No Pot of Gold at End of Money Trail

But, on the plus side, economy poised to grow

It is only natural that the RBI's annual report this year should be scrutinised, primarily, for a fuller picture of last November's demonetisation. It unambiguously shows that ₹16,000 crore, equivalent to 0.1% of GDP, worth of black money got extinguished, that is, failed to come back to the RBI. The Economic Survey puts the growth impact of demonetisation to be a drop of 1 percentage point. That, in absolute terms, would work out to ₹1,52,000 crore. Sixteen times as much is the tax collections that went up in smoke — the states and the Centre together collect a little over 16% of GDP as tax. The RBI had to spend extra on printing notes and paying banks interest on reverse repo deposits of the huge influx of non-voluntary deposits in the wake of demonetisation, resulting in a big drop in its payout to the government.

Yet, there are qualified indications in the RBI report that there are some offsetting positives arising from demonetisation. Currency in circulation has come down:

in mid-August 2017, it is 6% below the level in March 2016, suggesting a minor shift away from cash. However, the RBI itself cites continuing remonetisation as a factor that would reduce the overhang of liquidity with the banks. That apart, scrutiny of some of the deposits that have come into the banking system might unearth some unaccounted incomes. The fact remains that the goods and services tax is a far superior instrument to rid the economy of black money. That, and the quantitative and qualitative growth of telecom, could together push India to a level of digital payments unprecedented for an economy of India's level of income, even without the help of painful demonetisation.

The good news is that demonetisation woes are behind us. The RBI expects economic growth to accelerate, led by consumption, even as investment remains anaemic. The current account deficit is expected to remain well below 2% of GDP. The RBI is right to worry about the strain on state fiscal finances arising from loan waivers and power-sector loan restructuring, but not about the revenue potential of the goods and services tax.

A Promising Start to the New GST Regime

It's encouraging that the goods and services tax revenue mop up has seen a good start. Collections, at ₹92,283 crore in July from about 64% of the taxpayer base, surpassed the internal estimate. The initial collections dispel the worry, contained in the Reserve Bank of India's (RBI) annual report, that states could see extra fiscal strain due to GST. The Centre is duty-bound to compensate states for their revenue loss — computed on a base year of 2015-16 and an assumed revenue growth of 14% — for five years after the GST rollout, providing the headroom for states to keep their fiscal deficit under check. The worry should be if the Centre would be left without adequate resources to meet its promise to the states while keeping its own deficit in check.

Cesses, the proceeds of which are retained by the Centre, accounted for about 8% of the GST collection in July. Credit will not be available to manufacturers to offset the cess paid on inputs, but collections from cesses will help the Centre bring its finances to a better shape as well. Now that the states and the Centre share a common tax base for GST, GST proceeds must be excluded from the divisible pool of taxes. Simultaneously, the effort should be to converge GST rates and include sectors such as petroleum and real estate to boost collections and help fiscal consolidation.

Earlier, rating agency Crisil had estimated a likely 0.7-1.2% reduction in the gross fiscal deficit of the Centre and the states on the back of tax buoyancy. The gross fiscal deficit-to-gross domestic product ratio of states is budgeted to improve to 2.3% during 2017-18 from 2.9% in the revised estimates for 2016-17 largely due to a projected rise in tax revenue. To raise resources on their own, states must also improve their credit ratings, with greater stress on fiscal discipline.

A culinary heritage that is in danger of Goa, going, gone

Politics to the Defence of the Life of Poi

Even as the Reserve Bank of India suffered from a post-demonetisation embarrassment of riches in that the banned bank notes that were returned to it far exceeded sarkari estimates and left governor Urjit Patel with a surfeit of what is colloquially known as bread, the edible variety of dough is facing a life-threatening crisis in Goa. The local bread known as poi, or pav, which was introduced by the Portuguese, is reportedly in danger of extinction, according to a distress signal sent out by the All Goa Bakers' Association which claims that some 40% of home-run bakeries have shut shop. Among the reasons cited are increasing competition from machine-made products and the rising cost of ingredients.

However, there is hope yet for the Goan poi in that no less than the former defence minister — who has returned as chief minister of the state for the second time — is championing its cause as a 'heritage' product representative of Konkan culture that has to be protected, if necessary, at subsidised cost. Casting bread on the waters of the Mandovi, the chief minister has promised a 'poi subsidy' to the profession, a move that would inject literal meaning into the metaphor regarding the distribution of the loaves and fishes of political office, though it may provide only crumbs of comfort to the beleaguered bakers.

So was demonetisation good for the country? With added multiple objectives, it's impossible to tell

DeMon: The Great Fudge

Laveesh Bhandari

The Reserve Bank of India (RBI) data on demonetisation-related cash deposits is out and the government will no doubt have a lot to say about it, as well as its naysayers. But there was much more to demonetisation than simply fighting black money or enabling digital transactions. It was the hope of the masses for big changes and a leader willing to take the tough call.

The November 8, 2016, announcement on the demonetisation of ₹500 and ₹1,000 notes was path-breaking, to say the least. Since 1991, no other political leadership in this country had dared such a bold and politically risky economic decision.

All others have been tentative ones, followed by gauging of opposition, correction and watering down, and finally a small step taken.

Democratic DeMon

But demonetisation was nothing of that sort. It was bold, massive-scaled, irreversible, adversely impacted politicians across parties, and also adversely impacted the masses in the short term. Till date, I am not sure whether even Prime Minister Narendra Modi realised what he had done.

But that was the beauty of it. The masses valued the risk-taking ability and decisiveness of the Prime Minister, the support from the street was as massive and powerful as the decision itself.

I was among the few non-government economists who came out wholeheartedly in support of the move. Many of my peers and gurus were more circumspect, or opposed it.

I supported it as demonetisation would break the vicious black money cycle and, if followed by changes in the tax regime, would end the perverted cycle of black money-creation in many sectors.

But that was not to be. The week after the November 8 announcement was an eye-opener. The boldness of the announcement was accompanied by an extremely poor rollout. Admittedly, no project ever goes perfectly and there is always need for mid-course correction.

Within the first week, it was clear that the wrong denomination notes were being printed, that ATMs were not adequately prepared, that the government was overdependent on the banks, and this whole process of remonetisation was going to take far longer than we would all have hoped for.

The government needed to get its act together, roll up its sleeve and remonetise the economy on a war-footing.

But things got worse. Rather than quickly correct the core problem of remonetisation, the focus shifted to handling the public relations nightmare. Why were currency notes not being printed fast enough? Why could the lakhs of ATMs not be altered rapidly before or after the rollout? Why was the government continuing to depend almost solely upon the highly stretched banks?

There was an excuse and a spin for each of these and more. The end result was that remonetisation stretched into months from what should have been weeks.

The longer the remonetisation took, the more liberal the government had to be with the rules governing exchange of currency. And the more liberal it got, the more the gaps and loopholes opened up.

> Not just the fall in growth rates, but the rise in digital payments, financial inclusion, tax compliance, tax revenues, etc, also can't be ascribed to demonetisation

FILE PHOTO

Bitten off more than one can chew?

It was quite apparent by the second week that this team would be unable to implement as per the objective. The black money objective was quietly put aside and new objectives were added around this time.

This is something Lutyens' Delhi is very good at. For example, adding objectives to failed projects is how the country's public sector enterprise managers have prospered for so many decades. Indeed, adding objectives to governance itself is how the government has been getting away with all its failures.

A Multipurpose Hero

Was demonetisation good for the country? With multiple objectives, it becomes impossible to identify success or failure, black and white becomes dull grey. As this identification fails, so does the ability to assign reward or blame.

In the case of demonetisation, digitisation is now another objective. Tax compliance is also spoken about, financial inclusion a third, creating a money trail a fourth. There may be others that I have missed. We cannot judge it on the criteria of overall success and failure. With so many objectives and such a long rollout period, too many events occurred to adequately control any disciplined exercise.

At the macro level, falling economic growth rates are sometimes being described as a measure of failure. But that's mistaken as well. Growth rates have been falling for a while and this cannot be ascribed to demonetisation. Other objectives like increase in digital payments, financial inclusion, tax compliance, tax revenues, etc, have too many other factors impacting them to enable us to ascribe their success or failure to demonetisation. So, we finally reach that dull grey space from where we can know nothing.

But the black money orientation was, indeed, a specific and grand objective. The team overseeing demonetisation, however, was either not empowered enough, or was not capable enough, to implement it properly. And so, it went back to the tactic the bureaucracy has perfected over many years: the art of fudging.

The PM's team has been captured by Lutyens' Delhi and, on that count at least, demonetisation failed.

The writer heads Indicus Foundation

WIT & WISDOM

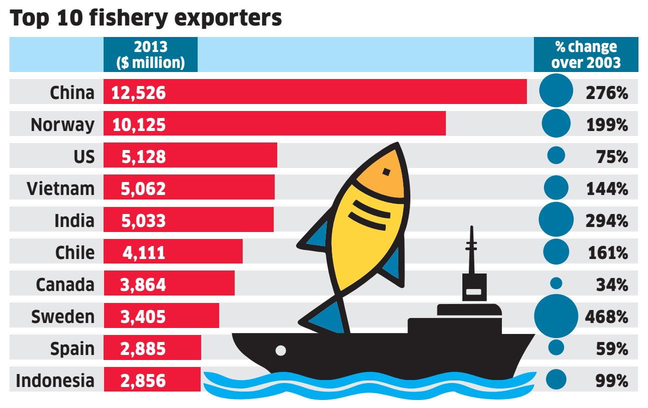
"Let us be grateful to the mirror for revealing to us our appearance only."

Samuel Butler
Writer

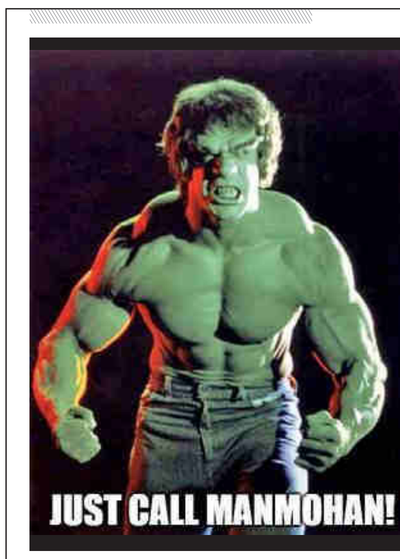
Fishery Exports

Global fishery export volumes tripled to 36.4 million tonnes in 2013 from 10.5mt in 1981. During that period, the share of developing countries in world exports increased from 34.6% to 50.2%. In value terms, four developing countries were among the top 10 fishery exporters in 2013...

Top 10 fishery exporters



MEME'S THE WORD



AGRICULTURE MARKET

Let Farmers Set the Price

Alok Ranjan

Most states are in the grip of a serious agrarian crisis. Farmer discontent is getting increasingly aggressive. The recent incident in Mandsaur, Madhya Pradesh, has been a rude awakening for policymakers. The farmer is not getting a fair price for his produce, and his income is not growing. Bumper pulse harvests and horticulture crops have led to a crash in prices. No institutional mechanism for price stabilisation is working.

Waiving loans has emerged as the politically preferred response. This may help in riding over the immediate danger, but it's certainly no long-term solution. Loans were waived in 2008-09, and yet, here we are. The real issue is that while cost of production is constantly going up, despite subsidies, the farmer is unable to get a proper price for his produce. The answer lies in reforming the agriculture markets.

The main focus of agriculture departments has been the provision of inputs: seeds, fertilisers, pesticides and water. This necessitates a huge logistical exercise and requires monitoring on a daily basis. However, with the advent of technology input management, this isn't much of a bottleneck. The real issue is to ensure that the farmer gets a fair price.

The archaic Agricultural Produce Market Committee (APMC) still governs where and how a farmer can sell his produce. The Minimum Support Price (MSP) mechanism remains the only tool to ensure the price for the farmer. APMC reforms have been talked about for a decade. Nothing has happened.

Earlier, the trader-middleman was free to exploit the farmer. The mandi system tried to attend to this issue, and succeeded. But now, the entire economic environment has changed. Liberalisation of agriculture is the need of the hour.

There should be free movement of agricultural commodities from one state to another, as well as outside the country. Any restriction in the path of this freedom needs to be dismantled. This mechanism would by itself stabilise the price. There should be no restrictions on the farmer selling directly to the consumer.

APMC reforms have not been successful because of the resistance of states to the concept of contract farming. Most governments fear a political fallout if they agree. Surely, an institutional mechanism can be developed to address any fear of exploitation of farmers in contract farming.

The MSP mechanism exists mainly for cereals like wheat and rice. The Food Corporation of India (FCI) is the agency to carry out this procurement. However, FCI is able to meet its targets only from Punjab and Haryana. They neither have the resources nor the inclination to cater to other states, especially backward areas where the benefit doesn't reach the small and marginal farmer.

Very often, the produce is procured by the local trader from the farmer at a price much lower than MSP. It is then the trader who sells it at the government purchase centre. This happens despite safeguards and monitoring.

FILE PHOTO

Giddy up

MSP is declared for pulses and oilseeds also. However, there is no system of regular procurement. The National Agricultural Cooperative Marketing Federation (Nafed) has a mandate to intervene only if prices fall below MSP. Even then, procurement is conducted in small quantities. This happens because pulses and oilseeds do not go into the Public Distribution System (PDS) and the procurement agency has to sell in the open market, incurring significant losses.

The situation is worse in horticulture. GoI's Market Intervention System (MIS) is inherently defective. It says that the procurement agency shall not be reimbursed losses beyond 25%. But when horticultural crops face a glut, the price falls steeply and the losses to the procurement agency are huge. As such, the MIS has no incentive for the procurement agency to procure at designated price.

The answer lies in development of storage. Each primary cooperative society must have its own store. These cold storages need to be compliant with the norms of the Warehouse (Development and Regulation) Act, 2007. This implies that if the farmer stores his produce in these storages, he is issued a warehouse receipt, which is a negotiable instrument. He can then utilise at least 75% of this amount, which he gets from banks to buy inputs. This enhances his staying power, and he can dispose his produce when the market improves.

There is no alternative to farmer aggregation. The cooperative, as a form of aggregation, was idealistic. But it has mostly failed due to increasing politicisation. The small farmer alone doesn't have the bargaining power to withstand the market.

The Farmers Producer Organisation (FPO) can do this. A structure must be created where a farmer does not sell in distress, but according to market forces. His decision should be able to influence the market.

The writer was chief secretary, Uttar Pradesh

Citings

Retailing Strategy

RAJ KUMAR ET AL

In the US, online sales are growing 15% a year, against just 1.5% for overall retail sales. Last year, online sales accounted for 7.3% of total retail sales. The fastest growth of all is in omnichannel retailing — where retailers let customers buy stuff online and then pick it up in store, for example, or have it delivered from their local store.

This sector is growing between 40% and 70% a year. When customers collect online orders in stores, they often make additional purchases while they are there.... Without the right strategy, companies risk jeopardising their omnichannel efforts by making one or more of three common mistakes. First, they may offer things their customers don't want, and forget about things they do want. For example, not every e-commerce customer wants same-day or next-day delivery.

Many care more about convenience; others want the lowest shipping charges.... Second, companies may not understand the benefits of improved services and how to provide a profitable value proposition. Unless companies understand how the costs and potential sales benefits of offerings in different segments compare, they have to make resource-allocation decisions based on gut feelings, and they may end up scattering resources that should have been targeted as part of a segmented strategy.

Finally, they may not understand how things are moving. Where will the hot spots of the future be? Where are growth and new ideas coming from?

From "Building Omnichannel Excellence"

the speaking tree

Intrigued by Death

U G KRISHNAMURTI

Youth: Sir, what will happen after death?
UG: All questions about death are meaningless — and especially for a young person like you. You have not even lived your life. Why do you ask that silly question? A person who is living has no time to ask such questions. Only a person who is not living asks, "What will happen after my death?"

There is no such thing as death at all. What do you think will die? This body disintegrates into its constituent elements, so nothing is lost. If you burn it, the ashes enrich the soil and aid germination. If you bury it, the worms live on it. If you throw it into the river, it becomes food for the fishes. One form of life lives on another form of life and gives continuity to life. So, life is immortal.

But that is not going to help anybody who is caught up in the fear of death. After all, 'death' is the fear of something coming to an end. The 'you' as you know yourself, the 'you' as you experience yourself — that 'you' does not want to come to an end. But it also knows that this body is going to drop dead as others do — you experience the deaths of others — so that is a frightening situation because you are not sure whether that ('you') will continue if this (body) goes.

So, then, it projects (an afterlife). This becomes the most important thing — to know whether there is an afterlife or not. Fear creates that, so when the fear is gone, the question of death is also gone.

Chat Room

Help Creates Lasting Value

Apropos the Edit, 'Good Corporate Karma at Times of Crises' (Aug 31), several initiatives have been taken by Indians to provide a helping hand to those marooned in Mumbai floods. From providing shelter and food to free cab services and zero cancellation charges for flights, Indian companies too have done their bit. But the bigger issue is why the good karma only in times of crises and not in regular times? Corporate houses should insist on fixed working hours, food stations, shared cab services and stand up for rebuilding our cities, which are slowly going the Mumbai way, if they want to grow. Help in times of peace creates lasting value.

GAURAV GUPTA
Hyderabad

Safety Should be a Habit

Apropos the news report, 'Lohani: Rlys Facing Perception Problem' (Aug 30), Railway Board chairman Ashwani Lohani has rightly emphasised safety. Supervision, in conformity with the prescribed codes, by staff at all levels should be taken as an equally vital matter.

This applies to all aspects, not just tracks but also rolling stock, signalling, level crossings and manufacturing-related issues. Moreover, our focus deserves to shift from matching the world's best to setting our house in order. Reform along with massive investment to make rail travel safe brooks no delay.

N K MATHUR
New Delhi

Our Srijan is Not That Srijan

Recently, Srijan Mahila Vikas Sahyog Samiti, Bhagalpur, Bihar, has been in the news for an alleged scam. We wish to clarify that there is no connection between this organisation and ours, Self-Reliant Initiatives through Joint Action, also called Srijan. Our organisation has been in the field of rural development for more than 17 years and is in no way connected or associated with Bhagalpur-based Srijan.

VED ARYA
CEO, Self-Reliant Initiatives through Joint Action
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