A penny in time

Use the money saved post Air India's sale to set up two credible safety organisations in India

OUT OF THE BLUE

ANJULI BHARGAVA

If the judge, jury and executioner in a case are one and the same, how likely is it that justice will be delivered? That, in a nutshell, is where the Directorate General of Civil Aviation (DGCA) in India finds itself with regard to air safety.

Let me explain. In almost every country, the body that investigates aircraft accidents is a highly specialised one with trained investigators. As and when an accident occurs, investigators arrive at a hypothesis on the possible reasons based on clues gathered at the site or from recovered parts.

All possible hypotheses are examined in detail and rejected till the most likely one that ties in with all other evidence remains. The most probable cause is established and recommendations are made based on this to reduce recurrence. The recommendations have to be implemented by the regulator and it is held responsible for the failure to do so. In the US, for instance, the regulator is the Federal Aviation Administration (FAA) and the body that investigates accidents is the National Transportation Safety Board (NTSB). In the UK, the Civil Aviation Authority is the regulator and investigations are conducted by the Air Accidents Investigation Branch. In most developed countries, recommendations made post an accident are taken with utmost seriousness and are usually binding on the regulator.

India however has been doing its own thing in this regard. Till 2010, safety rules and regulations were prescribed by the DGCA — both for airlines and industry personnel. It was the DGCA that tried to ensure — without probably having the wherewithal to do so — regulations were complied with. As and when, such regulations were not followed and a mishap occurred, the DGCA would ask a panel of experts to investigate. Recommendations submitted would be examined and those accepted would be implemented and the rest ignored. As a former director general of civil aviation told me once recommendations that could be implemented with relative ease would be implemented and the rest overlooked.

In 2011 — in the aftermath of Air India plane crash in Mangalore in May 2010 — the government realised it needed a dedicated set-up to investigate accidents and set up an Aircraft Accident Investigation Bureau but this effort has remained largely on paper.

While working on an article on safety for this newspaper, I discovered to my horror that India's annual budget for the DGCA is a mere ₹200 crore. Contrast this with the $17.5 billion allotted to the FAA for the year 2019 by the US government. This despite the fact that air traffic growth in India has been among the highest and is crossing double digits almost every year. India is expected to cross the UK and be the third largest in the volume of traffic by 2024. This single statistic to my mind highlights why the DGCA is unable to perform as it ought to.

India does not have many trained investigators but it is not as if some of the required technical expertise doesn't exist. India's aviation sector has over the years nurtured highly competent aircraft engineers but the DGCA doesn't always have the money to hire such talent. As such, circulars and civil aviation requirements (CARs) issued by it are often not heeded by the airlines and the industry in their entirety. Many investigation reports have been gathering dust for years together.

So here's my suggestion: Let the money saved from selling India's national carrier (annually around ₹4,500 crore) go into setting up and financing two credible safety organisations in India — a new DGCA and an accident investigation body with trained investigators — that work in tandem. This is the single biggest favour the government can do to the sector in general and the air passengers in particular.

Last, while we are at it, let's rename the DGCA. The moniker has been used and abused so much that we could do with a new epithet altogether (as far as names go America's Federal Aviation Authority is no slicker!). How about calling India's new DGCA Safety First ? If you have a better idea, do write in.

Why Indian dairy farmers oppose RCEP

Providing market access to New Zealand in particular could wipe out their livelihoods

SANJEEB MUKHERJEE

As India moves closer towards finalising its negotiating position under the Regional Comprehensive Economic Partnership (RCEP), the Indian dairy industry has upped its opposition to the pact on grounds that any lowering of tariff would severely harm its interests.

RCEP is India's most ambitious trade pact to date. Based on India's existing free-trade agreements (FTA) with the 10-nation Asean bloc, the RCEP will include all the nations with which Asean has trade deals — China, India, Japan, South Korea, Australia and — most importantly from the point of view of the Indian dairy industry — New Zealand.

The negotiations on this issue centre on granting New Zealand access to the fast-growing dairy products market in India —together with wine, apples and kiwis — in return for easier norms for cross-border migration of Indian professionals (nurses, chartered accountants and IT experts).

TAKE TWO
ANALYSIS BEHIND THE HEADLINES

But this quid pro quo is a little more complicated because of the asymmetry in the two countries' dairy sectors. New Zealand is the world's largest global milk and dairy product exporter, accounting for nearly 20 per cent, or $5.4 billion, of all global exports in 2018, according to the International Trade Centre. India, by contrast, is a negligible exporter. Currently, most milk and dairy products imports to India attract a peak customs duty of 64 per cent (60 per cent basic customs duty and 4 per cent countervailing duties).

The Indian dairy industry's argument against lowering these duties hinges on the fact that, given the fragmented nature of the sector, cheap imports would impact the livelihood of almost 100 million rural households that are directly or indirectly dependent on dairying. An overwhelming 77 per cent of these households comprise small and marginal farmers.

Moreover, in India, more than 70 per cent of the price that customers pay for milk is passed on to dairy farmers mainly on account of the unique cooperative structure that was put in place under Operation Flood I and II, programmes that transformed a dairy-poor country into the world's largest milk producer. In New Zealand, the farmers' share in consumer price is 30 per cent, and there are just about 20,000 farmers involved in the dairy sector, most of them with landholdings that are several orders or magnitude larger than Indian farmers' (see chart).

New Zealand exports almost 93 per cent of its annual milk production — estimated at 20.5 million tonnes — in various forms. Indian dairy players say that if New Zealand were to ship just 5 per cent of its annual milk and milk product exports to India, the sheer volume would be enough to depress Indian product prices.

Rough estimates show that just 5 per cent of New Zealand's annual exports of high-value milk products would be enough to capture 28 per cent of the Indian market for all milk and milk-based products — and that include skimmed milk powder (SMP), cheese and butter.

Clearly, the odds are stacked heavily against lowering tariffs. Local dairy companies may have to slash their milk procurement prices if cheap imports are allowed because global SMP prices are far lower than Indian rates — ₹160-170 a kg against ₹280-290 respectively. Assuming that 10 litres of liquid milk goes into producing one kg of SMP, procurement prices in India have to drop ₹10-11 per litre to make purchases competitive vis-à-vis imports. This would be disastrous for small Indian dairy farmers, who were beginning to see a slight increase in procurement rates in the past few weeks after years of low prices.

Back-of-the-envelope calculations show that Indian farmers could collectively lose almost ₹3.5 trillion if procurement prices are slashed. The impact on the rural sector as a result of lower procurement prices could be huge, given that latest NSSO data showed that between 2003 and 2013 the income from livestock recorded the fastest compound annual growth rate (CAGR) at 14.3 per cent.

Dairy accounts for 25 per cent (₹7 trillion) of the country's total farm produce and has been a global success story. Since 1997, world milk production grew at a CAGR of 2 per cent, half India's CAGR of 4.5 per cent.

Commerce ministry officials who are spearheading the RCEP negotiations appear to think the dairy sector's fears are unfounded. "India is the largest producer of milk globally. Imports of high-value foreign produce may rise in certain categories, but there's nothing to suggest the entire sector will be affected," a trade negotiator at RCEP said.

A senior dairy sector official finds this reasoning specious. "If the argument is that import of high-value milk products, which is consumed by a select class of people, might rise, what is the need for lowering tariff on them?" he points out.

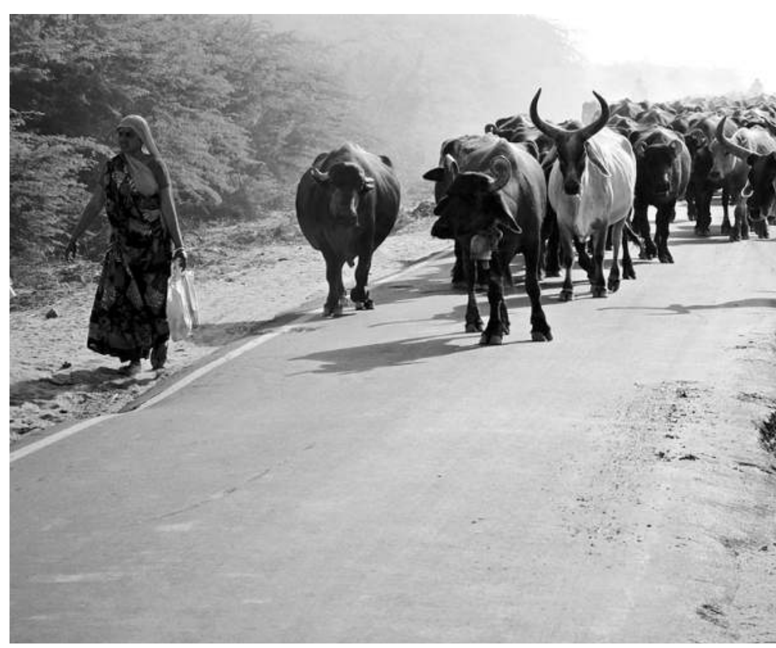
As it stands, the trade-off — Indian professionals versus small and marginal farmers — is a tricky one. Much depends on which lobby is heard the loudest in the corridors of Raisina Hill.

COWED DOWN

New Zealand and India's dairy industries in numbers

	New Zealand	India
Milk production (million tonnes)	22	180
No. of dairy farmers	10,000	100 million
Average farm size (hectares)	NA	1.08
Number of milch animals (million)	5	131
Milk yield (lts per day)	13	3.5
Share of dairy products exported (in %)	93	Negligible
Farmers' share in milk consumer price (in %)	30	71

Source: Dairy industry and government data



In India, more than 70 per cent of the price that customers pay for milk is passed on to dairy farmers mainly on account of the unique cooperative structure that was put in place under Operation Flood I and II

CHINESE WHISPERS

Pak invitation for Manmohan

Congress leaders on Monday said they were intrigued by Pakistan Foreign Minister Shah Mahmood Qureshi's statement that Islamabad would invite former prime minister Manmohan Singh (*pictured*) for the inaugural ceremony of the Kartarpur Corridor in November. Pakistan is scheduled to open the corridor for Indian Sikh pilgrims on November 9. "The Kartarpur corridor inauguration is a big programme and Pakistan is preparing for it in a big way. We have decided to invite India's former prime minister Manmohan Singh to grace the event... We will send a formal letter to him soon," Qureshi told Capital TV. He said Singh represented the Sikh community. Singh was born in a village in Punjab province in undivided India but did not visit Pakistan during his 10 years as prime minister. Sources in the Congress said it was strange that the Pakistan foreign minister made a statement on this when such an invite should be routed through the ministry of external affairs.

Going paperless

To make the functioning of the central government paperless, the Cabinet Secretariat has directed all ministries and departments to discontinue the "practice of sending offline progress reports or updates" and "action taken reports (ATRs)" for the eSamikSha portal. Last year, the Cabinet Secretariat had asked all ministries and departments to send regular updates of ATRs to implement the decisions of the cabinet and cabinet committee on economic affairs (CCEA). It has now said that some of the ministries and departments either do not upload ATRs regularly, or send these in offline/paper form. "Since the implementation of Cabinet/CCEA decisions is now tracked on eSamikSha, this is hampering effective monitoring," an office memorandum stated. "In particular, the status of several Bills approved by the cabinet has not been updated on eSamikSha, even though they already stand enacted as law, after being passed by Parliament," the Cabinet Secretariat said.

Attention Parliamentarians

A new solution developed during the Singapore–India Hackathon 2019 in IIT Madras may end up keeping an eye on our Members of Parliament if Prime Minister Narendra Modi sticks to his words. The solution in question is a device that detects who is paying attention during an event/meeting and who isn't. "I specially like the solution about the cameras that detect who is paying attention. I will talk to my Speaker in the Parliament as I am sure it will be very useful for our Parliamentarians," said Modi after the event.

ON THE JOB

Welcome but inadequate increase in jobs

MAHESH VYAS

During the eleventh comprehensive household survey of labour markets conducted by CMIE during May-August 2019, an estimated 405 million were found to be employed in India.

The total sample size was 174,405 households. Of this, 110,975 households were from 7,920 enumeration blocks in 322 towns. The rural sample consisting of 63,430 households were spread over 3,965 villages.

The sample households yielded 567,070 members who were of 15 years of age or more. Estimates presented here are based on the appropriately weighted averages of the employment/unemployment status of these individuals. There were 358,194 members from the 322 towns and 208,876 were from the 3,965 villages surveyed.

Of the 405 million employed during the May-August 2019 months, 129 million were residents of urban India. The remaining 276 million were rural folks.

This was the eleventh such survey and we therefore have a time-series of the trends in employment in India since 2016.

The time-series suggests a recovery in employment. The 405 million estimated to be employed during May-August 2019 was 0.6 million higher than the employed during January-April 2019 which in turn were 3.9 million higher than the preceding survey conducted during September-December 2018.

Cumulatively, the count of the employed has risen by over 4 million over the past three surveys. This marks an apparent turnaround in employment from a steep falling trend to a gradually rising trend.

It may be recalled that 10 million jobs were lost in 2018. The September-December 2017 survey had estimated the total employed to be 411 million. This fell in each of the three subsequent surveys to 401 million in September-December 2018. This decline in employment has stopped.

It makes sense to compare the May-August 2019 survey to earlier surveys conducted in similar months. Doing so removes the effects of seasonality in employment, if any. Such a comparison shows that employment in May-August 2019 was 2.5 million higher than it was a year ago.

This is a big relief given the sharp fall in employment recorded in 2018 and also the lack of growth in employment even earlier in 2017. Employment had fallen by 5.5 million between May-August 2017 and May-August 2018. Earlier, it had fallen by 0.6 million between May-August 2016 and May-August 2017.

Given this past record of declines, the surge of 2.5 million jobs in the past one year is a welcome reversal.

But this expansion is far from sufficient. The 2.5 million accretion of jobs could absorb only 22 per cent of the increase in people looking for one during this period. While the labour force expanded by 11.3 million, jobs grew by only 2.5 million. The remaining 8.8 million merely inflated the stock of unemployed.

The count of unemployed has risen to 32.6 million. Besides, there is another 12 million that is also willing to work if a job becomes available although they were not actively looking for a job.

Counter-intuitive as it may sound, there is reason to celebrate the increase in the unemployed. Their increase is an indication of an increase in the hopes for finding jobs. Earlier, post demonetisation, this hope had dried up. As a result, in 2017, while the working age population increased by nearly 23 million, employment declined by half a million; the count of the unemployed declined by 9 million and those willing to work but not actively looking for jobs decreased by 13 million. Effectively, the increase in the working-age population made no contribution to labour supplies in 2017.

In 2018, labour did return to look for jobs. As a result, the count of the unemployed rose by 8 million. But the jobs market was bad as 10 million jobs were lost during the year.

The results for 2019 so far show that the count of the unemployed continues to grow, but employment has also started rising.

A recovery from the deep disruptions of demonetisation (effects seen in 2017) and the introduction of the goods and services tax (effect seen in 2018) seems to be underway. But this recovery, particularly in jobs, is extremely fragile and tentative.

Note that the estimated count of the employed increased from 402.4 million in May-August 2018 to 404.9 million in May-August 2019. But employment during May-August 2017 and May-August 2016 was of the order of 408 million. The Indian economy is unable to provide employment at the same scale again. In the meanwhile, the working-age population has been rising and the numbers of the unemployed are rising correspondingly.

The working-age population seems to be growing at the rate of a little less than 2 million per month. Of these, less than a million join the labour force looking for jobs. For two years, in 2017 and 2018, the labour force did not increase. But now, it is increasing. It is important that this surge in the labour force finds adequate good jobs. Else, the unemployment rate will keep rising or labour will shift back to agriculture to undertake extremely low quality jobs, largely in distress.

The author is the MD & CEO of CMIE

LETTERS

Gaming the system

The fiasco involving Punjab and Maharashtra Co-operative Bank (PMC) has stirred up a hornet's nest. One bad account, Housing Development & Infrastructure Ltd (HDIL), is said to be the cause of the downfall of the bank. According to reports, the HDIL exposure was not reported for six to seven years. HDIL did not service the loans for three years and yet, it was not reported as non-performing. One-third of the loan portfolio of the bank was being enjoyed by one group. The rule book has laid down norms for maximum exposure to a single entity or group. The bank successfully evaded these checks and balances. How the auditors could be hoodwinked for such a long time is a case ripe for investigation.

Compared to other banks, the loan book of PMC was not too large. The auditors and RBI inspectors should have been looking at the large loan accounts with a fine-tooth comb. If this was done, at some point in time, the gaming of the system could have been detected. A point to note here is that the exposure was not caught by inspecting authorities but came to light because the bank divulged it. Had the bank not come clean, how long this duplicity would have continued is anybody's guess.

PMC was said to be amongst the better managed co-operative banks. One shudders to think how many such surprises are hidden in other co-operative banks. This will shake the confidence of the general public. It is the small depositors who are getting badly impacted. They do not have too many choices. New generation private sector banks, with their high threshold of minimum balance, are out of reach. The customer service levels of public sector banks is not very inspiring. Co-operative banks are patronised as they have the local flavour, have good customers service. After the PMC bust, this banking avenue will also be looked at with apprehension.

Will any accountability be fixed on the officials of the regulatory authorities? Over the last so many years, there would have been multiple inspections by different personnel. How could they not notice this sleight of hand by bank officials? This is something that needs to be investigated to make the inspection team work more diligently in the future.

KV Premraj Mumbai

Need some answers

This refers to your editorial "Failures of supervision" (September 30) regarding the deficient role of the Reserve Bank of India (RBI) in the crisis plaguing the Punjab and Maharashtra Co-Operative Bank (PMC). The co-operative movement in India was started with an act of Parliament in 1914, primarily for dealing with the problem of rural credit and to encourage "thrift, self-help and cooperation among agriculturists, artisans and persons of limited means". Being so, how PMC could have had an exposure of ₹6,500 crore (which is 73 per cent of the bank's total assets) vis-a-vis the bankrupt Housing Development & Infrastructure Ltd (HDIL) and continue to report the same as "standard asset" for long, without so much as causing an eyebrow to be raised in the RBI, are all questions that baffle the common man.

If, as is being alleged, the RBI has taken strong action against PMC only after the bank, on its own, reported its misclassification of bad loans, it is, indeed, a poor reflection of the former's supervisory role. Dual control over co-operative banks by the RBI and the Registrar of Cooperatives (RoC) is only a lame excuse.

"People don't make mistakes, processes do," swear quality gurus. It is high time the RBI tightened its audit and information gathering processes to ensure that its officers do a thorough job of supervising banks, NBFCs and housing finance companies that it is entrusted with. Else, we would continue to witness the sad spectacle of innocent depositors and other bank customers being put to hardship due to such late regulatory interventions that are akin to closing the stable doors after the horses have bolted.

V Jayaraman Chennai

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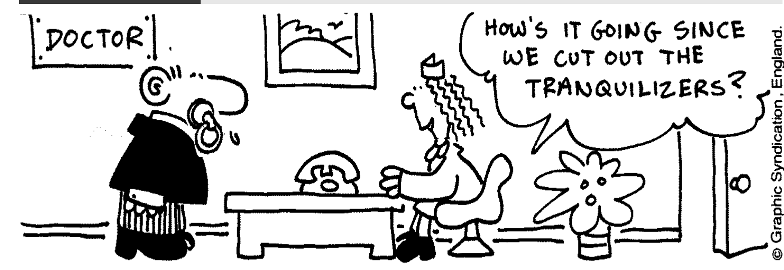
All letters must have a postal address and telephone number

HAMBONE



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The monetary conundrum

Decisions from here on will need to be more considered

Breaking from convention, the monetary policy committee (MPC) of the Reserve Bank of India (RBI) decided to reduce the policy repo rate by 35 basis points (bps) in its August meeting. It was then reasoned that a 25 bps cut would have been insufficient and a 50 bps reduction excessive. The macroeconomic outlook has changed significantly since then and policy making has become more challenging. Growth in the Indian economy collapsed to a six-year low of 5 per cent in the first quarter of the current fiscal year. Had the MPC anticipated the extent of the slowdown, a cut of 50 bps would not have looked excessive in August. The central bank lowered its growth forecast for the fiscal year by 10 bps in August. However, as things stand today, economic growth is unlikely to recover in a hurry and the RBI will need to revise its growth projection significantly. Despite the recent volatility in food and fuel prices, in the near term, inflation is likely to remain below the midpoint of the target range. Therefore, lower growth and inflation would warrant more monetary accommodation. The decision will obviously not be as straightforward.

The government has announced several measures to boost economic activity — most notably, a sharp cut in corporate tax rates. The revenue forgone on this account, according to the official estimate, would be ₹1.45 trillion. Since the government has not revised its fiscal targets, it would be interesting to see how the MPC accounts for the impact. While some analysts believe the tax cuts will push the fiscal deficit to about 4 per cent of gross domestic product, others are of the view that the impact will be muted. Further, despite the RBI's excess capital transfer, lower growth in tax collection would put significant pressure on government finances. If the central bank believes that the deficit would be significantly higher than expected, it will be a risk to the inflation outlook and become an important factor influencing the MPC's decision.

Therefore, in the given economic backdrop, the MPC would do well to deliberate on the following issues. First, fiscal expansion will affect transmission and a policy rate cut may not have the desired effect. Bond yields have gone up after the corporate tax cut. Excessive intervention through open market operations — to keep bond yields low — can become incompatible with the central bank's inflation-targeting mandate. Further, the MPC will have to see how inflation would behave over the next one year and beyond. Possible fiscal slippage and volatility in food and fuel prices can make things tricky. Second, the committee should review the utility of its decision of breaking from convention to lower rates by 35 bps in the last meeting. Evidently, it was an unnecessary change and should have been avoided. The market saw it as a consequence of limited policy space and pushed up the bond yields. Third, the global economic environment is becoming increasingly uncertain on account of trade tensions and geopolitical risks. Thus, the central bank would need to preserve policy firepower to deal with the consequences of emerging global risks.

To sum up, there is space for monetary easing, but decisions from here on will need to be carefully thought through and supported by clear communication. A decline in growth should not be used for any kind of policy adventurism.

A visit for optics

PM's visit to US was expected to achieve more

From the point of view of optics, and of underlining India's status as a geopolitical swing state, Prime Minister Narendra Modi's visit to the US must be seen as a success. The importance of India, and of Indian-Americans, to the political establishment in the US cannot be disputed following Mr Modi's joint appearances with President Donald Trump at a rally in Houston, attended by more than 50,000 enthusiastic participants — and broadcast to 3 million more Indian Americans. The PM's pitch to investors and business leaders in the US was also aided by the announcement of cuts in the corporation tax rate just before his trip.

However, measured by the yardstick of the expectations raised in New Delhi prior to the visit, the results were somewhat underwhelming in their scope. Most importantly, there was no visible progress on the ongoing trade tension between India and the US — a wholly avoidable series of disputes, given the far larger threat that China poses to the trading system, affecting both India and the US similarly. There were some hopes that a "mini trade deal" might be agreed on by the US president and the Indian prime minister, putting an end to a period of sniping between the two countries' trading establishments. Recent causes of this tension include the US' decision to end Indian exporters' eligibility for a zero-tariff programme, and Indian moves towards protectionism in sectors like electronics and medical devices. There is certainly scope for compromise, which would benefit both countries. However, it is unfortunate that there appears to have been no movement forward. Even the landmark deal that was supposed to set the tone for Mr Modi's visit, between LNG major Petronet and US-based Tellurian, has suffered from second-day jitters, with the Indian stock market asking hard questions about the deal — which, it turns out, was less a deal and more another memorandum of understanding. As a mechanism for reviving bonhomie in US-India trade, this cooperation on energy may not seem to be as effective as hoped.

It is unfortunate that, instead of resetting economic relations, much of the oxygen was consumed by the fallout internationally of the changed political status of the erstwhile Jammu and Kashmir state. In spite of domestic interests in the matter, it is futile to expect the US under Mr Trump to either ignore the issue altogether or to openly isolate Pakistan — in spite of the aggressive rhetoric of the latter. Mr Trump's presence at the Houston rally was followed by press availabilities on the following days when he repeatedly deflected questions about Pakistan being the epicentre of regional terrorism. This can only be seen as problematic or deflating for India if it was seen as the centrepiece of Mr Modi's visit. It is clear from his speech to the United Nations General Assembly, however, that he had larger concerns, including India's ongoing commitment to the fight against the climate crisis. From the point of view of optics, therefore, the visit cannot be faulted — and it will no doubt have further burnished the prime minister's image domestically as a global statesman. But the plain fact is that he has won few concrete advantages for India over the course of the visit.

ILLUSTRATION BY AJAY MOHANTY

Projecting a pipeline

One way of helping project finance revive in India is by demystifying risk — and the government has just taken a useful step in that direction

POLICY RULES

MIHIR SHARMA

This newspaper has reported that the government will create a "National Infrastructure Pipeline" that will "include greenfield and brownfield projects costing above ₹100 crore each", in order to "tell investors at what stage of execution each of these projects is in and offer a realistic assessment of whether to put money into them or not".

We don't know enough about this pipeline, but the principle should be unequivocally welcomed. It shows the government is serious about the prime minister's ₹100 trillion target for infrastructure investment – and, further, that it understands what the private sector needs for this target to be made a reality.

It is important to judge this move in context, in order to understand why something apparently small might be more momentous than is immediately visible. There is a reason why "a project pipeline" comes up frequently in conversations with foreign investors, particularly those who represent patient pools of capital like insurance and pension funds. India is still seen, for various reasons, as a "black box" in terms of risk. Investors do not just fear sub-par returns or currency depreciation. They fear outright capital loss through investing in projects that fail to take off, are belatedly subject to regulatory or legal intervention, or in which their Indian partners do not uphold their side of the deal. We have to face the fact that Indian dispute settlement mechanisms and the administrative and regulatory structure do not inspire confidence in the face of such fears.

This is why global private capital would like to turn to the Indian state — as a partner or a guarantor — in its forays into project finance. The assumption that many make is that the best way to avoid catastrophic capital loss is to ensure the state in some way shares your exposure. This is, in its way, not a bad assumption. The problem, however, is that it puts intolerable demands upon the Indian exchequer.

The need, therefore, is to figure out ways in which the Indian state can serve as a partner, demystify political and regulatory uncertainty about India, and get inside the "black box" of risk without straining the exchequer excessively. What a project pipeline that is monitored by the government can do is effectively serve as a state-run rating agency at the project level. Finance then can get on with its job of matching pools of capital with the appropriate risk-return level of the projects in the pipeline.

It is important to note that such a pipeline will not by itself reduce risk. But it will clarify risk, and thereby reduce uncertainty. If properly designed, it will help the market develop by increasing the amount of information available.

The point to be noted here is that it is not necessary to argue that new information is itself being discovered by the state in order to construct this pipeline. One does not have to imagine flocks of government auditors descending on each project that is a candidate for such a list. Such an effort – while in many ways helpful – would face constraints in the medium term because of state capacity and monitoring weaknesses. Instead of such a vision, what is required as a first step is simply the collation in an easily digestible format of information that is already with various state organs about projects, private and public, and sharing this information with possible investors.

Of course, one could ask whether there is an implicit mismatch of expectations here. Many investors might look at a project pipeline and assume the government is indirectly guaranteeing these projects, even the private ones. The government is unlikely to make any such claims. In fact, the truth is that the government probably isn't even able to guarantee, in the short term, accuracy of the raw information that it will collate in order to populate the project pipeline. This may lead to problems in the future unless expectations are properly set in advance.

In addition, as with any actions by the state which could benefit private players – in this case, by making certain private sector projects more attractive to investors by demystifying their risk profile – collusion or corruption is always a threat. The government will have to structure construction of the pipeline carefully in order to avoid actual or apparent improprieties.

Nevertheless, this idea has extraordinary potential. One major additional facet would improve it even further: An examination of the impact of any such project on India's transition to a more climate-sensitive economy. Infrastructure projects that increase rural resilience or factor in adaptation and mitigation targets, therefore, should be highlighted as such. In the end, finance will of course make decisions on the basis of risks and returns; but the risk of stranded assets, thanks to climate change, is one major possible risk, going forward, and the impact of warming (or of regulatory changes as part of India's nationally determined contributions under the Paris Agreement) should also be part of the information set being made available to investors.

Finally, no idea has ever existed that is so good that the Indian bureaucracy could not ruin it. And the most likely source of such spoiling is the inherent unwillingness to work with and for the private sector. It should be made clear to those designing and administering the pipeline that this is a marketing and analysis tool not for the government, or project implementers, or voters, but strictly for investors. It should be set up in a manner that helps that group and that group alone, or it will fail. There is an implicit acceptance through this measure that India is not itself so attractive that foreign investors are enthused. In other words, the state cannot approach such investors with its customary arrogance. Nor need it think of them simply as looking for handouts or concessions. What it needs is to listen with humility to their requirements, and put its vast reserves of information at their disposal. The Indian state is many things, but humble is not one of them. But a project pipeline is, at its root, an advertisement. Not the bragging sort that one might see at investor roadshows, but a genuine one that creates trust between government and capital. Such trust is surely lacking, and the government has identified one pathway to creating it. It must not lose this opportunity.

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Creating jobs with infrastructure investment

HARSHITA AGRAWAL AND PRAKHAR MISRA

Union Finance Minister Nirmala Sitharaman's recent announcement of a ₹100 trillion to infrastructure development heads down a well-worn path. Like past attempts to address India's infrastructure deficit and provide a fiscal push to a slowing economy, it will have to reckon with a crucial question: where and how is the money best spent?

At the height of India's central planning excesses in the 1960s, Milton Friedman, as the apocryphal story goes, visited a canal construction site. On being told that the workers were using shovels instead of modern machinery because the canal was a jobs programme, Friedman pointed out that in that case, the government should have given the workers spoons instead of shovels. Much has changed since then.

A convincing body of work has challenged the Chicago School's stern views on government investment. Economist David Aschauer's work highlights the role of infrastructure investment in a country's economic growth and development, for instance. And over the past two decades or so, the Centre and state governments have directed their infrastructure investment more effectively. A recent report by IDFC Institute Infrastructure Priorities for Job Creation in India provides the tools to further refine investment strategy.

Factoring in economic geographies is key to capturing the far-reaching effects of infrastructure spending. Infrastructure needs differ depending on the dominant economic base in a region - industry, services or agro-allied. Additionally, focusing on areas that are poised for economic growth will give the greatest bang for the buck when it comes to helping firms scale up via infrastructure investment.

Using night lights data, we narrowed down our investigation for infrastructure priorities to 18 peri-urban districts across the country, that is, those that border a rural and an urban district. There was a specific reason for this: Such areas benefit from their proximity to the agglomeration economies of a large urban centre but are far away enough to not be affected by the urban core's congestion effects.

The report surveyed 2,500 firms in these districts to understand how the government should prioritise infrastructure. Firms with varied types of economic activity were asked to rank major infrastructure bottlenecks they face in their operations. Unsurprisingly, in all three regions, a number of issues related to roads were the biggest impediments. Starting with Atal Bihari Vajpayee's Golden Quadrilateral to Pradhan Mantri Gram Sadak Yojana projects, successive governments have recognised the economic importance of connectivity. However, connectivity by itself is not enough. We identified specific problems with roads.

In services districts, 66 per cent of firms reported traffic jams as a major hindrance. Poor quality of roads stood out in industrial districts, with 70 per cent of firms rating it highest. Such findings are instrumental in having problem-specific solutions. For instance, in agro-allied districts, only 32 per cent of the firms said narrow roads were a problem but 77.5 per cent identified traffic jams as being an issue. Thus, the government could focus on building flyovers rather than widening roads in such districts to boost growth and hence jobs.

But we have identified more granular, region-specific constraints too: For industrial clusters, wastewater and effluent treatment facilities; for services, a lack of electricity; and for agro-allied, inadequate water supply. Electricity is particularly important as an infrastructure impediment — the most important overall after roads, in fact. And just like roads, the specific issues to do with electricity vary across regions. Contrary to popular perception, power cuts are secondary constraints for agro-allied and services firms. They suffer more due to high prices. This insight is crucial for directing electricity infrastructure provisioning and price reforms.

The direct effects of providing such infrastructure would be quite visible — better connectivity, more efficient firms and increased direct employment for people building it, among others. The indirect and induced effects on the economy — such as increased productivity, changes in gross value added and induced employment creation - are more difficult to quantify as the causal effects are difficult to isolate from each other.

That said, we have devised a model for the data collected from the survey and found a substantial change in induced employment when the same infrastructure is built in different economic regions. Firms were asked to estimate the cost savings that arose from solving the infrastructure constraints. These figures were then compared to the current labour investment of the firms (captured in the survey) to determine the increased investments in employment. For every 10 per cent increase in savings due to improvement of roads, there is a varied impact on employment in different regions — 1.9 per cent increase in agro-allied regions, 3.7 per cent in industrial and 5.6 per cent — in services regions.

Within the regions, too, infrastructure has a varied impact. In industrial clusters, for instance, a 10 per cent increase in the costs saved by firms due to better roads would lead to a 3.7 per cent increase in employment. However, the same 10 per cent increase in costs saved due to upgraded wastewater treatment infrastructure would lead to a 2.9 per cent change in employment. Thus, it is important to estimate the diverse impact of infrastructure before provisioning for it.

India's jobs scenario seems to perpetually teeter on the edge of a crisis, with one million people entering the job market every month and not enough employment opportunities to absorb them. At such a time, a directed approach for prioritising infrastructure investments that will induce wide-ranging employment growth is essential. And on the growth front, the current slowdown makes it all the more important that the planned fiscal push is well directed.

The right infrastructure, after all, can drastically change the way businesses function and labour moves for the better. In the coming months and years, the Centre and states would do well to keep this need for strategic infrastructure provisioning in mind.

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Sticks, stones and seditious words

BOOK REVIEW

JAYANT TRIPATHI

The children's adage, "Sticks and stones may break my bones, but words will never harm me" was perhaps not a part of the lexicon in the nursery where Sir James Fitzjames Stephen grew up. A cousin of the famous jurist Dicey, and a legal scholar himself, Sir James was appointed the legal member of the Imperial Legislative Council in 1869. The creator of the Indian Evidence Act of 1872, he was also responsible for introduction of the crime of sedition by inserting Section 124A into the Indian Penal Code in 1870.

The reasons for this insertion are not hard to understand. The sticks and stones of the events of 1857 were still of recent memory. A new threat to the empire was emerging in the form of the "words" of an educated Indian middle class imbued with radical ideas from Europe such as the right to self-determination, setting up newspapers and magazines. This threat, more insidious than open revolt, needed strict and specific measures.

Chitranshul Sinha's eminently readable book traces, with deftness and well-crafted prose, the history of the law of sedition in India. Starting with the historical origins of the crime of sedition and then tracing its application through the freedom struggle to post independent India and on to recent times, the book is well researched and useful for both the layman and lawyer alike.

The recent conviction of Vaiko on the charge of sedition, after the book was written, will no doubt re-open the debate on whether sedition should remain on the statute book or not. However, as the author shows us, this is not a new debate, and was a problem with which the Constituent Assembly members had grappled. Of course, many members of that body were victims of this law themselves and their antipathy to this restriction on free speech was quite understandable. The author shows how the original text of Article 19, dealing with freedom of speech contained sedition as a restriction on this fundamental right. After a debate that lasted over several days, seditious speech was dropped as a restriction on the freedom of speech. As the author notes, at this stage Section 124A should have been declared void by Parliament, which, however, never happened.

While almost half the book deals with the origins of the law of sedition, and the famous trials under that law in the pre-independence period such as the *Jugantar* case, and the trials of Lokmanya Tilak, it is the second half of the book that is of greater interest. After all, how could a repressive colonial law, designed to restrict free speech and the demands for equality and self-determination, be justified in independent India, where the right of freedom of speech was guaranteed under the Constitution? And that too when the founding fathers of the Constitution had specifically deleted seditious speech as a restriction on that freedom?

In exploring this aspect of the law, the author takes us through the judgments of various high courts and the Supreme Court and the constitutional amendment that led to the insertion of the words "reasonable" in conjunction with the restrictions placed on the freedom of speech, thus giving the crime of sedition a second life.

The problem with laws in India is more in implementation, than the law itself. Section 124A is no different. Although the law is very clear that prior sanction of the Central or the State government is a must when charging a person with sedition, the author shows how the section is used arbitrarily, without any reference to the law or even the parameters laid down by the Supreme Court.

In the chapter titled "Stories of Sedition", the author tells us how the law has been used to arrest Kashmiri students in Meerut for cheering Pakistan's victory over India in the Asia Cup in 2014; how Aseem Trivedi, a cartoonist was arrested for publishing cartoons on a website titled "India against Corruption"; the case of the JNU students; the case of a young lad from Kerala who did not stand up when the national anthem was played, and similar stories of excessive and mindless use of the section. It is hard to imagine how some silly students cheering for Pakistan are a threat to the unity and integrity of India in the manner that Lokmanya Tilak, Veer Savarkar, Pandit Nehru and Mahatma Gandhi were to British rule in India. In a bizarre application of the law, Arun Jaitley, while he was the Union Finance Minister was *suo moto* charged with sedition for having written an article criticising the National Judicial Appointments Commission judgment of the Supreme Court. Mr Bumble, in Oliver Twist, was perhaps quite justified in saying that "If the law supposes that then the law is an ass".

As the author points out, with the abolition of sedition and seditious speech as a crime in 2009 in UK, on the reasoning that it had a chilling effect on free speech, it is high time that the same course was adopted in India as well.

The front page of the book carries a quote of Justice D Y Chandrachud —"The Constitution fails when a cartoonist is jailed for sedition." Apt words indeed

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THE GREAT REPRESSION: The Story of Sedition in India
Chitranshul Sinha
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