

FORGOING THE CHANCE TO EXPLOIT INDIA'S DEMOGRAPHIC DIVIDEND

Manish Sabharwal
Chairman,
TeamLease Services

This Budget could not have lived up to the irrational expectations that arose from a spectacular general election, an ebbing of the global crisis, a wildly reformist Economic Survey and a fantastic presidential address in Parliament. But it clearly was an opportunity lost to communicate the big picture—even incongruent with the aggressive 100-day agendas put forth by various ministries.

However, as government expenses cross Rs10 trillion for the first time, this Budget may represent the reform equivalent of a graceful middle age—when you don't expect to change the world in the next few months, and you focus on details rather than headlines. But, that said, let's review the government's slate on human capital.

The most dangerous announcement on Monday was the increase in daily wage under the National Rural Employment Guarantee Act (NREGA) to Rs100 per day. NREGA should be a safety net, not a hammock. Yet, the revised wage levels bring it very close to crowding out private employment in rural areas. Moreover, NREGA represents a misplaced focus on rural consumption

rather than rural productivity. India's transition from farm to non-farm will not be accomplished by NREGA-like make-work programmes—where people dig with spoons rather than shovels—but rather with a focus on improving the habitat for job creation and human capital. The explosion of NREGA expenditure and the roll-out of social security for the unorganized sector represent demographic insanity: Despite their political attractiveness, these could end up badly and permanently distorting the labour market.

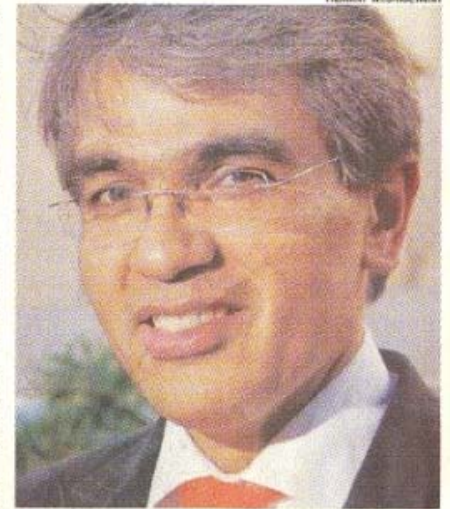
The most interesting announcement was the public-private partnership (PPP) programme for employment exchanges. There exists a huge matching problem in our labour markets; in this environment, even dysfunctional employment exchanges currently give around 200,000 jobs to the 40 million persons registered. Obviously, details in such proposals are key: Execution issues have sabotaged a similar plan for the Industrial Training Institutes (ITIs) from reaching its potential. For instance, even though the Union government gives Rs2.5 crore as funds to the newly formed institu-

tional management committees (IMC) of ITIs in some states, these IMCs can't spend in excess of Rs850 without state government approval, and don't have the freedom when it comes to hiring faculty or holding them accountable. Overall, PPPs for employment exchanges are a wonderful idea; but they must be built to enable performance, and avoid sabotage by the status quo.

The list of what was missing in the Budget is long: service tax on vocational training makes no sense, not equalizing the tax treatment of the new National Pension Scheme (NPS) with the existing Employees' Provident Fund Organisation (EPFO) takes away from making benefits portable, and no proposal on implementing the tax and reimbursement recommendations around our apprenticeship regime defers energizing a powerful vehicle for vocational skill development.

In the final analysis, India's 3E—employment, employability and education—regime does not deliver, not for lack of money, but rather lack of accountability, governance and incentives. Our 3E regime doesn't need more cooks in the kitchen, but a different recipe. The 11th Plan and the last few budgets have provided enough money, enabling some performance. This must now be managed.

And if we truly want to convert budget outlays to actual outcomes, the ministry of finance needs to morph its role from an ac-



HEMANT MISHRA/MINT

countant to a chief financial officer, from a score keeper to a referee. Instead of trying to issue *fatwas* to other ministries, the finance ministry can improve taxpayer return on investments. Today, the global financial crisis surely makes government spending important. But converting growth to poverty reduction—especially when we have a chance to exploit our great demographic dividend—means spending wisely, by attaching strings.

Comment at theirview@livemint.com