Long, Hard Road to Permanent Solution

Brave words from home minister Rajnath Singh

We will come up with a permanent solution to end this issue, said home minister Rajnath Singh, referring to Kashmir. These are brave words and hopeful ones, especially in the present context. The present context is not just one of running battles between security forces and small, but diverse, groups of Kashmiri youngsters ranging from schoolgirls to unemployed youth, an indefinitely postponed by-election from Kashmir to the Lok Sabha and frequent terrorist attacks. The present context is also marked by China's plan to treat Pakistan's occupation of a part of Kashmiri territory as permanent and valid by building logistical infrastructure running through Pakistan-Occupied Kashmir (POK) as part of the CPEC, itself a part of China's grandiose Belt Road Initiative.

What proposed transport links between POK and Gwadar, the port on the Baloch coast that China is building, would do is to offer Kashmir access to a port through Pakistan. The separatists would hail this welcome addition to their propaganda armoury. That is a minor irritant compared to China's proposal to build facts on the ground that would assert Pak sovereignty over parts of Kashmir that lawfully belong to India. Another part of Kashmir's present context is an ill-informed move by the new US administration to meddle in the bilateral Kashmir dispute between India and Pakistan. Some members of the Shanghai Cooperation Organisation that India would formally join next month also harbour dreams of mediating over Kashmir. The home minister would need to tackle the Pak deep state's determination to thwart any attempt at rapprochement by the civilian administration and use terror as a strategic tool, dissuade China, the US and others from meddling in Kashmir and politically trounce the separatists in Srinagar, to find his permanent solution.

The biggest challenge, of course, is to win over public opinion in the Valley. The most doable part of this agenda is for the home ministry to take vigorous measures to put an end to assaults on Kashmiris working and studying elsewhere in India.

Economies of Scale in Nuclear Power

The Cabinet's green signal to rev up India's nuclear power capacity needs to be followed through with concrete plans to rationalise costs and reap scale economies in plant execution. The government has approved the setting up of 10 nuclear power stations of 700 MW each, using indigenously developed pressurised heavy water reactors (PHWRs). They would be the biggest such plants, as most of our PHWRs have been smaller, of 220 MW capacity, and the two units of 540 MW each at Tarapur were commissioned over a decade ago.

The larger plant size should step up efficiency in generation. But more needs to be done: innovative design, standardised equipment and strict timelines for construction. It should be possible to curb project expenses with speedy execution. Project delays can make nuclear plants well-nigh unviable. Sourcing and managing component costs would be key. We need to purposefully reduce plant erection and commissioning periods so as to rein in capital and interest costs during construction, while upholding safety and reliability parameters. There is also the need to leverage international experience to step up efficiency in project implementation, operations and possible expansion.

We need to aim at fully commissioning modern modular nuclear power plants within four or five years of the first pour of concrete. It would keep the attendant price of power competitive, and also augment indigenous capacity to undertake nuclear commerce internationally. Concurrently, a larger nuclear power generation capacity and consequent increased baseload installation calls for a revamped power tariff policy. The Centre needs to call for time-of-day tariffs nationally and digital metering, as power demand during the hours of peak load is expected to steadily rise.

Not allowing Pakistani kabaddi players inside India will stop terrorism. Really

Kabaddi, the Softest Target of Them All

Usually, sports ministers in other countries give out the signal to the citizenry to relax. After all, one of the good things about being in government is that you can calm nerves and de-escalate tension by telling hotheads, that as a representative of a democracy, you will take care of things that agitate the janta. Well, Union sports minister Vijay Goel being into the competitive sport of patriotism via anti-Pakistan has sent out a different sort of signal. He wants Pakistani kabaddi players to not step into Indian terrain. Because that would make Indian nationalism crumble and fritter away. Yes, terrorism from Pakistan is a problem that needs to be tackled by the leg and that needs to be pinned on to the mat. Stopping Pakistani kabaddi players from participating in the Pro Kabaddi League (PKL) is fabulously symbolic, of course. But how it makes any iota of difference in anti-terrorism procedures, Goelji will need to share with us.

Public opinion is like gravity. It pushes policy and agenda in India. But participation in a kabaddi league, seriously? If the Indian government thinks that this will help to keep Indians safe — or make a point in the realpolitik involved between the two countries — we shall live and learn. But if not, we will only be left to say while holding our breath, 'Kabaddi, kabaddi, really?'

The banking Ordinance seems like action taken. But it skirts real solutions to the ongoing crisis

Don't Blow Up in Our Face

Ajay Chhibber

India's banking crisis has been on a slow burn for the last three years. But just like with a slow-fuse Diwali firecracker, the blast will inevitably come. Unfortunately, the more the delay, the bigger the blast will be.

Experience world over shows that banking crises end up always costing more if strong upfront actions are not taken. The latest banking Ordinance gives the appearance of action. But it will delay the inevitable resolution, ending up in a much bigger bill for the Indian economy.

The crisis was not created during the Narendra Modi government's tenure. The UPA government can take the credit for it, exacerbated further by the global economic crisis of 2007-08. But what the Modi government can be accused of is not addressing the issue seriously.

Lend Me Your Fears

Gross non-performing assets (NPAs) have been growing steadily since the global economic crisis as pressure has come on banks to classify properly. In March 2014, the revealed gross NPAs were ₹2.73 lakh crore, almost ₹3 lakh crore by March 2015, and crossed ₹4 lakh crore by December 2015.

Some three years since the Modi government came to power, NPAs are estimated to be ₹6.80 lakh crore. They could be as high as ₹12 lakh crore — about 8% of GDP — if stressed loans are added to the revealed NPAs.

With growing NPAs, the banking sector too has reduced lending sharply. Bank loan growth that averaged around 18% growth a year during 2011-14 fell to under 12% in 2014-15, stayed at about 10% in 2016, and is now running at 5% in 2017. Some of the recent drop can be attributed to demonetisation. But much of the earlier drop is due to the growing bad loan problem.

The real side effect of the banking sector crisis is a sharp drop in private investment, especially corporate investment, which has fallen by around 7% of GDP, hurting growth, which, in turn, has further reduced demand for credit. Despite being flush with liquidity after demonetisation, the banking sector has no borrowers and no great desire to lend either.

Falling real credit growth has resulted in a drop in investment. This has led to a drop in GDP growth by about 1%. With a GDP in 2016-17 of around ₹150 lakh crore, delays in resolving banking sector problems costs the economy about ₹1.5 lakh crore a year in lost economic output. A delay of five years would cost almost ₹7.5 lakh crore, in addition to the hole in the banking system estimated to be around ₹12 lakh crore.

GoI waved its hands at the problem. It initially set up the Indradhanush scheme and tried to bring in more professional management to banks. It then set up a Public Sector Bank Bureau, which had no real powers or money to deal with the issue. It set aside piddling amounts — only ₹10,000 crore in Budget 2016-17 — to deal with the problem.

The new banking sector 'Ordinance' allows the RBI to push banks to take stronger actions. Along with the new bankruptcy law, it may help resolve some of the bad loans, especially in cases where coordination among multiple lenders is needed to take tough decisions on 'haircuts'. But it is unlikely to make a major dent on the growing NPA problem.


FILE PHOTO

Don't let these booms bust the economy

The real and quick solution to the NPA problem was already proposed in the Economic Survey as the Public Sector Asset Rehabilitation Agency (PARA). But such an approach requires upfront funding of around at least ₹9-10 lakh crore to transfer the assets and fill the hole in the public sector banks (PSBs). The survey proposed that this be financed either by issuing government bonds or by transferring government securities from RBI, increasing its equity holdings.

The Aim is Bond

Both options pose risks. Government bonds of that magnitude would need to be absorbed by the market, drying up liquidity for new lending. In the second case, it would pose substantial risks to the RBI's balance-sheet. Borrowing from the International Monetary Fund (IMF) would be another option. But this would be politically damaging, as it would need to accept tough IMF conditionalities.

Injecting new money will not be enough if the same banking management and structure remain intact. Some PSBs should be merged with others after their balance-sheets have been. Others should be privatised.

By posing it as a twin balance-sheet problem, a case is being made by some to use taxpayer funds to save corporates. The corporate borrowers should be fully penalised for the bad loans to the maximum extent possible. The cleaned-up banking system will then look for new lenders and not go back to the cycle of putting more good money to the same wilful defaulters.

Some tough decisions are needed. Allowing the problem to persist until after the 2019 elections will add at least another ₹3 lakh crore in costs of foregone GDP and probably another ₹2-3 lakh crore in additional NPAs. Time to stop delaying the inevitable.

Injecting new money will not help if the same banking management and structure remain intact. Some PSBs should be merged with others. Others privatised

The writer is distinguished visiting professor, National Institute of Public Finance and Policy, New Delhi

WIT & WISDOM

"Art is either plagiarism or revolution."

Paul Gauguin
Artist

31m Internally Displaced

More than 31 million people were displaced in their own countries by conflict, violence and disasters in 2016. Disasters displaced three times more people than conflicts. India accounted for 9% of all internally displaced people...

Top 10 countries, 2016

New displacements by conflict and violence		New displacements by disasters	
DR Congo	922,100	China	7,434,305
Syrian Arab Rep.	824,295	Philippines	5,929,853
Iraq	658,614	India	2,400,307
Afghanistan	652,594	Indonesia	1,246,474
Nigeria	501,160	US	1,107,321
Yemen	477,747	Cuba	1,079,214
India	448,400	Japan	863,583
Ethiopia	296,429	Bangladesh	613,710
South Sudan	281,229	Myanmar	509,238
Philippines	279,870	Sri Lanka	500,200

Global 6.9 million — Global 24.2 million

India — DISASTER DISPLACED

- Bihar floods 16,70,000
- Assam floods 4,95,445
- UP floods 1,28,495
- Floods (9 states) 79,610
- Vardah tropical cyclone 16,757
- Earthquake in Manipur 10,000

Source: Internal Displacement Monitoring Center (Norwegian Refugee Council)

MEME'S THE WORD

DEVELOPMENTAL AGENDA

Kerala Can Lead India

M Muneer

Despite policy see-saw between the left and Congress governments every five years, in almost every social index, Kerala has been ahead of other Indian states. Whether it is literacy, e-literacy, healthcare, infant mortality, maternal mortality, birth rate, life expectancy or female literacy, Kerala is leading the rest of India.

Now, there is another area where Kerala will again lead India as it gets ready to become the first Indian state whose government will deliver all its poll promises using a framework that only developed nations have been using so far.

When Kerala chief minister Pinarayi Vijayan took office almost a year ago, he wanted real-time measurement and good governance to ensure the achievement of manifesto items. Within the first month itself, the CM's office worked to translate the manifesto into actionable goals, a big departure from the silo-oriented, ministry-based approach.

The Balanced Execution Agenda (BEA) framework brings in alignment and encourages inter-ministerial collaboration focused on the mission rather than individual ministry preferences. The framework provides alignment between mission, strategy, processes and individual performance, and demonstrates the value of programmes to citizens. It also develops meaningful performance metrics that will determine the success of programmes, and links mission to budget and manages resource allocation to increase inter-agency coordination to eliminate waste and duplication.

The mission of the government is building a secular, corruption-free and development-driven new Kerala. A total of 35 items were categorised in the Left Democratic Front (LDF) manifesto into strategic objectives (that require long-term orientation) and initiatives (that are short-term and quicker).

The framework has four perspectives: fiscal discipline, citizen centricity, public system processes, and culture and capacity. Four distinct themes from 25-odd mission-critical objectives in the manifesto were identified: economic and industrial growth, infrastructure development, community welfare and sustainability.

The objectives were arranged in themes and perspectives for better monitoring and governance. Once this was done, some gaps between the mission and goals were found. For instance, there were no items in the manifesto to drive secularism and to free the state of corruption.

Ideally, the next step for the CM's office would be to facilitate a discussion of the objectives among the cabinet colleagues and close the gaps, if any. Each objective would be scrutinised for the right performance metric to know when it would be considered successful. Targets would be set at this point and each member of the cabinet, along with the concerned bureaucrat, would take ownership of one or two of the objectives and drive forward the execution in the new format.


FILE PHOTO

Do march to their drumbeat

The cabinet would review the performance based on the metrics every month or quarter to gauge progress and take debated decisions. This would eventually overcome all coalition tensions and look at collective responsibility to deliver the promises.

Execution demands a strong leadership. Second, most elected representatives are low-risk takers and may not want to publicly commit to steep performance targets such as the one on 'creating 25 lakh jobs'. The governance and monitoring system that follows the balanced execution agenda will actually allow the ministers to take informed decisions and create alternate ways to meet such targets.

For example, to create one job in manufacturing, an estimated ₹2 crore investment is needed. Given the environmental, land-cost and other issues in Kerala, attracting an investment of ₹100 lakh crore in the next four years is nearly impossible. This means identifying new avenues for job creation such as service industries, startups and even innovation ecosystems.

The third challenge is the struggle to develop a set of performance standards that can receive support from a majority of the constituencies. To succeed, the CM must proactively set the agenda, instead of waiting for the media or opposition to take control.

The fourth challenge to execution in a scandal-driven media is that bureaucrats may be reluctant to commit to any kind of performance targets. This can be overcome with the chief minister's strong leadership skills.

The framework communicates the mission of the government to all stakeholders and invites contribution from all. In fact, with this, for example, the urban ministry will quickly align with power, water, transport and road ministries to drive Kochi as a 'smarter' city. As Kerala begins its journey, in the next four years, India will have a good example to follow and grab its rightful place at the top of the world.

The writer is co-founder, Medici Institute

Citings

Economic Analyses

RICHARD BOOKSTABER

During a visit to the London School of Economics as the 2008 financial crisis was reaching its climax, Queen Elizabeth asked the question that no doubt was on the minds of many of her subjects, "Why did nobody see it coming?" The response, at least by the University of Chicago economist Robert Lucas, was blunt: economics could not give useful service for the 2008 crisis because economic theory has established that it cannot predict such crises....

England's royal family is no stranger to financial crises, or to the evolution of economic thought that such crises have spawned. Our standard economic model, the neoclassical model, was forged in Victorian England during a time of industrial and economic revolutions — and the crises and the cruel social and economic disparities that came with them.

This economic approach arose because the classical political economy of Adam Smith and David Ricardo failed in this new reality. The neoclassical model was championed by the Englishman William Stanley Jevons, who experienced the effects of these crises first-hand, and was prepared to bring new tools to the job.

Jevons was the first modern economist, introducing mathematics into the analysis and initiating what became known as the marginalist revolution — a huge leap forward that reshaped our thinking about the values of investment and productivity.

From "The End of Theory: Financial Crises, the Failure of Economics, and the Sweep of Human Interaction"

the speaking tree

Of Dharma and Religion

BALLABH TIRTHA MAHARAJ

Dharma and religion are not the same thing. The terms are used interchangeably for want of an appropriate English word. The Oxford Dictionary defines religion as "a system of faith, especially personal God entitled to obedience". Performing rituals alone is not dharma. Worship, or upasana, is the method. The mind gets purified by worshipping the Supreme Lord, Bhagwan. It will yield love for the Lord and all living beings.

The word 'dharma' means 'nature'. Whatever your nature, that is your actual dharma. Dharma is of two types: naimittik dharma (temporary nature) and nitya dharma (eternal nature). For example, water is liquid by nature. When cold, it takes the form of ice, and upon heating, it again converts to water. The cold caused the water to become ice, so ice is the naimittik dharma and liquidity is the nitya dharma.

Who is a living being by nature? The body is normally understood to be the person. We use the following terms: my body, my mind, my intelligence, etc. Nobody says, 'I am body, I am mind.' So, the speaker 'I' is not body but something different from body.

Until the body has consciousness, or atma, it is identified as a person and not a body. Until the soul, the energy of the eternally existing, blissful, knowledgeable Bhagwan, remains in the body, it is identified as a person. By the existence of that principle, 'I' remains, and by the absence of that principle, 'I' does not remain; that is my nature (means, I am a soul). Soul is eternal, body is not eternal.

Chat Room

Make the GST a Game Changer

Apropos the Edit, 'GST: "If It Were Done When 'Tis Done…"' (May 22), the ultimate objective of the GST is to rationalise indirect taxes in a way that a citizen pays only one tax that will help augment the revenues and distribution of wealth in an equitable manner. The success of the GST depends on its effective implementation with adequate checks and balances to minimise corruption and leakage of collection, and efficient and timely distribution of goods and services and the revenues through out the country.

T V GOPALAKRISHNAN
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AI: Waiting on the Runway

This refers to 'No More Delaying This Flight' by Sanjaya Baru (May 22). Shouldering an almost dead behemoth will only ache the government's back. An airline customer wants value for money backed by a decent travel experience and a reasonable level of satisfaction. In contrast, Air India has been continually failing on all these parameters despite many capital infusions. Debt and interest servicing, operational expenses and sustainability seem like impossible trinity for the airline. The clarion call is to privatise the airline in the interest of all stakeholders.

MONIKA ADWANI
Indore

Air India Now Beyond Repair

Apropos 'No More Delaying This Flight', many of the renowned government-owned airline companies such as British Airways, Quantas and Lufthansa were privatised in the last century itself. This does not seem to be an industry where government should risk investment. Moreover, Air India trails IndiGo as a domestic carrier, and Jet Airways in carrying international passengers (14.5% and 10.7% respectively). Its enormous debt of ₹50,357 crore and its public image are big drags. Privatisation will send it to where it was born and grew to an emperor's stature.

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