Flagship Seminar Series on India’s public finances | Part 2: Federalism and Human Capital

Centre for Social and Economic Progress (CSEP)

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Participants

Yamini Aiyar, President and Chief Executive of the Centre for Policy Research – Discussant.

Prachi Mishra, Advisor, Research Department at the International Monetary Fund (IMF) – Discussant.

Anoop Singh, Distinguished Fellow at CSEP, and former Member of the Fifteenth Finance Commission – Speaker.

Montek Singh Ahluwalia, Distinguished Fellow at CSEP and former Deputy Chairman of the Planning Commission of India – Moderator.

Watch the event video here: https://www.youtube.com/watch?v=988K9844Ytk

The following is an edited transcript from the event.
Rakesh Mohan: Let me welcome everyone to this Flagship Seminar Series on India’s Public Finances. I am Rakesh Mohan, President and Chief Executive of The Centre for Social and Economic Progress, formerly Brookings, India.

I have great pleasure in welcoming everyone to the seminar series and introduce the panellists, after which I will hand over to Mr. Ahluwalia to moderate the session.

So, let me first introduce the moderator, Mr. Montek Singh Ahluwalia, the distinguished fellow at CSEP at present, and of course has been a notable figure among the most notable figures in Indian economic policy and reforms from the early 1980’s onwards. He has of course served as everyone knows, as served as the Deputy Chairman of the Planning Commission of India and was Finance Secretary for probably a record period of time and the Ministry of Finance. And was also a member of the Economic Advisory Council of the Prime Minister of India. He has written extensively on various aspects of development economics and has also been honoured by the government with the Padma Vibhushan, India’s second highest award for public service. He was also the founding director of the Independent Evaluation Office of the IMF, before it became the regional planning commission.

Today being part two of the series on India’s Public Finances, the topic, and this is Federalism and Human Capital. And the speaker is Mr. Anoop Singh, is currently a distinguished fellow at CSEP and was a member of 15th Finance Commission whose report was submitted recently and tabled in parliament, along with the budget earlier in February. Prior to that, he had been in the International Monetary Fund for a long period of time during a professional career and was director when he retired over the Asia Pacific Department and prior to that, the Western Hemisphere Department. And in the early eighties, he was a special advisor to the Governor of Bank of India when Dr. Mahon Singh was the governor. He has taught at Georgetown University in Washington, DC as an Assistant Professor. And of course, has written extensively on Macroeconomic Surveillance and Crisis Management.

Over a long period of time, certainly since the mid-1980s, he led many of the IMF’s programs in countries that needed resources for Macro Fiscal BOP Crisis. So, he’s very used to solving crises, and also of course has deep knowledge of fiscal system, not just with India now, having been a member of the finance commission, but also many other countries, particularly of course, more recently in Asia, and earlier than that, in Latin America.

First discussant will be Yamini Aiyar, she is currently the President and Chief Executive, my counterpart at the Centre for Policy Research. Her research interests span the fields of public finance, social policy, state capacity, federalism, governance, and study of contemporary politics, India, all the simple issues that we deal with on a regular basis. She has published widely on these issues in academic publications and in the popular press. Her current policy engagements include members of the Student Advisory Council, Governor of Punjab, and as a member of the Lancet Commission on Re-imagining Health Systems in India. She has a double masters from Cambridge University in the UK, and to the London School of Economics.
She’s also the founder of the Accountability Initiative at the Centre for Policy Research which dealt particularly with elementary education, de-centralization and enriched reforms. So, she’s the absolute right person to be the first discussion on Federalism and Human Capital, today.

Prachi Mishra, is currently advisor at the Research Department at the International Monetary Fund where she’s also served as Deputy Division Chief of the Western Hemisphere Department. She was a member of the advisory council constituted about 15th Finance Commission. So, she is obviously very, very familiar with the work of the finance commission. She also worked as Managing Director of Global Macro Research and India Chief Economist at Goldman Sachs in recent years. During 2014 to 2017, she served as specialist advisor and Head of the Strategic Research Unit and the Reserve Bank of India, particularly when Raghuram Rajan was the governor. And prior to that, she was Senior Economist in the Ministry of Finance and also at the Prime Minister’s Economic Advisory Council and the Government of India. She received the Maureen Medal in 2019. Also, if I’m not mistaken, she also worked with Mr. N.K. Singh, Chairman, Finance Commission in the FRBM committee that he had chaired some years earlier.

So, we are absolutely delighted to have this very, very distinguished panel. I'll hand over to Montek in a second. Just before I do that, just to say that the third seminar in the series will be the same time, same place next week on Monday evening at 06 o’clock. That will be on Federalism as well. And so, the speaker there will be Dr. Pronab Sen, who is the Chief Statistician with the Government of India. And the discussants will be Sajjid Chinoy and Mr. Chinmay Tumbe from the India Ministry of Management, Ahmedabad.

And finally, we also have another flagship seminar tomorrow evening at 06:30, and that is on Indo-US relations with Shivshankar Menon and Alyssa Ayres from United States and Navtej Sarna former Indian ambassador to the United States. Over to you Montek.

Sorry. One more announcement. Through the seminar, audience, you can send in a question to the Q&A tab in the zoom dashboard, and they will then be picked up by the moderator at the end after the speakers have finished their interventions. Thank you. And Montek, over to you.

Montek Singh Ahluwalia: Thank you. Thanks very much Rakesh, a great pleasure being here. Thank you for inviting me to this very distinguished discussion with very distinguished speakers and panelists. I think the best thing I can do is not to waste any more time and just go straight to the speaker. So, let me invite Anoop to make his major presentation. And that will be followed by Yamini and then Prachi, and then we'll take it from there. So, Anoop, over to you.

Anoop Singh: Montek, thank you very much. I'm going to leave a few thoughts for the panellists and for you to talk about. But let me start by saying that as you know, the commission report is titled "The Finance Commission in COVID Times." So, it has tried to focus on the health and education infrastructural vulnerabilities, and in many ways, it has tried to recognize that India needs a better strategy to deal with these vulnerabilities. Beyond that, I think that we need to invest in human capital through inventions in nutrition especially, in health and education and this is critical for India's still young population.

But let’s look at one or two facts. Firstly, why are India’s human capital figure so low? I won’t go into all these indicators. I would imagine the most striking, what are the results of the
national family health survey last year, which showed that in the last five years before COVID, malnutrition indicators had stagnated or declined with most states. More importantly, there is very little convergence across the States, and as the Commission Report points out, these indicators will likely be worse than now after the pandemic.

So, the issue is why is that? Certainly, the government has had a number of important schemes to address it. We all know the national health policy, 2017, we know that the Poshan Abhiyaan was launched, and now the government has found new mission 2.0. The centre also had traction and for some years. Is it that India spends less on public expenditure? There is no doubt it is low, but the issues, is that the reason? Or is it also that whatever the spending is, it hasn’t delivered the outlook... There's no basis we have international experience we’ll come back to India. One reason that comes to me from international experience is that why these real interventions that’s put in by the government are not geldings to that outcomes, maybe because India's record with centralization or decentralization of human capital intervention. We know that globally, they have been a gradual process of fiscal decentralization with a shift from spending to all sub national governments,

I think what is more interesting is that in East Asia, especially in Asia, in last 20, 25 years, there’ve been a broad trend towards decentralization of human capital and the early evidence tells us that the outcomes have been improved and sustained as a result of their decentralization. So, the issue is why is India different and is India different? Now, we know in India, there is a constitutional structure where powers are divided between the first two tier and the centre and states as per the seventh schedule. Now, is it that, it's not sufficient sensitization? We know the public health remains the state list, however, we also know that education for shifting to the so-called concurrent list some time ago.

So, is it that there is not clarity in the assignment of functions among government? Now, to trace the vertical imbalance, it's important to remember how this is done in India. We know that the constitution provides for fiscal transfers through the finance commission’s... which is article 217 and through Browns and Aid, which is article 275. Both of these are gotten from the finance commission.

However, the centre can make any grounds for public purposes on the oldest one article 282. Now, is that an issue? Now, moving beyond that, we know that the 73rd and 74th amendments bolstered India's decentralization by constitutionally recognizing the panchayats and municipalities. Listing in the 11th and 12th respectively, especially including education, health, and sanitation. So, overall, the India's constitutional structure has a clear preference for space to take the lead in health and education, and also therefore visiting an important role to it. But is it the case that despite this in practice, it has not been the case? Is that the centralized nature of India’s industrial architecture hasn't been persistent.

Now, one area which commission goes into a great deal is the CSS, which has formed a large chunk of inter government under the so-called article 282. This now comprise almost a quarter of jobs. Now, article 282 is interesting. It says being defined as the centre can make grants with any public service. Now, there has been a debate over time. "What does this mean?" Now, I remember that [inaudible 00:14:08-11], he said that under the finance commission article 275, the more appropriate regular route for devolution. He made the point that article 282 should really be use more as a special temporary or ad-hoc schemes. So, is the issue to do with these CSS? Is that there are overly prescriptive? Is it that they focus too much on outcome-based position? They don't focus enough on outcome basement
position? And so, there is some evidence that the CSS covers industries and areas such as health and education. Some studies tell us that states with the lower per capital income and capacity find it more difficult to avail the benefits of the CSS. There is some evidence as a result of the use of a CSS, this is worsening the in balance of these states.

The real story goes beyond that. We need a functionally and physically empowered third tier theory to carry human capital forward at the third-tier level. What we need to do in keeping with the constitutional spirit that we most focused on decentralization. The problem that we know very well is that states have clear responsibility also for what I called centralization. Many states have not clearly demarcated or divulged functions or finances, open charts. Therefore, third tier governments are not just fully in power.

The commission’s report talks a lot of property tax, which is a major source of revenue for third tier government in most countries. We know it is incredibly low in India. The commission report also points out that state finance commission will need to be macro active to make recommendations on matters such as tax devolution, and grants and aid to the third tier. The commission took an extra step by saying that any grounds to States after March, 2024 should not be run, should not be extended if it does not comply with the constitutional provisions regarding the state and the commission.

What I’m kind of raising is, does the centre now need to rethink its nature of his intervention and the use of the CSF? Is there need to mark assignments and functions of the various levels of government? For this to happen of course, states each play a much role. Certainly, stage two needs to rationalize their priority to focus on human...

And that need to take this in terms of India’s institutional, inter-governmental relations. As he points out, the centre should not try and offset devolution that all three, the cost chain or the CSF would of course be increasing. So, let me raise a number of questions which we might discuss. Is it that we need a constitutional amendment that will make it mandatory for all states to devolve the functions to panchayat? Regarding the property tax, the commission has already recommended certain steps, which will be the precondition for grants. Is it also that we might need the constitutional amendment for other taxes that apply to the third tier. For example, the professional tax. So, my question is how do we deal with the true potential of India’s multinational federal system? What we learn from there is quite clear. This is not something which will happen very fast. The organizational arrangements that constitute and define the intergovernmental structure and responsibilities need to develop. Secondly, the financial resources that sub-national governments can mobilize and the way they are distributed need to be much more specific. At the same time, the third tier needs to have space and then management and accountability system that govern the state. For example, the finance commission is saying that the third tier, their accounts are not being audited, they must be.

So, my point is, firstly, why are India’s human capital so low? Secondly, the ways that it has been used, why have you not worked? Thirdly, is it because the percentage of money spent is too low or more importantly, is that India desires a centralized systematic for intervention and human capital, and does this needs to change.

And finally, to change is a complicated process. India has had 20 years to try and do this, it hasn't happened yet. There's a lot more that needs to be done in these macro regulated change, maybe occasional constitutional amendments, but it needs to take place in order for
industry human capital to be consistent, which are all growth tied. So, Montek, that’s all for now and I’ll pass onto you.

**Montek Singh Ahluwalia:** Thank you very much Anoop. That was a pretty masterly kind of going over the key issues and also mentioning the role of the finance commission. Let me now request Yamini to come in and give us her views on the subject.

**Yamini Aiyar:** Thank you. Thank you, Dr. Ahluwalia and thank you Rakesh and CSEP for organizing this really important conversation. And thanks, Anoop for really doing all the work for us. You’ve laid out all of the issues, and now you’re making our life tougher because we’d have to actually start thinking about how to unpack all of these and find answers to these very complex problems. I’m going to do none of that. I’m just going to muddy the waters even further by trying and placing into the debate both some of the political economy issues and the state capacity issues that I think in many respects shape the de facto outcomes of attempts by the constitution and repeatedly now by finance commissions to try and decentralize India’s fiscal federal architecture and push for a greater role for local governments.

Let me start just by taking two anecdotes from some of the field work that we’ve done, as we tracked the central responses schemes for education and health over the course of many years, that I think give a very vivid understanding of the challenge at the grassroots where all of these schemes are meant to be implemented. Some years ago, we were tracking the centrally sponsored scheme for education, the Sarva Shiksha Abhiyan which has now been renamed to Samagra Shiksha. And this scheme has some small amount of money that reaches the school bank accounts which are meant to be spent by the school on activities that are relevant for the school. We found in one instance in the state of Bihar, there’s an expenditure line item, this was some years ago, perhaps it doesn’t exist anymore, called "Building The School." That is, schools that were still awaiting money to build their building, but were functioning schools. These are government schools. They have students, they have teachers, there was a modicum of teaching happening under the tree and sometimes in rented buildings.

And we were trying to look at what these Buildings the Schools were doing with their school grants. We found repeatedly that all of these Building the Schools had purchased fire safety equipment which was a rather greater puzzle considering there was no building and most of the schools were running under the tree. The use of this money for fire safety equipment seemed just commonsensical seem absurd, but as attracted it back, it wasn't an issue of pure corruption, which was the first response we had. It was because the district had issued an order that all schools use their school grant money to purchase fire safety equipment, because they had been a fire while a midterm meal was being cooked somewhere in some other parts of India. And that fire led to a government circular that was issued by the central government, by the ministry sitting in Delhi, which slowly made its way to Poonja and Bihar and found its way into these ‘Building The Schools’ and money was spent on equipment that wasn't necessary. Perhaps, some exchange of hands was done as well along the way.

Now, at one level, this was a perfectly sensible thing to do. There have to be standards all schools have to have fire safety equipment. At another level, the realities of the diversity in which public services are delivered in India would suggest that schools would be the best place to determine when and how they should purchase fire safety equipment. The National Health Commission, which was essentially, sponsors scheme for health had similar
conundrums. The program started out back in 2005 or 2006 with five buckets of expenditure that were meant for states to spend a state saw relevant. By 2016, the scheme had 2000 buckets of expenditure, excel sheets, complex and detail that were handed over to districts at the start of every planning cycle, an annual plan was to be made. But it was on the basis of this 2000-line items that districts would decide what their expenditure plans were for the year. And by the way, if you wanted to move from one expenditure, from one excel box to the next excel cell, that file would have to go to retrace 27 departments in Pradesh, others have said that it could be as many as 32 in other parts of the country, in order for clearances to be had so that the changes in the line item and the releases of the money from the state treasury could be incurred. Again, an anomaly of a centrally sponsored scheme.

But here's the puzzle. In survey after survey, we also asked frontline workers, "If you had a pool of untied money, what would you spend it on?" And mostly, we get very simple answers linked to the excel sheets and the government orders that we have found absurd when we took a ground view of service delivery. In fact, if you look at expenditures all the way through the pipeline, you'll find that every time untied expenditures or untied line items have been created, allowing states districts and particularly grassroots service delivery units, whether it is a school or the panchayat to spend expenditure doesn't happen.

Puzzled by this, my work has gone deeper, looking a little bit at why is it that when given charge, the front line of the Indian state fails to take charge. And a lot has to do with the complexity of this culture of accountability, which in fact created the centrally sponsored schemes in the first place that it is that local administration and local governments may not necessarily be best placed and have the best capacity to deliver, and therefore delivery has to be done on the basis of clearly defined standards procedures, now reaching the point of absurdity, where there are manuals that will tell you how much you can pay the local sweeper in a school or using your school grounds, because our administration operates in a culture where accountability is often confused for the act of accounting. The 2000-line items in the National Health Commission came on account of a big scandal of corruption. And the only way in which our administration sought to resolve the problem of corruption was to tighten controls called discretion and ensure that the top knew every step of the way, how things were going all the way down. Creating an administrative culture, where the grassroots actually doesn't have the ability to administer from the point of view of providing a service. They administer from the point of view of the guidelines that they've been received. We've found this when we've done time use surveys of frontline administrators. We've found this when we've interviewed frontline administrators, they often refer to themselves as post officers who are moving paper, responding to circulars as they see them. They often refer to themselves as nothing but passive agents, clogs in a wheel, creating a culture of administration, which is about responding to orders rather than responding to needs on the ground that's creating, therefore this vicious cycle in which central intervention is almost necessary in order for services to be delivered in ways that the centre deems well.

This tension finds itself being played out at all levels of policy. This isn't just a grassroots story of weak capacity. It's also a top-level story of how policies get determined. Think back to the 14th Finance Commission and many of the debates that we've had on fiscal federalism and human capital preceding that as well, States complain loud and clear about centrally sponsored schemes, arguing for greater flexibility. The 14th Finance Commission sought to some, in some degree to give that flexibility. But as it did that by enhancing tax evolution, it also called the fiscal space for central responses schemes. States complained bitterly. And
one part of that complaint was precisely this question of "How do we ring fence expenditure and spend if we are not given the guidelines and the guidance to do so?" I, myself, as a great advocate for greater fiscal federalism was quite surprised by the responses I got from states. But it's also part and parcel of how the public legit understands and views the role of centre and states. Think of all the activism that has led to many of the centrally sponsored schemes that are part of the social policy, human capital, basket of expenditures. Today, the investiture behind it said, the right to education itself, pushing off education onto the concurrent list. It all happened because there was a demand that the central government fulfil a certain set of core national priorities.

And that I think brings me to the heart or the tension of fiscal federalism. What are the core national priorities of a country that ensure minimum standards of public services to all citizens on the one hand? And what is the best mechanism of delivering that that responds to the realities that all states, indeed, all districts and all villages are very, very different pathways of delivery and therefore need to have the flexibility to be able to deliver? It’s in trying to balance that out, that we see these tensions and the constant tags of centralization and decentralization. There's also of course, politics. Let's forget that the deployment of article 282, with the using of centrally sponsored schemes as an instrument of fiscal transfers to states, saw, expanded in the 1970’s, its history has a lot to do with the history of India's politics, as regionalization of India's politics took place, centrally sponsored schemes became an important vehicle to which national governments could signal their welfare commitments.

But interestingly, the federal bugging worked really well because implementation was always at the state level. So, if you look at voter data, to the extent that we have any in India, the locality surveys, you see that, through the core, especially of the peak UPA years when central responses schemes expanded significantly as a proportion of overall transfer to states. That states will be credited, state political parties, often opposition parties to the UPA coalition were credited when implementation went well. And when implementation went baggy, the political tussle allowed the state political party to blame the centre and vice versa. And so, the federal bugging was maintained.

But as we've moved into a deeper, more single party majority system over the last six years, and particularly in the 2019 election, centrally sponsor schemes, which by the way, increased this as a proportion of total central expenditure, despite the 14th Finance Commission funded, no small measure by successes in fact, saw direct attribution to the government in Delhi, and in fact, directly to the prime minister in 2019 election data. So, the political incentive for central schemes is increasingly visible and will perhaps only increase as we go forward. How do we negotiate the politics that has led to the centralization that we see in the delivery of human capital?

Lastly, I want to comment on this issue of decentralization, particularly to local governments. It reflects the tensions of what level of government should be responsible for what? And how does the central government incentivize and mobilize? The reality of every level of government likes decentralization as long as it's to their level is most visible in the complex relationship that state governments have with their local governments, both municipalities and panchayat. But the question I face or the question that puzzles me is what's the best way to address this challenge? The Finance Commission has taken the view that the way to do this is to a carrot and stick approach, more stick than carrot, including the entry-level conditions that have been introduced with a link to the state finance commissions. But it isn't entirely clear to me that states will have the incentives to respond, and we've seen this
repeatedly. Performance grants have not yielded the kinds of results that we would expect on first principles because of the realities of politics. In fact, usually when we've had these performance grants, they've tended to essentially be a stick in the hands of the state and central government with whole fiscal transfers. What is that going to do to the future of local governments?

Also, I think the bigger question are local governments meant to be implementing agents of central and state governments besides the state finance commission grants, there's a whole lot of other performance related criteria that have been determined by the finance commission? Or should they be genuine institutions or certain department that respond to the needs of the electorate? That's the tension, I think at the heart of the performance incentive structure that the finance commission has created as a response to the failures of decentralization.

And finally, finally, to the question of constitutional amendments. My view is that the challenge of fiscal federalism in India is as much a political one as it is perhaps a constitutional one or a fiscal one until we don't create the institutional sphere within which the politics can be negotiated and centre state bargaining can be recreated, the absence of the planning commission has created this institutional vacuum, no amount of amendments is going to solve this, to create a genuinely fiscal federal structure for India that resource solely need. I'll stop here.

Montek Singh Ahluwalia: Thank you. Thanks very Yamini. Now, let's have Prachi giving us her view. Prachi, all to you.

Prachi Mishra: Thank you. Thank you Montek. Let me start by thanking CSEP for inviting me.

It's really a pleasure to be part of this distinguished panel. I actually want to start by saying a few words and conveying my heartfelt tribute to Dr. Isher Judge Ahluwalia, the renowned Indian woman economist who passed away six months ago. I think last time I talked to Isher at length was at a dinner at Montek, at Isher's house, a couple of years ago. I still remember how she related, you know, her stories from Calcutta to the Delhi school of economics to MIT, to Washington, and then back to the corridors of Delhi. I have to say that Isher's background does remind me of my own professional journey. And I would like to say that you shared will be fondly remembered, especially by Indian women economists, whom she deeply inspired and shall always continue to do so in the future.

So, with this, let me move on to the topic of this panel which is on Fiscal Federalism and Human Capital. And let me be clear that unlike the Yamini, my expertise is more on the macroeconomic side, so I'm going to talk more from a macro view on how this topic relates to macroeconomics. And in particular, I would like to talk about three things. One is convergence. The second is, some sectoral dimension in terms of industry versus services. And finally, again, the role of women in an international context in building human capital.

Look, I think theoretical argument for fiscal federalism and decentralization is basically that of economic efficiency. So, local governments are better positioned than central government to deliver public services efficiently since they are presumably much closer to the citizens to the respective jurisdictions and therefore, they are more knowledgeable about both local preferences for the public good and cost conditions than a central government. And this is, I think it is in the global context, but I think in India, this is particularly important, given the heterogeneity in language, cultural differences, et cetera.
I think one point to start here is has there really been convergence across Indian states? And are the States that have been lagging behind, are they catching up over time? And in practice, what has been the evidence so far? So, what I did just before this panel is, I did a very simple exercise. I basically collected data on per capita state GDP, going back to the last couple of decades and looked at level of per capita income from 1990 to the mid or the late last decade till I could find the data. And I was pretty shocked to see that when I did the simple scatterplot, no fiddling or torturing the data, basically soft flat line. And then I started doing, you know, cuts of the data pre 1990 post, 1990 post 2000, et cetera. I think my conclusion was that, at best there's weak evidence of absolute convergence across states and India.

And that I think raised the question in my mind is that look, India is a Federation, has broadly followed principles of decentralization, of course, subject to a lot of caveats with what Anoop and Yamini mentioned. But the question to ask ourselves is, what tests for split federalism achieved so far, especially in a macroeconomic context?

With this, let me move to the second part of my intervention, which is a little bit about the sectoral flavour. And here, I'd like to refer to some work I did several years ago while I was working at the Ministry of Finance. And I looked at how India compares with China and some of the East Asian economies. Not today. Because if it's today, it perhaps that comparison does not make sense. But how does India compare to these countries when they were at similar levels of development that India is currently. And again, I am surprised. If you look at share of employment in industry, it has actually been in line with China. And in fact, the dragon and the elephant had similar share of employment in industry at similar levels of development. What is very, very different is that if you look at the share of value-added industry, what was extremely striking is that the share of value-added industry has been distinctly flat in India, but the opposite is actually true for services sector. And in services sector, while the share of employment in services was actually relatively high, when India took off its growth has been competitively slow. And at the same time, the share in value added has also continued to rise quickly. So, bottom line, I think in the services sector, why the productivity has been high, the services sector is not creating as many jobs. The opposite problem of industry.

And if you think about it, some impediments to business creation, such as regulatory hurdles, access to funding, infrastructure, they are common between services and industry. But what stands out for the services sector is really the importance of education and skilling. And suitable high-end education is important, of course, for high end services such as IT, software development, et cetera, but even for mid-level services, such as retail, trade hotels, restaurants services, they require adequate skilling of the labour force.

And in particular, if you talk about tourism. Again, I was looking at some data off international tourists’ arrivals. India, in 2019, for example, got about 18 million tourists. If you compare it with China, its 150 million tourists China got in 2019. And if you compare it to France, it’s more than 200 million. And this is inherently related to human capital in the services sector, which has implications for hygiene, cleanliness, generally the quality of services. So, I think that as far as I understand, and you Montek would know more about this is, there were schemes like formal apprenticeship programs of the government which place employers at the heart of education. And basically, employers can play a powerful role in imparting a job relevant skill, and also retraining, preparing, a variation of the labour force. I don’t know where that is now and how much progress has been made. And also, the act and the rules governing these apprenticeships were also quite outdated and rigid from the perspective of
both employers and employees the last time I looked at it. So, I’m not sure where this whole issue of apprenticeship, which is key to addressing both quality and quantity issues in skill development, where is it now and also the National Skill Development Mission which had been started to address these issues. I think it would be good to get an update on this.

With this, the last part of my intervention, again, I digress a little bit and talk about the role of women in Human Capital Formation and in Fiscal Federalism. I think, if you look at Indian women, with some of the research I’ve done with micro data, actually show that Indian women actually report better credit culture, they are less likely to default. On the other hand, truly distressing facts from the data is that, the rates at which Indian women participate in the labour force has declined dramatically and consistently over the last few decades. And in fact, some estimates suggest that it’s fallen to below 20% over the last several years. And in fact, there’s research from the IMF that suggests that India staff stands out as having the lowest female labour force participation, if you compare to some of the peers in Asia, this is in sharp contrast to say Vietnam, where women’s labour force participation, outstrips not only regional fields, but some of the advanced economies as well.

And I think it’s clear that that for the country to develop and progress, I think women have to be actively engaged in the labour force. And this is a big challenge. I think fiscal federalism has a big role to play. They just need to know how to incentivize the states to actually skill and train their women. And in fact, the COVID-19, if anything, has actually highlighted women’s vulnerability, even more. Regular recession may not hurt more, but if you look at actually the latest round of the PLFS that just came out, you can see that states with higher infection rates for women, also reported higher female unemployment rates post COVID. So, female labour force, I think remains vulnerable and with a little shock, can actually fall into poverty.

So, bottom line, let me conclude by saying this whole issue of human capital and fiscal federalism. Is it an issue of resources? Is it an issue of affirmative action? For example, here’s been increase in recruitment in the Police in Bihar with increased affirmative action, or is it an issue of incentives? I think there have been some performance grants, as Yamini mentioned as well, in the 15th Finance Commission, but it's more on forestation and some of the other things rather than very little on human capital, if my reading is correct.

So, I think in the end, I think it’s a complex interaction of all these three resources, incentives and probably some affirmative action. And one needs to tackle a combination of all three to be able to progress on this front. So, let me stop here.

Montek Singh Ahluwalia: Thank you. Thanks, Prachi. And thank you for mentioning issue of Isher’s context, a very moving tribute from you. I think the panellists have now covered a very wide range of issues, and I think we should really get on to the questions, but I thought I might simply use a few minutes to focus on one or two things. One is that, in the different streams of the discussion, one focus has been on what the Finance Commission can do. Now, the Finance Commission is actually the underpinning every five years of how we distribute resources between the centres and the States. And I think the key thing we or anybody who’s looking at this issue needs to ask themselves, is that the usual argument in favour of promoting federal decision-making is that money should be transferred via the finance commission and not via things like the planning commission in the old days, simply because the finance commission gives unconditional transfers. I mean, the transfers could be very
broadly directed at certain areas, but in the end, the maximum leeway and how to use that stuff should rest with the states.

Of course, the present finance commission has recommended grants that are linked to health and education. But my reading of the press note is that that's the part of the recommendations that have not actually been accepted as such. I think what the government has said, "We're going to consider these things in the context of what we do in the centrally sponsored schemes." So clearly, rather than make it a finance commission type transfer, what they seemed to have in mind is look at the centrally sponsored schemes. I must say, I completely agree with what Yamini said, that frankly, on any indicator of flexibility, we should double the flexibility that exists at press. I do not believe that the central government adds any value by the complex conditions that it introduces, it simply creates new processes, which waste time and delay things and so on. I'm not saying by the way that if the money would go straight to the States, they would necessarily be well spent, but I don't believe the centrally sponsored scheme mechanism is adding any value.

And link to that, is a political issue. Politically, I think Anoop mentioned this, that there are things that are in the realm of the state, and there are things that are in the realm of the centre. I mean, in a way, logically one would want to have a devolution of resources which supports the different responsibilities, since the centre gets a lot more money than the states do, and the states have a lot of responsibility, especially in the areas where we now believe the government has a big role to play, health and education. So, sates must get some more money.

But what we need to consider, this is not a constitutional issue, it's more a political issue. The parallel development here must be that politics must revolve at each level around those responsibilities. In other words, when state governments go to get elected, they shouldn't be going to get elected saying, "Look, don't blame me for the national high ways and don't blame me for the railways. And don't blame me for foreign policy or defence policy. That's all the job of the national government. I don't blame me for inflation either because that's the job of macro-economic management. But what I'm here for is law and order, police, quality of health, quality of education."

The fruits of the matter is that's not the way politics is being done. I mean, politics at the state level has simply become a state level replication of national democratic competition. So, as long as the public, when they vote for a state government, I'm not actually voting on these things. And if you look around the states, there are hardly any state of any party that is going to the polls saying, "We've done a wonderful job, either on health or on education." The focus is that we've given a lot of freebies. So, I mean, this creates a tension that if resources are transferred in a fungible manner to the states, do you believe that they will be used in these areas or are they likely to be absorbed in freebies? I don't know the answer to that question. And I think that's a question that I think we should pose.

But anyway, I think with those very broad comments, let me invite comments from others. I think quite a few. I mean, sorry. We know Thomas has sent some questions for Anoop. Anoop, do you want to take those up now?

Anoop Singh: Yes. Sure. I haven't seen them yet, but please.

Montek Singh Ahluwalia: They are in there. If you look at your Q&A, you'll see them,
Anoop Singh: Okay. Right. Okay. I can see his points. He makes the right point. He also got his issue too. Two points on that if I may, Montek.

Montek Singh Ahluwalia: Go ahead.

Anoop Singh: The first is that India is obviously the truth that it is large, but we need to look at what others have done. Now, the first thing I’ll say is there probably hasn’t been a country that has been as decentralized as Indonesia was for 30, 40 years much more than India has ever been. Now, this began to change as we know, 20 years ago. 97, 98, 99 and so. They have a picture to decentralize to the lower levels of government and they have been focusing on health and education. Now, the jury is still out, but my whole sense of what I’ve seen is that they are ahead of India already in terms of the percentage of spending that is done by local governments and also in terms of the authorities involved.

Number two, India has a big problem, perhaps because its states are so different. And so, how do in a country where you have states with so different per capital incomes? But you know, there are countries like Vietnam and Cambodia that also have a huge difference between their own provinces. So, my point is, India is different. On the one hand first, there are countries, most centralized that are now moving ahead. And number two, there are countries whose provinces are as more different than India’s and they are also not willing to deal with such.

So, finally, my point is on the resource issue, no matter what we do in terms of institutional arrangements, unless India reasons with overall resources, this is very difficult to do. Agreed to work on both at the same time. You need to work on how you spend it, how you report it, how you audit it. But all that becomes less important, if you’re not at the same time raising resource. Let me stop there.

Montek Singh Ahluwalia: Thanks, Anoop. Yamini, were you signalling a delight to intervene at that point?

Yamini Aiyar: Yes. No, just to very quickly say I think I absolutely agree with Anoop that, look, we spend very little relative to how much we showed and it particularly in health, more than education. There’s absolutely no question that the overall resource pool has to be increased, but that’s also linked to our tax GDP ratios. But there is a very crucial political economy challenge in that because in Indian context, the quality of public services has always been abysmal. We’ve also seen a consistent exit. We’ve seen this for health and education in particularly, 80% of health expenditure is out of pocket. Education movement into private sector has been remarkably fast, faster than any other country. In fact, we probably see some coming back now because of COVID, but for the most part, a movement in primary into private sector was going at a rate of about 30%.

This has a lot to do with the fact that the basic social contract that is the premise of taxation had in fact broken because the taxpayer doesn’t actually believe that they will be getting quality public services as a consequence of paying tax. In that context, you will see this constant push back from various interest groups, every time attend summit to expand the taxation pool. So, I think that the dual has to work together. We need to recognize that not only do we need to spend more, but to spend more, we need to tax better. And in order to do that, we also need to deal with the gender disenchanted with the public systems capabilities of delivering. And that has to do a lot with the politics. And I just wanted to add one caveat to what you said, “No doubts, state politics is not good in the direction of health
and education," Although that's changing very, very little in a very limited fashion. Delhi was at least able to shift the narrative a little bit. I don't think it won the election because of what it did on education, but there was some push there.

But so is that at the centre. The political economy for a national government, when they go to fight elections, also are all about gas cylinders, roads that were built, houses that were made to send responses teams and so on and so forth. So, that it's at both levels that the nature of politics is creating incentives for central government to encroach on states and for States not the pushback hot. So, there is this sort of both - there is no consensus, I think ultimately no political consensus on decentralization for India. It is a puzzle that in the coalition era, when we had so much decentralization of politics, everyone was more or less comfortable with a fairly centralized fiscal architecture for welfare, for instance, which is core to politics.

Montek Singh Ahluwalia: Yes. I think, to me, one of the interesting things which is actually lacking is an adequate analysis of the difference across states. I mean, not every state is identical. I mean, for example, we're often told Martha Singh and John West, popularized this greatly that India's social indicators are even worse than Bangladesh in some areas. Now, sort of the implication being since Bangladesh lower per capita income, that's pretty bad performance on the part of India. Although it could just be an exceptional performance on the part of Bangladesh. But the fact of the matter is that the very low indicators for India dominantly a result of indicators in the North. I mean, if you look at the same indicators in the South, they're actually better than Bangladesh as you'd expect, since incomes are higher.

Now, you know, somehow somewhere, I think there's too much of the debate has focused on resources and what you can do through government instruments, the finance commission, flexibility of secondly sponsor schemes, et cetera. It seems to me that the public awareness and education on what is necessary would be hugely increased. If one could get a sense that different States are doing actually better than others and people ought to become aware of why that's happening. For example, take educational outcomes. I mean, the PISA scores have become sort of internationally recognized system to measure accountability. I think the last time that we participated, we came second, last out of the or 80 countries or something. And the initial reaction of the government that was then the UPA, by the way or the ministry, that PISA scores are a culture bias that we don't want to join it in the future, I think that have been reversed and we are going to join it.

And quite honestly, what I would like to see is each state actually joins the PISA program. So, we see, how do, how do students differ across States in educational achievement? And I think we need a better awareness of that and a better projection of that and politics that then begins to recognize it. I mean, not for the voter. It's not very clear to anyone, whether the voter is actually expecting that the government should educate their kids better. I mean those who don't have jobs look for reservations rather than a better quality of education. So, I mean, how do you handle this? I think one way of handling it, of course is much better analysis across states and much better understanding that good government in different states leads to better outcomes. We haven't seen that at all.

Prachi Mishra: Montek, can I jump in for a second?

Montek Singh Ahluwalia: Yes, of course.
Prachi Mishra: So, I completely agree with you that I don’t think this is an issue exclusively of resources, and there’s been a lot of attention on resources. I think it’s an issue of who is using the resources well? And that we can come through by looking at some of the indicators and how, for example, you mentioned these comparing students across states and the PISA scores.

So, I think the idea is that most of the grants, I think planning commission or finance commission mostly focused on the needs of the states. If you are income distance or on other indicators, I think I don’t see it a solution to this problem other than through incentives the states and creating the right incentives. If I may say, there has been lip service to providing some incentives. For example, if I’m looking at, Anoop you may correct me if I’m wrong. If I’m looking at performance link grants in the 15th Finance Commission for health and education or I’m looking at education but the health is still higher. Education is 10,000 crores, only. So, I am in what kind of incentives can these peanuts actually provide?

So, I think to me, the bigger issue, and the big question has always been how to balance needs and performance. I think successive finance commissions have done a little bit to address the performance issue, but it’s really not enough, at least if I’m reading the numbers correctly.

Montek Singh Ahluwalia: Yes, thanks. By the way, quite apart from the fact that that particular recommendation has not yet been accepted. So, that recommendation would kind of imply that the government would have to give more money and the amount is very small compared to the total of the other grants. But I think what’s being thought about is that it will be part of the way the centrally sponsored schemes are restructured. So that’s an issue. Yes, Yamini.

Yamini Aiyar: Very quickly on this one, just I think at least in education. The experience with PISA and now India is sort of doing PISA again in Chandigarh, and there’s been a lot of focus on preparation for PISA. There has been a greater awareness of the importance of outcomes monitoring. There was a national assessment survey that was done at the district level, which is actually a really good step in the right direction. There are huge data quality issues that are being sorted out. But we are slowly heading in that direction. I think the challenges with data is not so much putting information in the public domain, it is much more about how the system is able to absorb this information, this data, and actually rework its approach to delivering services. This is about state capacity. It’s about moving away from a culture where accountability is about the voucher utilization certificate in accounting, rather to one where accountability is about the quality of service delivery. And that’s not unfortunately going to come through performance incentives. Every time we have tried these performance-based financial incentives, you essentially end up in a situation where money does not get transferred for quite some time. And then eventually during the finance commission grants, and eventually just as you hit the five-year period, either the money will lapse back to the treasury or there will be an opening up of the flood gates and money will go through.

So, I think that ultimately the only way to resolve the implementation challenge and the accountability for outcomes challenge is not going to come to the fist, it is going to come through state capacity changes. And that’s where the focus will have to be.

Montek Singh Ahluwalia: But it’s not just state capacity, it is also a kind of a political demand by the state to build that capacity.
Yamini Aiyar: Yes. Absolutely.

Montek Singh Ahluwalia: I agree with that. I mean, I think, let me say that since there’s absolutely no question that we’re not spending enough in either health or education, there’s a very strong case for expanding the volume of expenditure. But I think we have to be aware that merely expanding the expenditure won’t make such a huge difference until all those other issues of state capacity, design, et cetera, will come in. Which is why, I mean, personally, I would be in favour of not having centrally sponsored schemes, but sort of having the kind of finance commission type education and or health related grant, and simply let the state - I mean, all you’re doing is you’re allocating it to the sector. That basically empowers whoever’s the health minister or the health secretary in the state, and they have to come up with ways of doing it. Even one can quite imagine that different states will do different things. I mean, some for example would go for a subsidy to private health insurance. Others might say, "No, we want to build up a strong public health system and also curative health system, district hospitals, et cetera" but leave the flexibility to the States. Don’t kind of dictate from the centre. And I think that’s a real choice, which we need to think about.

Many people have talked about constitutional changes, revisiting this. My own feeling is that look, I mean, these constitutional changes don’t drive anything. And I mean, if it gets some stuff done which shows that it works and you need to embed that in a constitutional change, then you have a greater basis for doing so. At the moment, we don’t have any success stories, talking about constitutional changes in the abstract, to my mind is not really the right thing to do. But let me ask Anoop and Yamini and Prachi, what is your view on this?

Anoop Singh: May I just start by making and comment on something else and I would come back to your point. I think Prachi made an important point about the employment in India and the declining participation rate, and finally that the current pandemic is going to hurt the women in India, a lot. It isn’t that much of public discussion, debate, and recognition of the link that these have with nutrition. My point is as Prachi rightly said, if women’s employment and the participation rate is not going to rise significantly over the next five years in India, it is not easy for me to understand how our nutrition performance is going to increase separately in the next five years. In the end, it is not just about financing and resource and money, it’s about cultural issues defining what happens when the trio is under one year ago, age, women, mothers, and is closely linked if they’re employed or not.

So, I do think there needs to be more debate and discussion on this point. And I do believe that this point has some validity, it makes a starting position for India in the next two years, more complicated.

Montek Singh Ahluwalia: Thanks, Anoop. Yamini, Prachi, you want to come back on that?

Prachi Mishra: Sure Montek. On the constitutional amendment, actually, I agree with you. Changing the lists and moving things around unless there’s the right political incentive to do things, I don’t see huge gains. For example, moving health to a subject in the concurrent list. That can happen, but I don’t think that is a substitute for right political incentives to do a lot of things which both Yamini talked about, you also talked about,

Yamini Aiyar: So, I do agree. I don’t think that the constitutional amendments are necessarily the answer, because I honestly don’t think it’s a constitutional problem. I think that there are two critical vacuums that the fiscal federal architecture in India confronts. One is an institutional one. And this is going to get increasingly stockier as we go forward. And Prachi
mentioned rightly the divergence in state pathways. This is going to mean that, even in things like labour movement, the movement, as we saw during the migration crisis, ultimately this is going to require intrastate negotiations. What we are seeing today with states after state after state falling into the Mariana trap of introducing bills in the legislature for preservation of jobs, et cetera. This can only be resolved by interstate horizontal engagement dialogue, which is fundamentally the role of the centre.

Added to that, how do you negotiate fiscal transfers when the developmental needs of states, like in the North are going to be significantly higher than in the South? The 15th finance commission face that conundrum. They definitely avoided it, but it is going to get more and more complex, especially as we hit the limitation, et cetera. So, we need to have an institutional sphere where both the politics can engage as well as the executive and the bureaucracy can engage to negotiate.

Secondly, I think the, particularly with local governments, ultimately, unless local governments don't mobilize as a robust political entity to demand their rights of states, I just don't see how we are going to solve this problem, constitutional amendment or not. Activity mapping or not. Three S funds functionaries, which is a sort of grammar in which we've talked about. This is not going to solve this problem. If tomorrow the central finance commission did not exist or was not set up, or its recommendations were not table in parliament, every single state, including states that are all the same political party as that of the centre would be up in arms. Why do local governments not have the same relationship with their governments? It's a political relationship. For this local governments need to be more aware of their rights, financial rights, so fiscal transparency could be one way of moving in that direction.

Montek Singh Ahluwalia: On that, Yamini, that goes back to my point about the usefulness of making interstate comparison. For example, in the old days, the general belief was there's much more de-evolution in say Kerala and Karnataka than there is elsewhere. But if you compare the performance of Karnataka and Kerala with Tamil Nadu, which doesn't have devolution, they are not that much better. So, the argument that force devolution necessarily leads to better outcomes doesn't necessarily get born out. I think that we need, rather than sort of discussing things in the abstract, it would be hugely helped if we have more actual research done at the state level, which would compare what happens in one state with what happens in another.

Now, this is very difficult for the government of India to do because it gets politicized. I mean, we found that in the planning commission. But beyond the point, you couldn't really be comparing that one state is doing better than the other state. Although now I think some indicators are being put out, but these are sort of outcome indicators. They're not actually linked to what the actions are that lead to this better outcome. So, I think we need a little more of that. And since you are running a research institution, I thought I'd give you an idea. There's a lot of work... One of the questions that came up is, "Why are we not able to incentivize teachers?" I think one of the questions says that brought them survey. They asked a lot of people that "Look, you seem to be interested in education and the teacher's doing a lousy job. So, why are you not able to raise this for the teachers?" And I think they pointed out that look, teachers get their salaries from the government. We don't control.

I mean, this was discussed 10 years ago, more than 10 years ago that the state education cadre should be declared dying cadre. In other words, as these people reach retirement and
leave, all subsequent re recruitments would be at a lower level. But there was very severe opposition to that. I mean, the idea was that if you stopped doing recruitment of teachers at say the district, or even the village level, I mean, in numerable attacks of biases, especially cast biases would determine the outcome and that you would not necessarily produce a better situation.

So, it’s interesting how exactly do other countries manage? I mean, Indonesia is a very good example and I used to be told by my friends who had more knowledge of this, people working in the World Bank that Indonesia de-centralized hugely compared to India and in these respects were doing better. So, I think we need to find out exactly what it is they did. And can we do it? And is there any state doing something near that or not? I mean, that’s one way of kind of raising these issues.

Can I, since we are probably coming to the end of our period, maybe some reflections by Anoop and each of the panellists. Last thoughts you want to leave with the people who are listening to you?

Anoop Singh: Let’s just take one point, or maybe towards the end of it. And that is the issue of, are states converging or not at least in health nutrition? If I remember correctly, the National Family Health Survey done in 1920, it showed that the degeneration that did take place in the previous five years were not only in the low-income states, it was quite diverse. And so, it’s really difficult to reach a conclusion that the problem is only the low-income states. I think there’s been divergence recently, also in the upper-income states. That’s one issue.

Secondly, my point is it’s a question. I agree with you right now, constitutional change is okay. So, some people are kind of saying that the commission should continue to have these funds been granted. But I don’t think Yamini, is in capable. So, the issue is how are we going to go beyond the state level, to the local governments? In our visits across India, I would say, I generally impressed by the quality of the primary schools that we saw in many states. And it’s not related to being a high-income state and low-income state, but they are really quite impressive. The question always was the lack of resource. Now, when it comes to resources, one thing to me that is simply sponsors schools can be a problem. They probably are a problem. We probably also agree that the states don’t want to lose it, because they do to provide resources.

So, the issue is a very difficult balancing act. If resources are a problem, if you want to build up incentives for better performance at the state level and you want to restrict or reduce centrally sponsored schemes, how is this going to take place?

Finally, Montek, as you said, looking at country as Indonesia, has managed quite a lot. We need to research also to see what is it they have done that we haven’t. So, those are my two remaining points.

Montek Singh Ahluwalia: Let me inject one thought on the whole issue of centrally sponsored schemes, I mean, we did discuss it. One way of addressing the centrally sponsored scheme issue would be for NKIO as the successor to the planning commission or whichever part of government does this sort of thing. Just want to determine a state overall entitlement for funds from the centrally sponsored schemes. But give the state freedom, which centrally sponsored scheme it likes. This would, at the very least introduced competition among the
different ministries to show the central government that they really like my scheme and they
don't like this other guy's scheme. At the moment, it is far too rigid.

So, I mean, I would even go further and say that if you have said agriculture and you have
rural roads and you have health and you have education, there's no reason why if the central
government wants some broad guidelines for each of the centrally sponsored schemes,
there's no reason why a state cannot surrender its entitlement on the one scheme and sort
of claiming the same amount from another. At least that'll tell us what the state governments
actually want. Right now, this will be imposed on them from above, which I don't think makes
much sense to me.

Anoop Singh: It says one thing. This is where they are going. I think the review that's taking
place or the CSEP is decides to give States the ability to compete for different schemes within
a total governance. So, I think this is what they are working on. This is my understanding.

Montek Singh Ahluwalia: Well, I'm delighted. I mean that I recommend that this in my book.
So, if it happens, I applaud it massively. Assuming that other panellists think it's a good thing,
also?

Yamini Aiyar: So, if I could come in here, I think what you're saying is exactly right. And in
fact, the NKIO one of the first things they did when they will form was to set up a chief
minister subcommittee, which is led by Shivraj Singh Chauhan at the time, and that came up
with a set of recommendations broadly along these lines, not in as much. Sort of careful detail
about how the flexibility would be managed. But essentially the idea of flexibility within these
schemes as also a basket of programs that states could choose from, uh, based on their own
needs. It was never implemented, partly because of politics is my
understanding of fit.
Because the temptation of Pradhan Mantri schemes of all kinds is just far too great politically.

But also, one of the big challenges that I found in working with states in that phase of the
14th Finance Commission was that their own planning capacities are limited. So, we also
need to be able to think about what are the ways in which say a Bihar or a Madhya Pradesh
or a UP could work with a basket of money or sort of a predictable pool of funds that they
have available to them in the form of a block grant on the back of which they can develop
plans.

Centrally sponsored schemes started moving money to societies. Let's not forget this
happened in the early 2000. The departmental capabilities for planning were completely
rooted over the course of these last 20 years and leaving them with very little ability than
through long-term forward-thinking planning. That ability needs to be built back and the
institutional structure needs to be created. And I think the centre probably has to play that
role, especially for these states.

In education, one of the good things, at least in primary is that the national education
program has a very clear focus on what they call foundation, literacy and numeracy linked to
a mission. So, we have five years. By 2025, all children that finished five years of schooling
should have at least acquired these basic capabilities. So, very nice neatly defined peer goals.
States are actually gearing up towards that. This could be the opportunity to try it out to
block grants rather than going to the line-item craze that we have. So, hopefully there are
spaces for experimentation that could move us forward in this debate.

Montek Singh Ahluwalia: Thank Yamini. Prachi, some last words of wisdom?
Prachi Mishra: Sure, sure, Montek. It's been a great discussion. I just want to say that if anything over it has actually increased the importance of everything we've discussed. I think most of the discussion has been - probably we would have habits of discussion even pre COVID. I think COVID has increased the importance of these issues many folds. And with a lot of more workers going into in formality, female unemployment rate going up, the issue of human capital and fiscal federalism is, if anything is going to be even more irrelevant going forward.

And remember that we are talking about 10% of output of the country being lost relative to a pre COVID scenario. So, definitely it's going to have implications for learning outcomes, for informality and how we rethink this whole issue of human capital and fiscal federalism becomes much more relevant now.

I think, as I said, I perhaps disagree a little bit with Yamini. I think whenever we are allocating money, it has to balance needs and performance. Institutions are weak, you can allocate resources, but those resources are going to be frittered away. I think we've done some lip service to it, but it has to be done at a much larger scale to make sure that it is whatever we allocating is being used efficiently. Let me stop here.

Montek Singh Ahluwalia: Thank you Prachi. And let me, on behalf of CSEP and our audience, let me thank Anoop and the two panellists for an excellent discussion. And thank you Rakesh for inviting us to put on the show. With those...