A new, alien animal

The aviation sector in India has undergone a structural change — from one dominated by personalities to one dominated by well... nothingness

OUT OF THE BLUE

ANJULI BHARGAVA

Aviation in India, during the rule of the NDA government as compared with the 10 years of the UPA rule, has lost what I call is its "personality". As a reporter covering the sector, I remember Union Aviation Minister Praful Patel (2004-11) loomed large almost on a daily basis in the newspapers, leading the Indian media on a merry dance and handing out breaking news like it was confetti. That is not to take away from the fact that he did make sweeping changes through his tenure. While the jury was out — and still is — whether all the reforms were undertaken with national interest in mind or for other considerations, nobody can deny that he changed the face of the sector over his seven-year ministership.

But it wasn't just at the ministerial level. Even in the airlines, personalities ruled. Reporters followed the daily high life and exploits of the "King of Good Times", the underhand machinations of Naresh Goyal aka NG, Captain G R Gopinath aka Capt Gopi who sprung out of nowhere and expressed his intention to democratise flying and even Subrata Roy and his alleged underworld connections. Even the smaller personalities that came and went piqued everyone's imagination — be it the "only business" class Paramount Airways' M Thiagrajan or the "only vegetarian" MDLR Airlines' Gopal Kanda. VJM, NG, Gopi, Roy, Kanda, Thaigrajan have all since been consigned to ignominy and are in varying amounts of trouble.

To say the NDA-led government's tenure by comparison has been dull would be an understatement. It is more accurate to say that the sector has undergone a "structural" change. From one dominated by personalities to one dominated by well... a sense of nothingness.

So what can we really expect in 2020? There are a few things one can expect, government action or the lack of it notwithstanding. One, the much talked about Air India sale led by Home Minister Amit Shah is already being taken as a foregone conclusion. After the government had egg on its face following the first failed sell off attempt, industry observers are certain the next attempt will succeed even if they have to browbeat someone into buying as the government has put its might behind it. If it does manage, it will be a big feather in its cap as the current condition of the national carrier is untenable and a drain on both the sector and the country.

The coming year could be a critical one for market leader IndiGo. The airline has covered a long distance in its journey and built a fairly robust company although 2019 saw a setback with the dispute between the promoters getting ugly and public. Experts, however, point out that the international market is a double-edged sword. The pickings can be rich; so can the dangers. How IndiGo fares on this front may well decide its future course.

There will hopefully be some concrete and definitive action taken to improve the airport infrastructure across the the country. The Navi Mumbai airport, which has been in the making since the 1997, ought to be the priority and if I were the Prime Minister, I'd place it directly under Amit Shah's hawk eye to ensure action.

Airports across the country have been picked out for upliftment although the ability of groups with no proven track record (such as the Adanis, which won the bid to modernise and run six of them) in the area has come under scrutiny. The CFO of GMR, known for his ability to ensure financial closures for such projects, joined the Adani group in March for six months and quit before anyone could blink. Why? He's not divulging as of now.

The other ambitious project — the new airport in Jewar — has got off to a speedy start but many are questioning the ability of the Swiss to pull it off in the UP badlands. Their choice of local partner may well decide the fate of this project. Mind you, building an airport is only half the battle won. How does one reach it? The two — access and building — need to move in tandem for it to actually work. And Mumbai's precedent on this front has been less than reassuring.

I'll end with the scheme to encourage UDAN of the desh' ka aam nagrik. The government has been auctioning routes to the same old bidders and a few flights have taken off but the aviation sector maintains that the scheme remains a non-starter in the sense that it has failed to bring in a single new name on the horizon, former minister of state for civil aviation Jayant Sinha's good intentions and countless interviews on the topic notwithstanding.

CHINESE WHISPERS

Maya in a fix

Disconcerted at the prospect of Bhim Army chief Chandrashekhar getting support from the Dalit youth with his participation in the ongoing Citizenship Amendment Act protests and subsequent arrest in Delhi, Bahujan Samaj Party (BSP) President Mayawati (*pictured*) has dubbed him a puppet in the hands of her opponents. She said Chandrashekhar, as part of a conspiracy, was bent on hurting the BSP's vote bank in Delhi. According to her, the Bhim Army chief stages such protests to get arrested and later play the victim card to gain public sympathy and publicity. Earlier, Mayawati had labelled Chandrashekhar, who has dropped his alias of Ravan, an agent of the Bharatiya Janata Party and spurned his overtures to join forces with her.

Just need your blessings

Delhi Chief Minister Arvind Kejriwal has turned Santa for many senior citizens this December. Several of them have received a letter from him offering a free trip to a range of places — from Madurai and Rameshwaram to Amritsar and Bhubaneswar, to name a few. The letter says the cost of the trip — AC train tickets, food and stay, and having an attendant — will be borne by the government. All they have to do is reach out to their local MLA and get their names listed. If the cynics are wondering whether the freebie has anything to do with the elections next year, they are wrong. The letter mentions the government wants nothing but blessings from the elderly.

A unique protest

A Member of Parliament of the YSR Congress Party (YSRCP) found a unique way to protest. Gorantla Madhav, a member of the Lok Sabha from Andhra Pradesh's Hindupur, surprised media persons by licking police boots to protest alleged remarks by opposition Telugu Desam Party (TDP) leader J C Diwakar Reddy against the police force. Madhav, a former police officer, said he was reacting to allegations by Reddy that the police under the YSRCP dispensation were partisan. Reddy, a former MP, had also said that if the TDP returned to power, it would force officers from the "partisan police force" to "lick our boots".

The great refinery debate

BPCL's impending privatisation and RIL's stake sale to Saudi Aramco raise questions about the future of the West Coast Refinery, once touted as the world's largest

SHINE JACOB

Two events have raised doubts about India's plans to build the world's largest refinery. The 60 million tonne, $44 billion West Coast refinery project was announced in June 2018 in which Saudi Aramco and Abu Dhabi National Oil Company (Adnoc) hold 50 per cent and Indian oil marketing companies Indian Oil Corporation (IOC), Bharat Petroleum Corporation (BPCL) and Hindustan Petroleum Corporation (HPCL) hold the remaining stake.

Since then, in August, Mukesh Ambani-led Reliance Industries (RIL) announced plans to sell 20 per cent stake in its chemicals and refining business for $15 billion to Saudi Aramco as part of a broader plan to become a zero-debt company by March 2021. And in November 2019, the government announced that it would sell its 53.29 per cent stake in Bharat Petroleum Corporation Ltd (BPCL). Saudi Aramco is one among a raft of bidders such as French major Total, BP Plc, Vedanta, Exxon Mobil, RIL and the Adani Group.

All of this has made the prospects for the West Coast Refinery look bleak since the debate now hinges on whether a greenfield refinery is a better option than a brownfield one. In other words, is BPCL a better option for buyers than the West Coast one?

Perhaps not, say industry experts citing the fact that BPCL is already a depreciating asset that was probably in its prime 20 years ago. "If you build a new refinery, you will go for new technologies, more efficient units, production and crude handling will be more geared for the future," said a senior expert from a global consulting firm.

This is valid in theory but this being India, the West Coast project has been stuck at the first hurdle — acquiring land for the project. Protests in the Ratnagiri region had forced the joint venture to shift location 140 km to the north to Raigad district. The refinery-petrochemical complex of three crude oil units requires at least 15,000 acres of land, including marine storage and port facilities, and is yet to acquire a single piece of land due to protests from locals.

TAKE TWO

ANALYSIS BEHIND THE HEADLINES

Now, however, the project may run into political problems. The Shiv Sena, which had led the land protests in Ratnagiri, heads a coalition in Maharashtra. So acquiring land in Raigad, too, may face problems. "We are going ahead with the technical work for the refinery. However, land has to be firmed up and we are looking at two-three locations. Saudi Aramco is fully part of the ongoing works," said B Ashok, chief executive officer for Ratnagiri Refinery and Petrochemicals, the name of the joint venture.

Based on an industry estimate, the value of BPCL's refining segment alone will come to around $400 a tonne, while another $200-300 a tonne can be added to the remaining infrastructure — including terminals, pipelines and retail outlets. This was reached based on the recent Essar-Rosneft deal and HPCL's plans for its Barmer refinery. BPCL does not have much exposure in petrochemicals.

On the other hand, to set up a greenfield refinery and petrochemicals, the cost may be around $600-700 a tonne.

"For any foreign investor, BPCL appears to be an ideal choice because it means immediate cash-flow added by a countrywide presence in marketing too. A project like West Coast may take at least five to seven years to get commissioned," said A K Sharma, former director (finance) of IOC.

Based on current market cap, the value of 53.29 per cent government stake in BPCL comes to around ₹57,000 crore and another 20-30 per cent premium is expected to stretch the value closer to around ₹70,000-80,000 crore. Investments in IGL and Petronet — in which BPCL holds 22.5 and 12.5 per cent respectively — are also factored in, could add to the deal value.

This valuation may not, however, be the price that buyers will pay. According to a consortium of officers' associations — including Public Sector Officers Association, Federation of Oil PSU Officers (FOPO) and Confederation of Maharashtra Company Officers Association (COMCO) — BPCL's assets can be valued at around ₹9 trillion.

Industry experts think otherwise. "Looking at a conservative calculation, you will get around ₹1.5 trillion as a replacement value for BPCL. But a greenfield refinery may give them more flexibility," said the official from the global consulting firm.

The "greenfield versus existing" debate has been in the air for some time and mostly centred on plans for Saudi Aramco, the world's largest crude oil producer, to invest in India. In April 2016, Petroleum Minister Dharmendra Pradhan met its then chairman Khalid al-Falih offered three options: partnership in the West Coast refinery, participation in the expansion of the Bina refinery in Madhya Pradesh owned and operated by a joint venture between Bharat Petroleum and Oman Oil Company, or a petrochemical plant at Dahej, a port in south-west Gujarat where RIL owns a petrochemical complex.

RIL's deal with Aramco will give an edge to the Mukesh Ambani-led company in its crude sourcing capabilities and help improving its gross refining margin (GRM). Aramco will also supply 25 MTPA of crude oil to Jamnagar refinery, as part of the deal, which will bolster RIL's formidable crude sourcing capabilities that have traditionally given it an edge over many other competitors. Apart from the added security of supply, the deal could also bring RIL pricing advantages given that a key supplier will now also be an investor in the business. This will also have a positive knock-on effect on the petrochemicals business, which has crude oil as the main raw material. It will also, to an extent, cushion RIL from the uncertainties in the global crude oil market due to the US-Iran tensions. (This deal could be under a cloud after the government filed a petition in the Delhi High Court seeking to block the deal over dues involving an unrelated case.)

Both the RIL deal and BPCL's impending disinvestment have changed the dynamics for Aramco. Of course, as an analyst suggests that, thanks to its initial public offering on Wall Street earlier this month, Aramco has the cash to go ahead with all three deals.

There is good reason for this. India imports around 18 per cent of crude oil requirement from the Kingdom and a downstream presence will only firm their foothold in a growing market. Based on an estimate by the Organization of the Petroleum Exporting Countries (OPEC), India's crude oil demand to rise by 5.8 million barrels per day (bpd) by 2040, and will account for 40 per cent of the incremental demand globally — which explains the rising interest by global players in India.

ON THE JOB

Focus on growth

MAHESH VYAS

The labour participation rate (LPR) had fallen to an all-time low of 42.4 per cent in November 2019. This, along with a host of other fast-frequency data, suggest that the Indian economy is likely slowing further in the third quarter of fiscal 2019-20 after growth dropped to 5 per cent and then 4.5 per cent in the first and second quarters respectively.

Preliminary and partial data for December indicate that labour participation is recovering from the November fall, but perhaps, not enough to make November look like an aberration.

The LPR has scaled up in each of the three weeks of December so far. In the last week of November, the LPR was 42.21 per cent. Since then it has inched up progressively — initially to 42.72 per cent, then 43.08 per cent and then to 43.24 per cent in the week ended December 22. The average LPR during the first three weeks of December was 43.01 per cent. The 30-day moving average of the LPR was 42.87 per cent.

The LPR, which was falling for several years, had stopped its decline about a year ago. Over the past year, the LPR has mostly been range-bound between 42.5 per cent and 43 per cent. In recent months it had displayed a little tendency to rise above 43 per cent. August, September and October 2019 had seen the LPR remain persistently above the 43 per cent line. 42.5 per cent was a redline of sorts. But this was breached in November. In December, the LPR could climb out of that redline and may reach the 43 per cent mark.

However, this increase in the LPR is likely to be accompanied by an increase in the unemployment rate. This averaged 8.22 per cent in the first three weeks of December compared to the 7.5 per cent pencilled in November 2019. The unemployment rate is sensitive to the labour participation rate. If the labour participation rate rises, the unemployment also rises. This indicates that the Indian economy is not able to provide jobs to the additional flow of labour into the labour markets.

Demand for labour in December seems to be facing two major problems. First, the economy is slowing down. Power generation was down by 12 per cent in October and down again by 6 per cent in November. Industrial production has been falling too. Automobiles and real estate are witnessing a protracted slowdown and, the kharif crop was partly but significantly damaged because of late rains. If the economic activity slowed down further in December or even it continued to remain weak, it is expected that the demand for labour would have been adversely impacted correspondingly. Any increase in labour participation rate will therefore lead to a higher unemployment rate.

Second, strains in the social fabric are likely to be impacting the demand for labour in places where the tensions have spilled over into the streets. The continued effective lockdown in Kashmir puts out an estimated four million out of the labour force. Or, it constrains their effective participation in the labour force. Elsewhere in India, where law and order is disturbed, daily wage earners, small traders and street vendors are immediately pushed out of the labour markets.

According to CMIE's Consumer Pyramids Household Survey, there are an estimated 88 million small traders, hawkers, street vendors and daily wage earners in India. They account for about 20 per cent of the total labour force and 22 per cent of all employed persons. These are the vulnerable people. Social unrest spread through scores of towns in December. These witnessed imposition of restrictions on assembly and in some cases even limited curfew. In such places around 20 per cent of the workforce is immediately pushed out of the labour markets.

An equally vulnerable set is the 14 per cent self-employed entrepreneurs. These are shop keepers, taxi drivers, self-run barber shops, self-run gymnasiums, beauticians, tourist guides and the like. While the daily wage earners and street hawkers lose wages during civilian strife, self-employed entrepreneurs run the risk of loss of property during such times.

The impact of social strife on factory workers and office goers is also increasing because the proportion of contractual workers in total employment is increasing. Often, payments to contractual workers are subject to attendance or even output.

A fragile economy can ill-afford the social strife that has spread across Indian states. The relatively vulnerable sections of society — small traders, vendors, daily wage earners — cannot afford the effects of this strife on their economic well-being.

Neither the Citizenship Amendment Act approved by Parliament nor the proposed National Register of Citizens are important enough to stake the well-being of so many or stake economic growth. Getting growth back on track is more important. Growth generates employment for those who are willing to work. And, good employment for those who are willing to work can motivate more to join the Indian labour force to seek employment. India needs more hands to the till to accelerate growth to reach its cherished target of becoming a $5 trillion economy. Staying focused on this target may be a good strategy. Even a partial failure in achieving this target may be better than the distractions around determination of citizenship.

The author is the MD & CEO of CMIE

LETTERS

Don't bully, introspect

This refers to "Governance by diktat, in an echo chamber" (December 23). I agree that politicians, especially those in power, tend to sermonise while speaking both to the captains of industry and bankers. Ministers need to introspect to see why private investment is not happening. Is it due to the business climate, bureaucratic heavy handedness, the slowdown in bank/NBFC lending or regulatory and tax policies etc? Ministers are smart enough to know where to put their money. Those who do speak up, the chiefs of Vodafone and Airtel for example, are promptly given a dressing down for asking for too much and pressurising the government. No amount of exhortations to let loose the "animal spirits" will work unless the ground situation improves. As far as no lending by public sector banks is concerned, a quick perusal of their capital adequacy ratios, losses and other facts that have recently come out will make things clear.

The number of criminal cases registered and investigations launched creates an environment of fear though the corrupt must be brought to book. It's time for introspection and quiet talking with those who matter rather than bullying from pulpit.

Arun Pasricha New Delhi

Need structural reforms

This refers to the editorial "Twisting the curve" (December 23). Despite the repo rate cut of 135 basis point to counter the cyclical problems, the economy is still not recording any positive result. The weak monetary policy transmission has proved unfavourable for the growth of investment in the private sector. Another rate cut and enforcing full transmission of the past rate cut are vital to lifting the economic sentiment to boost investment. The government must desist from the practice of borrowing at a higher rate because it is creating a higher interest rate scenario that is inhibiting the transmission of policy rate cuts.

The demand for credit and the credit absorption capacity of the various segments are critical to boosting the supply of credit. Therefore, at this juncture, structural reforms are just as important as monetary policy measures. The stimulus packages to revive consumption are showing little result because of the lack of structural reforms in tandem with the monetary and fiscal reforms. Those should be the focus areas to achieve the economic goals.

VSK Pillai Kottayam

Global trend

Apropos "Where have all the women bankers gone?" (December 23) by Tamal Bandyopadhyay, a variety of causes account for a decline in the number of women bank managers in general and at the top in particular. One, this phenomenon is part of the global picture. Recent studies (covering India also) such as by leadership consulting firm DDI and market research firm Kantar contradict the general perception that globally women are inching towards leadership roles. The reality is that they continue to be discouraged from assuming leadership roles — even progressive nations like the US and the UK are regressive in this regard.

Two, when the percentage of women in the workforce hovers at only over 20 per cent nationally, the intake in banks also remains lower because it is a part of the knowledge industry. Three, the banking industry does not rank high in the preference of women for employment and prospect of rural postings diminishes the preference further.

Y G Chouksey Pune

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HAMBONE

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Walk the talk on NRC

The PM needs to clarify his party's stand

Prime Minister Narendra Modi's statements over the weekend on the National Register of Citizens (NRC) have created confusing signals for the people of India and they urgently demand clarification. Stung by the nationwide protests over the NRC and the recently passed Citizenship Amendment Act (CAA) over the past week, Mr Modi chose a rally in Delhi to make three points. First, he claimed, barring Assam, the question of a nationwide NRC had never been discussed in the Cabinet or, for that matter, at any time these past five years. Second, he said, no rules have been issued for the NRC or discussed in Parliament. Third, the prime minister said no detention centres had been built in readiness for this exercise. But Mr Modi's claims do not tally with the reality on all three counts.

The parliamentary record of November 20 bears witness to Home Minister Amit Shah announcing in the Upper House the government's intention to launch a nationwide NRC on the lines of the controversial exercise just completed in Assam. Mr Shah was, in fact, reiterating a tweet of May 1 that spoke of the sequencing of the exercise — the CAA first and NRC second — to "deport every infiltrator from our motherland". The NRC was mentioned prominently in the party's manifesto ahead of the Lok Sabha elections in May as well. Also, if there was no such initiative in the offing, other Bharatiya Janata Party stalwarts appear not to have got the memo. Defence Minister Rajnath Singh made a statement to this effect on December 1. Karnataka, which had said it would not implement the NRC in October, has reportedly held discussions to launch an exercise as early as March 2020. Mr Modi's assertion that the matter has not come to Parliament nor rules have been framed is also confusing. The NRC does not have to come to Parliament because the appropriate legislation was passed in 2003 (when Atal Bihari Vajpayee was prime minister) and the process began in the form of the National Population Register enrolments in various states. On detention centres, land has been identified for such purpose-built camps in Guwahati, Navi Mumbai, Bengaluru, and two places in West Bengal.

Such inconsistencies between statement and fact are unlikely to allay the worries of civil society. It is possible, of course, that Mr Modi has absorbed the message from the widespread protests, including from BJP allies, that he has misjudged the public mood — brute parliamentary majorities tend to have that effect on leaders. Since he is unlikely to admit to an error in public, it is possible that his rally statements were a way of signalling that the NRC has been put in abeyance. If that is the case, a more unequivocal announcement would go a long way in offering clarity rather than allowing millions of Indian citizens to wallow in febrile uncertainty over what to expect next. Certainly, after five years of majoritarian rhetoric, it is refreshing to hear the prime minister refer to unity in diversity as India's speciality. It would be even better if he chose to walk the talk on that foundational value as well.

Lessons for BJP

Jharkhand's new govt must focus on governance and investment

The Opposition alliance of the Jharkhand Mukti Morcha (JMM), Congress, and the Rashtriya Janata Dal comfortably crossed the halfway mark in the Jharkhand Assembly elections. The incumbent state government, under the Bharatiya Janata Party (BJP) and Chief Minister Raghubar Das, has certainly seen the mandate of the people withdrawn. One thing is clear: The contestation and political competition that are not really visible at the Central level are alive and well in India's states. One more state, and this the crucial resource-rich state of Jharkhand, has slipped out of the BJP's grasp. This follows the devastating loss of Maharashtra after negotiations with its long-time ally, the Shiv Sena, broke down in the context of a poorer than expected performance by the BJP.

Indian voters have several times in recent years demonstrated an ability to detach the state and national political narratives. Something similar may be at work in Jharkhand, and the Aam Aadmi Party will be devoutly hoping that voters focus on local issues and its performance in power during the Delhi Assembly elections in February. For the BJP, it is a timely reminder that in state elections, which are fought frequently on issues of service delivery and livelihoods, its handling of the economy is causing it distinct political distress. It must stop being distracted by various social issues from its main task of reviving the economy. If it continues to dissipate political capital and administrative energy on other issues, then political setbacks at the state level are likely to multiply. It is time perhaps for the BJP to look once again at how it intends to win state-level elections. It needs to invest in new state leaders who are distinguished not by their loyalty to the central leadership or to the party's ideology but who can create followings of their own, thanks to their performance, sub-national appeal, and charisma — much like Narendra Modi did as chief minister in Gujarat. The Jharkhand verdict has sent out a clear signal that the image of Mr Modi, despite his enduring personal popularity, has limitations as a mascot when it comes to state elections.

It is almost certain that Hemant Soren of the JMM will be sworn in as chief minister of Jharkhand. The party of the Jharkhand agitation has successfully navigated the transition to being a "regular" political party better than many of its analogues elsewhere. But Jharkhand's new leadership should keep in mind the reasons for their predecessors' relative unpopularity. Jharkhand needs infrastructure, investment, and service delivery. It is, of course, important to ensure social inclusion. But without growth inclusion is difficult to attain, and voters express their disappointment through the ballot box. The party should also be on guard against a tendency in recent years by new state administrations to demand wholesale renegotiation or to cancel contracts signed by the previous incumbents. There may be questions worth asking about deals made by the previous government — there often are — but any decisions should not be precipitate and made only after transparent investigations. Jharkhand needs investors, and the new government cannot afford to put off investors.

Addressing the Great Slowdown

Here's a list of measures that will not help India overcome the slowdown

In a recent paper, we set out a strategy for addressing what we called India's Great Slowdown. The strategy aims at solving the balance sheet crisis by improving participants' incentives to resolve stressed assets. It also aims at revitalising the real estate and power sectors by creating two bad banks. And it calls for boosting confidence and trust, in part by improving data generation systems. Call these measures the "to-do list."

Here we want to focus on several "don'ts," especially fiscal stimulus via individual income tax cuts and boosting goods and services (GST) revenues by increasing tax rates. These measures would not help India overcome the slowdown; they would instead make things worse.

Start with the proposal for a fiscal stimulus. Ever since the global financial crisis, there has been a shift toward fiscal activism in advanced countries, as a way of boosting growth. Some international economists have urged India to join this trend, while some domestic economists have asked, "If they can do it, why can't we?"

The answer is that India is in a very different position than advanced countries. In India, the space for fiscal stimulus simply doesn't exist. The government is starting from a weak fiscal situation, much weaker and deteriorating more rapidly than the headline figures suggest. As has been noted by several observers, and implied by the Comptroller and Auditor General's assessment, India's consolidated fiscal deficit was close to 9 per cent of gross domestic product (GDP) in 2018-19. This year's outcome will almost surely be worse.

In recent years, the government has been unable to reduce its debt-to-GDP ratio, despite rapid nominal GDP growth. If growth remains low while the "true" deficit reaches double digits, debt sustainability concerns will soon follow.

A key reason is that India has run into what might be called the (i-g) problem. In advanced countries, the rate of interest for the government (i) is well below the rate of nominal growth (g). If at the same time primary balances (revenues less noninterest expenditures) are small, then even large borrowings will not push up the debt/GDP ratio, because growth will increase the denominator faster than the accumulating interest will push up the numerator. This is precisely why some advanced country economists support larger deficits. But India is different. Right now, the primary balance is in deficit and by much greater than suggested by the official deficit because all the off-balance sheet spending increases the primary deficit. At the same time, interest rates on government securities exceed the nominal rate of growth (see *chart*). As a result, large borrowing will make for deadly debt dynamics that India needs to steer clear of.

All of this would place constraints on fiscal expansion in normal times. But these are not normal times. There is a balance sheet crisis, and this crisis is placing even tighter constraints on the government's ability to issue debt. The reason is that stressed banks have little appetite for government securities, since they need to be very careful about taking on assets that run the risk of generating losses. Even government securities, which have (virtually) no default risk, can still generate losses because their prices fall when interest rates rise.

The implications for fiscal policy are clear. A large fiscal stimulus is precisely the wrong strategy for an economy where deficits are already large and interest rates are already too high relative to GDP growth. Large additional government bond issues will put further upward pressure on government interest rates, which will push up corporate bond rates; and as companies then shift to borrowing from banks, this will push up bank lending rates as well. Higher rates will then put further stress on the corporate and banking sectors, aggravating the balance sheet crisis.

Accordingly, fiscal stimulus will not help the economy. It will only make things worse, by intensifying the vicious corporate stress-bank stress downward spiral. If there is no scope for a large stimulus, what about providing a small boost by modestly reducing individual income taxes? This would also be unwise. Tax cuts are easy to make, as they are politically popular. But precisely for that reason they are very difficult to reverse. And from a long-term point of view, it is far from obvious that fiscal resources should be devoted to favouring a small share of the population, who are by no means amongst the most deserving. In fact, structurally, India should be thinking of ways to bring more taxpayers into the income tax net. It should not be raising exemption limits, as was done unfortunately in the 2019-20 Budget.

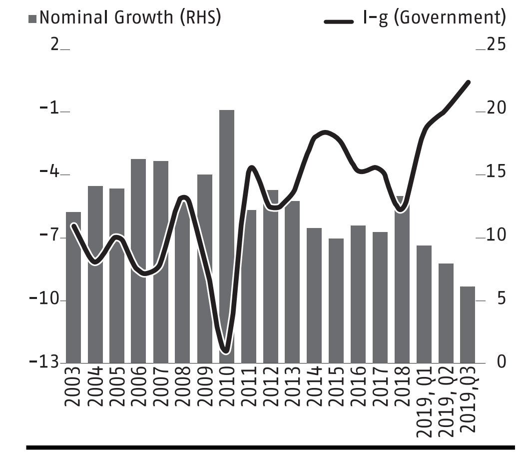
ARVIND SUBRAMANIAN & JOSH FELMAN

Indeed, if the aim is to boost consumption, it is far better from an equity perspective to help people at the lower end of the income distribution than income tax payers who are at the very top end. A modest direct benefit transfer (DBT) to rural households along the lines we had proposed here (*https://www.business-standard.com/article/economy-policy/quasi-universal-basic-rural-income-the-way-forward-119012700713_1.html*), could be a way forward. Expanding the government's PM-KISAN programme could be another.

Beyond these structural considerations, the scope for small income tax cuts is further constrained, because there is a large GST problem. The growth in aggregate GST collections so far this fiscal year has only been about 3.5 per cent, yet states want their guaranteed compensation of 14 per cent growth. And the compensation commitment is sacrosanct. Should the GST rates then be increased?

INTEREST–GROWTH RATE DIFFERENTIAL FOR GOVERNMENT

(Interest measured as the g–sec rate and growth in terms of nominal GDP)



Actually, no. Consider how perverse it would be to think of cutting income tax cuts to boost consumption of the rich while raising GST rates on the other. For example, raising the 5 per cent rate would hit commodities that are consumed disproportionately by the poor — that was the reason the rates were set low in the first place.

Moreover, the fact that space does not exist for additional stimulus does not imply that there should be active fiscal policy tightening, as this will only weaken already-enfeebled aggregate demand. Without doubt, greater simplification of the rates is ultimately necessary along the lines that one of us had proposed: A lower rate of 8-10 per cent, a standard rate around 12-14 per cent and a higher rate of 40 per cent for all demerit goods with no cesses and no multiplicity in the rates of cess. But the time for these rate changes is not when the economy is in the midst of the Great Slowdown. Rather, structural changes to the GST should be made once the economy recovers and these changes should be big and decisive enough to stop the ceaseless tinkering of rates that has taken place and contributed to policy uncertainty. In the meantime, the commitment to the states should be funded by allowing the deficit to rise, modestly.

A final word on the GST. Many commentators have argued that the poor collections this year reveal fundamental problems in the functioning and efficacy of the GST system. Without doubt, the working of the system needs to be improved. But we should be careful not to over-dramatise the problem. Poor GST collections likely reflect a very weak economy—much weaker than headline GDP numbers suggest—combined with problems in the automotive sector, which is a major contributor to GST; and the impact of GST rate cuts in the second half of last fiscal year.

Summing up, there are (at least) five "no's": first and foremost, the current budgetary practice of shifting expenditures off-balance sheet in order to be seen to be meeting fiscal targets should be discontinued; additional fiscal stimulus would be imprudent; individual income tax rates should not be cut; GST rates should not be raised now. And we should not blame the GST when the root causes lie elsewhere. The fault lies not in the GST, but in the weak state of the economy.

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Saving the planet — in three acts

In order to solve a problem, we have to first acknowledge it. Climate negotiators failed to do so in Madrid, despite taking more time than in any other annual climate talks (overrunning the scheduled time by more than 44 hours) before ending up with a non-deal. The Paris Agreement was a compromise, offering something for everyone. This year's Conference of the Parties (COP-25) offered nothing for anyone. Failed climate talks are not the issue. The real problem is that we do not trust each other.

Restoring trust in any relationship must start with honesty, then shift to addressing past wrongs, eventually leading to vows to work together. Here is a plot spoiler for saving the planet in three acts.

Act 1: Rectitude. Honesty is a trait; credibility a reputation. Promises at climate negotiations are not credible because there is little honesty about two bitter truths: The climate has already changed; and actions are nowhere near sufficient. The world is on track for at least 3.2 degree Celsius of warming above pre-industrial levels. The UN Environment Programme recently warned that greenhouse gas emissions must fall 7.6 per cent each year during 2020-2030 if warming were to be limited to 1.5 degree Celsius above pre-industrial levels, as the Paris Agreement aspires.

INFLEXION POINTS

ARUNABHA GHOSH

Against this evidence, there is expectation that each country would raise ambitions. But the concept is flawed because there is no sense of urgency. If a country announces a net-zero emissions target by 2050, it is considered a climate leader. There is no reprimand for not acting sooner or for not planning to reduce emissions earlier. Delays in actions by the historically largest polluters (rich countries) shrinks the carbon budget left for the majority of the world's population. Long-term strategies are not credible if countries remain dishonest about basic carbon arithmetic.

The first act should end with a dramatic show of moral rectitude: Countries tabling long-term strategies and enhanced ambition must also report how far their plans are frontloaded and what checks and balances are in place to ensure that they get implemented.

Act 2: Redressal. It is easier to forgive than to forget. Rich countries have not lived up to their pre-2020 promises. No developed country upped its ambitions in line with the Doha Amendment to the Kyoto Protocol, nor have sufficient countries ratified the Amendment. This means that emissions reductions fell far short of what was needed by 2020 (against a 1990 baseline). Moreover, instead of the promised \$100 billion in climate financing by 2020, multilateral climate funds approved only \$10.4 billion for mitigation during 2013-18; adaptation funding was at \$4.4 billion.

A third challenge is that there are 4 billion unsold certified emissions reductions under the Clean Development Mechanism (CDM). Not paying for them undermines confidence in carbon markets. Carrying them over would flood a post-2020 carbon market with credits and lower the price of offsets further. Couldn't the past be forgotten and all just focus on implementing the Paris Agreement, which comes into force on January 1, 2020? Unfortunately, on all three counts — unambitious actions, unfulfilled financial commitments, and unsold carbon credits — the nagging question remains: "How do I know you won't cheat again?"

The second act demands that past grievances be redressed. By September 2020, developed countries should commit that the gap between their pre-2020 commitments and outcomes would be met entirely by domestic actions in addition to their post-2020 pledges. Further, the unsold CDM credits (now worth less than \$1) should be paid off by developed countries via a one-time settlement. Negotiating the discounted rate (as in bankruptcy proceedings) would be fraught. But any settlement value would be minuscule compared to the trillions that could be unlocked for low-carbon investments. Such a settlement would preserve the integrity of a post-2020 emissions trading market under Article 6 of the Paris Agreement. Both these actions could significantly lift trust in governments and markets.

Act 3: Renewal. All relationships deserve a second chance. A renewal in the promise of collective climate action is possible with a reformed focus on finance and technology, offering an uplifting finale.

Emerging economies have the opportunity to leapfrog to low-carbon infrastructure. China, India, Mexico, among others, are already demonstrating this through investments in renewable energy. But the cost of finance remains prohibitive because of risks that institutional investors perceive (often greater than real conditions). A new deal on finance is needed: Global finance should follow a risk-risk approach in comparing climate risk and investment risk; premiums should be priced to reflect reality not perception; small amounts of public money should be used for a facility to hedge multiple risks across countries.

Similarly, a new deal on technology would establish genuine collaboration platforms for different categories of technologies: (1) those needing commercial pilots to scale (efficient appliances, distributed energy, etc.); (2) those needing significant early-stage investments to prove technical viability (efficient solar cells, energy storage, low-carbon cooling technologies, etc.); and (3) pooling funds and scientific talent for riskier but high-potential horizon technologies (renewables-derived hydrogen for industry; carbon capture storage and utilisation; other carbon dioxide removal methods).

"Love all, trust a few, do wrong to none." Shakespeare's memorable line offers good guidance as we head into another year of fraught climate talks, culminating in Glasgow in November 2020. We must love the planet, undo past wrongs, and rebuild trust bit by bit. The advice comes from *All's Well That Ends Well*. For honest and effective climate action, though, we are far from that curtain call.

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A guide to the inequality debate

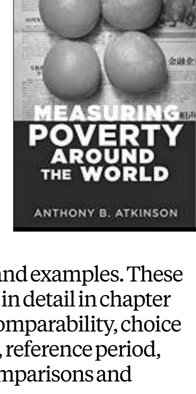
BOOK REVIEW

P C MOHANAN

Sir Anthony Atkinson (1944-2017) is a revered figure to all who have ever delved into the fascinating subject of poverty and inequality. The inequality measure known by his name and the mathematical rigour that goes with his work has made him a leading expert in this field, where we in India can take pride through the seminal work of many economists led by Amartya Sen. This book, which could not be completed during Sir Anthony's lifetime has now been published after excellent editing and appropriate comments by two of his colleagues. There are two erudite afterwords on the unfinished chapters by Francois Bourguignon and Nicholas Stern. The book is a tribute to Atkinson's understanding of the topic and a valuable guide to students and researchers.

The book has 10 chapters besides the two afterwords by Professors Bourguignon and Stern. Sixty national reports containing a summary of their poverty measures and methodology are appended to the chapters. These national reports give for each of the countries a short write-up on the available poverty measures and country practices that help relate the global and national poverty measures. In a way, it is a neat summary of where we are. The efforts by international agencies led by the World Bank in improving the data systems for measuring poverty are highlighted as well.

Chapter two details the various concepts that lead to the different poverty measurements as we know today. These cover the approaches to understanding poverty, starting with the basic needs approach, consumption and income definitions, going on to Dr Sen's deprivation of capability, global and national approaches without entering into any mathematical nuances and supported by empirical evidences and examples. These concepts are clarified in detail in chapter three, which covers comparability, choice of measurement unit, reference period, purchasing power comparisons and multi-dimensional indices. These two chapters presents in a concise form our understanding of the various concepts of poverty aided by empirical analysis.



MEASURING POVERTY AROUND THE WORLD
Author: Anthony B. Atkinson
Publisher: Princeton University Press
Price: ₹799
Pages: 464

Chapter four is on role of data built on the conceptual framework in the previous chapters. This is an area with which we are very familiar in India, especially after the recent data-related controversies, including junking the consumption survey that forms the bedrock of poverty measures. The linking of household surveys and national accounts are discussed with a checklist on poverty concepts and data. The data that form the foundation of poverty analysis comes from painstakingly conducted surveys, the setting of which differs from country to country. All of these are noted briefly. The concerns expressed on the data collection issues have become more relevant in recent times.

The chapter on global poverty centres on the dollar- and purchasing power parity or PPP-based measures used by the World Bank and the International Comparison Program (ICP) that provides the PPP numbers to arrive at comparable global poverty measures. The non-monetary poverty measures such as the multi-dimensional poverty indices (MPI) or the sustainable development goals (SDGs) goals as an alternate to the World Bank's absolute measures do not always confirm the adequacy of either of the measures.

Three chapters are devoted to describing poverty in individual countries in different regions and their efforts to reduce poverty. The chapter also focuses on poverty in rich countries and global measures of poverty. The conclusions remain tragically incomplete but well compensated by the two afterwords that explains the complex relationship between poverty, growth and inequality. Professor Stern goes on to introduce the new global agenda with climate change and the SDGs and the political economy coming into play in the poverty debate.

The broad canvass that the book traverses covers not just measuring poverty but the inter-linkages of poverty, inequality growth, climate change and the SDGs, all of which are of public concern. The global coverage of issues in the book constrains the national level discussions to an extent. The details on data collection issues including references to the experiences from Indian national sample surveys in chapter four brings in the centrality of accurate data in all discussions relating to poverty and inequality.

The reviewer was acting chairman of the National Statistical Commission