Greed, not fear, will remove Delhi smog

The reliance on perception of fear of the law will not solve this problem

WITHOUT CONTEMPT

SOMASEKHAR SUNDARESAN

Yet another winter is upon us and yet again, Delhi is reeling under pollution and fog. Schools have had to be closed as an emergency measure. The state government has resumed its emergency road rationing measure.

A politician in the party ruling at the centre has exhorted the cadre to defy the road rationing law, leading by example. Meanwhile, a judiciary-initiated fiscal charge into the capital region has taken firm root, while crop stubble in the neighbouring agrarian states continue to be burnt at will. Of course, through Diwali, firecrackers were used at will in Delhi. Acquisition of new vehicles too has continued at will — checked only by the economic slowdown (which too is a highly-contested and surcharged topic).

The challenge for policy-makers is essentially one of creating by law, a set of legitimate incentives for farmers not to burn their crop stubble after the harvest. Or for that matter a set of legitimate disincentives against such burning. However, most policy-making in India is based on rendering an undesirable action illegal, and in fact, criminalising undesirable conduct. The Indian faith in legislating the attainment of virtue is immense. Even greater is the propensity to criminalise undesirable conduct. In a nutshell, Indian policy-making has an excessive dependency on leveraging fear (or perceived fear) with the stipulation of punishment as a primary tool, as opposed to leveraging greed, with an incentive and disincentive structure nudging desirable behavioural outcomes.

It is time to think up a policy of incentivising farmers in the states around Delhi. Let's say a farmer is given an incentive for not burning his crop stubble and instead handing over the task of incinerating the crop stubble to a state-run-or-funded community initiative. The incentive can take the form of, say, fertilisers, or even direct cash transfers. Wider community-run costs could be inflicted to nudge the choice towards the desirable option of not burning the crop stubble.

That there is only one-upmanship and petty finger-pointing is a pointer to there being no disincentive in the form of a political cost to the politicians voted into power by those societies. So long as no political cost has to be paid, politicians will merrily exhort violation of vehicular restrictions, and indulge in denial of crop burning being the cause, and have internet troll armies dish out memes that point to a particular chief minister alone being the cause of the failure.

All in all, the abject failure in designing an incentive system will keep the problem alive. Meanwhile, all it would take is a publicity-seeking "public interest litigant" to convince an excited bench to issue directions and judge-made law without either diagnosing the problem or testing the efficacy of the solution. Until the next harvest, the next Diwali and the next fresh short-lived outrage over the appalling smog over the Republic's capital.

Delhi and the states around it would do well to study the incentives-based approach to conserving and protecting the endangered snow leopard in the Indian Himalayas. Snow leopards were considered the enemies of the villagers in these states — they would kill cattle, which would cause immense financial losses to the villagers, who would in turn, either hunt or poison the snow leopards, which were fast en route to extinction. A well-thought through programme has been successful. Here's how.

Villagers who felt under attack from the snow leopards had been inclined to kill the snow leopards by poisoning or by hunting them. The villagers were assisted with setting up home-stay facilities for tourists. Solar-powered light sticks were tried in villages to protect domestic cattle from the snow leopards. Experiments showed that the light sticks worked, keeping attacks at bay. In some villagers, a simple wire mesh fencing did the trick. Villagers who actually lost cattle to snow leopards got compensated through insurance, which replaced a compensation policy of the government that required villagers to travel long distances carrying evidence of the loss. Earnings from home-stay tourists were reinvested in solar water heaters to enable hot showers, which in turn, brought in more tourism income. Introducing awareness in school education has led to attitudinal changes at home with the kids influencing the households.

Snow leopard killings have gone down. Their sightings have increased. Now, villagers call the conservators to rescue even accidentally trapped snow leopards instead of effecting revenge killings.

The smog in Delhi is not insurmountable. What it requires is some imaginative thinking, applying local intelligence to creating solutions based on perception of benefits. The reliance on perception of fear of the law will not solve this problem.

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The Indian banking journey: Logic & cure

In part 1 of a series, the author traces the compulsions behind bank nationalisation and the effects of liberalisation on the banking sector

JANMEJAYA SINHA

I believe there are three discernible phases in Indian banking post nationalisation till 2018. The 1969-91 post-nationalisation phase; 1992-2012 post-liberalisation phase; and 2013-18 failed clean-up phase.

1969-91: The political brilliance of bank nationalisation for consolidating Indira Gandhi's socialist credentials is well understood. What is not commented on as well was its strong economic requirement. By 1969 the lustre of the freedom movement had worn off. Indian political leaders were faced with the demands of full adult franchise with a poor, third world, resource-starved economy. India was considered a global basket case with endemic hunger and poverty. External borrowings were scarce; poor tax policy with extremely high tax rates on a small base led to widespread evasion and poor collections. India had no money to deal with the democratic demands of its people.

At this time the Indian depositor saved both Indian democracy and the Indian economy. Bank nationalisation allowed the government to access the Indian depositor. A rapid thrust to increase reach led to the spurt in opening rural and semi-urban branches (R&SU) and government ownership took out any risk in depositing money with nationalised banks. Between 1969 and 1975, bank branches more than doubled from 8,000 branches (of which 4,780 were in R&SU areas) to 18,730 (of which 12,405 were in R&SU areas). By 1990, India had almost 60,000 branches (of which 46,115 were in R&SU areas), raising ₹314,823 crore of bank deposits. The deposits so collected were available to the government through approved securities banks had to buy to meet the statutory liquidity ratio (SLR) requirements. At its peak, SLR and cash reserve ratio (CRR) together touched 50 per cent of bank deposits. Credit was disbursed to lobby groups by mandating that 40 per cent of all advances went to important priority sectors and the remaining credit to industry was allocated on the basis of Tandon & Chore Committee norms by a credit authorisation scheme.

Foreign banks were marginal but operated in profitable niches — foreign exchange, overseas syndication, structured products, transaction banking, and simple mass affluent banking. They did not really use their balance sheet but the American banks — Citi and Bank America — made very high returns and offered bright Indians a great career. The Imperial Bank had previously been nationalised into the State Bank of India and subsequently so were its associate banks. By 1980 there were 28 banks in the public sector with over a million employees of relatively high calibre to do the government's bidding. Capital projects were funded by development finance institutions (DFI) — IDBI, IFCI, and ICICI — which had access to concessional funds and on lent them for permitted capital projects.

What was not explicitly mentioned was that bank deposits, routed as loans to industry, also funded political parties. Due to shallow capital markets Indian industry also lacked capital and was dependent on bank credit. Indian entrepreneurs were of two kinds — capital starved "actual industrialists" who managed by intelligent accounting to avoid putting own equity but built excellent plants and grew businesses; but also the "robbers" who essentially diverted depositor money to create private wealth and rotten industries (they had the highest market share in bank NPAs). The latter have gotten the greatest attention in movies, media and were the regular whipping boys at election time tarnishing all Indian capitalists.

The government used the public sector banking system as a milch cow and would pillage it for as long as it could before it collapsed in a regular boom and bust cycle of failing every 8 to 12 years — 1977, 1985, 1992 (and to be discussed later 1999 and 2012). When it failed, the government would nurse it back to adequate fitness so that it could continue thereafter to support unfunded government mandates. By 1991 the largely controlled socialist Indian economic model together with its intellectual justification had collapsed. India approached the IMF in 1992 for a bailout and smart domestic reformers managed the accompanying structural adjustment programme sensibly, liberating the economy of draconian controls and changing India's growth trajectory thereafter.

1992-2012 post-liberalisation phase: The banking reforms initiated with liberalisation had five major legs: 1. New private sector banks were given licences with the hope they would increase competition and inject efficiency into the sector; 2. Public Sector banks were encouraged to list to raise capital and face market pressure on performance; 3. India agreed to comply with Basel Committee risk norms putting a focus on NPAs; 4. Public sector banks were encouraged to use core banking technology solutions that brought transparency to their portfolios and were also encouraged to seek external help to restructure their operations; 5. Sadly, by 2000 DFIs were killed by starving them of concessional financing and forcing them to convert into universal banks.

ILLUSTRATION: BINAY SINHA

Yet liberalisation post 1992 brought with it reduced tariffs and increased competition created a major strain in the health of the protected Indian industry. By 2000 the consequential NPAs led the financial system again to crisis. Intelligent coordinated action by the Reserve Bank of India and the government allowed the banks to get back to health in three years. RBI cut interest rate by 1 per cent a year for three years, forced banks to use the accompanying treasury profits for provisioning, announced a non-discretionary hair-cut regime for bankers and industrialists (taking out individual risk for bank managers) and spurred robust credit growth (including retail credit) bringing net NPAs down below 2 per cent of the bigger bank balance sheets and restored bank profitability.

By 2007, a healthy banking system again tempted the government to use PSB balance sheets in the eleventh five year plan (2007-12) to fund infrastructure. I shall trace the origins of the current crisis in Indian banking and the commencement of the third banking phase — the 2013-18 failed clean-up phase — together with a reform agenda for Indian banking in my next piece.

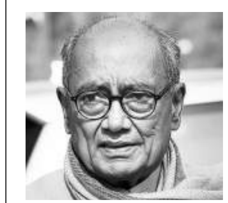
(Tomorrow: Rescuing the financial sector)

The author is chairman, BCG India
Views are personal

CHINESE WHISPERS

One post, many names

The Congress party in Madhya Pradesh has secured its position in the state Assembly but the state unit is still struggling to tackle factionalism. As it became apparent that an announcement on the new Pradesh Congress Committee chief is imminent, minister for animal husbandry Lakhan Singh Yadav started batting for Jyotiraditya Scindia to be declared the state Congress president. "The Congress enjoys power but organisational structure remains weak. Jyotiraditya is young; if he became the state unit chief, the organisation would gain in strength," he said. Pitted against Scindia is former chief minister Digvijaya Singh (*pictured*), general secretary of the All India Congress Committee. Earlier, the tribal face of Madhya Pradesh Congress and forest minister Umang Singhar had targeted Singh saying, "Even at 72, he wants to become the state party president!"



Togadia is back

Ever since he had to quit the Vishva Hindu Parishad, the outfit's former chief Praveen Togadia has struggled to be in the news. However, with the Supreme Court about to announce its verdict in the Ram Janmabhoomi-Babri Masjid dispute by mid-November, Togadia has become active once again. On Wednesday, he issued a press statement on behalf of the Antarrashtriya Hindu Parishad and Rashtriya Bajrang Dal. In an appeal similar to the one that the Rashtriya Swayamsevak Sangh affiliates had issued, Togadia asked their members to maintain peace and harmony after the verdict is announced. He said if the verdict is in favour of a Ram temple, people should not indulge in sloganeering but light lamps, distribute *prasad* and visit a nearby temple. "Do not make any arrogant, hurtful, inflammatory posts, comments on social media or give interviews that are derogatory," he said.

TMC shifts gears

West Bengal Chief Minister Mamata Banerjee-led Trinamool Congress has altered its political discourse in many ways after election strategist Prashant Kishor was roped in to advise the party. The party took a nuanced position on the scrapping of the provisions of Article 370; now it is mulling whether it should start reaching out to Dalits in Bengal. The state does not have a history of caste-based political parties, but the TMC is concerned at rival Bharatiya Janata Party's efforts at consolidating the Dalits. The party is hoping to counter this by showcasing its Dalit leaders as the state prepares for Assembly polls in April 2021. The TMC is also speaking more often on issues of language. On Wednesday, Banerjee tweeted her concern that the joint entrance exams were now being conducted not just in English and Hindi, but also in Gujarati. She said while she loved the Gujarati language, she had no idea why other regional languages were being ignored.

INSIGHT

India's challenge is competitiveness

Until India becomes a real market economy, it is unlikely to have the confidence to integrate with, and compete in, the global market economy

DHIRAJ NAYYAR

India's decision to stay out of the Regional Comprehensive Economic Partnership (RCEP) will not isolate India from the global or regional economy. The fact is that India is already quite isolated — its share of global merchandise exports is minuscule, at around 1.8 per cent (China's is around 13 per cent) and for all the talk about competitiveness in services its global share is just 3.5 per cent, lower than China's 4 per cent. It is the Indian economy's lack of competitiveness which is the isolating factor.

RCEP was not going to solve that problem. If trade liberalisation alone was sufficient to improve or enforce competitiveness, India should have emerged as an export powerhouse in the aftermath of the WTO agreement in the 1990s or at least after the FTAs signed with ASEAN, Japan, and Korea (which consist of 12 of the 15 non-India RCEP countries) in the 2000s. Evidence suggests that the outcome of those FTAs over a decade has been a faster rise in merchandise imports than merchandise exports. India's trade deficit with China, sans any free trade agreement, has risen from around $1 billion at the turn of the millennium to over $60 billion in less than two decades.

It is well known, but often under-acknowledged, that India's half-hearted attempts at liberalisation since 1991 led to a considerable deregulation of product markets (with the exception of agriculture) without any (or enough) accompanying reform in the three crucial factor markets: land, labour and capital. Today, all three are bottlenecks in even domestic consumption-driven growth, never mind exports. Unreformed factor markets are also responsible for the perception of "jobless growth". In truth, jobs are being created but largely in the informal sector because of the complexity in rules and regulations.

A low-growth scenario coupled with a lack of good quality jobs is hardly conducive for signing on to a free trade agreement, not least with the most competitive economy in the world — China. That agriculture was not even subject to limited market reform means that it is totally unprepared to compete internationally. No government could

possibly risk exposing 40 per cent of the total workforce (under-) employed in agriculture to global market forces. In sum, the sins of the past, in terms of reform left incomplete, continue to haunt the economy.

But it is not just the old problems. The consequences of the political economy of the last seven years — a backlash against the perception and, indeed, the reality of cronyism, corruption and an "unfair" system — have added new dimensions to the competitiveness challenge. Acquiring land for industry is not only lengthy but also expensive with buyers legally bound to pay a big multiple of the market price. In other competitor countries, particularly China, land is given free. Similarly, critical natural resources required for sectors as diverse as power and telecom can now only be acquired through an auction mechanism designed to maximise revenue for the government. In other countries, these are allocated on a first come, first served basis. The cost structures of industries dependent on natural resources have gone up, irrevocably.

Commercial lending decisions are now taken under the over-eager eyes of the four Cs — CAG, CVC, CBI, Courts — with the result that many businesses are finding it difficult to finance themselves. Small businesses may be forced to pay more to access finance form non-banking sources. This is not an argument against transparency and rooting out corruption and cronyism but, at some point, policy-makers need to assess whether some policy measures are raising the Cost of Doing Business to an unreasonably high level even as the government strives to improve the Ease of Doing Business. China and other East Asian countries in RCEP offer cheap land, cheap power, cheap labour, low taxes and cheap finance to businesses. India has bitten the bullet on taxes, but businesses pay a premium on the rest.

The pity about RCEP is not that India did not sign it. Instead, it is about the missed opportunity on carrying out some difficult reforms domestically. The negotiations on RCEP lasted more than seven years. Perhaps, if the government had invested as much time in negotiating within its line ministries on implementing the necessary reforms to make India's economy fundamentally competitive, the outcome in 2019 would have been different. Prime Minister Modi is a believer in excellence and no half-measures. He must insist that all ministries adopt a proactive approach to reform. The decision to opt out of RCEP has bought India time to get its house in order but, in the long term, prosperity will not come behind closed doors.

Until India becomes a real market economy, it is unlikely to have the confidence to integrate with, and compete in, the global market economy.

The author is chief economist, Vedanta

LETTERS

Scams unlimited

Another major scam of over ₹7,200 crore involving many nationalised banks has been unearthed. As many as 169 raids at various places are in progress, which amounts to shutting the door after the horse has fled the stable. How can the ordinary account holder have any sort of confidence in our banks? Most of the scamsters are absconding. In the Punjab & Maharashtra Co-operative Bank loot mela seven people have died. Who is responsible and accountable? Is the government happy by infusing funds into these banks? No wonder our economy is in the doldrums. Scamsters make hay as the government snoozes! The ordinary man has to keep his fingers crossed hoping his savings are safe.

Shanmugam Pune

Blame game

Your excellent editorial ("Action plan for Delhi", November 6) very logically puts the currently contentious issue in the right perspective. Indeed, the huge nuisance created by Diwali crackers happens only for a couple of days every year and the stubble burning, a major irritant, also gets highlighted for a month or so around the same time but all of us — governments and the society — make these two virtually the only culprits, the two big demons playing havoc with the lives of people in NCR! This is clearly — as your editorial argues — a wrong and an unbalanced approach. We tend to somehow ignore the bigger causes of our misery that haunt us throughout the year. Totally irrational, to say the least.

We must stop politicising the issue and playing the blame game and consequently taking ad hoc measures and instead concentrate on the real issues with a "comprehensive action plan" with the central pollution control board coming out with "an official report on ambient air quality, specific sources of pollution and their share of contribution as well as allocation of tasks for corrective action". Such a central government backed report should then form the basis of action plan by various authorities and at different levels.

Stubble burning is indeed a cause but not the sole one. Notwithstanding the bigger blunder of paddy farming in Punjab and Haryana — with its consequential disastrous effects on water stress — and the ugly politics at the root of this ill-advised cropping pattern — let's admit that several other sources of pollution, within the NCR are probably much bigger contributors to the havoc being played with the lives of people, especially children and elderly — a sound action plan, with strong implementation, should be able to set right the horrid situation.

Krishan Kalra Gurugram

Consider this

I am surprised that no one has put forward the idea of converting rice stubbles into heat-compacted wooden boards that can be used as walls by the poor in constructing their own houses. It is a widely used technology in the West. You can improve the urban physical environment and also improve shelter for the poor. I am sure many would like to finance such a project of conversion for the sake of common good. I wonder if anyone has considered the idea. I also saw a similar proposal from the US to study the possibility in Bhatinda.

Salem Sethuraman Maryland

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