The farmer in the farm loan waiver

Beyond the macro data, there has been little enquiry into the profile of the indebted farmer households

ACROSS THE BOARD

SHAILESH DOBHAL

Four states in the country — Uttar Pradesh, Karnataka, Maharashtra and Punjab — have announced farm loan waivers amounting to almost half-a-per cent of the country gross domestic product. HSBC's Pranjul Bhandari and Aayushi Chaudhary estimate that it may go up to 0.75 per cent of GDP if other states like Madhya Pradesh, Haryana, Tamil Nadu and Rajasthan also join the waiver bandwagon.

Much has been written on how farm loans waivers may be not be the panacea for rural distress, and that it may end up destroying the credit culture and end up hurting the states' and the banks' balance sheets. Experts have opined that for a credible turnaround in rural India deep-rooted reforms across land and labour markets is essential, and so is massive public investment on irrigation. All very sensible interpretations and suggestions, even imminent if you were to believe the politicians. However, that is not the point of this column.

Beyond the macro data, there has been little enquiry into the profile of the indebted farmer. For instance, how is this rural indebtedness spread across landless and landholding households? Or what are the income and debt levels segmented across land sizes? How leveraged is a marginal farmer household vis-à-vis a big farmer?

A new study, Household Survey on India's Citizen Environment & Consumer Economy, by independent think-tank People Research on India's Consumer Economy or PRICE across 61,000 households reveals some interesting insights on the indebted farmer.

Sample this. Of the half-a-million large farmer households (defined as owning over 10 hectares) in the country, around 57 per cent are indebted, the highest proportion across all rural households. Of the 184-million odd rural households, a third (around 55 million) have taken loans from either formal source like banks and credit cooperatives or informal channels like the local moneylenders.

In fact, indebtedness goes up with the size of the land holdings in rural India. While just 27 per cent of the 104 million-odd landless rural households has taken any loan, the figure inches up to 33 per cent among the 55.5 million marginal farmer households who typically own up to one hectare of land. For around two million medium farmer households with land holdings between four and 10 hectares, almost one in two are indebted.

Mortgaging of assets to avail of a loan is also directly proportional to land holdings. While just 17 per cent of landless households have mortgaged assets, it goes up to 39 per cent for marginal farmer households, and stays above the half-way mark for all farmer households with landholding over one hectare.

Absolute average annual household debt rises with the size of farm holdings—a low of ₹55,567 for indebted landless households to a high of ₹2,01,296 for larger farmer households with loans. Bring their income, and as a concomitant measure surplus, into the equation and the picture start to look different as far as vulnerability goes. Debt owning landless households earn ₹1,50,850 a year, and its goes up to ₹4,75,404 for large farmer households.

On debt-to-income leverage, it is the medium farmer households that are most stressed, with a ratio of 0.62. Though landless households seem less stressed here, with a ratio at just 0.37, what makes their case a lot worse is that over two-thirds of the households availing of credit here do so from the usurious local moneylender. Critically, most of the loans by landless households are for non-agricultural, non-productive purposes like health emergency, weddings and/or meeting other social obligations, and this completes the vicious debt cycle for poorest of rural poor.

Among land owning households, large farmer households are the least leveraged at 0.42. Large farmer households are also high on formal finance (43 per cent of indebted households here have availed of loan from formal sources). Moreover, with over two-thirds of large farmer loans taken for agricultural purposes, it is easy to see who benefits the most from any universal loan waiver scheme.

CHINESE WHISPERS

First among equals

The polling to elect the next President of India began in the morning in the state capitals and in Parliament House in New Delhi. Prime Minister Narendra Modi was one of the first to reach the polling station in Parliament House. Modi reached the polling booth five minutes before the official time for polling. Seeing that the polling staff were a tad nervous that he was waiting, the PM asked them to go about their work and start the polling process at the appointed hour. According to sources, the PM told the officers that as a youngster he would always reach school even before its doors opened. He waited for a few minutes and was the first to cast his vote.

Mutual admiration club

Information and Broadcasting Minister M Venkaiah Naidu was flooded with congratulatory messages when news trickled that he was the vice-presidential candidate of the National Democratic Alliance. Naidu has spent over four decades in politics, starting as a legislator in Andhra Pradesh in the late 1970s. He has friends cutting across party lines and some of the first ones from Opposition parties to send their congratulatory messages were Leader of the Opposition in Rajya Sabha, Ghulam Nabi Azad, and Communist Party of India (Marxist) chief Sitaram Yechury. The CPI (M) chief also hails from Andhra Pradesh, and despite their ideological differences, Naidu and Yechury are known to get along. Both Naidu and Yechury are currently Rajya Sabha members. While Naidu is known for his alliterations, Yechury is famous for his one liners and witticisms. Naidu told people how he is always sure that if no one else, Yechury will definitely understand his one liners and alliterations.

Knowing who you are

A few months ago, Chairman and Managing Director of Mahindra Group Anand Mahindra presented a Kerala buyer a brand new M&M mini truck ostensibly because he had modified his three-wheeler to give it the look of a Mahindra Scorpio. The modified vehicle went into the Mahindra museum. Another story of customisation has emerged and this time the customiser has modified a Mahindra Thar into a Hummer. Unfortunately, this time around, Mahindra is unamused. In a tweet he said, "A Thar is a Thar is a Thar. Confidence is knowing who you ARE... (Doesn't need to be a Hummer...)."

Meeting the minimum public debt

In the concluding part of the series, the author discusses the implications of monetary, fiduciary and interest rate considerations for the desirable level of public debt and fiscal deficit

PRONAB SEN

Interest rate is among the key economic variables in any economy which influences several decisions taken by a range of economic agents. Besides savings and investment decisions, interest rates determine choice of technology by firms, and influence the economy's production structure.

Sovereign debt instruments provide the anchor for all interest rates, since they are the only financial instrument with zero default risk. Theoretically, interest rate on private debt of a particular maturity should be the interest rate on government bonds of the same maturity with a premium reflecting default risk of the private borrower. To effectively play this role, government bonds must be freely and actively traded so that their yield (effective interest rate) accurately reflects market risk and liquidity premia.

The market for government bonds in India is essentially a wholesale one, with no retail participation. Participants include banks, other financial institutions, foreign portfolio investors (FPI), and some non-financial corporates. In terms of volume, although total stock of government bonds is nearly 48 per cent of GDP, "in float" volume is only 17 per cent, since statutory holdings by banks and other fiduciary institutions can't be placed on the market. Thus, the market is limited to excess holdings of these institutions (6 per cent), holdings of non-fiduciary bodies (6 per cent), and that of the RBI (5 per cent). Therefore, the range of participants and the float are large enough for a reasonably efficient market.

The market maker, to all intents and purposes, is the RBI. However, the RBI's functioning in the market is different from that of standard private market makers: Its objective is not to maximise profits from arbitrage and trading fees, but to attain the desired interest rate level. To carry out its mandate, the RBI necessarily has to have a target rate around which it can work.

Most central banks have a publicly stated base value of real interest rate, and monetary management is about deviations from this base value depending upon cyclical factors. The RBI hasn't articulated what it considers to be the desirable real interest rate level. One way is to assume that the coupon rate on treasury bills reflects the finance ministry's take on this. At present, the coupon rate on 10-year treasury bills is 7 per cent.

In order to judge whether voluntary holdings of government securities are too high, the actual market-determined yield should be compared to the desired rate. If yields are higher, it implies an excess of government securities in the market: If yields are lower, it means that there is an excess demand for government bonds, and any reduction in supply will lower interest rates further, thereby distorting various decisions that are contingent on interest rate.

DEBT BURDEN Of the total public debt of 68 per cent of GDP, securities account for 47.5 percentage points and the rest for the remaining 20.5

At present, yields on 10-year treasury bills are marginally below the coupon rate of 7 per cent. Therefore, voluntary holdings of public debt amounting to 12 per cent of GDP are by no means excessive, and may even be too low.

Minimum public debt: If voluntary holdings of public debt are added to the RBI's holdings and mandated holdings, the minimum public debt stock comes to at least 58 per cent of GDP.

However, this is only the current position. In view of the government's push towards greater "financial inclusion" in the form of bank deposits and insurance coverage, this ratio is likely to trend upwards. Therefore, some cushion needs to be provided for contingencies. Seen in this light, the FRBM Committee's recommendation of a target public debt ratio of 60 per cent seems eminently sensible, but as a floor and not a ceiling.

Fiscal deficits and composition of public debt: The stock of public debt is only one part of the story. Consideration must also be given to fiscal deficit, which is the annual rate of public debt generation. If nominal GDP grows at 11.5 per cent annually, debt ratio will decline by 6.2 percentage points annually if there is no addition to debt stock. Therefore, to stabilise public debt ratio at the desired level fiscal deficit should be maintained as 6.2 per cent per annum.

Also, the steady-state relationship between fiscal deficit and debt stock ratio assumes that the composition of the debt doesn't matter. It does matter and any analysis which ignores this is seriously flawed. A basic distinction has to be drawn between government securities and all non-securitised public debt instruments such as provident funds, external borrowings, etc: It is the former which determine market yields and thereby the economy's interest rate structure, while the latter has no direct role to play.

As things stand, of the total public debt of 68 per cent of GDP, securities account for 47.5 percentage points and the rest for the remaining 20.5. In comparison, of the minimum public debt of 60 per cent of GDP, securities should be 48 percentage points and others 12. Therefore, supply of government securities is already below its optimal level. Although this is not an immediate problem since the gap is small, it shouldn't be allowed to persist.

This compositional inconsistency has an important implication for financing of current fiscal deficits: government securities must account for at least 5 per cent of GDP in the total financing of consolidated fiscal deficit for the immediate future. Unless this condition is met, the gap between the actual and desired stock of government securities will continue to widen to a point where fiduciary institutions will be under stress both from being unable to meet legal requirements, and reduced income flows from their holdings of public debt instruments.

The finance ministry needs to assess these considerations, and perhaps so should many other countries.

(Series concluded)

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CONSUMER LIFE

Replace informal occupations with formal ones

MAHESH VYAS

According to the Economic Review of the Directorate General of Employment and Training, Ministry of Labour, the total number of people employed in the organised sector was 29.6 million in 2011-12. In the same year, using the National Sample Survey Organisation's Employment and Unemployment survey in India and the Census 2011 data, we estimate that the total persons employed was 303.5 million.

If less than 30 million were employed in the organised sectors then the rest, that is 274 million, were employed in the unorganised sectors or on their own. Nobody is happy with these numbers. Not even the government. Government data on employment/unemployment is not only woefully dated but is also terribly inadequate.

CMIE's Consumer Pyramids Household Survey (CPHS) captures the employment/unemployment status of adults and provides several answers that the government is looking for. Here are some facts based on the CPHS.

According to the CPHS, an estimated 404.7 million persons were employed during January-April 2017.

Of these, only 21 per cent were employed in what can be called as jobs in a proper sense. These are white collar workers, industrial workers, support staff in factories and offices, managers, etc. There were 86 million people with such jobs.

These are the jobs that people aspire for. When a government or a political party promises or resolves to provide jobs, it is these jobs that we imagine would be provided. The Bharatiya Janata Party had resolved to provide 20 million jobs. Nobody thought that those jobs were of agricultural labourers or construction-site daily wage workers. The implied jobs were those in factories and offices.

If India took several decades to provide 86 million formal jobs then it was anyways a tall order to provide another 20 million in just five years. But, that is the need at the very least. Because, for every one person doing a respectable formal job there are two who are "employed" without a job. These are small traders, agricultural labourers and daily-wage labourers. This segment "employed" 165 million people during January-April 2017.

For every one person doing a respectable formal job there are two who are 'employed' without a job

These 165 million "employed" people need to move to better, regular jobs. This is the bigger jobs challenge. The local vegetable vendor needs to find a job in a large mall or set up a formal store; and the local plumber needs to be given a job in a large professional service company. In fact, this is India's growth challenge. If these 165 million languish in low productivity, India simply cannot progress.

People take on these low-productivity engagements because there is a serious dearth of formal jobs and people cannot afford to remain unemployed for long. It is easy to get these informal jobs but, it is equally easy to lose them.

Between September-December 2016 and January-April 2017, while the number of farmers who owned land increased by 3.7 million, the number of agricultural labourers declined by 5.6 million. In hard times, farmers preferred to rely less on external labour. Agricultural labourers have no job protection of any kind.

The number of daily wage earners (non-agricultural) dropped by five million during the same period. These are big hits to the poorest sections of the society. It is possible that some of them shifted to becoming small traders. There is substantial mobility between people being agricultural labourers to being daily wage labourers to being small traders.

Usually, these occupations do swell because the new workforce that does not find jobs settles for these informal occupations (they cannot be called jobs, in the true sense of the term as we understand it). In the earlier surveys we saw their numbers grow by about 9.5 million. This is roughly the same number that were lost in January-April 2017.

The challenge is to grow formal jobs. But, these have been declining. During January-April 2016, there were 93 million such jobs. This fell to 89 million in May-August 2016 and then to 86 million in September-December 2016. They remained at 86 million in January-April 2017. Compared to a year ago, these formal jobs have fallen by about 7 million.

Only a large household survey can provide data on the informal sector along with the formal sector. This is because the size of the informal sector is very large. The government would do well to focus on fast-frequency household surveys to estimate both employment/unemployment and job creation. India is not ready yet, for an enterprise survey to estimate job creation like in the developed countries.

The author is managing director and CEO, Centre for Monitoring Indian Economy P Ltd

LETTERS

Job creators v/s job seekers

This is with reference to the interview with Pramath Sinha. "Indian industry not sophisticated enough to absorb IIT-quality engineers" (July 15). Dedicated and great educationalists should head IITs and there should not be any compromise while selecting the directors of such institutes. N R Narayana Murthy made an observation that in 60 years, India had failed to make any earthshaking invention. This is mainly due to our faulty education system, which does not encourage research and invention. When even a small country like Estonia could invent Skype, India despite having so many IITs and IIMs has failed miserably to make an impact on innovative technology and research.

A way to make our IITs research and invention oriented is by making them autonomous with minimal or no government interference. Only people of repute with expertise and knowledge known for their academic flair should head IITs and IIMs. These should be hubs for invention and research and create more entrepreneurs who will create jobs.

India should learn from the Silicon Valley. Risk-taking is encouraged there and entrepreneurs are heroes. It is a pity that many entrepreneurs from there are of Indian origin, who migrated to the USA. We can draw lessons by providing good infrastructure, uninterrupted electricity and expertise to young entrepreneurs. The human resource development ministry should turn our premium institutes into hubs of invention/innovation.

Veena Shenoy Mumbai

Never too late

This refers to "Reverse cattle trade ban" (July 16). It is never too late to correct our mistakes, if we realise that yes, we have goofed up. And it applies to our government also, which should think again about this ban on sale of buffaloes and cattle. It is an undeniable fact that after five-six

years when a cow or buffalo stops producing milk, the owner does not have any other option but to sell it to the slaughter house. And if he simply lets them lose, then also there is an issue of them falling into the wrong hands. And if farmers are forced to maintain unproductive cattle at their disposal, then sooner or later they will lose interest in dairy farming and ultimately the sector will face the brunt. So the government should really introspect and think what the apex court has suggested and lift the ban completely. The ruling party may be in a dilemma that if they do it, the Opposition will claim it as victory, but in larger scheme of things, when division is being created between states and beef lynching incidents are giving a bad name to the government, it is too low a price to pay.

Bal Govind Noida

Look before you leap

With reference to "Can WLTF fill the void?" (July 14), the Wholesale and Long-Term Finance bank aims at funding long-term projects, especially in the infrastructure and manufacturing sectors. The authors' conjecture on the success of WLTF bank mainly draws upon the issues of fund raising or capital acquisition and the nature and profile of promoter groups.

Two major issues can arise that could challenge WLTF banks' existence. First, resource acquisition or fund-raising and nuances of credit rating for the debt instrument receive attention. Eligible promoters of WLTF banks should have a required net worth and maintain a minimum capital of ₹1,000 crore and attract a deposit of ₹10 crore in the current account. They can raise capital either through issuance of AA rated or an investment grade bond. As issued bonds have longer maturity compared to treasury or short-term bonds, banks need to pay higher risk premium on maturity. In other words, the WLTF bank should estimate risk-adjusted returns apriori on issued capital when lending to long-term projects.

Second, the lending protocol to eligible borrowers is important. With an entry-barrier, an "on-tap licencing" mechanism can be followed. Now the terms of lending including loan period, interest rates, loan-to-value margin, and recovery mechanism determine WLTF banks' competitive edge over universal banks.

Kushankur Dey Bhubaneswar

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HAMBONE BY MIKE FLANAGAN

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A sequencing issue

Demonetisation and GST have knocked out SMEs

It is too soon to determine the overall effect of the goods and services tax, or the GST. Certainly, the roll-out, while expectedly disruptive, has not so far caused widespread chaos, so the government can be pleased but watchful. While the GST is not a perfect system, it is an important advance and contains the seeds of a truly transformative reform. Yet there are effects of the GST that the government must keep its eye on, particularly on small and medium enterprises, or SMEs. As has been widely reported, the GST might indeed lead to an increase in the size of the formal, taxpaying sector, but the burden of the change would fall disproportionately on SMEs, which have been the engines of Indian growth and employment.

It has been a bad year for SMEs. The withdrawal in November of 86 per cent of India's currency stock — demonetisation — hit the cash-based informal sector particularly hard. Many SMEs found themselves without working capital. The sudden downturn in orders caused the more fragile enterprises to suspend operations or even to shut down. There is no clear indication as to the extent of this problem due to the difficulty of obtaining precise data about the functioning of India's informal sector or its smaller enterprises. But the numbers issued by industry associations or by bodies like the Centre for Monitoring the Indian Economy are far from encouraging. Demonetisation may or may not have been a good idea, and it may or may not have achieved its ends; even if there is disagreement about that, there can be no disagreement that its timing was awful. The government knew that the GST was due to roll out in less than a year; and it was already obvious that the transition would be particularly difficult for SMEs. But decision-makers chose to go ahead with demonetisation anyway. This reveals a somewhat cavalier attitude to the overall health of the Indian economy, which is worrying and disheartening. If the reasons for the timing of demonetisation were political — concern about building a narrative prior to the elections in Uttar Pradesh, for example — then that does not reduce the problems attached to the decision. In fact, the possibility renders the decision more problematic, not less.

It is clear, therefore, that the SME sector will deserve extra attention. This attention should not take the form of populist policies, but of additional efforts to increase the ease of doing business for smaller enterprises that have entered the tax net. There have been reports that the very smallest enterprises are being left out of supply chains due to the structure of the GST. This problem should be examined and addressed as a priority. The government, and even the leadership of the ruling Bharatiya Janata Party, has indicated that it intends to focus on increasing small-scale entrepreneurship rather than on generating mass employment. If so, then it should own up to the hurdles it has put in the way of small entrepreneurs through its sequencing of policy, and focus on making things easier for them.

Don't kill net neutrality

The decision in US will have echoes in India

Last Wednesday saw an online protest in America, "Internet-wide day of action to save net neutrality", coordinated by online activists, start-ups and many large companies, including giants like Facebook, Google and Twitter. The issue was the reopening of the net neutrality debate under the Trump administration. The Federal Communications Commission, under its newly-appointed chairman, Ajit Pai, is looking to overturn its own ruling in 2015 that the internet is a public utility. More than 80,000 websites displayed banners and messages in support of net neutrality and over six million comments have been submitted to the FCC on the issue. The FCC will debate this until a final hearing in the US Congress in August. Recent opinion polls indicate that users are in favour of the current status. As many as 77 per cent of those surveyed support the FCC's open internet order, including 73 per cent of Republicans, 80 per cent of Democrats and 76 per cent of Independents. But that may not prevent the law being overturned. Some big businesses, namely cable companies, would like the law changed and the FCC chairman says that it is a barrier to job creation.

But net neutrality is a cornerstone of fair online competition. If the internet is deemed a utility, an internet service provider must treat all content equally. An ISP can generate its own content, or tie up with content providers of choice. But it cannot selectively deliver some content at higher speeds. Neither can it deliberately slow down content, nor can it charge discriminatory tariffs or offer discounts for favoured content. This has obvious implications for e-commerce and entertainment. Consider a hypothetical case, where an online marketplace ties up with a given ISP to make transactions quicker, and the ISP then throttles back speeds for competing marketplaces. One of the internet's virtues is that it provides small businesses and individuals a chance to compete with giants. If net neutrality is removed, big companies could leverage a huge competitive edge by doing deals with ISPs to ensure preferential treatment for their offerings. Indeed, even many large companies are uneasy — they fear being shouldered out by rivals. At the same time, the ISPs point out, with some justice, that some traffic management and discrimination are technically necessary; video content cannot afford latency, while emails can be delivered at lower speeds without loss of fidelity.

The Republican administration has already relaxed rules about online privacy, allowing ISPs to sell user-data. There is a real chance that the FCC will reverse the ruling that the internet is a public utility, thus allowing for discriminatory speeds and pricing. Any such ruling has potential consequences in India, which, of course, has no privacy law and has a tendency to "copy-paste" technology policy. The Telecom Regulatory Authority of India (Trai) in February 2016 adopted a stance that was similar to that of the FCC, when, among other things, it ruled that there could not be discriminatory pricing for data plans on the basis of content. But Trai also reopened the net neutrality debate this January when it floated another paper with a focus on traffic management. That debate continues and, whatever decision the FCC takes, it is likely to have echoes in India.

PUBLIC SOCIAL PROTECTION EXPENDITURE BY PURPOSE AS PERCENTAGE OF GDP CIRCA 2010

Region	Total	Health care	Old-age support	Labour market support	Well-being of children	Other social assistance
India	2.6	1.1	0.7	0.6	0.1	0.1
Sub-Saharan Africa	4.3	2.6	1.1	0.3	0.1	0.2
Asia Pacific	4.6	1.5	2.0	0.4	0.2	0.4
Latin America	13.9	4.0	4.6	2.0	0.7	2.6

Source: World Social Protection Report, 2014-15, ILO, Geneva

Universal basic income or social security

What we need is a blueprint for universal health care, pensions, and unemployment insurance to help the vulnerable section

NITIN DESAI

Recently a seminar organised by the Institute for Human Development in Delhi discussed the proposals for a Universal Basic Income (UBI) put forward by Pranab Bardhan and Vijay Joshi, whose presence at the seminar added greatly to a better understanding of their ideas. The seminar also had sessions on the treatment of this topic in this year's Economic Survey and field-level concerns.

The dissatisfaction with the misdirection of subsidies in social welfare schemes and the high-level of "demerit" subsidies that go to better-off sections of the population figured prominently in the discussion. What Mr Joshi called "deep fiscal adjustment" was sometimes advanced as a reason for replacing the existing subsidies, merited or not merited, with a UBI. There was some discussion of how, in addition to the gains from the reduction in demerit subsidies, the resources required for a UBI could come from raising the tax/GDP ratio, disinvestment,and rationalisation of fiscal sops, which, it was argued, gives fiscal headroom of about 10 per cent of GDP.

The need for exceptions was recognised and this interestingly included the MGNREGA, the principal vehicle for income subsidy at present. It was also accepted that spending on public services such as education and health must be protected, though one sensed a divide of sorts between those who would give priority to such merit good expenditures and those who preferred to enhance the agency of households/individuals to choose from. (For the latter group, are education and health vouchers the next step after the UBI?) An undertone in the discussion was the disquiet about patron-client politics where subsidies are used by parties to preferentially favour their vote-banks.

There was a slightly surreal discussion of implementation issues such as individual versus household entitlement, monthly or yearly payments, transfers through bank accounts or mobile wallets as if the implementation of a UBI is imminent.

My concern is that much of the discussion on financing, design and implementation issues deals with matters that should be taken up after we come to the judgement that a UBI is the appropriate way to pursue social security in India.

The case for a UBI should rest on its impact on household economic security, a point stressed by Pranab Bardhan. In our fractured and fractious society, protection against social discrimination must also be considered and from a welfare perspective we should look for:

- A guarantee for a minimum level of consumption of private and public goods
- Protection from major sources of vulnerability like catastrophic health expenditures, substantial crop failures, loss of employment, natural disasters
- Resources for advancement for oneself and for one's children
- Empowerment and a sense of agency for women, tribals, dalits, minorities
- An escape route for those trapped in demeaning occupations such as manual scavenging

The question that needs to be asked is whether an unconditional cash transfer of a few thousand rupees per head per year would help achieve these goals. From the perspective of a poor and vulnerable household would this be an improvement if it replaces all or most of the present welfare system of goods and services provided in kind (for example subsidised grains), employment programmes (MGNREGA), targeted welfare programmes (for the girl child, pregnant women, the disabled), conditional subsidies (means tested scholarships), targeted insurance schemes (for crop failure or health care), affirmative action (job reservation), anti-discrimination laws, and so on? Like every capitalist market economy, India will need a structured social protection system very soon. Is a UBI the answer to this?

At present, individuals cope with unemployment, large health expenditures, old age and other emergencies mainly by falling back on traditional support systems — go back to your village home when you lose a job, draw support from relatives and friends for sudden expenditure demands for health crisis and other emergencies, rely on children for old-age support, and so on. These traditional systems were often quite demeaning, particularly for old age as one can see in the widows exiled to Varanasi and Vrindavan to live off charity.

The Centre and states do provide some protection from economic vulnerability. But much more needs to be done. The table shows how limited our efforts are even in comparison with Sub-Saharan Africa or the Asia-Pacific region.With urbanisation, industrialisation and migration, people will lose the traditional safety nets of an extended family and we will need a state-supported social safety net that rests on entitlement and not bureaucratic discretion. But entitlements can be conditional on meeting a means test or some social or geographical criteria of vulnerability and need.

Judging by international experience we need to double our social protection expenditure to 5 per cent of GDP as soon as possible and assume that this will rise steadily 10 per cent plus as we become an urbanised industrialised upper middle income country. The calculations made to show that fiscal headroom can be made available for a UBI suggest that we can afford a universal entitlement-based social protection system.

One must also ask how one can get from here to there. Today's schemes have beneficiaries who have gotten used to them and political patrons who derive their support from them. A beginning can be made by consolidating existing schemes where possible, shifting to direct cash transfers of cash benefits, rationalising the delivery mechanism so that the targeted household or individual has one point of contact for establishing entitlement and getting what is due from the plethora of schemes and agencies.

Taking a cue from UBI proposals we should work towards a unified social protection programme that will deal with all public services, transfers or in kind subsidies for social protection provided by the Centre and the States. What we need is not an overly simple UBI scheme but a blueprint for universal health care, old-age pensions, unemployment insurance and social assistance to help the vulnerable as components of a coherent and integrated system. This task is as complex as the GST and perhaps as important for national unity and even more important for deepening our democracy.

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A none too exciting merger

FINGER ON THE PULSE

TT RAM MOHAN

Corporate chiefs like to flaunt mergers and acquisitions as great triumphs of the imagination. The markets tend to greet mergers with whoops of delight — the share prices of the two companies often rise in response to such announcements.

This flies in the face of the fact that a large number of bank mergers, perhaps the majority, fail to enhance total shareholder value, that is, they do not enhance the aggregate value of the shareholders of both the companies involved. That has not stopped CEOs from trying.

Mergers, like marriage, represent the triumph of hope over experience: Every CEO hopes that he will belong to the minority that succeeds. While touted as great strategic coups, they are, in fact, confessions of failure, the failure to grow on an organic basis. This tells you that a merger makes sense mostly when organic growth cannot deliver adequate returns.

In the proposed merger of the IDFC group with the Shriram Group of companies, there is not even the initial euphoria. The shares of listed entities in both the groups fell in the days following the announcement of discussions on the subject.

IDFC was in the business of financing infrastructure, an area that will remain forbidding for some time. So it set up a banking operation as a subsidiary. It has not made much headway with corporate lending. It tried to focus on financial inclusion with its 'Bharat Banking' initiative. For any bank, however, financial inclusion can only be the icing on the cake. The cake is retail and corporate assets.

To acquire that, a bank needs competitive pricing. That comes from having a ratio of current and savings accounts (Casa) to total deposits of at least 30 per cent. IDFC Bank's Casa is 5.2 per cent of its deposits. It has 74 branches. To raise its Casa, IDFC Bank would need to have at least 500 branches. The CEO of IDFC Bank, Rajiv Lall, has confessed that organic growth is not a realistic option for his bank. But that does not make any merger sensible.

IDFC Bank will merge with Shriram City Union Finance (SCUF), to start with. Shriram Transport Finance Corporation (STFC) will be kept out of the merger initially. IDFC Bank has assets of around ₹50,000 crore. SCUF has assets of ₹20,000 crore. Even absorbing SCUF will be a challenge.

The challenge is to raise deposits to fund SCUF's assets. IDFC Bank hopes to cross-sell saving deposits to SCUF's retail customers. This is not something that is accomplished overnight. To start with, IDFC Bank will have to fund SCUF assets mostly with "bulk deposits", that is, deposits that are at rates higher than the "card" rates for normal retail deposits.

Bulk deposits are typically corporate surpluses parked with banks for short periods (90 days or so). Over 90 per cent of SCUF's assets (such as small business loans, two-wheelers and car loans) have a tenure of two to three years. Financing medium-term fixed assets with short-term deposits is fraught with interest rate risk.

What is in it for the Shriram Group shareholders? With its small asset base, SCUF should have no problem growing organically. Its net interest margin (NIM) of 13 per cent and its return on assets of 2.4 per cent would make bankers turn green with envy. Banks are thrilled with a NIM of 4 per cent and a return on assets of 1 per cent. STFC has an asset base of ₹80,000 crore. But it too has plenty of potential for organic growth, given is unique focus on used commercial vehicles.

It's all too readily assumed that Non-Banking Financial Companies (NBFCs) stand to gain by converting themselves into banks because then they can access low-cost deposits. For well-managed NBFCs that focus on niches that banks are not good at (second hand vehicles, financing against gold), this is simply not true. Their higher cost of funding is more than taken care of by high-yield assets.

As analysts have noted, for the Shriram Group, the merger is motivated more by succession issues. Its founder, R Thiagarajan, felt that none of the professionals in the group had the necessary entrepreneurial flair. So he brought in Ajay Piramal as a strategic investor. Mr Piramal found the business too hot to handle. Now, the two have decided to entrust the business to the IDFC group.

There is a clash of cultures inherent in the merger. This has to do not just with the North-South divide. Integrating a banking business with an NBFC business is not easy. The Shriram Group's businesses are cash-intensive, require the processing of thousands of cheques and relate to a clientele that is vastly different in character from that of IDFC Bank. If the proposed merger goes through, investors in the two groups must keep their fingers crossed.

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Of curd rice and 'comfort' writers

KITABKHANA

T C A SRINIVASA-RAGHAVAN

Once upon a time Delhi used to have very well-stocked public libraries. The best of them was the Central Secretariat Library.

But these libraries declined as the years went by. From the 1970s onwards one had to fend for oneself, mostly from bookshops.

One consequence of this was the reduction in the number of writers one was able to read because in those days, books cost quite a lot even in those now long-gone pavement shops, and each new writer was a gamble. I tried many writers only to find they had not been worth the money.

Kindle and Google between them have now taken care of this problem. One can browse just as one could then. The difference is that there was no capital cost then.

The restriction of choice until gradually led to the emergence of what, for the want of a better description, I call comfort writers. They are like comfort food (curd rice) and comfort music (Hindi film songs of the 1950s and 1960s).

First, I googled "comfort books" and Lo! it threw up pages upon pages of entries. But what I am talking about, quite emphatically, are not comfort books.

These, according to bloggers, are the same books they turn to again and again. That's boring. How many times can you read a book?

Instead, I turn to the same writers, but their different books. I have about 20 favourite writers in all. They do for me what the blanket did for Linus.

I asked friends who still read fiction — very few indeed, for some reason — whether they too had a secret cache of comfort writers. Most of them said yes, albeit somewhat grudgingly, I don't know why. There's nothing to be ashamed of.

One of them also said reading them is like going to bed in old pajamas. Nice.

I asked friends who still read fiction — very few indeed, for some reason — whether they too had a secret cache of comfort writers. Most of them said yes, albeit somewhat grudgingly, I don't know why. There's nothing to be ashamed of

Style or characters?

It's not very clear what it is about these comfort things which is so, well, comfortable. Familiarity, predictability and association are probably one of the factors.

But the lack of surprises, especially as one grows older, must also play a part surely. Who wants to eat an idli stuffed with keema?

Where writers are concerned, I am not sure whether it is their style or the characters they create, or both. I find that regardless of which new character/s they are writing about, most writers follow the same style and that is very comforting.

Once in a while, though, possibly because of urgings by someone close to them to do something different, they vary the style. It always ends in disaster, both in sales and reviews. Then they scurry back to their natural style.

The best example of a writer trying something different — that I can recall — is *The Naive and Sentimental Lover* by John le Carré. That book was so different in style, content and characters that it bombed badly. The author quickly got back to what he did best, namely, write spy novels in that upper class drawl which he affects in his writing.

But I suppose there are also writers who would like to show their virtuosity by writing in different styles. They cause a lot of discomfort for agents, publishers, marketers and, of course, readers.

The clever ones write under a different name, while taking care to let it be known that the new Y is actually the old X. The most recent example of this is the creator of Harry Potter, J K Rowling.

She has been writing as Robert Galbraith for a few years now. But these new detective novels are really not up to scratch. It just isn't Ms Rowling's game, as indeed, the free unstructured, narrative style he adopted in that one-off book mentioned above wasn't Mr le Carré's.

'The Pigeon Tunnel'

This is the name of the latest — but not new — Mr le Carré book and although it is riveting, I wish I hadn't read it. But I did because for me Mr le Carré is a comfort writer.

For some reason, and somewhat to the annoyance of his biographer who produced a 700-page biography just the year before in 2015, Mr le Carré has written about himself and his characters and how they came to be. He has demystified them entirely, which has caused me a great deal of discomfort.

I didn't want to know on whom the tailor of Panama was based or for that matter who George Smiley etc were modelled on. It's a mean thing Mr le Carré has done and I am striking him off my comfort writer list.