Deep-sea dive

The Reliance-BP plan for the KG-D6 block could draw more oil, gas majors to India

Reliance Industries' and BP's joint investment of ₹40,000 crore in the KG-D6 gas block has important implications for the oil, gas and renewable energy sectors in terms of technological development, supply line infrastructure and pricing policy. The investment assumes a projected gas yield of 30 to 35 million cubic metres a day from the fields, and accompanies an overall partnership between the two companies in low-carbon and renewable energy, as well as in fuel retailing. With the last big investment in the sector being BP's purchase of a 30% stake in some of RIL's oil and gas production-sharing contracts in 2011, this pact signals a growing comfort with and acceptance of the Centre's new gas pricing policy, which includes a mechanism for higher rates for gas from deep and ultra-deep wells. The proposed investment also brings into sharp focus the 2014 arbitration case the companies had filed against the government regarding gas pricing. Given the Centre's current stance, the partners will not be able to derive benefit from the new gas pricing formula till the legal spat is resolved. The RIL-BP partnership also seeks to build capabilities across the entire oil and gas value chain. Thursday's announcement that the two partners would explore opportunities in fuel retailing too was significant, coming as it did a day before the country moved to a dynamic pricing policy involving daily price revisions. Petroleum and Natural Gas Minister Dharmendra Pradhan had invited the two companies to invest in fuel retailing, and their agreement suggests optimism over the outlook for the pricing regime.

Conventional energy companies worldwide are realising that traditional markets are diminishing, and sources of conventional energy such as coal mines and gas fields becoming more expensive to operate. The RIL-BP plans to explore opportunities in renewable energy should be viewed against that backdrop. The two companies, in their search for new sources of conventional energy, have developed expertise that could be applied in the renewable energy space. BP has been operating deep and ultra-deep wells for years and has the infrastructure and technology to operate in high-risk, difficult locations. One possible opportunity for the companies is to exploit this know-how and develop offshore wind installations across the KG-D6 block. A company used to drilling at ultra-deep locations should not find it difficult to set up the foundations for offshore windmills at these sites. And it is not that big a jump to get electricity supply lines running alongside pre-existing oil and gas pipelines. With offshore wind installations virtually non-existent in India, the area offers an untapped market that the government would be keen to see exploited. While details of the investment plan have not been presented, the scale of the funds involved, coupled with attractive pricing and FDI policies, may well help draw more global oil and gas majors to the Indian market, upstream and downstream.

Book of jobs

Better ways to track employment data are necessary for meaningful policy responses

The government has begun field work to compile a new Periodic Labour Force Survey to track employment trends more swiftly, in order to generate quarterly reports on the urban labour market situation and annual dossiers on the overall employment scene. With well over 80% of the workforce employed informally (with no contractual rights), Statistics and Programme Implementation Minister D.V. Sadananda Gowda's assertion that the Survey will also attempt to capture such workers' employment status is welcome. Prime Minister Narendra Modi is now expected to meet officials, including Niti Aayog Vice-Chairperson Arvind Panagariya, to discuss issues related to job creation and the recommendations of a task force set up to officially capture the employment status of India's workforce more effectively. The task force had been constituted amid a growing sense of concern, even within industry, about the lack of adequate jobs created and fresh talk of 'jobless growth'. The only official job data available, based on surveys conducted by the Labour Bureau since late 2008, have painted a gloomy picture on new jobs for the world's youngest workforce in the first two years of the Narendra Modi government.

India's employment data are far from robust and not timely enough to enable meaningful policy responses for emerging job market realities. Government officials too have questioned the reliability of the Labour Bureau exercise that covers only a few sectors in select States. Niti Aayog member Bibek Debroy, for instance, has said that existing jobs data can be used to claim both 'growth-less jobs' and jobless growth, given India's largely informal economy. The task force is considering the use of proxy measures such as car sales to incorporate informal employment generation into the official narrative. How the recommendations of the task force will be incorporated into the new labour force survey, for which work began in April, needs to be seen. While it is never too late to spruce up statistical systems, the timing of this exercise is odd. Chief Statistician T.C.A. Anant expects the results of the first Survey, awaiting approval for more than a year, to be released by December 2018. The most comprehensive existing employment survey conducted quinquennially by the National Sample Survey Office has not been done since 2011-12. The UPA government had commissioned an out-of-turn survey then as the 2009-10 survey presented an overtly gloomy job market in the aftermath of the global financial crisis. In contrast, the NDA government will go to the next Lok Sabha polls having released just one comprehensive labour force survey, close to the end of its term. Importantly, given the new coordinates, the Survey may not be strictly comparable with past data.

Undoing the gains

The rush to hand out farm loan waivers raises the broader issue of adherence by States to fiscal obligations

N.K. SINGH & PRACHI MISHRA

GETTY IMAGES/ISTOCKPHOTO

The viral of farm loan waivers is acquiring epidemic proportions. In some ways it is a competitive race to the bottom. This is notwithstanding serious concerns that this can scarcely address the distress of the farming community. Unfortunately, broader structural changes in agriculture have eluded coherent implementation. Loan waivers in the past failed to address intended outcomes. We know that the loan waivers of February 1990 by the National Front government led to sharp fiscal deterioration and the subsequent balance of payments crisis. Subsequent loan waivers had similar results.

The Finance Minister has spoken wisely that the Central government has no role to play. State governments are entitled to take such decisions but manage their financial consequences. Farm loan waivers are a subset of the broader issue of sustainable State finances. We need to address several issues.

A growing concern

Following the 14th Finance Commission recommendations, the total State expenditure (as a percentage of GSDP) is higher than even the Centre's. State finances have increasingly become a crucial lynchpin of India's fiscal framework. Many State governments have adopted State-level fiscal laws and adhered to the 3% fiscal target under the State-level FRBMs (Fiscal Responsibility and Budget Management Act). However the recent report of the Reserve Bank, *State Finances: A Study of Budgets 2016-17*, has some worrying conclusions. The combined deficit of the States reached 3.6% of GDP in FY16, significantly higher than 2.6% in the previous year. This significantly breaches the 3% fiscal deficit stipulated by the States themselves in their FRBMs. As a consequence, the consolidated fiscal deficit of the Central government (Centre and States combined) will increase from 6.7% in FY15 to 7.5% in FY16. The fiscal consolidation of the Centre is more than offset by expansion of the States. This is partly explained by the State power distribution companies (DISCOM) debt, 75% of which will be explicitly accounted in States' balance sheets, and treated as capital spending in fiscal accounts. The quality of compliance by States has also deteriorated. These go beyond UDAY (Ujwal DISCOM Assurance Yojana) to include irregularities in food credit accounts of State governments with commercial banks, off-balance sheet expenditures, and creative accounting engineering to evade stipulated targets.

Debt is considered sustainable if debt-GDP ratio is stable or on a declining path. This is a necessary condition for solvency of any government's finances. While debt ratios for the Central government are projected to decline under plausible assumptions, the behaviour of the States is strikingly different. The debt ratio for the States under status quo and present FRBM scenarios is actually projected to increase! This is mainly because the primary deficit (total deficit excluding the interest payments), a driving variable in debt dynamics, is much higher for the States compared to the Centre. The Centre's primary deficit according to the RBI report is 0.7% of GDP while that of the States is close to 2% of GDP. A significant part of the Central government's deficit is mainly towards interest payments on existing borrowings, unlike the States which spend significantly less on interest payments. Nonetheless, if this picture persists, State debts will increase from close to 20% of GDP to 35% of GDP over the next 10 years. A significant consolidation by the States would be needed to keep the debt ratio stable for the States, let alone decline.

Given the increased foreign holdings of Indian government bonds, a worsening of State finances will dent India's credibility among foreign institutional investors (FIIs). The rise in government bond yield of State government securities would increase the interest burden on new debt and also for the old debt which are repriced. Such a scenario could make State debt more explosive. Indeed, the yields of State government debt have increased, remaining higher than the Central government securities and with the spread showing a rising trend.

Composition of the deficit

An ameliorating factor for the States is that the revenue deficit for the Centre is 2.5% of GDP compared to 0.2% for the States. Thus while the Centre borrows largely for revenue spending and current consumption like wages, salaries, the States do so for capital expenditure like infrastructure. This is despite the fact that delivering public services which are growth enhancing, such as health and education, is the prime responsibility of the States. Overall, however, this is a compositional issue and matters less for solvency or debt sustainability.

Although composite State finances are useful to analyse, there are marked variations across States. States like Tamil Nadu, Gujarat, and Maharashtra have significantly lower fiscal deficit, with more intensive tax efforts, than States like Uttar Pradesh and Jharkhand, which collect lower tax and are fiscally less prudent.

Despite significant variations across States in the degree of fiscal prudence, there is little correlation between State government yields (measured as spread over Central government securities) and fiscal deficits. Yields have no relationship to State fiscal prudence. Perhaps this is on account of the implicit guarantee by the sovereign. The implicit sovereign guarantee, however, cannot explain why State bonds consistently trade above Central government Gsecs, and the spread may, in fact, suggest the additional credit risk associated with State bonds. Or perhaps the latter spread could reflect the liquidity risk.

Borrowings by States are likely to increase sharply due to interest of UDAY bonds, and more importantly, the viral of farm loans waivers. With little compensatory action, this will seriously undercut the hard-won battle to secure fiscal prudence for the country as a whole.

What can be done

We must recognise that macroeconomic stability is contingent on the fiscal position of the general government. The Central government has pursued fiscal prudence against many odds. Unchecked profligacy by States can undermine the overall macro stability.

There are three short-term steps. First, we must improve the due diligence by the Central government in giving consent to borrowings by States under Article 293 of the Constitution. Unfortunately, there is some lack of coordination within the Ministry of Finance itself. Approvals for State government borrowings are accorded by the State Plan Division with little coordination with the Budget Division, which monitors implementation of FRBM obligations. A more stringent criteria in approving borrowings for States which deviate from stipulated fiscal norms is urgently needed. The criteria must be transparent and apolitical in character.

Second, whenever the Central government breaches the fiscal norms, it secures parliamentary approval. State governments must be encouraged to adopt a similar practice by securing the approval of the State Legislature.

Third, regulatory measures can be devised to enable bond yields to be responsive to market signals and bridge the information asymmetry between markets and State finances of the concerned State governments.

Finally the 15th Finance Commission must address the broader issue of adherence by States to fiscal obligations. It must restore adherence to fiscal norms as an important ingredient in the devolution formula. This also implies inter se distributional burden among the States themselves.

Investors recognise and reward macro stability. Fiscal prudence exercised by the Central government has been widely acclaimed. The management of State finances must not undercut this important achievement which is central to investor confidence and enhanced credit rating. A lot is at stake. We must not undo the gains.

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Access to excellence

We have failed to provide institutions of excellence for everyone, for people to enjoy growing up in India

YUGANK GOYAL & ARUN K. KAUSHIK

Summer is one of the toughest periods of the year for anyone graduating from school. This means we are talking about almost one crore students who gave their class XII exam. With an enrolment ratio of around 24.3%, we are looking at almost 30 lakh students desperately trying to obtain good scores in their XII board exams or sitting for entrance examinations for various higher education institutions. If their scores are not good, their careers will be perceived to be dead.

Thirty lakh students! This is an astounding figure for the Darwinian struggle they know they will be getting into. Why? Because the higher education system in India is a binary phenomenon. You either have intellectually elite colleges, a handful of them, or a vast majority of mediocre ones which have lost their ability to even signal the quality of their students – one of the most basic purposes for an educational institution to exist. The trajectory to professional success then crucially hinges on your ability to secure a seat in one of the good colleges.

Cut-throat competition

How many seats are we talking about? The top 10 colleges in, say, arts, science, humanities, engineering, medicine, architecture and law, every year – with the most liberal estimate – will not go beyond 100,000. Now imagine 30 lakh students competing for 100,000 seats. For the top IITs, the selection rate lies at 0.01%. By contrast, the Massachusetts Institute of Technology's (MIT) selection rate is 8%. The QS World University Rankings List was released recently. IIT Delhi, the best from India, secured a rank of 172. MIT was at the top!

The lack of an adequate number of quality institutions then ratchets up the value of the few better ones unusually high. Cut-throat competition for securing a place in a so-called elite institution in India continues to push the cut-off higher every year. Top colleges in the University of Delhi have routinely rejected students who do not score above 95% or so.

This creates a new normal. It puts students into a constant struggle akin to that of 'survival'. Those who cannot score above 95% are the unfortunate lot, just like the 99% of those students who won't clear the entrance exam. For a minority who have the resources, they go abroad. The rest gaze at a career unfolding its misery in front of their eyes. A self-defeating impulse reigns, devastating human dignity. It's an "educational calamity" in India, unreported, unaddressed and as ubiquitous as invisible. There is practically no family that you would know of that has not suffered at the hands of this calamity. Many of these students may become successful in later life, but for the time being, these scars will pain them and their families unbearably. For many, the performance of failure will never be forgotten.

ROHIT JAIN PARAS

This is not a rhetoric, but let's pause for a moment to see what have we internalised. What kind of educational structures have we installed in place that create such heinous exclusivity, so early in life? Which school of thought claims that someone lying one notch below the cut-off is not a worthy candidate? And what gives the nation and society the right to judge the character of its citizens based on how many marks they received? Have we become so insensitive that we fail to distinguish between what we need and what we demand? Or are we blindly importing the ideas of competitive performance from economics to humanity, failing to realise that capability enhancement is inherently opposed to the idea of meritocracy?

About avoiding failure

The results are disastrous. Failure becomes the most fearsome entity. The new goal of society is to avoid failure. That alone defines your character, personality and essence of life. Costica Bradatan, the Romanian-American philosopher who is currently writing a book on failure, says that our capacity to fail is essential to what we are. And this capacity is stripped off our students. In the long run, instilling such loathing of failure among our students drives them to recalibrate their ethical compass to what wins, not what is right.

At the heart of this malady is the wretched education system which creates exclusivity and elitism. We have failed to cultivate institutions of excellence for everyone, for people to enjoy growing up in India, to learn while they grow up.

Aristotle, the genius that he was, spoke about telos, the essence and purpose of anything. Justice and ethics are teleological. The primary factor to decide who should be granted admission into a university must then be decided by what the telos of a university is. It's not scholarly excellence, for if it is so, then affirmative action cannot be allowed. It is in fact promotion of virtuous citizens in a society. Universities are a place of learning values of life, and not just employment. And there is no reason to believe that only those who have academic merit must be worthy of being honorific citizens. In fact for a university that claims itself to be engaged in a nation-building project, all the more reason to select those who do not have good scores.

And how do we do it? Well, as a start, shift the policy discourse from elite to non-elite, 'B grade' institutions. That's where most of our youth are – dissatisfied, while growing up to be part of the country that has given it nothing much.

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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.

Darjeeling simmers

Emboldened by the result of the election to the civic bodies, West Bengal Chief Minister Mamata Banerjee appears to have come up with the well-thought-out strategy of making Bengali a compulsory subject in schools. So it may not be fair to say that the Gorkha Janmukti Morcha "appeared to hear only one part of the language decree" (Editorial - "A shattered peace", June 14).

Politicians should not forget that a Nepali's mother tongue, which is also an Eighth Schedule language, is dear to him. Linguistic chauvinism in any form does more harm than good, if Assam is to be taken as an example.

RAJAT BARAN MAHANTA,
Guwahati

■ The country is already reeling from unprecedented turmoil – farmers resorting to violent protests, stone pelting in the Kashmir Valley, and "gau rakshaks" terrorising cattle sellers. The unrest in West Bengal's Darjeeling hills has only added fuel to the fire. Though the demand for exclusivity goes back in time, it is not a valid demand. How will a country function if every other day, citizens are out on the streets demanding a separate State using a misplaced notion of dignity and identity? Breaking up an already small State will hamper overall development.

DEEPTI JAIN,
New Delhi

Partition and after

India's "unity in diversity" and peaceful co-existence of multitudes of ethnicities after seven decades of freedom won from the British is a matter of pride. Many countries are amazed at our cohesive existence. In a country where more than 1.2 billion people live together, it is inevitable to witness some stray communal, violent incidents and crimes. This could happen in other democratic nations too. I think Mr. Gopalkrishna Gandhi need not be so pessimistic in portraying a dismal picture of our land and asking us to avoid a second Partition. The present situation does not merit such a line ("The anniversary of a divide", June 16).

K. JAYANTHI,
Chennai

■ The article kindles pondering. People living together for generations had to undergo separation and it was painful and tormenting. The cunning ploy of the British and the obduracy of Jinnah resulted in two nations. To the last, the Mahatma was against Partition but events superseded him. The carnage that followed was indescribably horrendous. I would like to clearly emphasise here that loyalty to the nation should come first. As a secular nation, with all our omissions and commissions, we are far better than Pakistan which is on the lines of a theocracy. In India, there is no doubt that it is the foremost duty of the ruling dispensation to ensure that there is no persecution and harassment in the name of anything endangering the secular credentials of our nation. It is also incumbent upon everyone to ensure that their thoughts and deeds are contributory and not questionable and detrimental towards the harmony, cohesiveness and cause of the nation.

R. RAMANATHAN,
Coimbatore

State of the media

Except for the premeditated raid on a leading television channel, the role of the government in throttling the media is not as pronounced on the surface as some think ('Left, Right, Centre' - "Is the media under siege?" June 16). Most of the top media and entertainment companies in India are owned by powerful corporate moguls and their close links with the current ruling dispensation are well-documented. It is naive to imagine that such companies would show the interest and the verve to indulge in a complete exposition of truths which have the potential to alter perceptions. For continuance of a regime exceedingly benevolent to them, Opposition parties and fellow media houses, which still believe in fair play, have to be necessarily pilloried. The media is in a self-imposed state of subservience.

HARIDASAN RAJAN,
Kozhikode, Kerala

■ The common man was never affected even during the Emergency. Nor was his freedom of expression in peril, as it is now. When acrimony arises between leftist and rightist intellectuals, the routine slogan of "freedom of the press is in danger" is raised. There is a vast difference between what the media was then and what it is now as the latter has now embraced some negatives such as "paid news" "allurement", and sensationalism. A stray incident of a raid on a media house cannot be magnified by saying that the fourth estate is endangered.

R. KRISHNAMACHARY,
Chennai

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