Infatuation with cleverness more than impact

Impact is equal to innovation capital multiplied by habitus and adoption

INNOCOLUMN

R GOPALAKRISHNAN

How do you assess the impact of an innovation? Consider which of these four innovations has made the greatest impact on mankind — invention of anaesthesia, synthesis of urea fertiliser, discovery of penicillin or internet/email. The answer depends on how greatly the innovation has been adopted and how much it has changed people's lives. Popular reportage considers metrics such as research and development staff employed, technology expenditure, revenue from new products and the number of patents obtained.

Publicity amplifies the "wow" factor through breathless accounts of individual genius. Do you know of the genius who invented the internet/email? You don't because there is a lineage from Leonard Kleinrock (1961), Ray Tomlinson (1971), Vincent Cerf (1973) to Tim Berners-Lee (1990). Had it not been for the sequential adaptations through this lineage, consumer adoption would not have occurred, thus creating human impact. Financial impact is important, but human impact is far more important. How many people are aware of the innovation and have experienced it? How many have adopted it? How has it changed the lives of those who have adopted it?

Brands measure their impact using similar metrics. Brand share is brand adoption multiplied by usage. The same principle can be used to measure innovation impact. The theories of Pierre Bourdieu (1930-2002), a French social scientist, are also useful to think about innovation impact. Bourdieu had said that power in politics arises from social capital and habitus.

Innovation impact is the multiplication of innovation capital, innovation habitus and innovation adoption.

Innovation capital derives from first, intellect (technology, patents, trademarks); second, articulation (the idea being heard and understood); third, culture (initial struggles, obstacles) and symbolism (recognition and awards). Several Silicon Valley innovators graduated from or dropped out of top schools, were great articulators of their ideas, acquired visibility by mingling and appearing with the high and mighty at Davos-type events and acquired great valuations. These factors contribute to accumulating innovation capital.

Innovation habitus is the knowledge of how to negotiate the world and how to develop stories, mannerisms, opinions and style. Recall how Uber was widely reported to have been dreamt up after someone failed to get a cab, how Airbnb was founded after renting sleeping bags in a crowded Washington DC, or how an inexpensive car became an idea after seeing a family on a two-wheeler. The reader can easily recognise innovation capital and habitus by recalling acknowledged innovators like Bill Gates, Steve Jobs and Elon Musk. Breathless media reportage about start-ups and founders adds to those entrepreneurs' innovation capital and habitus; conversely, the relatively lower capital and habitus give an institution less innovation power.

Innovation adoption: It is the most important and regrettably under-recognised. It is about how many consumers adopt the innovation at a price level that creates a sustainable business model. There is little point in getting adoption without profit sustainability or the converse. This is the dilemma that many Indian innovators face. Only when an innovator persuades the burgeoning, targeted millions of Indian consumers to adopt affordable water purifiers or feminine hygiene products at a sustainable margin can we sense the innovation adoption and impact. Several bottom-of-the-pyramid and Indian innovations fail to develop high adoption levels or to demonstrate the stamina of profitability.

Clever but low impact: Experiencing inadequate adoption for a clever idea happens all over the world. American innovator Frances Gabe died in obscurity the day after Christmas 2016 at the age of 101. She had devoted her lifetime to developing clever technologies, which could reduce the drudgery of house cleaning. She designed the world's first and only "self-cleaning home". What a fabulous idea! In 1984, she got a patent for her invention and the self-cleaning home built by her had 68 individual inventions. In her heyday, she acquired a fair amount of public profile as devoted by her innovation capital and habitus. Alas, her innovation impact was low because it could not get enough adoption. You may not have even heard of her!

The focus of our frenetic awards environment needs to shift from clever ideas to innovation adoption. Innovators and judges of innovations should shift their attention to actual adoption through a sane business model amongst the three factors of innovation capital, habitus and adoption.

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CHINESE WHISPERS

Dinner that left Opposition MPs annoyed

The farewell dinner that Lok Sabha Speaker Sumitra Mahajan hosted in honour of outgoing Vice-President M Hamid Ansari on Wednesday evening left several Opposition Members of Parliament (MP) fuming. The invite asked the MPs to reach the venue at 7pm. When these MPs, including Communist Party of India (Marxist) General Secretary Sitaram Yechury, Trinamool Congress' (TMC) Derek O'Brien and an AIADMK leader, reached there on the dot, they were casually informed that dinner would start at 7.30 pm as a Cabinet meeting was going on. The MPs, especially the one from the AIADMK, were upset that the invite was in Hindi, not in English, let alone any other regional language. The MPs were also disappointed that the menu was vegetarian. O'Brien only had raita (a curd-based preparation) and tweeted that he hoped to return home for some fish curry. However, once home, the TMC leader had chicken curry.

'Self-invited' guests

The Ministry of Corporate Affairs held a meeting with lawyers and other stakeholders to decide the fate of companies on the dissemination board. Curiously enough, investment bankers who played a crucial role in the issue, were not invited. Yet, half a dozen bankers flew from Mumbai to Delhi and stormed into the meeting. When ministry officials asked if they were invited to the meeting, a banker said they were attending on "self-invitation".

Clipping the wings?

That Janata Dal-United (JD-U) leader Sharad Yadav (*pictured*) is miffed at the decision of Bihar Chief Minister Nitish Kumar to dump the Rashtriya Janata Dal and ally with the Bharatiya Janata Party is known by now. Now, as the party's leader in the Rajya Sabha, Yadav occupies a front-row seat. Party leaders in the House are also entitled to additional time to speak. However, the buzz is that Kumar might write to the Rajya Sabha Chairperson with the name of a new party leader, which would relegate Yadav to the back benches.

MSEs are adapting to a brave new world

The unorganised ones are feeling the heat of GST, but long-term gains outweigh transitory pain

R VASUDEVAN

CRISIL's discussions over the past few days with organised micro and small enterprises (MSE), especially those dealing with medium-to-large enterprises and government entities, show they have taken to the goods and services tax (GST) regime fairly well.

On the other hand, unorganised MSEs — mostly small units with low compliance levels and high dependence on cash transactions — are struggling to cope, and are seeing clients shifting to GST-compliant rivals. Compounding the problem is a stretch in working capital because clients are holding back payments for want of clarity on applicable rates and invoice-matching process.

The refrain is that demand hasn't slackened, but lack of understanding about the compliance process is a frequent cause of business disruption.

Given that July was the first month of GST implementation, most MSEs are yet to begin uploading invoices to claim input tax credit. Therefore, teething issues would continue in the near term.

Once that's sorted, we believe GST will fundamentally alter the dynamics of the MSE sector.

We see organised players doing better than before because of administrative ease and greater reach that a unified market — that's more competitive and efficient — spawns.

In the manufacturing sector, profitability will improve for MSEs that hold on to their pricelines despite lower tax incidence now. But things could go the other way in the services sector, where a 300 basis points (bps) increase in tax to 18 per cent would mean those unable to pass on would be impacted.

Digital revolution underway

Because it's a digital ecosystem, GST will improve the availability of business data by an order of magnitude. For instance, many MSEs believe monthly uploading of invoices will improve record-keeping — data that will come in handy when seeking a bank loan or wooing prospective clients.

The fourth census of the micro, small and medium-size enterprises sector, showed just 5.18 per cent of MSEs (both registered and unregistered) had availed of finance through institutional sources, and an even smaller, 2.05 per cent, from non-institutional sources, in 2009.

Put another way, 92.77 per cent did not have access to institutional credit, or depended on self-financing.

But now that MSEs are leaving digital — and quite granular — footprints, lenders can capture more of — and more reliable — information.

Such transaction trails — or "digital exhaust" — can now be proxy for creditworthiness analysis matrices such as cash flows, and trends in receivables realisation and payment delays to suppliers. That would improve the comfort of institutions when lending to MSEs.

Small city players to gain

A unified market will also improve the competitiveness of organised players and open up new markets for their products.

ILLUSTRATION: BINAY SINHA

MSEs based in Tier II or smaller cities are expected to gain more from greater logistical efficiencies. Those in small cities spend relatively more on materials and less on manpower compared with peers in metros and Tier I cities.

In smaller cities, raw materials constitute nearly 73 per cent of the overall costs for an MSE, according to CRISIL's analysis — or a good 500 bps more than in larger cities. That's because large manufacturers are located closer to centres of economic activity, which offer twin benefits — greater bargaining power with suppliers and cheaper logistics.

While large cities will continue to offer these, the advantage will erode with GST. Enhanced systemic efficiencies will reduce input and logistics costs, making it faster and cheaper for raw materials to reach smaller towns and for finished goods to reach lucrative markets.

Employee costs will remain lower in small cities, allowing MSEs there to improve margins or compete better on prices by passing on the benefits to customers. Additionally, given relatively lower land prices in such places, capacity expansions will be cheaper.

Unorganised lot faces existential crisis

Profit margins will come under pressure for those that thrived on the edges of the mainstream. Before GST, unorganised MSEs had lower cost structures because of exemptions from paying social security benefits to employees and excise duty. This allowed them to offer lower prices and yet maintain 10-11 per cent operating margin — nearly the same as organised MSEs.

Since the threshold limit for GST exemption has been reduced drastically to ₹20 lakh from ₹1.5 crore, promoters who had set up multiple outfits, or were understating revenues or employees to duck thresholds, will come into the tax net. Many others will, too, which could turn their businesses less profitable, if not unviable.

Organised MSEs will become more competitive in industries where the GST rate is lower than what was the effective indirect tax rate earlier because input costs will reduce. Consequently, unorganised ones will face pressure and given their limited ability to increase prices, will have to reduce margins.

Lessons from those who sailed well

As with paradigm shifts, there are lessons in change-management here, too. Our discussions show that some business owners have been attending seminars and training to enhance their transition experience. Others have hired consultants referred by suppliers and customers. Hiring common consultants is helping some MSEs address issues faster.

We find MSEs adapting to the big change better than expected. Nimbleness and constant exchange of information within their networks are affording quick alterations to business processes.

To be sure, competition from larger rivals is set to intensify because they will also gain from economies of scale and an end to price distortions (no more varying taxes across states).

The upshot? Some transitory pain, and a lot of long-term gains.

The author is senior director, CRISIL Ratings-SME

BUSINESS LIFE

Maybe berating employees isn't so smart

For a leader, singling out the staff for censure looks like an attempt to shirk responsibility

KARA ALAIMO

Attacking employees causes them to lose confidence in the boss PHOTO: ISTOCK

US President Donald Trump is famous for his insults, so perhaps his habit of attacking subordinates should come as no surprise. He criticised Attorney General Jeff Sessions three days in a row last week, calling him "very weak," blasting his conduct in the Russia investigation, and slamming him for not firing acting FBI Director Andrew McCabe — who also Trump attacked, insinuating that he was corrupt. Trump also referred to the investigation into his firing of the previous FBI director as a "witch hunt" led by some "very bad and conflicted people," in an apparent dig at Deputy Attorney General Rod Rosenstein.

Maybe there's some hidden logic to Trump's actions. But it's almost never a good idea for a leader to publicly criticise his or her employees.

As a PR matter, this strategy is almost certain to backfire. People generally hold leaders accountable for what their organisations do. If a mistake happens on a chief executive's watch, observers may fault that person for bad decision-making or for being out of the loop — but either way, they'll expect the leader to take the blame. Singling out employees for censure looks like an attempt to shirk responsibility, and also appears petty and gauche. That only deepens the reputational damage to the leader and their organisation.

Take the case of Wells Fargo. In 2016, it emerged that the company had opened more than two million accounts that weren't requested by customers. The bank's chief executive, John Stumpf, publicly blamed his employees — who, according to US regulators, were trying to meet sales goals set by the bank — for bad behaviour. Wells Fargo fired 5,300 people for improper practices.

Predictably, trying to scapegoat individual staffers for a systemwide problem only made Stumpf look like a bad leader. He retired a month later.

Volkswagen's American CEO learned this lesson the same way. In October 2015, in the midst of an environmental scandal, Michael Horn told Congress that "a couple of software engineers" in his company were responsible for installing equipment designed to cheat emissions tests. The company announced that Horn was leaving by "mutual agreement" five months later.

The only exception to this rule would be when an employee does something in his or her private life — such as committing a crime — that reflects poorly on his or her employer. Then, it would be appropriate for an organisation to condemn the behaviour and disavow the employee.

Attacking employees also tends to backfire internally, according to Helio Fred Garcia, president of Logos Consulting Group. "Ineffective leaders publicly call out or humiliate their people, either in the workplace or in more public settings," he says. "This predictably causes all employees to lose confidence and trust in the boss.

As a result, he says, employees will be less loyal. This can hurt their productivity and lead them to act out — for example, by leaking information to the press. Overall, Garcia says, attacking employees creates a "culture of backstabbing and chaos".

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LETTERS

Not living up to its name

With reference to the editorial, "Empower NITI Aayog" (August 3), the expectations were quite different from an organisation that has a title as lofty as the National Institution for Transforming India.

Bringing about the privatisation of Air India and other public sector undertakings is only a small change. The organisation was expected to look at the big picture and have a long-term perspective of, say, where India is likely to be by 2050. It should have used all available expertise and knowledge to draw up definitive road maps for rejuvenating agriculture, climate change mitigation initiatives, handling internal migration and urbanisation, restructuring education to impart usable skills for the burgeoning workforce to cite only a few areas.

With "skinny" resources and an indeterminate agenda, NITI Aayog does not seem to be going anywhere. Expertise is indispensable and cannot be substituted by seat-of-the-pants expediency or "generalist" wisdom of the bureaucracy. The sooner NITI Aayog is fully empowered and strengthened the better.

Udaya Bose Bengaluru

Restore trust, credibility

The editorial, "Empower NITI Aayog", briefly covers the birth and growth of the NITI Aayog from the time Prime Minister Narendra Modi announced his intention to demolish the Planning Commission and reconstruct it, to the resignation letter of NITI Aayog Vice-chairman Arvind Panagariya that contains useful suggestions about the future of the "rebuilt edifice".

When their services were needed the most, Raghuram Rajan and Panagariya took breaks from the academia and served the country, occupying positions crucial to its economic development. They couldn't be persuaded to stay on, but let's thank them for their leadership in their areas of expertise.

Their exits point to the need for a talent pool to avoid vacuum in top posts at short intervals. A plan should be in place to ensure that individuals appointed to crucial positions can continue for five to 10 years.

The government should help the NITI Aayog perform its assigned role by providing appropriate leadership and functional autonomy. This will require much more than a "floating talent pool" and freedom to carry out research work and produce reports. If central ministries and states are to take the guidance of institutions such as the NITI Aayog seriously, the Centre has to restore their trust and credibility. For that, they must be allowed to apply themselves in performing their functions within their legal mandates.

M G Warrier Mumbai

Cautiously optimistic

In the last bimonthly monetary review on June 7, the Reserve Bank of India had surprised the markets by maintaining status quo on key policy rates. It was under pressure to cut rates, as markets had nearly factored in a repo rate cut of 25 basis points.

Factors such as Consumer Price Index inflation, the monsoon and its effect on kharif sowing are perhaps enough to ward off worry for the time being. The goods and services tax apart, by and large, a sharp rise in prices is unlikely.

Keeping these in mind, a cut in the key policy rate by 25 bps is along expected lines and would provide impetus to the growth and investment process. There is ample scope for banks to now reduce the rates and pass the benefits on to borrowers.

However, uncertainty as a factor can't be ignored. Volatile situations persist in pockets of the economy around the world. Risk perceptions are also based on this factor.

If the stance of the Monetary Policy Committee is any indication, it is looking to be cautiously optimistic. Setting up of a core group to study the lending rate so that monetary policy transmission by banks is in tandem with the government for quick resolution of large non-performing assets and recapitalisation of public sector banks is most welcome.

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HAMBONE

BY MIKE FLANAGAN

Business Standard
Volume XXI Number 250
MUMBAI | FRIDAY, 4 AUGUST 2017

Slow and steady

Welcome move to raise gas, kerosene prices in small doses

The Union government has allowed oil marketing companies to raise the price of subsidised cooking gas for domestic use by ₹4 per cylinder every month. In addition, it has decided to continue the practice of increasing the price of kerosene by 25 paise per litre every fortnight till such time the remaining subsidy is eliminated. Both the decisions are welcome. It reflects the government's commitment to oil price reforms, taking full advantage of relatively low international crude oil prices. Earlier, the government had similarly linked the price of diesel to the market so that price changes happened in small doses. Politically, as against a one-time steep price increase, small and periodic increases make eminently good sense since they evoke little consumer resistance. The United Progressive Alliance government had used the same technique for deregulating the price of petrol. It is encouraging that oil price reforms have been embraced with equal commitment and political maturity by two successive governments irrespective of their political affiliation.

The logic of gradual changes is unexceptionable. Subsidised prices of cooking gas and kerosene have led to leakages, misuse and even abuse through adulteration. The government has already launched schemes to restrict the supply of subsidised cooking gas to only 12 cylinders a year, deny such subsidies to those with an annual income level of more than ₹10 lakh and persuade consumers to give up the use of subsidised cooking gas voluntarily. More than 11 million cooking gas customers have volunteered to give up the subsidy. At the same time, the government has provided subsidised gas connection to about 25 million poor households, so that they switch over to a less polluting and more hygienic cooking fuel.

All these schemes, along with periodic increases in prices, have led to better targeting of subsidies and brought down the government's subsidy bill per cylinder from about ₹410 in 2014-15 to ₹109 in 2016-17. In kerosene, too, apart from periodic price increases, state governments have been persuaded, including through financial incentives, to phase out the use of kerosene by improving the availability of electricity to meet lighting needs and encouraging people to use LPG for cooking purposes. As a result, kerosene consumption last year fell 21 per cent and the subsidy on it declined from about ₹28 a litre in 2014-15 to ₹11 a litre in 2016-17.

However, the government has decided to raise the cooking gas price till the subsidy is eliminated or till March 2018, whichever is earlier. Current price trends and the monthly increase amount suggest that the subsidy may not be eliminated by March 2018. In other words, it is keeping its option of declaring a pause on a price increase beyond next March, perhaps for electoral considerations. This is disappointing. The government must remain committed to fuel price reforms and, in fact, expand their scope by encouraging participation of private players in fuel distribution in order to boost overall efficiency in this sector.

Make it count

A good monsoon is not enough to redress farm distress

The rainfall in the first half of the four-month monsoon season (June to September) has been fairly satisfactory despite the incidence of drought in parts of Tamil Nadu, Karnataka and Kerala as well as floods in pockets of Gujarat, Rajasthan, West Bengal and Assam. The cumulative rainfall in the country has been about 2 per cent above the long period average, with as much as 80 per cent area receiving normal or above normal precipitation. As a result, there is every possibility that the total area under cultivation will be higher than last year. The prospects of kharif output breaking last year's record are also bright, though agricultural growth may not show much increase over last year's 4.1 per cent jump because of the base effect. Overall, this bodes well for agriculture, hydel power production and availability of water for irrigation, industry and other purposes. More significantly, by pushing up rural demand for goods and services, the overall economic growth for the year is likely to receive a boost.

But there are certain prerequisites for that to happen. Rural demand relies more on better prices of farm products, which translates into higher farm incomes, than on higher production. If, thanks to bumper harvests as well as the government's mismanagement of imports and exports, the prices crash the way they did last financial year, it may neither generate more demand nor alleviate farm distress. On the contrary, it may even exacerbate the rural unrest that continues to simmer after taking a violent turn some time ago in several states; most notably in Madhya Pradesh, which has been clocking double-digit agricultural growth over several years in a row. The farmers' conduct in the last three years, two of which were severe drought years, offers an important lesson. While they took the drought in their stride, viewing it as a natural calamity, and remained content with whatever succour was on offer, they could not digest the government's failure to stem the slide in prices in the wake of higher production. The government would, therefore, need to be watchful on this count and modify its policies to hold the price line at a level where the interests of both producers and consumers are evenly matched.

The other area where the government would need to be vigilant is the management of reservoirs where water levels have been rising rapidly due to copious rainfall. Floods are often triggered by poor planning in releasing surplus water from dams, causing breaches in the embankments of rivers and canals. It is, therefore, essential for the authorities to keenly monitor the water levels vis-à-vis the projected rainfall and plan water discharge accordingly. The bottom line is that, given the vagaries of the monsoon and its socio-economic impact, the Centre, as well as the state governments, should be on high alert during the remaining part of the monsoon in order to capitalise on the favourable rainfall and stave off or, at least, minimise the possible ill-effects of excessive downpours. Otherwise, even a benevolent monsoon can turn out to be a bane rather than a boon.

ILLUSTRATION BY BINAY SINHA

How India differs from the top nations

Although the Constitution lays out citizens' rights, our polity appears incapable of enforcing them

REPLY TO ALL

AAKAR PATEL

From the perspective of constitutional and legal rights, we can divide nations into three sorts. First, those that promise citizens rights very clearly and deliver them. Equality, education, health, justice, food, free speech and employment, and so on. The nations of the European Union, broadly, and to a large extent the United States are among these first sort of nations.

It is true that many of these nations violate human rights abroad, most obviously through war, the damage of which many of these nations take quite casually. But internally, so far as their own citizens go, the nations live up to the words of their Constitution and law.

The second sort are those nations that don't make obvious claims and don't live up to them. Pakistan is clear about not giving citizens constitutional equality. No non-Muslim may become prime minister or president of Pakistan, and by law. Their Constitution also apostatises certain citizens and denies religious freedom. There are certain warm and sweeping words about equality but the laws are categorical. Likewise China gives no real democratic rights and does not pretend to give them.

India is the third sort of nation, with a constitutional framework that makes grand promises of equality and justice, and with laws that offer many rights. However the reality is an inability of the state to fulfil most of these promises. They remain on paper. For example: The Constitution promises equality before the law but it would not be easy to find many Indians who will verify that this promise is being kept. Nothing in our experience will lead us to believe that this is the case or even that an attempt is being made for it to be the case.

Two thirds of our prison population comprises women and men who have not been convicted (and who will not, given the general rate of convictions) nor ever will be. The corresponding figure in the United States is about a fifth. Preventive detention, meaning the government locking you up without a crime having been committed, merely on suspicion, is practiced widely in India. This is not equality before the law, because it is not *Business Standard* readers who get locked up. It is the voiceless underclass that is brutalised.

India's poor have rights to education and to food but these can be overwritten or qualified to the extent that their rights are absolutely meaningless. We need not go into the details. It should be pointed out, however, that we are riding roughshod over those among the poorest who are losing entitlements as basic as grain while we are engaging in a magnificent battle over digital identity and privacy.

There is not and there has never been (this not being just about the present government but our polity in general) an electoral focus on health and education. This is another thing that separates us from that first category of nations. And it reveals itself in the most obvious way possible.

Even casual readers of foreign newspapers will know what a big political issue the National Health Service is in the United Kingdom. And many will know that health care was the single most important issue of American politics for the last seven years, and indeed it remains so. Elections at the level of state and Union were fought and lost on health care. Primary education is again a subject of electoral politics in both nations, and millions of people can be mobilised around it. Billions are of course spent on it, as are trillions on health.

In India, the proposal to build a bullet train costing three times as much as the Union health budget is applauded. It is important to say that 38 per cent of our children are stunted at the age of two years, giving them no chance of a fulfilling mental and physical life. But all hail the bullet train. This astonishing and frankly bizarre and cruel proposal has certainly not, to any great extent, been opposed. Who has first right on our resources? This is settled by the numbers: First the middle class, then the armed forces. The scraps are for the rest.

The fact that the majority of our children are coming out of school half-literate, as studies repeatedly show, is not a subject of electoral politics either. In a just world this sort of criminal bumbling would bring governments down. The incompetence cuts across the states so it is not about one party or the other. It is a general and observable phenomenon. The question is why this is so. It cannot be because of differences in ideology. Whatever one may think of Hindutva and the Communists (to mark out the ends of India's tattered political spectrum) it would be wrong to assume any party deliberately wants education and health of the Indian child to remain in the state it is.

I know why there is no media attention on the issue. It is of course because, focused on delivering relevant audiences to advertisers, it stays away from issues that deal with those with no money to spend. But what about the rest of what constitutes civil society? Why is it so easy to mobilise people on abstract things like nationalism and so seemingly difficult to do this on health and education and the future of our children? Is it because it hasn't been tried in the right way? Are we awaiting something? That doesn't sound right: All manner of ideologies have been tried. The answer is to be found internally. Merely starting the process of thinking about it is disturbing and troubling.

Finance commission road map

PUBLIC INTEREST

RATHIN ROY

This year, the Fifteenth Finance Commission (FC) will be constituted. Article 280 of the Constitution mandates the commission to decide how taxes that form part of the "divisible pool" are to be distributed a) between the Centre and the states, and b) between the states. The divisible pool consists of the bulk of taxes collected in India i.e., income taxes, the goods and services tax (GST) and, customs duty.

As economic advisor to the Thirteenth Finance Commission, I was able to closely view the deliberations on these matters. The vertical devolution between the Centre and the states is necessarily determined iteratively, because if the Centre's needs were to be determined first, then the share of the states would be a residual, and vice-versa. Successive FCs deemed fit to marginally increase the share of the states, until the Fourteenth FC, which increased the states' share by a whopping 10 per cent, to 42 per cent of the divisible pool. But at the present juncture, GST implementation guarantees compensation to the states out of the Centre's resources; further, cesses on indirect taxes have been abolished. This effectively boosts the collective share of the states. At the same time, the Centre has reduced its transfers to the states, a process accelerated by the end of plan grants. In considering the vertical devolution these will be the major factors that will impact the next iteration.

In view of the Centre's constrained fiscal position, especially on account of its commitments to reduce the revenue deficit to manageable levels, it would be important for the Fifteenth FC to take a realistic view of the need for adequate financing to meet the centre's commitments on defence, internal security and the legacy of high interest payments on accumulated debt. The Centre would do well to engage frankly and realistically with the FC, rather than continue with the historic tradition of presenting unrealistic and inflated numbers as an initial bargaining position. In the case of the states, the Fifteenth FC will have to grapple with increasing disparity between states that have benefitted from private investment, and those that have not. Migration from poor to rich states has its political and social limits and intergovernmental finance must do its part in redressing this negative externality that has been a feature of our growth process for more than 25 years.

The FRBM Committee report has, in effect, imposed an additional core responsibility. While fixing the aggregate debt-GDP ratio of the states at 21 per cent, it has asked the Fifteenth FC to decide limits for individual states. Debt-GSDP ratios vary widely across states, so this will not be easy. However, this is an opportunity for the commission to take a holistic view of state finances, since the horizontal devolution will now specify the totality of resources available to states, from both the divisible pool, and allowable borrowing. The commission could even think of a common formula for both these devolutions, which will make fiscal discipline endogenous to state finances.

Article 280 empowers the commission to consider any other matter referred to it in the interests of sound finance. Financing for disaster management will continue to be a concern. I think that the implications of UDAY on state finances is an important matter for consideration, as is the question of how both levels of government could deliver a coherent financing strategy to achieve the SDGs and implement Climate change commitments. Here, grants-in-aid will play an important incentivising role, but the commission could also propose collaborative financing arrangements, in the spirit of cooperative federalism.

Population continues to be a conundrum. Finance commissions have used the 1971 population as a factor in determining the horizontal distribution. The case for using 1971 population, is now no longer credible 50 years down the line. But if the 2011 census is taken, southern and western states will be severely disadvantaged. Should other credible measures be used instead of population?

Finally, I have two "design" aspirations. Annual budgeting is inefficient, reduces credibility, and allows unhealthy discretionary power to the fiscal authorities, leading to poor fiscal execution and waste. Several FCs have recommended that a medium term fiscal framework be implemented, but efforts to date have been gestural and ineffective. The Fifteenth FC should recommend concrete, time-bound measures to implement an operational, mutually consistent, medium term fiscal framework at both levels of government, using appropriate incentives to make this happen.

The second is to reflect on the size of the Indian state — a fundamental fiscal question which has not been asked for almost 60 years. Collectively, the central and state governments tax approximately 17 per cent, and borrow 6-7 per cent, of GDP, which means the size of the state is 24 per cent of GDP. For the services we aspire to receive, is this too large, too small, or just enough? The answer impacts many public service decisions. For example, if everyone agrees that we need to spend, say, 2 per cent of GDP more on education, then we could argue that tax-GDP ratios should be raised by 2 per cent to fund this. But, this would imply a 2 per cent increase in the size of the state. Is this desirable? If so, what are the limits to such an increase, if the desire is also to spend more on defence, health etc.? Consensus on the size of the state is the only guarantee of effective fiscal prudence. As a constitutional body, it is important that the Fifteenth FC weigh in on this fundamental fiscal question.

The writer is director, NIPFP, and was Economic Advisor to the Thirteenth Finance Commission

Reporting the RTI stuff

BOOK REVIEW

VANITA KOHLI-KHANDEKAR

It was a small 300-word story that first appeared on the *India Today* website in December 2008 and then in the magazine in January 2009. It said: "5.91 crore LIC policies discontinued in seven years". The story was based on a Right to Information or RTI application filed by Shyamlal Yadav, then with *India Today*. Life Insurance Corporation did not share how much money it gained as a result of these lapsed policies. However, within a month of the story, LIC launched a limited-edition scheme for lapsed policies to which 14,221 policy holders subscribed.

This is the kind of bread-and-butter story that many newspapers, magazines, news channels ought to be doing, the kind *India Today* or *The Indian Express* did in the eighties and nineties — finding hidden agendas, uncovering inefficiencies in government, and misuse of public money and so on. Indian news channels have given up on reporting, but many newspapers, too, are geared to news that is dropped into in-trays by public relations people or through sources who have their own agendas.

Journalism through RTI; Information, Investigation, Impact by Shyamlal Yadav, senior editor at *The Indian Express* takes you back to a zone where solid reporting matters: About how many foreign trips ministers make and how much taxpayer money it cost or how members of Parliament are appointing their relatives as personal assistants. Mr Yadav has used the RTI Act for over 10 years to unearth such stories. He has been feted across the world; UNESCO selected his work on India's polluted rivers as one of the 20 best investigative stories globally.

As you read the book you understand why.

The book illuminates the whole point about freedom of information and how empowering legislation around it can be. Much of this forms the body of the very well-done first chapter "Advent of RTI and role of media". For the uninitiated RTI is an "an ACT [sic] to provide for the setting up of the practical regime… for citizens to secure access to information under the control of public authorities in order to promote transparency and accountability….." to quote from its preamble. This basically means any citizen can request any information from a public authority — the judiciary, bureaucracy, ministries, public sector companies, and so on. There is no format or form. All it needs is a plain sheet of paper, the query and your name, address et al. The processing fee is ₹10 per application with extra charges for photocopying or providing the information on a disk or a storage device. There is a penalty if the public authority does not provide the information.

Little wonder, then, that the legislation took over three decades to see the light — from the time the idea first came up in 1982 to 2005 when the Act was passed by the United Progressive Alliance. Mr Yadav's account offers an insight into how closely information is guarded and the battles fought to bring it to us. He gives plenty of global perspective. Norway, The Netherlands, Canada and France among other countries allowed access to administrative documents from the sixties to the eighties. In South Asia, Pakistan was the first country that implemented a freedom of information ordinance in 2002. And, incidentally, to use the American Freedom of Information Act one need not be a citizen of that country, he says.

In most countries with freedom of information legislation, it is considered a good tool for investigative reporting too. This becomes a handy thing for citizens too, as the LIC story above illustrates. That is how almost all the big stories that Mr Yadav has done become case studies in this book. My favourite was the one on how bank officials, under pressure from political bosses, put one rupee or so in each of thousands of Jan Dhan accounts to reduce the number of zero-balance accounts.

Each of these stories took anywhere between two and 100 applications and two to 12 months each, not counting follow-up applications. Mr Yadav devotes many pages to telling you how to avoid the inevitable delays and obfuscation by officials hiding behind this clause or that and the usual "information not available," responses. The last chapter gives 20 well-researched insights on how to make the best use of the RTI for investigative reporting.

For all that, the RTI still isn't widely used by journalists. That is the tragedy of Indian news media and also one of the shortcomings of the book. Though Mr Yadav's reputation is formidable there must be other stories that have been broken by using the RTI. Even a couple would have added perspective, or some assessment on why there aren't more RTI-based investigative stories.

Mr Yadav also seems to focus on what the government is doing — ministers' travels, foreign junkets and so on. However, some RTI investigation on how it is performing – on schemes or policies it has announced – would have been wonderful to read. For example, what has happened with Make in India or Digital India or Smart Cities? Such investigations offer richer fodder for public discourse.

These are, however, quibbles in a well-done book. If you are a journalist, editor, or someone who works in the news media, it is worth a read.

JOURNALISM THROUGH RTI
Information, Investigation, Impact
Shyamlal Yadav
Sage
220 pages; ₹795