Capital crisis

The Centre and States must urgently address farm residue burning in north India

Delhi's air quality deteriorates with unfailing regularity at this time of the year, with large swathes of north India in the grip of a suffocating smog, but the State governments that can make it easier for millions to breathe do not act with any sense of urgency. That it has turned into a public health emergency in the capital, with the air quality index touching extremely hazardous levels in some parts, necessitating the closure of primary schools, has further lowered its standing. It is unconscionable for governments, through indifference and inaction, to subject citizens to such toxic air, and cause extreme suffering especially among people with respiratory ailments and impaired lung function. The smog that envelops the region is exacerbated by the burning of biomass in Punjab and Haryana, and the winter atmosphere is marked by weak ventilation. An analysis of local sources by IIT-Kanpur last year pointed to construction dust, vehicular pollution, and domestic and industrial emissions as other major factors. Clearly, the burden of such chronic problems has outweighed the benefits conferred by measures such as the ban on Deepavali crackers, and in the past, the shift to compressed natural gas for commercial vehicles and restricting car use to odd and even number plates on alternate days. A comprehensive solution demands that the governments of Delhi, Punjab, Haryana and Uttar Pradesh, assisted by the Centre, address farm residue burning and construction dust.

The post-monsoon – as opposed to pre-monsoon – burning of rice and wheat residue releases maximum aerosols that contribute to the volume of $PM_{2.5}$, which gets embedded in the lungs. Automation of farm operations leaves root-bound crop waste after machine harvesting, running to millions of tonnes, requiring a solution of scale. Sustainable residue removal cannot be achieved by the farmers alone, and requires help from the state machinery. Here, Delhi Chief Minister Arvind Kejriwal should be commended for his initiative to discuss the modalities of joint action with the Punjab and Haryana governments. The national capital needs a major greening effort. Unpaved surfaces raise dust levels as in all Indian cities, but civic agencies ignore the problem. There is every reason to think that even the Ministry of Environment's orders issued in 2015 under the Air (Prevention and Control of Pollution) Act, 1981 to comprehensively green Delhi's road margins and open spaces were not pursued seriously. Shifting more of the city's travel to comfortable public transport can cut fine particulates in congested areas and improve the air for residents. Many such initiatives were taken up by China in its cities to reduce exposure to $PM_{2.5}$ that produces morbidity from cardiovascular and respiratory diseases and leads to premature death. Only a determined response to the crisis can spare Delhi of its infamous tag as one of the most polluted cities on the planet.

Uncertain in Kenya

A legal challenge to the presidential election could extend the political crisis

With a petition filed in Kenya's Supreme Court against the October 26 rerun of the presidential election, the country risks an intensification of political turmoil. The challenge is the second since the initial elections in August, which were overturned on grounds of alleged discrepancies in tabulation at the polling stations and the computer systems. That unprecedented ruling in September was widely hailed as an exemplar of judicial independence. Since then, President Uhuru Kenyatta has rammed through legislation that circumscribes the authority of the electoral mechanism and legal scrutiny of polls. The sense of intimidation was palpable when most of the judges failed to show up to hear a plea for the postponement of the vote. The outcome of the latest legal challenge is therefore far from certain. If the judges again decide not to uphold the latest victory for the incumbent, the absence of a genuine contest could prove to be a critical factor. The opposition leader, Raila Odinga, had withdrawn from the second race in protest against the new legislation and the lack of material improvement on the ground. Days before the October election, the election commission lost the services of top officials, with one fleeing the country saying she feared for her life. Such a turn of events came as a chilling reminder of the mysterious death of a high functionary of the electoral body just before the elections in August. Moreover, there was considerable scepticism over the credibility of the October vote, as a large-scale revamp of the electoral system was seen to be impossible within that timeframe.

This is why there is speculation that the court may see merit in the petitioner's claim that the polls were anything but free and fair. Both Mr. Kenyatta and Mr. Odinga bear much moral responsibility for the current stalemate and the violence. It is time they negotiated a lasting settlement to restore credibility to Kenya's democracy. That requires them, especially Mr. Kenyatta, to play by the rules laid down under the 2010 constitution, which provides for greater devolution of powers. Above all, there needs to be an end to the near-monopoly of power enjoyed by the Kikuyu and the Kalenjin ethnic communities since the country's freedom from colonial rule. Memories of the killing of hundreds in the aftermath of the 2007 elections should underscore the urgency of bringing the current fluid situation within control. For its part, the African Union must exert political pressure on Kenya's two veteran politicians to prevent the escalation of the crisis beyond Kenya's borders. This week the government lowered the forecast for GDP growth to below 5%, with analysts blaming the political crisis for the negative sentiment. The social cost of this upheaval would be incalculable. Strengthening the election mechanism against political interference would be an important first step.

The great reset, a year later

Demonetisation was a fundamental corrective to the economy much like liberalisation of the 1990s

S. GURUMURTHY

GETTY IMAGES/ISTOCKPHOTO

Prime Minister Narendra Modi's flagship economic agenda of demonetisation, that stunned the nation as a financial Pokhran, has been caught in the political crossfire between Mr. Modi and the Opposition from the word 'go'. When millions (a word that was hyped by the media) were standing in queues before banks and there was hardship caused to diverse people, the Opposition thought that Mr. Modi had found himself in a tornado that would sweep him away. They began a massive campaign against demonetisation and Mr. Modi. With the media feeding the Opposition with news of near financial anarchy, and in turn the Opposition feeding the news hungry media by shutting down the winter session of Parliament, and the two together creating the ecosystem in which the Supreme Court justifiably said there could be "riots", the opponents of Mr. Modi concluded that his end was very near.

The political angle

But facing the biggest challenge of his political life, Mr. Modi went to the people, telling them that the measure was directed at corruption and black money – the terminology which the masses easily understood – and asked them to bear with him for 50 days. Crores of Indians stunned the media, the Opposition and even the world by patiently standing in queues for days and giving him total support. They endorsed demonetisation by voting for the Bharatiya Janata Party, giving it unprecedented victories in local body elections in Chandigarh, Mumbai, Maharashtra, Gujarat, Odisha and even in the Assembly polls in Uttar Pradesh, Uttarakhand, Goa and Manipur. But the hostile political build-up turned the demonetisation debate into a street fight, with both the BJP and the Opposition appealing to the masses in the language they easily understood; the Opposition using hardship to incite people's anger against demonetisation and the BJP appealing for their support terming it as a war on black money. The hardship versus black money focus reduced the discourse on demonetisation – a multidimensional venture – to just a single point; a war on black money, which won the BJP the people's support.

Ceasing to be economic

The reductionism diminished the debate to a sole test of the quantum of demonetised notes returned to the Reserve Bank of India (RBI). But the demonetisation project formed a much larger landscape. Its fundamental aims were many. It terminated the asset price-led, spurious jobless growth and averted a crisis in the making. The rise in the share of high denomination notes (HDNs, ₹1,000/₹500) in the total currency from 47% in 2004 to 78% (2004-10) fuelled unprecedented asset price rise – gold, stock and land prices rose by 10 times in the six years over the previous five years (1999-2004). The high GDP growth (8.5%) in six years (2004-10) was largely led by private consumption powered by the financial and real estate sectors – both driven by cash. The rise in private consumption (60%) in these six years over the previous five years was directly sourced in the rise of 69% in finance and real estate in that period. Thus, the high growth (8.5%) between 2004 and 2010 was fake, yielding only 2.7 million jobs as against 60 million jobs which the moderate growth of 5.4% between 1999 and 2004 had produced.

Here is an example of how the asset price-led growth had hurt real growth. Liases Foras indices of housing affordability and prices (both equal at 100 in January 2005) peaked in March 2014, with the index of price curving steeply to 529 and affordability slowing at 173. This huge affordability gap, of almost three times, was due to cash driving up land prices and secondary housing market that constituted two-thirds of housing buys. With a 95% shortage in affordable housing, this wide gap virtually killed real housing growth since 2011.

Demonetisation is an effort to reverse this dangerous trend. Had this intervention not taken place, by 2021, HDNs could have touched as high as ₹36-40 lakh crore, which would have dynamited the real economy through asset price inflation – much like subprime lending did in the U.S. before the 2008 crisis.

Multidimensional correction

Had the government aligned demonetisation with the Income Declaration Scheme, 2016, it would have fetched a minimum of ₹2-3 lakh crore as tax upfront. By unintelligently separating them, it is now chasing demonetisation depositors for tax. Yet, the black money agenda of demonetisation is no failure, though ill-executed. Black money of ₹45,000 crore has been uncovered and ₹2.9 lakh crore of cash deposits are under tax probe. Against this whopping ₹3.35 lakh crore, yields in previous disclosure schemes have been minuscule. Following demonetisation, there are 56 lakh more assessees, advance tax receipts have gone up by 42% and self-assessment tax risen by 34%. It has also led to an attack on benami assets. Even as intelligence agencies note a 50% drop in hawala-related calls post demonetisation, nearly 2.24 lakh shell companies that have been used for hawala have been uncovered; 35,000 have been found laundering ₹17,000 crore; one of them, ₹2,484 crore.

Demonetisation means much more. The currency to GDP ratio is down from 13% to 9%, post-demonetisation. Household financial savings have risen and savings in currency form crashed. Interest rates are down, with the RBI cutting rates by 25 basis points, and banks by 96 basis points. According to a study, digital payments have accelerated by 93% between January and June 2017. Without demonetisation, it would have just grown by just 21% – by a fourth of it. Demonetisation has forced the extra cash floating around into term and time deposits, which have risen by ₹17 lakh crore. A huge formalisation of the informal economy, which generates half the nation's GDP and 128 million jobs or 10 times the jobs in the formal sector, is under way. Demonetisation is an effort to bring about a fundamental shift in the economy.

The future and a caveat

That GDP growth would slacken for a year is implicit. But it was not as bad as when Paul A. Volcker, as U.S. Fed chief, applied Milton Friedman's monetary theory and contracted bank credit, a kind of demonetisation for the U.S. That led to the U.S.'s GDP, far from rising, turning minus 3% in 1982, though it later vaulted to 6% in 1983 and 8% in 1984. But despite the fact that demonetisation would slow the GDP, the government, under attack by economists and the Opposition alike, was in denial mode. Now, the RBI expects growth to improve in the second half of (calendar year) 2017. The rise of the Index of Industrial Production (IIP) by 4.5% in August 2017 over August 2016 and 8 core sector IIP (this consists of eight core industries data) for September by 5.2% seem to signal high growth ahead, though the intervention of the goods and services tax may delay it for a while.

A caveat at the end. Demonetisation has robbed the informal sector of non-formal credit; the formal credit assured to them through the Micro Units Development and Refinance Agency (MUDRA) formula has not been fulfilled as yet. MUDRA was premised on the assumption that banks cannot reach credit to the informal sector and need last-mile private credit intermediaries, which the RBI opposes. The government must convince the RBI on the need for MUDRA as conceived. Subject to this, demonetisation, in sum, is a fundamental corrective to the economy much like liberalisation was in 1990s. Sadly, this vital aspect is missing in the current discourse.

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Banking on legislation

The 'bail-in' clause, in a draft bill, would change the relationship between the customer and the bank

MEERA NANGIA

The recapitalisation of public sector banks (PSBs) through bailouts, be they as budgetary allocation or some sort of bond issue, has evoked much discussion. The Insolvency and Bankruptcy Code is cited as adequate punishment for defaulting borrower companies. However, under the code, the resolution process has brought little succour to banks as the recovery rate from defaulting companies has so far been merely 15-20% of the original amount lent. Meanwhile, there is no attempt so far by the Reserve Bank of India (RBI) to issue guidance to PSBs to blacklist these entities from getting further loans or prevent their managements from retaining a majority equity stake during the resolution process as penalty for the huge haircuts being taken by banks.

The result is that banks have been continually reporting losses in each successive quarter. Six PSBs have already been placed under prompt corrective action by the RBI. Even the State Bank of India was still stuck with non-performing assets worth ₹1,88,068 crore as on June 2017.

Deposits are at risk

According to the Financial Stability Board (FSB) Peer Review Report August 2016, 63% of the financial investments ordinary Indians make are within the banking system; PSBs account for 63% of the market share while private banks control 18%. Given the shaky financial condition of most public banks, deposits in these banks are very much at risk. In the best case scenario, there could be a government bailout. Other possibilities are the transfer of their assets and liabilities to a bridge service provider, a merger with an existing bank, or even liquidation. But none of these options guarantees safety of customer money.

What adds to the disquiet is the Financial Resolution and Deposit Insurance (FRDI) Bill, 2017 that was referred to a joint parliamentary committee this August after cabinet approval. This covers bankruptcy of businesses such as banks and insurance. Financial resolution includes solutions for banks facing 'material' or 'imminent' risk to viability depending on their capital and asset worth.

This Bill also introduces the provision for a "bail-in", whose purpose is to provide capital to absorb the losses of a bank and ensure its survival. Here, survival does not mean safety of depositors' money, but restoration of capital of the bank. The bail-in empowers the proposed Resolution Corporation to cancel a liability owed by the bank or change the form of an existing liability to another security.

GETTY IMAGES/ISTOCKPHOTO

All of us are aware that money in a savings or fixed deposit account is a liability owed by the bank to its customer. The bank promises to repay the money when demanded by the customer. Since the customer has not taken any security from the bank when handing over his money, legally, the customer is an unsecured creditor of the bank. With a 'bail-in', the bank simply refuses repayment of a customer's money or instead issues securities such as preference shares (with no guarantee of fixed dividends) to a customer. This is in lieu of his deposits which are then used for recapitalisation of the bank.

The only money owed to depositors that cannot be bailed-in is the amount covered by deposit insurance. The Deposit Insurance and Credit Guarantee Corporation Act, 1961 which insured deposits worth one lakh for each depositor has been repealed by the cabinet. The FRDI Bill further empowers the Resolution Corporation to decide the amount insured for each depositor. Thus, it is possible that the insured amounts will not only vary for customers in different banks, but may also be different for different customers of the same bank.

No longer safe

The 'bail-in' clause changes the nature of relationship between the customer and the bank. It would mean that money is no longer safe in a bank. An account would lose its sovereign guarantee and instead become an investment. Putting away money in a bank would be akin to buying shares of a company or units of a mutual fund. The customer would need to monitor the level of toxicity of his bank with respect to its losses and accordingly keep switching bank accounts.

The banking saga has all the ingredients of a full-fledged Shakespearean tragedy. Out of the three protagonists, the government as the majority shareholder and the corporate borrower are wearing their victimhood as a badge of honour. Whereas, the real victim, the customer, is the unsung hero coerced into parting with his money.

The reality is that without customer deposits, a bank cannot carry on its business. It has to be understood that banking business is not the same as any other business. A bank customer cannot be treated on a par with an unsecured creditor of a regular business. The customer is not privy to the lending decisions in a bank unlike any vendor or investor dealing with a company. Hence the rules for bankruptcy of a regular business cannot be applied to bank failures. For the sake of justice and fairness to its citizens, the government must take a stand and defy the FSB's diktat on the 'bail-in' clause.

Meera Nangia is Associate Professor in Commerce, University of Delhi

LETTERS TO THE EDITOR

Letters emailed to letters@thehindu.co.in must carry the full postal address and the full name or the name with initials.

Spare a thought

The endless debate on the after-effects of demonetisation has, sadly, missed a point. Many account holders lost their lives while standing in serpentine queues for hours together to withdraw money, and for no fault on their part. Neither the Prime Minister, Narendra Modi, nor the Bharatiya Janata Party has condoled the unfortunate deaths. No one has cared to enquire into the well-being of their distraught families. Have they received any compensation from the banks or the government? No one knows.

V. SUBRAMANIAN,
Chennai

Palace purge

The purge of influential figures in Saudi Arabia has many consequences for the kingdom as well as the rest of West Asia (Editorial - "Royal flush", November 7). For one, Crown Prince Mohammad bin Salman has sidelined many influential figures and potential rivals. King Salman's royal decree also aims to put in place officials who will be loyal to his son when he eventually takes over the mantle. In addition, the Crown Prince is now free to pursue his reform agenda since he has gained the backing of the top cleric council. While the Saudi public has welcomed the crackdown, it remains to be seen whether things will change or whether they stay the same.

As far as the international community is concerned, the succession line in Saudi Arabia is more or less set in stone. It also heralds a generational change which in itself is unusual among GCC monarchies. The irony of it all is that the former Qatari Emir was criticised by Saudi Arabia for bypassing his family to anoint his son.

AKSHAY VISWANATHAN,
Thiruvananthapuram

Importance of ethics

The conclusion of the article, "Teaching ethics to aspiring civil servants" (November 7), appears to be mainly focussed on those in the police service. However the issue is at the core of the other all-India services also. Glorifying one service over another leads to disenchantment among serving officers and disillusionment with their parent service. The coaching industry is a highly competitive market and it often happens that they glorify one service over the other and lure aspirants through their commercial advertisements by portraying a lavish life. It's time that the UPSC introspects over its working as there are numerous questions now about the functioning of this body.

SHUBHAM SINGH,
New Delhi

■ The article was insightful and deeply introspective about wrong-doing in the civil service examination. The million dollar question is why did the person in question after clearing the tough prelims, mains, and interview think of wrong-doing? The Indian civil service is known for its integrity and standard and this kind of a stray incident should not dent the image of the services. Ethics should be a part of our education and life. Young IPS officers should be self-motivated and set an example to their subordinates.

PAVAN B.P.,
Mysuru

At what cost?

The recent move to the government of Andhra Pradesh to have an online service provider to issue the encumbrance certificate by the registrar's office is causing hardship. Before this new system was introduced, the charges levied by the department were ₹20 for issuing an EC for 30 years. Now, after introducing the online service and the "MeeSeva" service (which in Telugu means, 'At your service'), especially in Andhra Pradesh, one has to pay a fee of ₹250 per EC as "search fee" for the same period (30 years). Before the introduction of the online system, one could get an EC within a span of four to five hours from the date of application.

Now, with the online system, one has to wait for over a month, and often with "irregular and incomplete information". The registrars concerned come up with excuses such as "online defect" and how it is not in their hands to trace the defect. This is causing immense hardship. For example, a student applying for an educational loan has to run from pillar to post to get his or her EC. It also comes in their way of applying for a visa too as precious time is lost.

The government only seems to be encouraging red tapism.

The officials concerned should continue with the old manual system.

S.S.V. RAMANA MURTY,
Kakinada, Andhra Pradesh

MORE LETTERS ONLINE:
www.thehindu.com/opinion/letters/

CORRECTIONS & CLARIFICATIONS:

In a World page report headlined "IOC arm blamed for fuel shortage in Sri Lanka" (Nov. 8, 2017), there was a reference to the authorities rejecting a 35,000 *million tonnes* shipment of petrol, citing contamination. It should have been 35,000 *Metric Tonnes*.

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