[The good is in the detail]

Article in “The Hindu” by S. GURUMURTHY

The national discourse is so superficial that it only talks of foreign direct investment, investment allowance, tax sops and the like which are just about a twentieth to a sixth of the national economy. It did not even notice paragraph 102 in the Union budget speech which is about half of India’s economy.

Commentators see facts hidden in budgets as the “devil’s in the detail.” This presumes that only wrong things are buried in the detail. But Gregory Titelman – in the *Random House Dictionary of Popular Proverbs and Sayings*, Random House Reference March 5, 1996 – finds that “God is in the detail” is the original source of the idiom, “the devil’s in the detail.” Here is something in Union Finance Minister [Arun Jaitley’s budget speech] which accords with the original idiom – the good is in the detail. A profound idea of the new government which has the stamp of Prime Minister Narendra Modi is expressed, but not elaborated, in paragraph 102 of the speech. It says: “SMEs form the backbone of our Economy. They account for a large portion of our industrial output and employment. The bulk of service sector enterprises are also SMEs. Most of these SMEs are Own Account Enterprises. Most importantly a majority of these enterprises are owned or run by SCs, STs and OBCs. Financing to this sector is of critical importance, especially as it benefits the weakest sections. There is need to examine the financial architecture for this sector. I propose to appoint a committee with representatives from the Finance Ministry, Ministry of MSME, RBI to give concrete suggestions in three months." In the budget discourse monopolised by corporates, the financial world and the elite, this profound idea has been completely ignored. That Small and Micro Enterprises (SME) form the backbone of our economy is a slogan that has been a part of the national economic discourse for long. But beyond oral compliments, nothing great has been done for them. Also, there is very little awareness about this vital segment of our economy – within and outside the government. What then does this "God is in the detail" paragraph 102 comprehend? **Corporates and the economy** A helicopter view of the nation's economy and its major components is needed in order to grasp what Mr. Jaitley has said. The Asia/Pacific Equity Research paper of Crédit Suisse – which manages $1.3 trillion worth of assets – says that corporates constitute just "the tail" of the Indian economy. This report is dated July 2013, after two decades of celebration of the corporate sector. The paper titled "India's better half: The Informal Economy" adds: "The intuitive habit of drawing macroeconomic conclusions [about India] from the corporate feedback (and vice versa) is fraught with risk. After all, only half of India's GDP and 10 percent of India's employment are in the formal sector. Further, only a fraction of the formal sector is listed." It also exposes the emperor's new clothes story – that the corporate sector generates only 15 per cent of national consumption, with the share of the listed ones in it just a fraction, four per cent. Moreover, the celebrated private corporates, with the IT and auto revolution, have added just 3.7 million jobs in 20 years from 1991. The Crédit Suisse report rightly concludes that the corporate "tail is unlikely to wag the dog," namely the national economy **Unregistered business is legitimate** If the formal – read corporate – sector is so marginal and provides just over 14 million jobs, then what is the core of the Indian economy? And who provides jobs for the hundreds of million people? It is the[informal economy of India], says the Crédit Suisse paper. What is the informal economy? In the West, the informal economy represents illegal business. But the paper says: "[U]nlike in the developed economies where informality is purely a deliberate choice to avoid taxation or regulations, in India it is more structural: a reflection of the lack of development and limited government reach." The informal economy in India is genuine business. Yet, the Indian media, policymakers and economic experts look at the legal informal economy like how the West sees its illegal informal economy. This has acted as a mental block in the system against what paragraph 102 describes as "the backbone of the Indian economy." The informal economy in India represents the unincorporated – namely unregistered – business. What is the size of the [Indian unincorporated sector]? The Crédit Suisse study says that unincorporated businesses account for 84 per cent of the non-formal employment in India – against 4-6 per cent in "Developed" nations, according to World Bank. What the study sees as the informal economy, the National Sample Survey Organisation (NSSO) Survey 2011 presents as comprising 57.7 million non-corporate business units outside the huge construction sector. And 70 per cent of them are unregistered, says NSSO. They are the fastest growing since 1991, almost doubling since 1998. In contrast, and post-liberalisation, the share of jobs in the organised sector came down from 8 to 7 per cent. The first change in the government's approach to this vital segment, so far derided as the "informal economy," has been to adopt, in paragraph 102, the NSSO's description of them – as "Own Account Enterprises" (OAE), that is self-employment units; 85 per cent of 57.7 million units are OAEs. The rest are "Establishments" employing outside labour. **Caste-based entrepreneurship** Here is the unknown picture of this huge sector. A majority of the 57.7 million units operate in rural areas, the most difficult terrain for the government to provide non-farming jobs. They add an aggregate value of Rs.6.28 lakh crore to the national economy, 70 per cent of them in the rural areas, and employ 108 million; 53 million in the rural areas. Their value addition per unit is Rs.1.09 lakh; per worker it is Rs.58,000, and per hired worker it is Rs.47,000, which equals the average per capita income in 2009-10 and is higher than the rural per capita income. The fixed capital employed per unit is Rs.2 lakh, which is not insignificant. More than two-thirds of them are engaged in trade and services and a fourth, in manufacturing. Another vital, but unknown truth is that it is dominated by the disadvantaged sections – the Other Backward Classes (OBCs) the Scheduled Castes (SC) and Scheduled Tribes (ST). A Harvard Business School (HBS) study titled “Caste and Entrepreneurship in India” links this sector to caste-based entrepreneurship. The NSSO survey says that two-thirds of the sector is owned by STs, SCs and OBCs who operate 71 per cent of manufacturing units and 60 per cent of trading. In rural areas, 72 per cent of OAEs are run by them. The OBCs run 48 per cent of the 57.7 million units and SC units have risen from 10 to 14 per cent in the six year period 2005-2011. This sector generates OBC, SC and ST entrepreneurs almost like an open air university. In contrast, the elite Indian Institutes of Technology and the Indian Institutes of Management generate job seekers, not entrepreneurs. The Economic Census 2005 revealed that this massive sector which provides 90 per cent of non-farming employment could access – believe it or not – only 4 per cent of institutionalised finance, leaving the rest to usurious money lenders. Banks in India almost monopolise national cash savings. The bank deposit to GDP ratio in India has more than doubled to 71 per cent from 1991 to 2014. With over 70 per cent of the 57.7 million units unregistered, banks, perhaps rightly, do not finance them. Banks are unable to finance even the registered small units whose share of bank credit had halved to just 7 per cent between 1994 and 2008. The bank credit to them now is still less than what it was in 1994. Increasing the ownership of SCs, STs and OBCs in this sector is the best way to ensure social justice. It is doable. Through an affirmative policy launched in the 1970s, Malaysia could increase ownership of discriminated groups in private enterprises from only just 2 per cent in 1970 to 20 per cent in 1990. How? By a systematic redistribution of ownership of private capital in favour of discriminated groups over a period of two decades (*The Hindu, November 30, 2011*). This is precisely the agenda of paragraph 102 of Mr. Jaitley's budget speech. **Finance to formalise** Experts think that it will take half a century for OAEs to become a part of the formal economy. Till then can credit be denied to the sector that provides 90 per cent of non-farming jobs and half of the nation's GDP? Actually, as *The Economist* magazine (September 28, 2013) wrote, providing finance to them is the best way of formalising them. And not providing credit to them is criminal neglect of half the economy and its greatest job creator. Paragraph 102 of Mr. Jaitley's speech intends to undo this criminal neglect of the most vital sector of the Indian economy. The national discourse is so superficial that it only talks of foreign direct investment (FDI), investment allowance, tax sops and the like which are just about a twentieth to a sixth of the national economy. It did not even notice paragraph 102 which is about half of India's economy. The paragraph indicates out-of-the-box thinking. Mr. Modi seems to have discovered the secret to growth and social justice – namely providing the lifeline of finance to the most job productive segment of the national economy operated by the disadvantaged sections of Indian people. The words "there is need to examine the financial architecture for this sector" in paragraph 102 are significant. They imply that the present financial architecture is just not the answer – and it cannot be. A new one is needed. Mr. Modi's diagnosis is a potential game changer. But the big "if" is whether he will have the willpower to drive the agenda through the headwinds of structuralists in the financial system, the Reserve Bank of India in particular which is against all forms of a non-bank financing model. *(S. Gurumurthy is a chartered accountant, a* *visiting faculty member at IIT Bombay and a distinguished research professor, legal anthropology, at SASTRA University.)*