter 8

Demonetisation – War on Black Money or War on the Poor?

On November 8th, 2016, the Government of India withdrew the legal tender status of currency notes issued by the Reserve Bank of India (RBI) bearing the denominations of Rs.500 & Rs. 1,000, hereafter referred to as the Specific Bank Notes (SBN). The Notification putting demonetisation into effect allowed individuals and institutions holding SBN to tender them at any office of the Reserve Bank or any commercial bank branch and obtain a credit of an equivalent value in their bank accounts on or before December 30th, 2016. It also allowed individuals to make restricted withdrawals from their bank account.

OBJECTIVES

In the course of his address to the nation while announcing the demonetisation, Prime Minister Modi indicated that, through this move, he aimed to target black money, fake currency and terror financing, and remove them from circulation. Unaccounted wealth held in cash form or wealth generated by evading taxes, i.e., black money, was the primary target of the demonetisation exercise.

The government appears to have calculated that holders of black money would not deposit these currency notes into their bank accounts out of fear of corruption and taxation laws. Thus, the value of SBN not received into bank accounts would indicate the approximate value of notes held within the economy as black money. The rendering of these currency notes as worthless would extinguish part of the RBI's liabilities and enable it to provide a windfall dividend to the government. Thus, demonetisation may be conceived as a one-time tax on black money, at a rate of 100%. It is important to note that demonetisation only targeted current stocks of black money, but failed to provide any solutions to counter black money accumulation in the future.

The text of the notification mentioned that fake currency notes have been largely in circulation … and is causing adverse effect to the economy. The notification implies that a large number of counterfeit notes are in circulation. The government's intention was to render such SBN worthless. Second, the Notification mentions that fake currency is being used for financing subversive activities such as drug trafficking and terrorism. Demonetisation would ensure that those indulging in these subversive activities would be dealt at least a one-time blow.

Gaps between Expected and Real Outcomes

This section compares the intended effect of the demonetisation with actual results, with respect to impacts on black money and counterfeit currency.

Black money

Various agencies had initially estimated that around 25% to 35% of the SBN would not be deposited by the stipulated dates. On November 23rd, 2016, the Attorney General of India told the Supreme Court of India that the government expected that SBN worth Rs. 4 to 5 lakh crores would be rendered worthless on account of not being deposited.

The RBI is yet to publish information relating to the number of SBN that have been returned to the banking system. The last official release of the RBI on December 10th, 2016 mentioned that an amount of 12.44 lakh crores, which formed 80% of the all SBN in circulation had been thus returned. It has been widely reported that, by the end of December, around 95% to 97% of the SBN in circulation have reached the banking system. Indians abroad and the Central banks of Nepal and Bhutan, which hold some of their foreign exchange reserves in Indian currency, hold a part of the remaining notes. The actual value of SBN rendered worthless will be known only after June 31, 2017, which is the deadline for Non Resident Indians to exchange SBN held by them at specified offices of the RBI. However, it already appears to be clear that only 2-3% of the demonetised SBN will remain un-deposited, indicating unequivocally, that the demonetisation exercise has failed to achieve its primary objective of cleansing the economy.

Counterfeit Currency

When a particular series (and design) of currency is withdrawn, those who were printing such counterfeit notes would find their efforts rendered worthless. For instance, when the RBI announced that the currency notes printed before the year 2005 would be withdrawn in 2014, printing facilities for counterfeit notes belonging to older series of notes were rendered redundant. Demonetisation is not a necessary exercise to achieve such objectives, and the government's exercise of it displays considerable overbreadth.

Counterfeiting is a global issue, and impacts most major currencies. It is likely that counterfeit bills of our freshly designed currency notes will soon be in circulation. This can, however, be prevented by strong security features enmeshed with the design. It seems that the government has missed the opportunity of ensuring the adoption of such security features in the new Rs. 500 and Rs. 2000 currency notes it launched post-demonetisation. This indicates a lack of foresight and inadequate planning on the government's part. It remains to be seen whether and when such changes will be incorporated into newer currency notes.

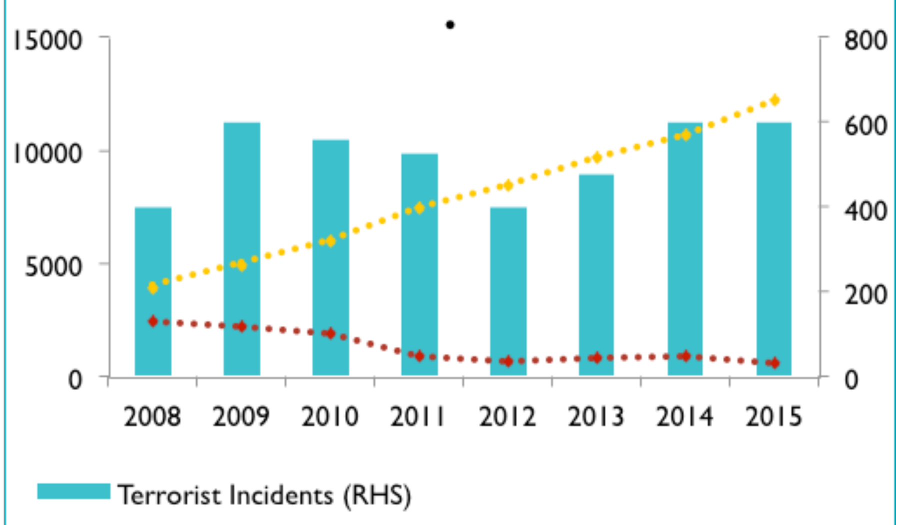
A study conducted by Indian Statistical Institute (ISI), Kolkata under the supervision of National Investigation Agency (NIA), estimated that the value of Fake Indian Currency Note (FICN) in circulation was about Rs. 400 crores, which amounted to roughly 0.03% of the currency withdrawn. It also indicated that the ability of banks to prevent counterfeit notes being deposited was limited since their machines often fail to identify fake notes. Usually, it requires some manual effort by the teller to identify fake notes. This step is time-consuming and may have been overlooked due to the astronomically high level of deposit activity in the 50-day window period. This indicates that some fake currency notes have slipped through into the banking system and become legitimised. Thus, the impact of demonetisation on fake currency in circulation remains unclear and questionable.

Terror Financing

The government claimed that fake currency is more prevalent among the SBN, and that such fake notes facilitate terrorism and drug trafficking. Thus the increase in absolute levels of high-denomination notes aids terrorist and subversive activities.

But empirical evidence collated from data on terrorist strikes and fatalities from the Global Terrorism database and the South Asian Terrorism portal shows that it is very difficult to establish a causal relationship between the number of terrorist strikes on Indian soil and the absolute levels of currency in circulation.

Fig 8.1: High-value Currency and Terrorism: No Correlation



Source: Bloombery|Quint

Reasons for Failure

Based on the above, demonetisation appears to have failed to achieve its primary objectives. The following are some of the reasons why this has been the case:

First, the government seems to have incorrectly assumed that a large part of the unaccounted wealth was in cash. In May 2012, the Finance Ministry released a White Paper on Black Money, where it asserted that cash was the least preferred instrument for storing unaccounted wealth. A large proportion of the unaccounted wealth of Indians is held in the alternative forms of jewelry, real estate, and foreign currency.

Secondly, a large part of the unaccounted wealth held in cash could have been laundered back to the banking system through means including, but not limited to, benami transactions, back dated sales, income tax exemption for agriculture income, and back dated deposits in cooperative banks.

Table 8.1: Value of Assets Seized (in Rs. Crores)

Year	Cash	Jewel	Other assets	Total Income admitted	% of cash
FY 07	187	99	78	3613	5.20%
FY 08	206	128	93	4161	5.00%
FY 09	340	122	88	4613	7.40%
FY 10	301	132	530	8101	3.70%
FY 11	440	184	151	10649	4.10%
FY 12	500	271	134	9289	5.40%

Source: White Paper on Black Money

Expected Costs of Demonetisation

Demonetisation is seldom used to weed out black money because of the huge cost associated with the policy instrument. Being a blunt instrument, when used, it entails higher policy risks and creates a high level of economic uncertainty, thereby imposing large burdens on individuals, firms and the government.

In the short term, the impact takes the form of sales losses for firms, tax losses for the government and employment losses for the unskilled and the semiskilled. In the medium term, the impact lies on investments and the creation of jobs.

Economic costs often translate into human costs, and it has been reported that by 22 December, 2016, 105 people had lost their lives due to challenges posed by drive of the demonetisation.

Impact on economic growth

Since the demonetisation, in effect, has created an acute liquidity crisis, the two most important factors that determine the impact on growth in Financial Year 2016-17, would be rate of infusion of new currency notes into the economy, and the availability of alternatives such as secure digital payment systems.

Remonetisation

A lower rate of infusing new currency notes into the economy would result in more palpable impacts on India's gross domestic product. In the first 30 days after demonetisation, the infusion of additional currency by the RBI was Rs.4.61 lakh crores, roughly 30% of currency withdrawn. The RBI governor told a parliamentary standing committee on finance on 18th, January, 2017 that the central bank had infused new currency notes worth around Rs 9.2 lakh crores into the system, approximately 60% of the currency withdrawn.

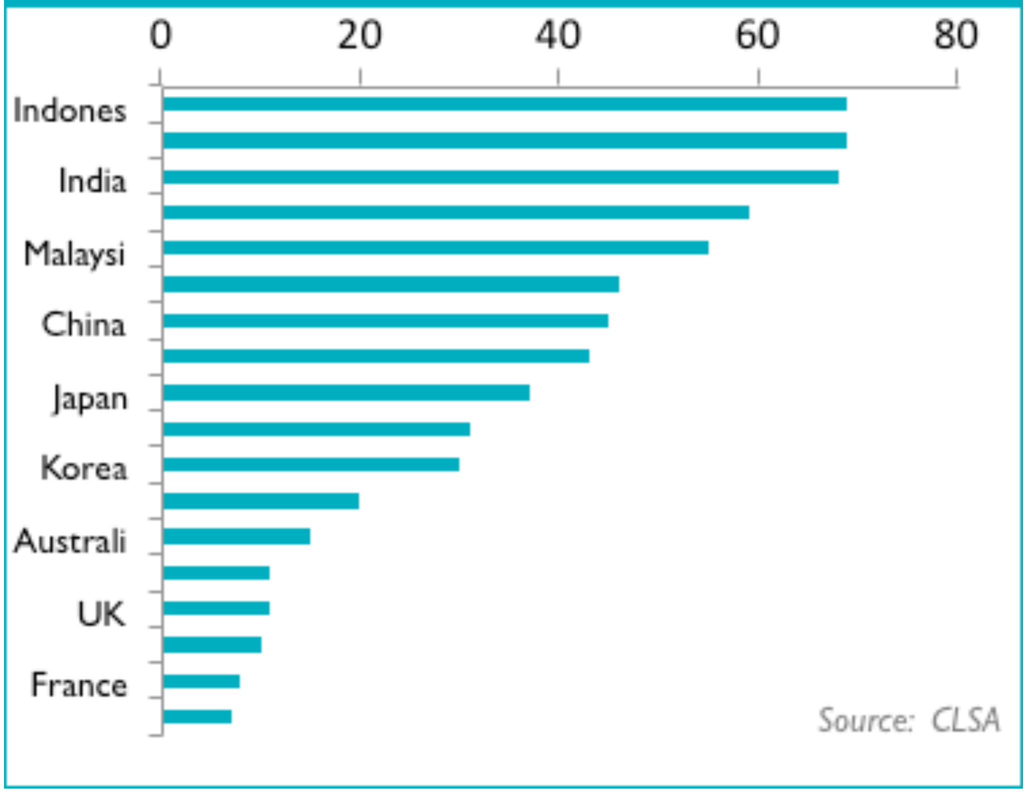
However, the reserve money numbers released by RBI on January 13th, 2017, showed that the currency in circulation (CIC) was Rs 9.5 lakh crores, including the non-demonetised low de-nomination notes worth Rs 2.53 lakh crores. If the CIC number were to be adjusted for the notes already in circulation, the addition to the stock of currency (replacement of banned notes) works out to Rs 6.97 lakh crore. A SBI report adds that going by the official CIC number, 70% of remonetisation would be completed by February end. The problems of the slow pace of replacement are aggravated by the fact that currency notes of Rs. 2000 are an inadequate medium of exchange because of the difficulty of finding change for them until the other denominations are substantially remonetised.

On a 2-shift basis, the printing capacity of all 4-currency presses in India is 66.90 million/day. On November 8th, 2016, 17,165 million pieces of Rs.500 and 6858 million pieces of Rs.1000 were withdrawn. On a note-to-note basis, replacement would take 359 days. If the new Rs. 500 notes & Rs. 2000 notes replace old Rs. 1000 notes and Rs. 500 notes, this can be completed in 307 days. Thus, the replacement of currency is likely to be completed only in the Financial Year 2017-18.

Digital payments

The situation appears to have been compounded by the inefficiency of digital payment platforms, which were promoted as an alternative to cash transactions. In October, 2016, Rob Reeg, the CEO of MasterCard, stated that a substantial 95% of all transactions in India are cash-based. This compares poorly with statistics from other countries, which are less dependent on

Fig 8.2: % of cash based transactions



cash. Weak digital infrastructure and low digital literacy among Indian citizens result in low adoption levels. Further, the shortcomings of India's data-protection framework for digital transactions, and flailing cyber security among banks pose strong dangers for the adoption of digital payment systems.

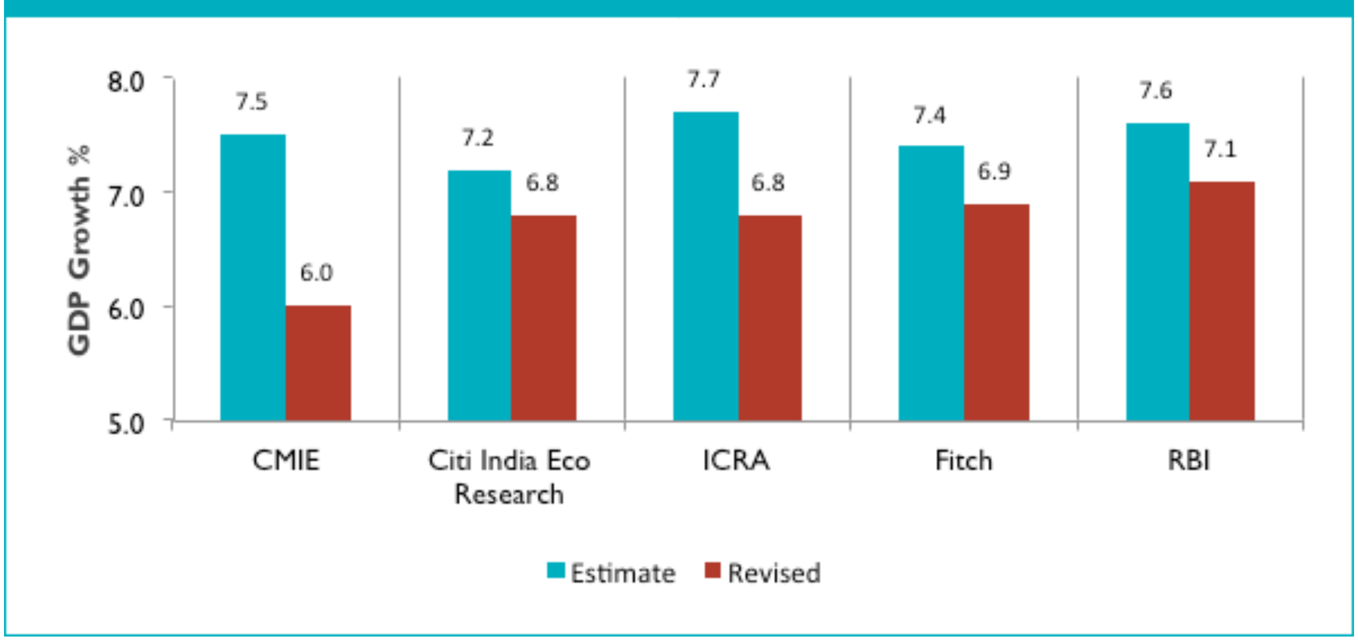
In terms of value, a CLSA report puts the number closer to 68%, as shown in the graph above.

Impact on GDP FY16-17

The withdrawal of 86% of the currency in a cash-dependent economy like India considerably dampens demand. As production decreases, the demand for labour comes down, leading to a vicious cycle of low demand for labour, lower incomes and low consumption expenditure.

After demonetisation, multiple institutions have revised their GDP estimates for India. The graph below provides a snapshot of various estimates. To put it in perspective, a 1% loss in GDP would translate roughly into a loss of Rs.1.5 lakh crores. In the latest estimates, The IMF has slashed India's growth forecast from 7.6% to 6.6% for 2016-17 after the note ban.

Fig 8.3: Revised GDP Growth Forecast for 2016-17 Post-demonetisation



Long term impact on growth

Consumer expenditure is unlikely to rebound soon and the impact on GDP growth is likely to continue beyond the current year. Low levels of domestic consumption, combined with poor exports would result in a level of capacity utilization which would delay the revival of investments.

The Centre for Monitoring the Indian Economy (CMIE) expects India's growth trajectory to shift down to about 6 % per annum for the next five years. Its projection is represented in the graph below. This is a significant shift in the expected growth trajectory for a developing country like India, and will have long-term implications on poverty alleviation.

Impact on government finances

Demonetisation will have a considerable impact on the revenue of both Central and state governments.

In a liquidity crisis such as this, at the first level, sales get disrupted, leading to a reduction in the accrual of indirect taxes. The second order effect is a reduction in profits generated by the firms. Assuming other costs to be same, lower revenue with a fixed cost would reduce profits, thereby impacting the direct tax accrual. In addition to taxes, other sources of revenue of governments, both Central and the states, will be impacted.

In this section, possible gains and losses for the Central and State governments have been considered.

Central government

Gains: Gains to the Central government may accrue in two possible forms. This could be by way of an increase in personal income tax collection and possibly, by a dividend from RBI if the liability extinguished is significantly higher than cost of replacing currency. But as time progresses it is increasingly clear that neither of these scenarios is plausible. We already know that almost 97% of the demonetised currency is back. Further, CMIE has estimated that the transaction cost during the 50-day window till December 30th, 2016 would be Rs. 1.28 lakh crores. Therefore, the only possible long-term gain would lie in the reduction of the Central government's interest burden.

Loss: The indirect tax accrual to the Central government, primarily excise duty and service tax, is likely to take a hit in the medium term. Apart from taxes, there are two other sources of revenue that may be impacted. First, the dividend and profits received by the central government is likely come down for the current financial year. Secondly, other sources of revenue like toll collection in national highway, revenue of Indian railways, revenue generation in tourist destinations, etc., are likely be detrimentally impacted.

State governments

Gains: In addition to potential long-term reductions in interest burden, there are no possible ways in which State governments could experience a direct revenue gain.

Loss: Losses would primarily be on account of sales tax (VAT) and stamp duty accrual. In addition to such taxes, the impact on other sources of revenue would be similar to what is experienced by the Central government. Dividend and profits received by the state government, revenue like toll collection in state highway and revenue generation in tourist spots and other similar revenue accounts may also suffer negative consequences.

Tax collection

Accrual of indirect taxes depends on the amount of economic transactions taking place in the formal economy. In a press release dated Jan 09, 2017, the Central Government reported that the indirect tax collections posted a robust 25 % year-on-year ("YoY) increase for the period April-December 2016. For excise duty, the growth was 43% and for service tax it was 24%.

Considering the fact that tax rates have increased between the periods compared, an accurate picture can be only be obtained after stripping the increase of tax collection on account of increase in tax rates from the overall indirect tax collections. A study by Suyash Rai, of the National Institute for Public Finance and Policy (NIPFP), shows that after demonetisation, growth in tax collection has actually slowed down considerably.

These numbers have been arrived at in the light of the fact that the impact of demonetisation is more severe for the informal economy than the formal economy. This incorporates the partial shift of demand from the informal economy to the formal economy that is also likely to have taken place after demonetisation.

Impact on the poor

Agriculture and jobs in the informal sector remain the most important sources of income for the rural and urban poor. Demonetisation has dealt a heavy blow to these income sources.

Agriculture

The announcement of demonetisation coincided with the rabi sowing season. In this context, there are two ways in which the cash crunch may have impacted the agricultural output. Firstly, data from the Ministry of Agriculture shows that rabi acreage was 5.7% lower than the normal crop coverage in the week ending November 11, 2016 and was 2.77% higher in the week ending December 31st, 2016. This indicates a delay of about 2 weeks in sowing. Secondly, the data available on fertilizer sales shows a decrease in usage of fertilizer this year indicating a potential risk of yield loss.

Of the agricultural products, the perishables are the most impacted by demonetisation. Mandi records show a considerable fall in the price of vegetables.

Cooperative banks

Most farmers receive direct credit for farm inputs from cooperative banks and Primary Agriculture Cooperative Societies (PACS). These are the institutions through which they operate their Kisan credit cards. However, the new rules after demonetisation did not allow farmers to deposit money into their own accounts. However, they continued to be charged interest by the bank for the loans they availed. This will eventually lead to the collapse of the cooperative banks, as they would fail to recover the loans. Further, this being the sowing season, Primary Agricultural Cooperative Societies (PACS) stores are filled with fertilisers. PACS will be unable to supply fertilisers to farmers, as per rules, because of unpaid loans from the past.

By disallowing co-operative banks from depositing, exchanging and withdrawing old currency from its   customers, the government has engineered a systematic failure of the entire co-operative sector that forms the backbone of the rural economy. The RBI stopped all the 370 central district co- operatives and 93,000 primary agricultural credit societies from participating in the exchange and deposit of old notes. This has affected their operations comprehensively. As per RBI data, cooperative banks had Rs. 2,36,980 crores while PACS have Rs. 81,900 crores as deposits. This signifies their importance in a rural economy.

Box 8.1: Deaths Due to Demonetisation

115 deaths have been attributed directly to the demonetisation of currency carried out by Prime Minister Modi's government. Sparing no one, demonetisation has killed people from all over the country and from all walks of life - right from a newborn infant who could not be admitted to the hospital because her parents did not possess the new legal tender, to septuagenarians who had been made to wait in line for days on end to withdraw their own money. However, the most neglected aspect of this entire exercise is how demonetisation seems to have brought out the worst in people, with a man murdering his wife after she returned empty-handed from the ATM. Young men and women have been driven to suicide after being unable to withdraw money from the bank; young men and women who found their dreams come crashing down on the back of one man's megalomania. Ghastly instances of self-immolation and neglect of patients requiring immediate medical attention go on to show us the deplorable state of the human condition post demonetisation.

Rural economy

Post demonetisation, the chain of stakeholders that drive the rural economy are shaken for various reasons. The government's initial decision to keep district cooperative banks out of the cash exchange program, directly hit millions of farmers, rural and semi-rural populations dependent on these banks for their access to formal banking services.

Table 8.2: Growth in Excise Duty & Service Tax

Growth in excise duty	Apr - Oct	Nov	Dec
Normal growth	45%	33.70%	34.80%
Adjusted growth	4.20%	0%	NA
Growth in service tax	**Apr - Oct**	**Nov**	**Dec**
Normal growth	26.90%	16%	3.70%
Adjusted growth	17.10%	10.00%	0.20%

Cooperative banks are still critical for last mile in rural India. This will continue for at least the next decade, till larger or more formalized financial institutions take firm hold in rural India. Despite all their negatives, these institutions are known to offer easier loan and deposit products and hence favored by the poor.

The Reserve Bank of India's (RBI) decision to keep cooperative banks out of the demonetisation scheme has hit dairy farmers hard in Karnataka. Majority of the farmers in the state have not been able to access money earned through supplying milk to the cooperative societies. About 60% of the total 8.5 lakh dairy farmers have their bank accounts in cooperative banks. “The village-level milk producers’ cooperative societies deposited money towards the supply of milk to the farmers’ accounts, but the farmers have not been able to withdraw money due to the RBI regulation.

The tale is no different for industries from all over the country, be it the agriculture in Punjab and Maharashtra, the beedi units in Jangipur, West Bengal or the fishermen of Tanjavur, Tamil Nadu. Everyone is crippled by the cash shortage; leaving thousands who occupy the lower rungs of the informal economy, the most vulnerable, with no income. In the rare chance that a labourer gets paid, the utility of the new 2000 rupee note in a rural village is as similar as that of the demonetised notes; unusable due to the cash crunch.

Demonetisation has led to an implosion of agricultural trade in the country. In the week following demonetisation, soya bean arrivals in select major states collapsed by 87% relative to average arrivals over the week preceding demonetisation. The cash crunch has also hit the demand side, with the sales dipping so low that farmers are having to part with their produce at almost half the price. There are at least 45,000 to 50,000 roadside retail hawkers, who are facing shutdown due to non-availability of new currency.

The effects of demonetisation have rippled through the economy and into the governments social services, including pensions for the elderly, widows and the disabled. With demonetisation resulting in a severe shortage of cash, pensions are being credited into bank accounts, thus putting socially and economically challenged people with limited access to urban and semi – urban banks in severe distress, as they do not have a viable channel to withdraw this amount.

The problem is larger than just easing out liquidity in the economy, it is also about tackling lack of purchasing power, reflecting the adverse effect of the recession on employment and incomes. And clearly, the non-inclusion of cooperatives that act as lifeline of the informal economy has only paralyzed the system than empower it towards a cashless economy as promised by the government.

Informal sector

A significant proportion of the poor, both rural as well as urban, is employed in the informal sector. The All India Manufacturers' Organisation (AIMO), an industry

body with 3,000 direct members conducted a survey which revealed a 60% job loss in the micro and small scale sectors and a 47% dip in revenue for small scale traders, shops and micro industries.

Job Loss & Reverse migration

Mounting job losses for informal workers employed in the Micro, Small and Medium Enterprises (MSME) has triggered reverse migration from cities to villages. Lack of other alternative sources in the village has led to a phenomenal increase in the demand of work under MGNREGA.

Data from the rural development ministry shows a significant increase in demand for MGNREGA work during the period between the first week of November 2016 and the first week of January 2017.

Inconvenience or Welfare Shocks?

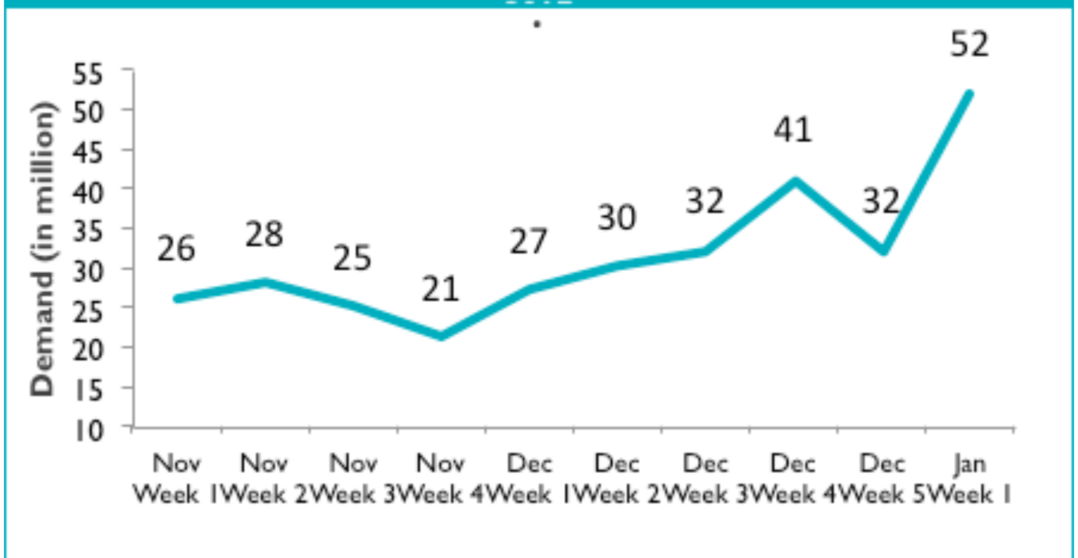
As Anirudh Krishna points out in his book, “One illness away”, many Indian families that are just above the poverty line in one year can fall below it in the next year because of reasons including the illness of a family member.

Welfare shocks refer to events that “break cycles of very tenuous security and small economic gains, pushing families back into cycles of debt and depleted savings.” Considering the fact that even a temporary loss of income could push them into a cycle of debt, demonetisation could potentially be a welfare shock pushing people into a debt trap.

Newer avenues of corruption

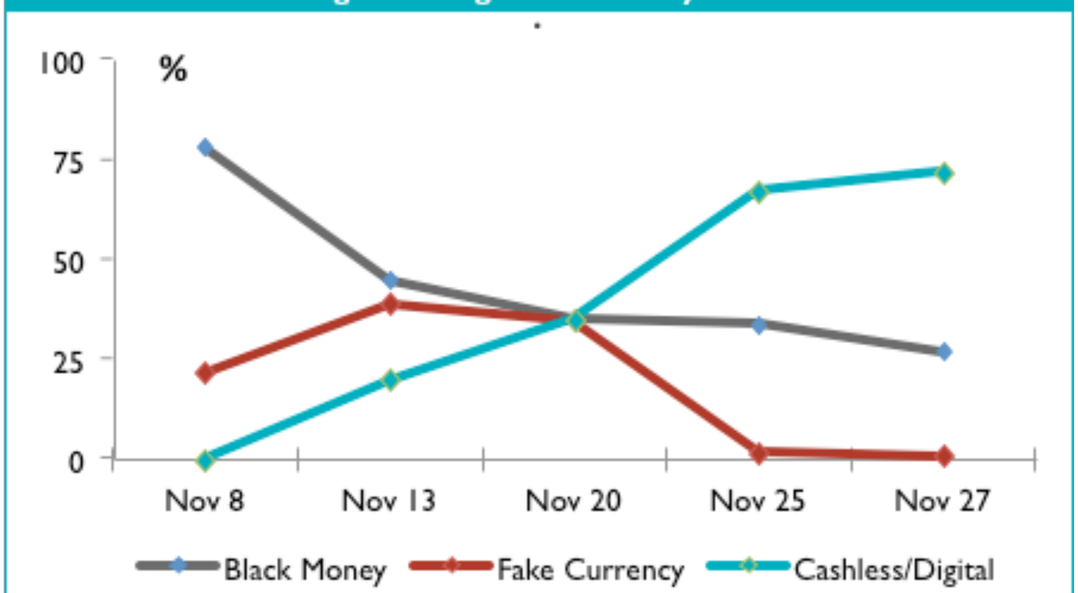
It is now clear that the demonetisation was further undermined by some unscrupulous bank officials. Criminal complaints were filed against some bank managers under the Prevention of Money Laundering Act (2002). Fake accounts that were discovered in one bank branch have been said to contain more than Rs. 450 crores. Two RBI employees were arrested for illegally converting Rs.1.99 crores, further tarnishing the reputation of the Central Bank. A crowd-sourced database based on verified media reports reported that more than 120 raids were carried out during the 50 days of the demonetisation. Based on these recorded instances, a total amount of Rs 262 crores was seized in new currency. This may have been only the tip of the ice-berg.

Fig 8.5: MGNREGA person-days demand from Nov 2016 to Jan



Source: Indian Express and MNREGA Dashboard

Fig 8.6: Progression of Keywords in PM's



Source: India Spend

Shifting Goalpost

Of the Rs. 15.44 lakh crores that was demonetised, Rs. 13 lakh crores was deposited between Nov 10 and Dec 13, a number that made government calculations, as stated in the Supreme Court by the Attorney General, go awry. The political response to the impending failure of the policy was the shifting of goalposts by adding unintended consequences as additional objectives.

A keyword analysis of the Prime Minister's speeches post-demonetisation by Praveen Chakravarty, Senior Fellow at IDFC Institute unambiguously establishes the effort to shift the narrative from black money to that of a cashless economy.

Box 8.2: Impact on RBI

Central bank independence is an important factor in building investor confidence. India's central bank, the Reserve Bank of India, is a highly reputed institution with an impeccable record and has built its credibility over a number of years.

However, in the wake of demonetisation, questions have arisen regarding the central bank's leadership, competence and independence. The RBI's response to the parliamentary Public Accounts Committee revealed that the government had advised the RBI to consider demonetisation of high values notes on November 7th, 2016, and the RBI Central Board approved the proposal the very next day. This indicates that the endorsement of the proposal was done without the required due diligence, a clear case of abdication of responsibility.

Over 60 circulars were issued in the 50-day window period, some of which were ill conceived and were subsequently withdrawn after public outrage. The RBI's poor planning and its limited capacity to foresee operational difficulties has exposed the central bank to criticism from a wide range of experts and rating agencies. Former RBI governors, Mr. Y V Reddy and Mr. Bimal Jalan, have expressed concern about the way demonetisation has been managed, the criticism that the RBI has been exposed to and the impact it would have on its institutional reputation.

The Employee's Union of the RBI also alleged that the government has been "impinging on the central bank's autonomy" by appointing a Finance Ministry official for currency coordination. This indicates a serious concern on the level of independence that the central bank enjoys, an issue that has long-term implications for its institutional integrity.

Another important issue that merits attention is transparency. The RBI has not yet announced the amount of banned notes that were deposited in the banks in the 50 days window period

.Cashless economy

As shown in the previous section, Indian economy is heavily cash based, with approximately 95% transactions happening in cash. Though digital payments are steadily growing, the base is low, and the possibility of a cashless economy or even the so-called less-cash economy in a true sense is remote.

At one level, there are issues like lack of strong infrastructure, poor digital literacy and high transaction cost that limits adoption. On the other hand, the fundamental question of whether a cashless economy is a desirable goal, considering important issues of security, anonymity and privacy, have fallen by the wayside in the haste to shift goalposts.

Infrastructure and digital literacy

Currently, there are issues at the ends of both buyers and sellers. A vast majority of the debit cardholders, due to various reasons such as poor digital literacy use it more to withdraw cash at an ATM rather than as an instrument of cashless payment. In June 2016, there were about 75 crores debit cards, but only 12.9 crores payment transactions, which suggests that at a best case only 17% use it for a purchase. The actual number should be significantly lower.

On the other hand, sellers do not have the adequate infrastructure to receive payments. There are about 1.5 crore shops, but only 14.6 lakhs point of sale devices that can handle credit or debit cards. These two reasons together have resulted in poor adoption and usage of cashless mechanisms for payments. On the value side, data shows that in August 2016, debit cards were used to withdraw Rs 2.2 lakh crores from ATMs compared to payments of Rs 18, 372 crores.

Instead of addressing the basic issues, the government has chosen the route of lottery to encourage digital payments.

Transaction cost

In India, each time a card is swiped for any payment, the company who installs the card machine apart from the network provider and the issuing bank receives about 1% of the amount. This is called the 'merchant discount rate' (MDR). Since the seller pays the fee, electronic payments becomes a more expensive alternative to cash payments, acting as a disincentive for digital payments.

Anonymity and data

Digital transactions leave a huge trail of data about payments including what product was purchased, where and with what other services. This takes away anonymity and privacy, which should naturally be available to the buyer unless she is provided a choice on whether to insist on it it or not. In a democracy, the state should have no role in tracking legitimate purchases made by a citizen.

Alternative options

Below are a few alternative policy choices that that could have prevented the deep distress and turmoil caused by demonetisation while achieving the same objectives in a more effective manner.

1. Regulate real estate: Real estate is one important sector where unaccounted cash is involved in both the buying and selling ends of a transaction. Cash payments are favoured so as to avoid stamp duty and to lower capital gains tax. These levies can be lowered to ensure better compliance. Further, the real-estate sector could be brought under the purview of the goods and services tax (GST) to minimise evasion. Given that parliament has recently passed the Real Estate Regulatory Authority Act, the government could fine tune its working to ensure better policing of transactions.

2. Hawala: The hawala business is a preferred route for laundering money. It should be better policed. In addition, the root cause for the existence of the hawala business, the high cost of doing business must be addressed. This can be achieved by comprehensively reviewing the system of capital controls. The Prime Minister's resolve to make India the most open economy in the world rings hollow without capital-controls reform.

3. Banning Participatory Notes ("P-Notes"): Unaccounted money that is routed out of the country finds its way back as laundered money through P-notes. The central government could have banned this method instead of banning all SBN.

4. Upgrading data and technology in tax systems: The use of advanced technology could have captured minute traces and patterns of tax evasion. It would have been easier for a tax officer to compare and assess various properties of individuals and identity evaders. At the same time, since the availability of data is naturally on the rise, and GST will also be implemented soon, tax authorities will be able to undertake better triangulation while detecting tax evasion.

5. **Political funding:** Running a political party and fighting elections requires large-scale resourcing. Our unrealistic campaign finance laws perversely incentivise some sections of our political system to engage in these activities through unaccounted money. Fundamental reforms, including state funding of elections, are required in order to change over to a political system grounded in transparency.

Conclusion

Demonetisation was an ill-conceived policy choice based on incorrect assumptions, and was disastrously implemented. It has had almost no benefits for the economy and has imposed large burdens on all stakeholders involved. The informal economy, which employs a large number of unskilled and semi-skilled poor, has been hit more heavily than the formal sector. Ironically, a policy primarily touted to unearth black money from the rich and corrupt, has hit the poor the hardest, while the black money holders, by and large, have laundered their money back into the banking system. The pain unleashed on the Indian people and the economy is completely unjustified. Therefore, there is no doubt that demonetisation is a misguided policy and a monumental blunder.

Following demonetisation, news reports have indicated tremendous disruption to livelihoods and jobs, collapse of industrial clusters and significant negative impacts on economic activity. However, the formal data to capture all these impacts is not yet available. As a result, in this data-driven report, we have been measured in our assessment of the disruption caused by demonetisation. Sadly, we anticipate that the data that will unfold in the ensuing months will sharply highlight the distress and damage to people in the economy.

Chapter 9

The Oily Reality of India's Macroeconomic Story

Oil Windfall

Oil is India's single largest import. Therefore, when the price of crude oil collapses, India experiences a large, positive terms-of-trade shock that boosts growth. In the fiscal year FY15 (year ending March 2015) the Indian oil basket averaged $85/barrel. Over the next fiscal year, oil prices continued to decline and the Indian oil basket averaged $45/barrel. This created a large windfall for the government, households and the corporate sector – estimated at almost 2% of GDP (as measured by the change in the value of net oil imports into India). The government was the largest beneficiary, capturing almost 1% of GDP of the windfall. It successively increased excise duties on petrol and diesel, thereby saving on oil subsidies, and faced lower fuel bills in departments such as defence and railways. Thus, more than one percentage point of GDP growth in FY16 can be attributed purely to good fortune, i.e., the collapse in crude oil prices.

Indeed the Economic Survey in 2015-16 acknowledges this and assesses what might yet transpire:

"Current prospects suggest that oil prices (Indian crude basket) might average US$ 35 per barrel next fiscal year compared with US$ 45 per barrel in 2015-16. The resulting income gain would amount roughly equivalent to 1 percentage point of GDP – an 18 per cent price decline times a share of net oil imports in GDP of 6 percent. But this would be half the size of last year's gain, so consumption growth would slow on this account next year."

The Economic Survey acknowledges that the income (windfall) gain in 2015-16 was almost 2 percentage points, and this crucially helped inflate GDP numbers. Assuming conservatively that only half the income-gain was spent, growth would have been stronger by 1 percentage point in 2015-16. Despite this, however, GDP growth increased only from 7.2% in FY15 to 7.6% in FY16, suggesting that growth ex-the-oil-dividend actually slowed. Going forward, with oil prices averaging $45/barrel thus far in FY17 – same as in the last year – there will be no incremental oil dividend. Consequently, GDP growth has already slowed to 7.2% in the first half of FY17, thereby confirming that much of the growth acceleration in the previous year was on account of lower oil prices.

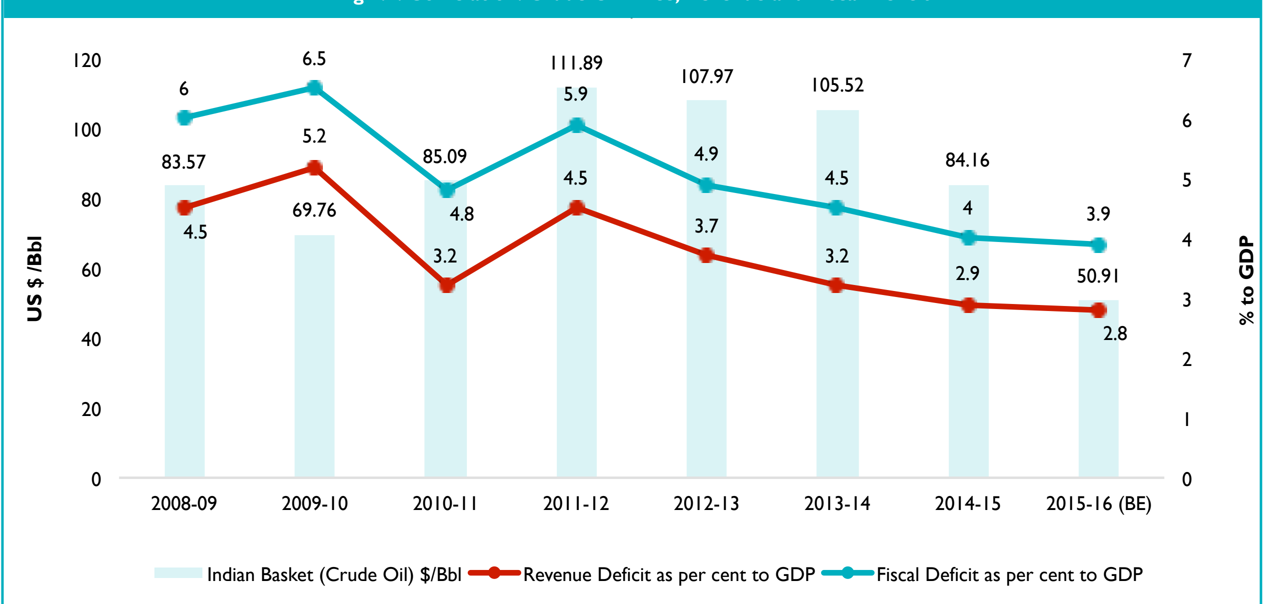
A wise government would have strategically deployed this windfall from lower crude oil prices to generate longer term benefits. For example, the government could have boosted public investment or it could have restored funds to crucial social sector programmes which have faced budget cuts or simply retired some public debt. (Cross reference to Social Sector chapter). Instead the government spent the oil windfall to meet the fiscal deficit target. This demonstrates that the government's adherence to the Fiscal Responsibility and Budget Management Act targets has come about by chance rather than through any systemic changes in the management of the economy. Indeed, because of the substantial and continuous hikes in excise duty on oil products, with all their regressive impacts (cross reference to Taxation chapter), it can be said that the government gained a windfall on the backs of India's poor. And it then blew the windfall without any substantial long-term benefits accruing to the economy.

9.1 GROWTH OVERESTIMATION: THE GDP DEFLATOR AND CRUDE OIL PRICES

India's GDP growth is arrived at by taking the nominal values of output across sectors and then deflating by price indices. While other countries use a Producer Price Index as the deflator, in its absence, India uses the Wholesale Price Index (WPI). This is an imperfect measure because it does not measure the price of services which constitute nearly two-thirds of India's GDP. Thus, when there is a fall in the price of crude oil (which is heavily weighted in the WPI), the WPI falls and this ends up as a measured deflation in the services sector, even if service costs have actually gone up. This can lead to growth in services being overstated substantially. This needs to be corrected by increasing the deflator when oil prices fall, so that the real value of production remains unchanged.

Another factor which biases GDP growth estimates in India concerns double deflation versus single deflation. The international practise is to use double deflation. Prices of outputs are deflated by an output deflator and input prices by an input deflator, after which the latter are subtracted from the former to provide real estimates of Gross Value Added. India uses single deflation

Fig 9.1: Correlation: Crude Oil Price, Revenue and Fiscal Deficit



Source: Union Budget documents and Controller General of Accounts which imparts a systematic bias in the real (constant price) estimates, even when the nominal (current price) estimates are accurate. The direction of bias depends upon the relative movement of the prices of final products, on one hand, and input prices on the other. If final prices are rising faster (slower) than input prices, the real GDP growth estimate will be biased upwards (downwards). After the Modi government took office, the rapid drop in crude oil prices would have had the effect of imparting an upward bias to the estimates of real GDP growth.

9.2 MACROECONOMIC INDICATORS

Questioning the GDP Numbers

In January 2015, the Indian economy suddenly started to look much healthier than before. The Central Statistical Office had changed its method of calculating India's Gross Domestic Product. There were two key changes:

1. The base year for GDP calculations was changed from 2004-05 to 2011-12.

2. GDP was calculated based on Gross Value Added at market prices rather than on the basis of factor costs.

This means that the indirect taxes that the government earned through, e.g., sales tax and excise duty, were added to the GDP, and subsidies were deducted. Thus GDP figures were enhanced as a result of the way GDP was calculated rather than because additional value was actually created.

Though the change in the method of calculating GDP is in tune with global practices, economists including the previous Governor of the Reserve Bank of India and the current Chief Economic Adviser have greeted the new GDP figures with scepticism. The optimistic scenario the new GDP figures painted did not square with the reality portrayed by some of the standard measures of growth, e.g., Index of Industrial Production (IIP), rate of Gross Fixed Capital Formation (investments), bank credit, corporate profits and railway freight.

Since the CSO did not recalculate GDP for the UPA decade 2004-14, at first glance, it would appear that GDP growth under the NDA government has been stronger in comparison to the last few years of UPA-2 than it actually has been. The global best practice in such scenarios is to publish both the old and new series for a period of time. When we do this, it becomes crystal clear that (a) the recovery began in the last year of the UPA-2 government when the growth rate accelerated from 5.6% in 2012-13 to 6.6% in 2013-14 and (b) that the NDA government took two years to match the one percentage point increase in the growth rate delivered by the UPA-2 during 2013-14.

It is also pertinent to note that the average growth rate achieved during the first two years of NDA is much lower than the growth rates achieved during the first two years of both, UPA-1 and UPA-2. Further, even if 2016-17 registers the projected 7.1% growth rate, NDA will have clocked a growth rate which will still be lower than the growth in the first three years of both, UPA-1 and UPA-2.

Additionally, now that the GDP number has increased, it has also become easier for the government to meet fiscal deficit targets which are measured as a percentage of GDP.

Another example of how the change in calculation method can mislead arises when we examine the growth in the last quarter of 2014-15 which jumped by 1.4% points compared to the last quarter of 2013-14. This massive jump arose simply because the government steeply increased excise duty on petrol and diesel in the preceding six months even as international crude oil prices plummeted.

Thus, as we probe deeper, we find that the recent growth in GDP is inflated because of dubious and unsustainable factors that do not portray the lived reality of the people. And even after such methods, the performance of the Modi government in terms of GDP growth does not match the corresponding growth during UPA-1 and UPA-2. In fact, the recovery that began during UPA-2 has slowed down during the tenure of the current government.

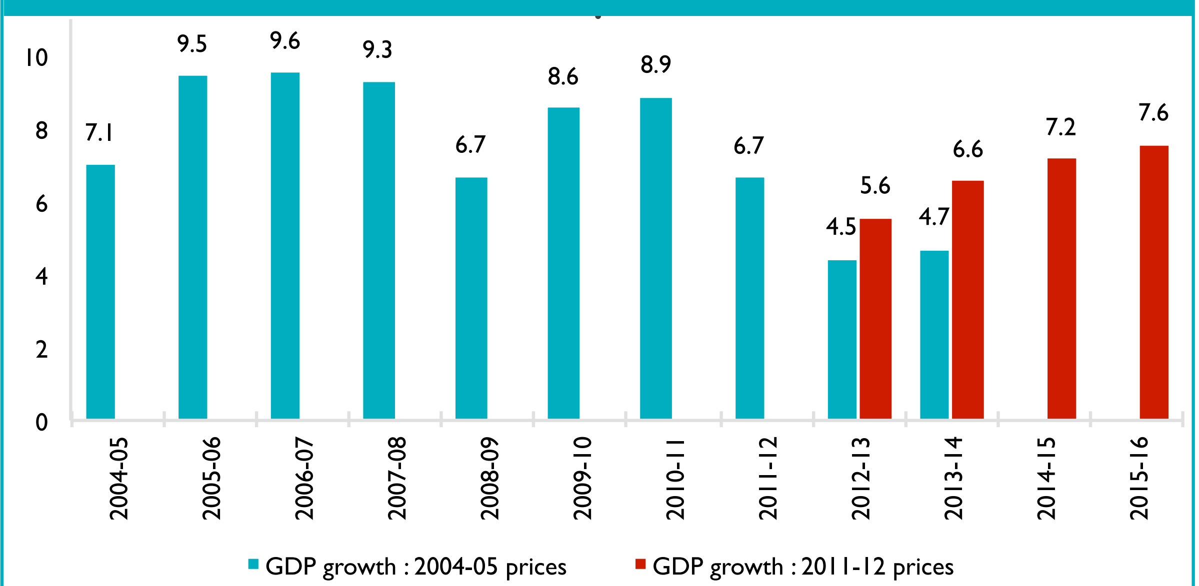
In spite of favorable oil prices, GDP growth has been declining, even before Demonetisation

Even after accounting for the oil price bonanza and the overestimation of GDP figures, it is evident that there has been a decline in economic growth. At the start of the current fiscal year, the Ministry of Finance estimated that GDP growth would be between 8% and 8.5%. This was further revised down to 7.6%. In December 2016, the Central Statistical Office reduced its estimate of GDP growth to 7.1%. This covered the period up to October 2016, before the demonetisation shock to the economy. Since then there have been numerous estimates of the expected slowdown in the economy triggered by demonetisation. In fact, the former Prime Minister, Dr. Manmohan Singh highlighted in the Parliament that the effect on GDP would be at least 2%. What this translates to in terms of jobs, welfare, etc., has been detailed in various chapters in this volume.

Decline in Foreign Portfolio Investment

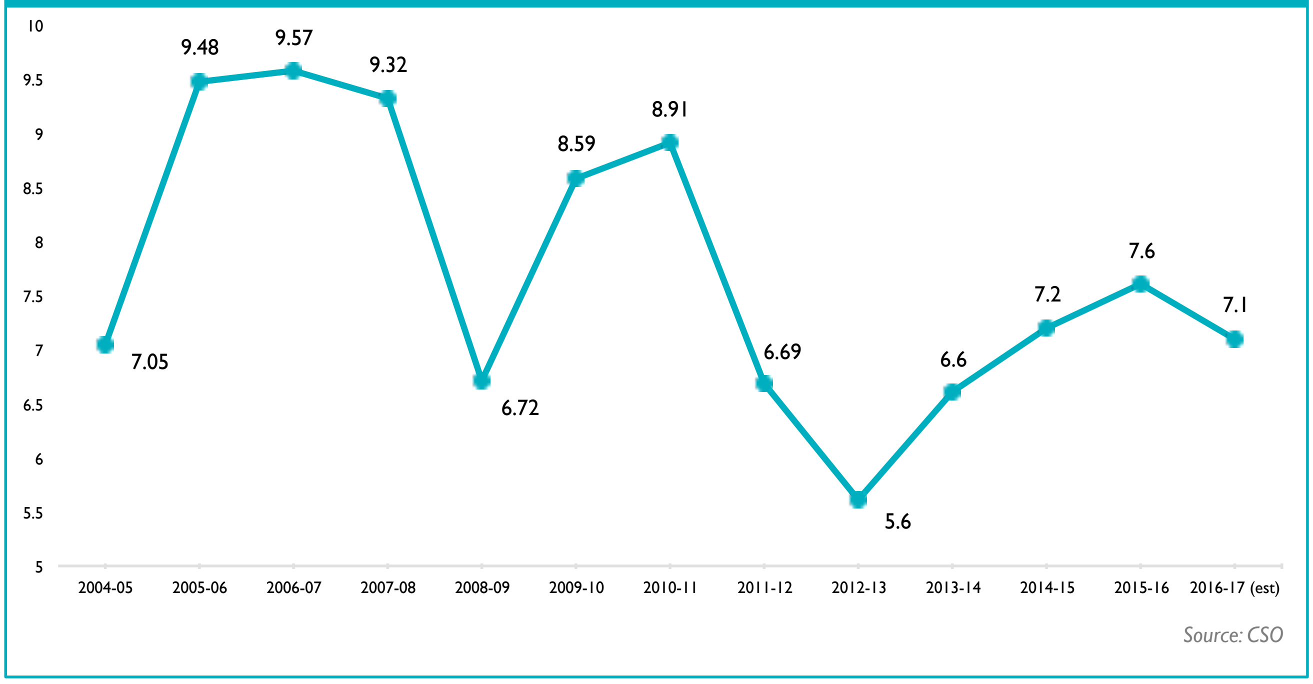
One consequence of the decline in growth is that foreign investors have begun an exodus from India. This will be accentuated by the economic slowdown and overall uncertainty in monetary policy following demonetisation. The flight of foreign capital from India adversely affects our ability to enhance growth by building on foreign investment. The demonetisation also came just as the United States recalibrated its monetary policy, bringing an end to quantitative easing and raising interest rates, thus attracting capital flows once again. Therefore, India is facing a double whammy; other markets are becoming more attractive while demonetisa-

Fig 9.2: GVA at Basic Prices



Source: MOSPI

Fig 9.3: GDP Growth %, Base: 2011-12



tion has set back India's growth story. The days of India being among the most attractive markets for foreign investors are effectively history.

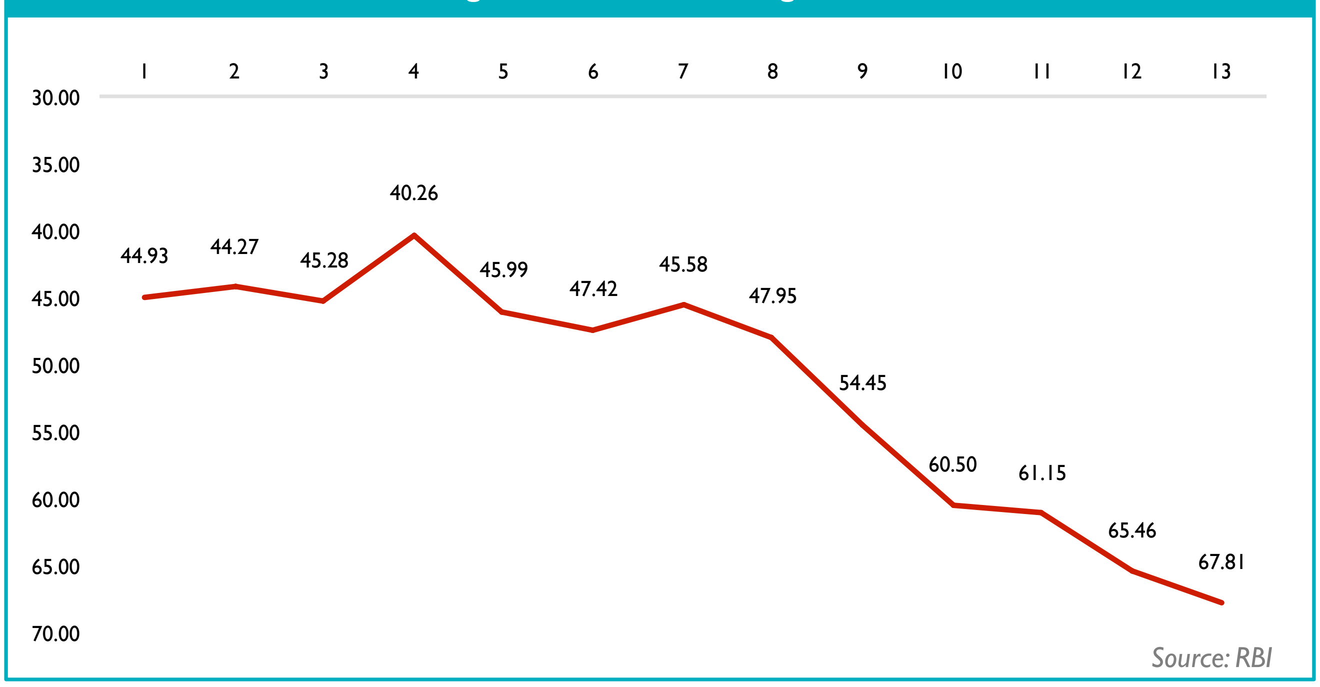
The evidence supports this; Foreign Portfolio Investment has declined substantially. Net FPI was USD -3.6 billion in 2015-16, turning negative for the first time since 2008-09. In October 2016 it was USD -1.8 billion and then in November 2016 it was USD -5.5 billion. Clearly an outflow had begun and it has become much worse post demonetisation.

9.3 HOW IS THE INDIAN RUPEE FARING?

The Indian rupee has shown a steady and continuous decline against the US dollar since the Modi government assumed office. The rupee could get weaker post-demonetisation and post US policy changes. This appears to be good news for exports. However, it is worth noting that the increase in competitiveness from currency depreciation implies selling of past manufactured stock since hardly any increase in new inventory have been reported. Despite lower oil prices, the rupee has depreciated. Again, had the oil lottery not been won, the rupee would likely have been in free fall.

9.4 ASSESSING THE FUNDAMENTALS: C + I + G + (X –M)

Fig 9.4: USD/INR Exchange Rate



Analysing the Individual Components of GDP

If we unpack the GDP numbers further into individual components, especially in the context of demonetisation, the narrative of robust growth is likely to dissolve into the ether, and an alarming picture emerges

Private Consumption

Problematic Trends in First Three Years of the Government:

One of the biggest components of GDP is private consumption, forming around 60%. Over the past few years, consumption growth has stagnated, in both rural and urban areas. While urban consumption has been muted, rural consumption has been significantly hit during the tenure of the Modi government, underlining the indifference with which it treats rural India. Successive droughts and languishing rural wages hurt the propensity to spend in rural India, as can be seen in muted demand for two-wheelers. The government has resorted to saying that rural consumption was not up to the mark due to drought. However, this is nothing but a mere excuse for callousness.

Rural consumption collapsed because rural wages collapsed. In addition to the natural calamity of drought, rural India faced a Modi-made calamity of insufficient rural expenditure. Rural household income was also not buffered by efficient wage payouts of work from MNREGA, further reducing liquidity and consumption of rural households. Making matters worse, mismanagement of distress sales has hit the aggregate of total consumption for the past three years.

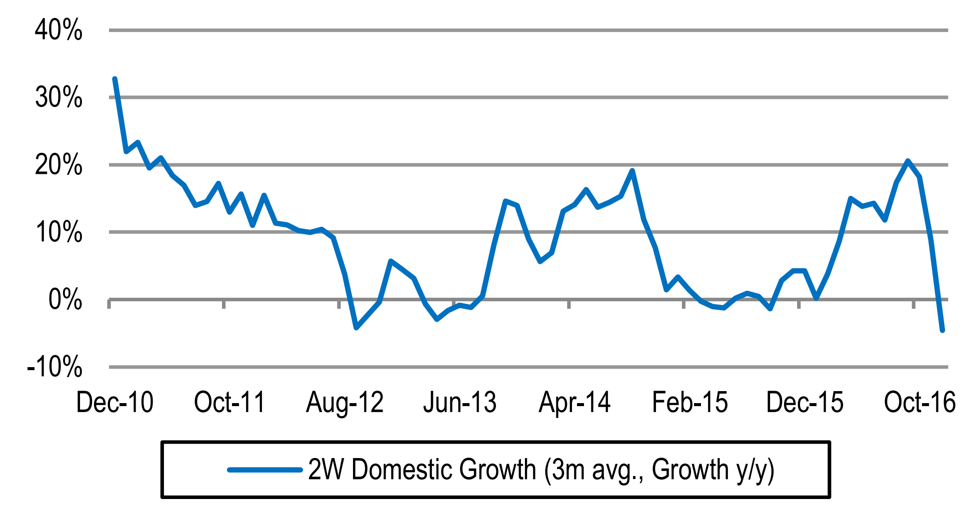
Effects of Further Stickiness due to Demonetisation

After two years of consecutive drought, the substantially normal monsoon in 2016 finally came as a relief. Against all economic logic of capitalising on an opportunity which is known to traditionally boost private discretionary spending; the government instead severely crippled the common person's marginal propensity to consume. Thereby inflicting upon them a massive liquidity crunch via demonetisation. The government had long argued that private consumption was lagging below normal due to sluggish rural consumption given two consecutive drought years. This indicates that they were well aware of the bounty they could have reaped had they avoided the blunder of the demonetisation.

Indeed, with the Seventh Pay Commission's implementation, private spending was pegged to increase, as it had in the quarters immediately following the Sixth Pay Commission. However, consumer sentiments post-demonetisation have ranged from fickle to outright bleak.

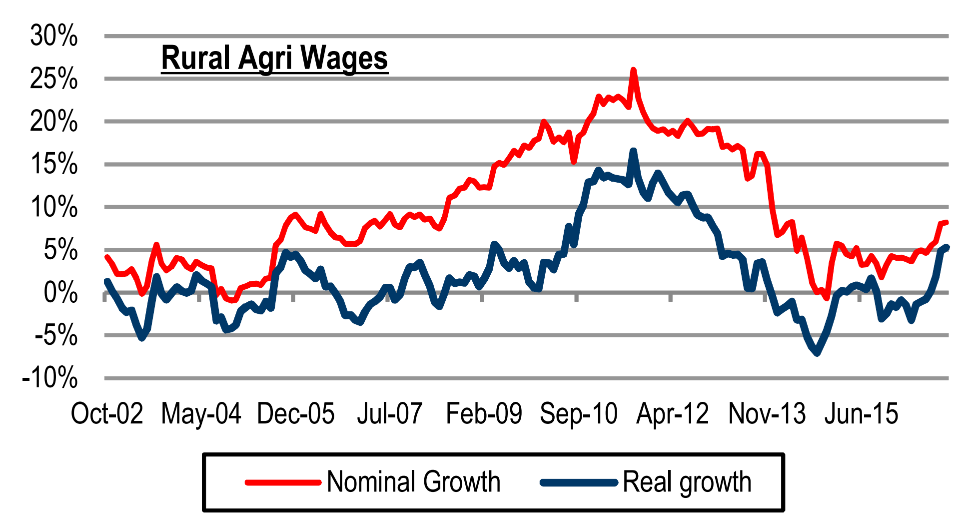
The BSE-CMIE-UMich consumer

Fig 9.5: 2W Demand – Proxy for Rural Demand



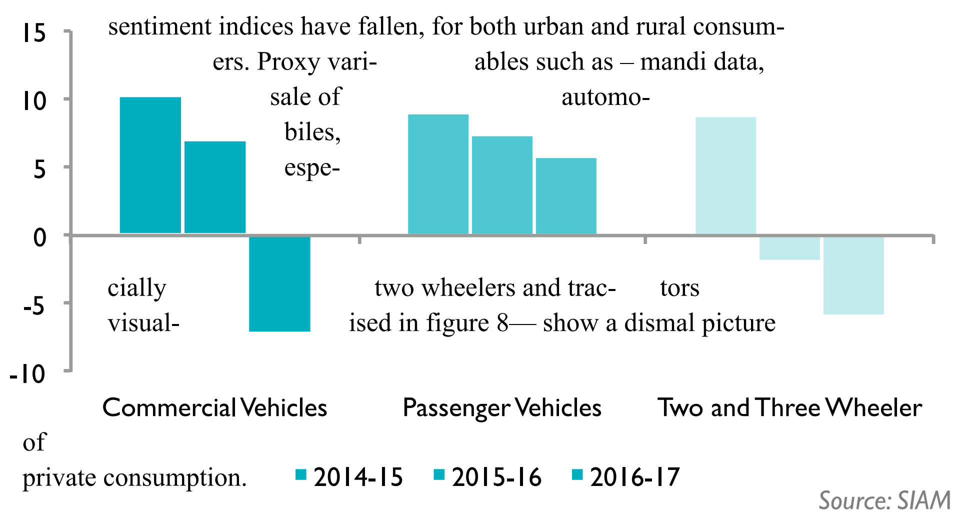
Source: SIAM

Fig 9.6: Languishing Rural Wages



Source: Labor Bureau, CMIE

Fig 9.7: Growth in Sale of Commercial Vehicles: Nov Each Year



Source: SIAM

sentiment indices have fallen, for both urban and rural consumers. Proxy variables such as – mandi data, sale of automobiles, especially two wheelers and tractors visualised in figure 8— show a dismal picture of private consumption.

Consumption went down because of the liquidity crunch immediately after demonetisation. It continues to stagnate as people choose to hoard rather than spend, given the economic uncertainty. In India, 95% of transactions are conducted in cash. By placing limits on cash withdrawal the government has stifled the consumption capacity of common people who are likely to not have any 'black money' anyway. Demonetisation has crippled domestic consumption heavily and will have adverse effects in the medium and long-term.

We say in the long-term because the backward linkages of broken supply chains have been severely mutilated to see a quick recovery. The transporter, the wholesaler, the shop keeper are unable to deliver the goods to the consumer even if production takes place. The farmer has suffered due to inadequate access to quality agricultural inputs like fertilisers, seeds and pesticides. Nor can the farmer employ agricultural labourers for sowing, deweeding and so on. The acreage of sowing data looks doubtful. The fertiliser sales are already down by 21.86% in Oct-Nov compared to the same time period last year. If farmers can pass over the acute cash shortage and ensure that the sowing translates to strong growth in output, the increase in rural consumption can provide some moderation from the slowdown. This however seems unlikely based on various reports across states, as pointed on in the chapters on rural economy and demonetisation. Thus keeping up GDP numbers post the negative shocks of demonetisation will be an uphill battle.

Investment

Gross fixed Capital Formation is an indicator of investment in an economy; this indicator has hovered at low levels in the past 3 years under the Modi government. Incidentally, the same indicator saw a double-digit growth under the UPA even after the economic crisis of 2008-09. Change in stock indicates private capital formation, which witnessed a 15% shrink between 2014-15 and 2015-16. With such a low rate of capital formation, what have campaigns like 'Make in India' really achieved? (Ref Fig 9.8)

Stalled Projects – Logjam at the PMO

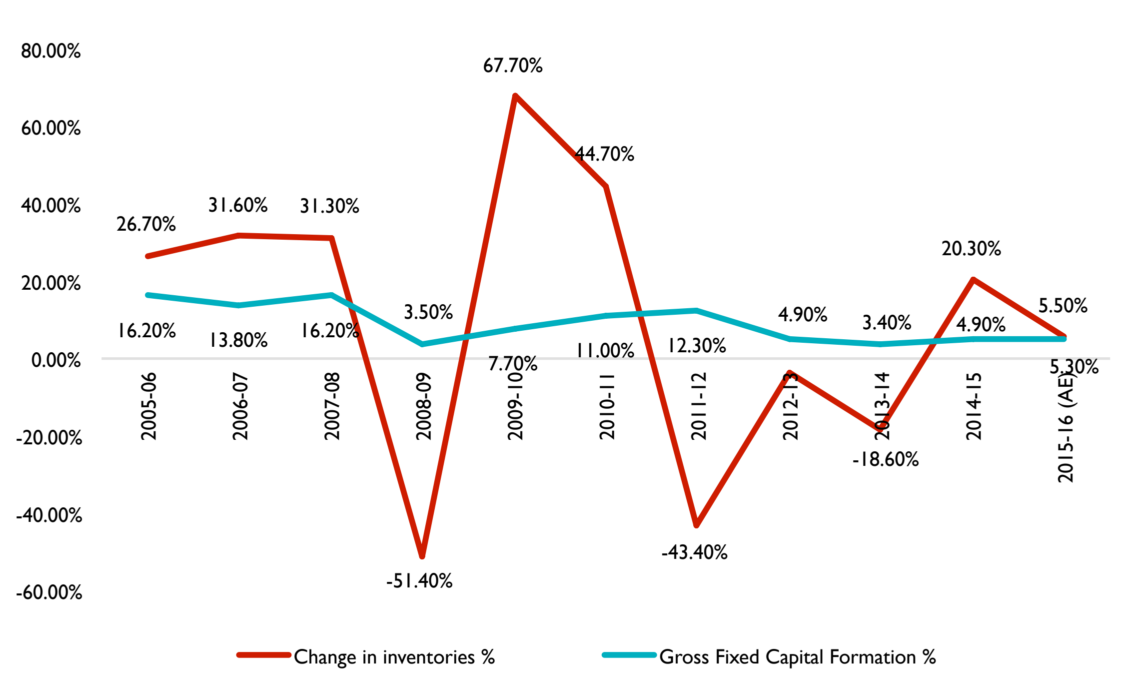
The rate of stalled government projects has not changed much since 2013. In terms of private projects, the value of stalled projects under this government stands at well over $777 billion, an increase of 4.31% in stalled private projects since the UPA years. Hype around the uptick in the on the ease of doing business ranking has not altered the ground reality of stalled projects.

Additionally, according to CMIE data, the number of new investments fell during recent quarters and, demonetisation has further reduced their pace. New investment proposals worth Rs.1.25 trillion were observed during the quarter ended December 2016 compared to an average of Rs.2.36 trillion worth of new investments seen per quarter in the preceding nine quarters. In terms of number of projects, only 404 new investment proposals were made during Q3 2016-17—the lowest number of new projects announced in a quarter over the last decade. In fact, the number of new projects had dropped to below-500 for the first time in a decade during the second quarter of the current financial year.

Metrics of intentions to invest suggest that in the October-December quarter, new investment intentions (as per the CMIE database) have reduced in both value and volume terms. In volume terms, both government and private sector project intentions fell to a decade low. A major part of the fall came from sectors such as real estate, logistics, hospitality and tourism, energy and mining.

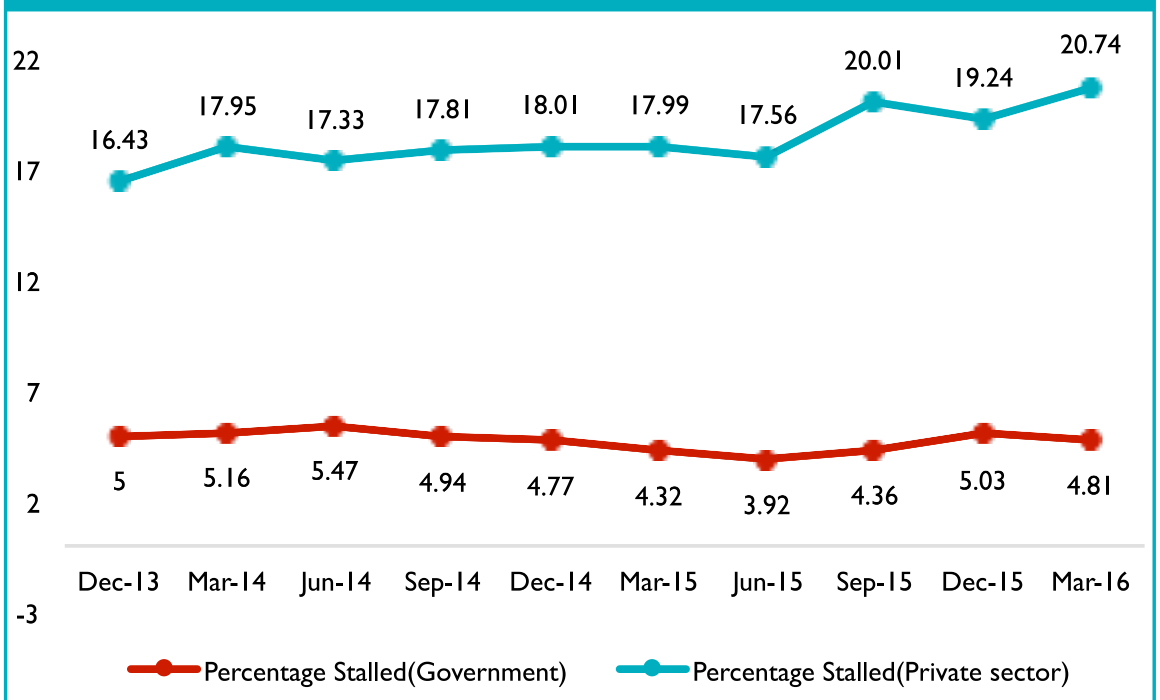
Production of capital goods has shrunk for the eighth straight month while core sector data looks equally lacklustre. Poor investment activity during 1QFY17, as manifested in the contraction of Gross Fixed Capital Formation (GFCF) by 3.1% year on

Fig 9.8: Gross Fixed Capital Formation



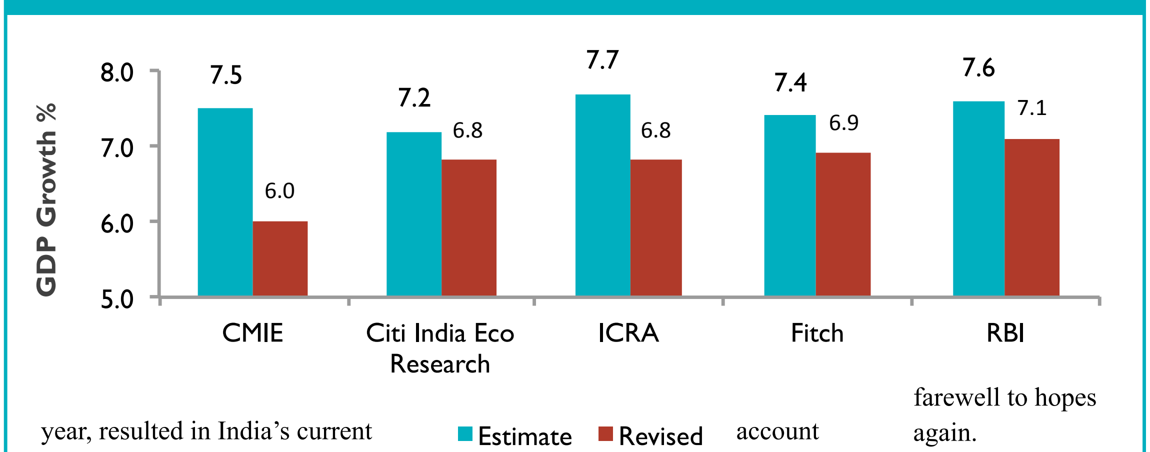
Source: Economic Survey 2015-16

Fig 9.9: Stalled Projects



Source: CMIE

Fig 9.10: Revised GDP Growth Forecast for 2016-17 Post-Demonetisation



year, resulted in India's current account deficit for the period shrinking to nearly 0.1% of GDP. This is the lowest since 4QFY07. Such a current account balance indicates a savings investment gap, and is indicative of a weak investment environment.

However, according to CMIE, the liquidity crunch that we see in the immediate short run is poised to last in the long run. Investments as a proportion of GDP during 2016-21 is projected to fall compared to its level during 2011-16, according to CMIE. Against such a backdrop, the government's hype about foreign inflow of capital into the country seems far-fetched, and a seeming lack of policy cohesion within the government itself is becoming apparent.

Government Spending

Problematic Trends in First Three Years of the Government:

This leaves us with public investments as the only option for growth apart from net exports. A key indicator of this is railway spending that stands at just Rs.50,826 crores for the fiscal 2016-16 (up till Q3) against the budgeted Rs.1,17,000 crores. Certainly, the railways will not be able to spend the budgeted amount in the remaining two months. In fiscal 2015-16, the railways was only able to spend Rs.50,333 crores. While we see an increase in the capital outlay, the railways has shown that it has only a limited appetite for utilising its outlays.

The dwindling fortunes of schemes such as Bharat Mala, Sagar Mala, and PM Gram Sadak Yojna all raise doubts about this government's ability to spend effectively. Clearly all of this is not enough to revive a faltering economy.

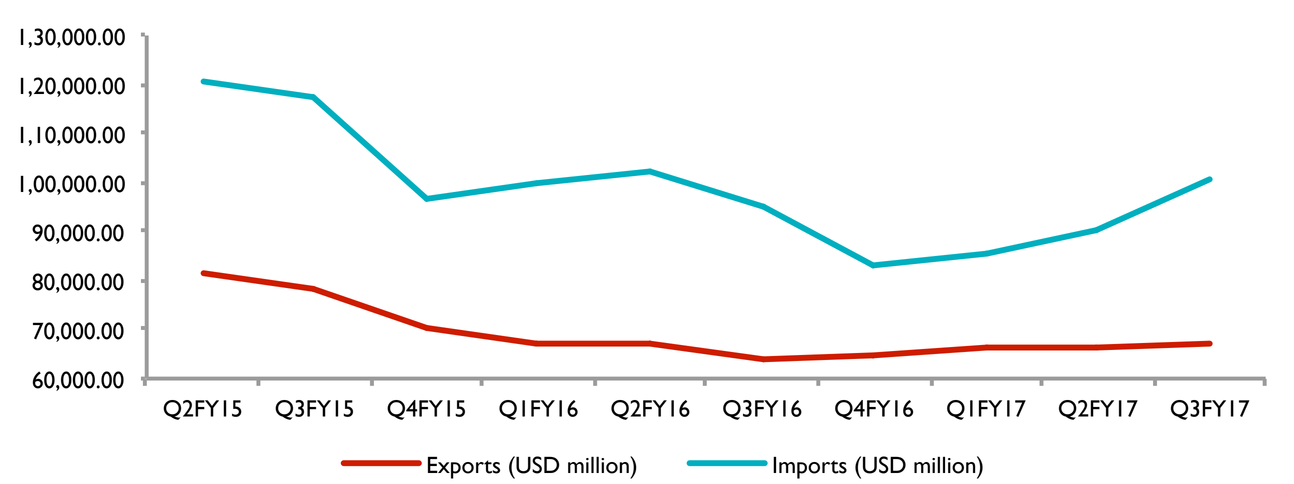
Effects of Further Stickiness Due to Demonetisation

Post-demonetisation, two very important questions arise: despite banks being flush with low cost funds, who is it that really wants to borrow in an environment of volatility, let alone invest? And perhaps more crucially, in the absence of private investment, in what direction will the government spend its newly collected money?

Domestic cushioning of the economy is the need of the hour to off-set the near-term shock to the economy. Indeed the 7.1% predicted growth is subject to enhanced public expenditure, that we have seen is pledged, but is not always spent. But again economic growth solely through government spending is unsustainable and unhealthy. When we cannot grow through private investment and consumption during times of such low oil prices and low infla tion, then we can bid farewell to hopes of healthy GDP growth once oil prices start to rise again.

Net International Trade

Fig 9.11: Export-Import (USD million)



Source: Ministry of Commerce & Industry

Problematic Trends in First Three Years of the Government

Past economic surveys have often touted India as a sweet spot in the volatile economic environment of the world but a quick glance at export performance tells a different story. Exports are at a twenty month low as can be seen from the figure 12 below.

It is not possible to exclusively blame the international scenario for dwindling exports, as countries who have responded systematically to those cyclical fluctuations have managed to keep their export sector thriving, as can be seen in Figure 12. For instance, as pointed out in the Economic survey 2015-16, it cannot thus be argued that there is no market for textile goods (a key component of India's export basket), as Vietnamese exports are consistently high, but instead that there is no market for Indian textile goods. Imports net of oil is a critical indicator of healthy GDP growth. This has also fallen. Perversely, the external sector is adding to GDP vis-à-vis previous years since while exports have fallen, imports have fallen even more.

Effects of Further Stickiness Due to Demonetisation

Unleashing demonetisation in a manner so abrupt on a country that relies heavily on cash transactions and the informal economy has brought about significant liquidity shocks which in turn disrupt supply chains in the long run. This is a worrying statement for exports which are already at a 20 month low, contradictory to the promises of the Make in India campaign. For a country that imports oil, India's exports of refined product exports are not faring well either, despite the oil price slump. Keeping in mind that 65% of exports are capital intensive, the decline in private investment could have a spill-over effect on the trade deficit as well.

9.5 TRACKING INFLATION METRICS

Former governors of the RBI have harped on inflation as a reason for their refusal to reduce rates. While the CPI, the key matrix used in calculating inflation, has moved from 6.3% to 5.22% in the period of 2014-16, the crude oil barrel prices saw a 33% dip. Retail oil (10% of the CPI basket) has been on the rise, food prices (46% of the CPI basket) continue to show the opposite trend. We could, hence, achieve greater reduction in inflation had retail oil prices reflected the fall in international crude prices.

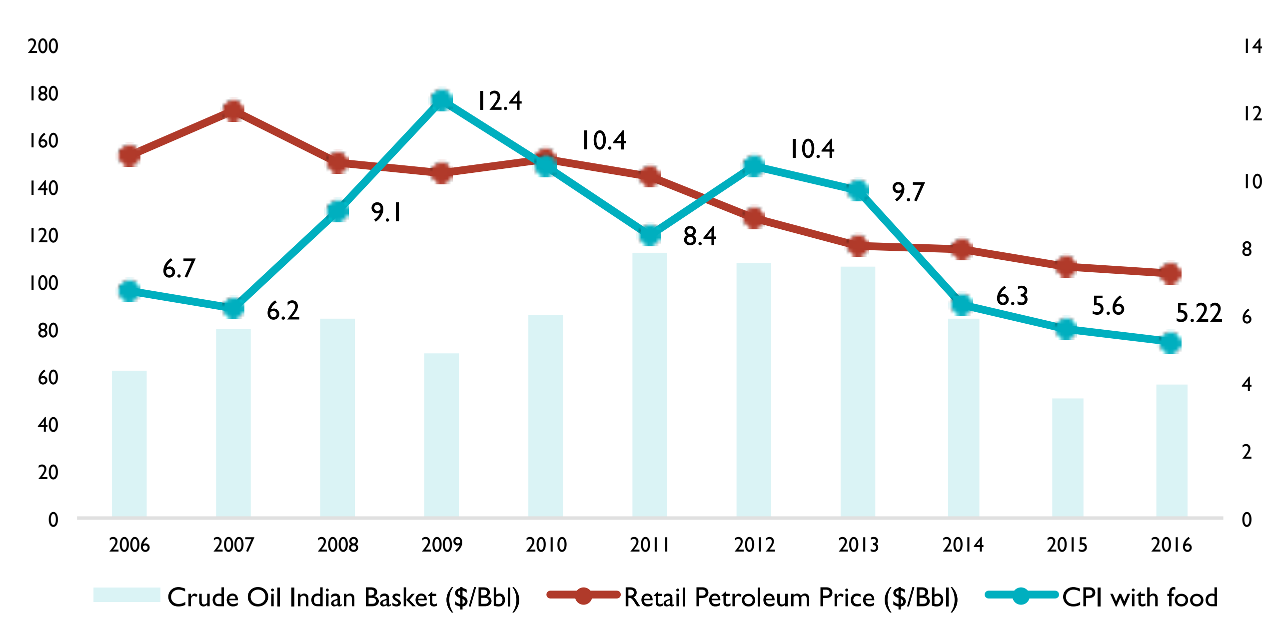
This year, despite a bumper crop and increased MSP, we see that mandi prices have actually decreased. This could be explained by a pattern of distress sales by farmers in the precious two drought years, by increased input prices, and possibly by a decrease in non-farm employment that has dampened market conditions.

Similarly, despite crude oil prices reducing the world over there has not translated into a gain to end consumers in terms of reduced petrol prices and increase in disposable income. If anything there is instead increased cess collection.

From inflation to deflation: When post demonetisation, demand weakened due to sudden liquidity shock a deflationary pressure built up. This was seen more predominantly in the rural sector while the urban sector too gained due to a fall in food prices. Deflationary pressure in the rural sector is troubling as it clearly indicates lack of demand in a market that already had low demand after two consecutive droughts. This will have a strong bearing on rural household consumption and nutritional outcomes.

Fig 9.12: Tracking Inflation Metrics

A decline in the international oil prices has not been translated into a decline in the retail prices of petroleum products



Source: RBI & Ministry of Petroleum & Natural Gas

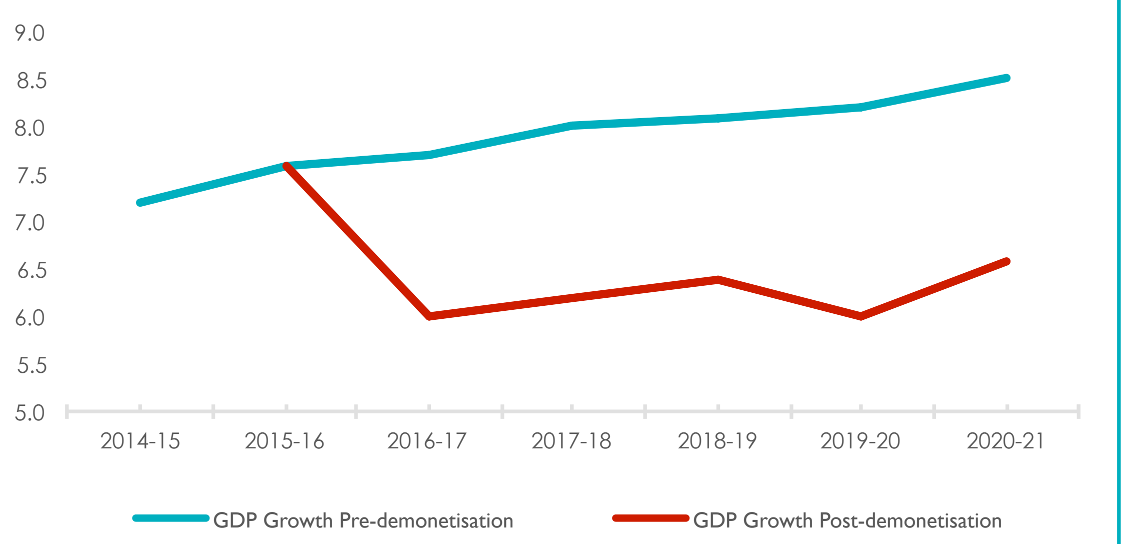
9.6 CONCLUSION - PROSPECTS FOR THE FUTURE

When the economy needed to be

nursed back to health, it received a hammer blow in the form of demonetisation. While most analysts have only made predictions for the short-term, CMIE has projected post-demonetisation growth over the next 5 years. The outlook is very grim. The jobs lost, both real and notional, would reach an astronomical figure if we remain hovering around 6% growth rates. At a time when India needed to nurture the 'demographic dividend', this is the worst betrayal of people's hopes and aspirations.

Thus, India's macroeconomic bright spots in the last two years have been entirely due to an oil lottery. Had this lottery not been won, India's GDP growth would have been severely stymied. Private investment and consumption continue to be at abysmally low levels. Global trade factors remain uncertain after Brexit and rising protectionism in the United States. Oil prices are starting to rise again. Demand for private credit is at a multi-decade low. Behind the hoopla about India being the fastest growing economy lies a slimy oily story.

Fig 9.13: Projections: Pre- & Post- Demonetisation



Source: CMIE

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